



## Hansjörg HÖLTKEMEIER

Chief Executive Officer, Deutsche Klassenlotterie, Berlin  
President, European Lotteries Association (EL)

**Transitioning from the “Lottery-Model” to Lottery-Principles. Setting the standard for Integrity, Solidarity, and Precaution that is applied to the Games-of-Chance industry.**

**PGRI Introduction:** Every other year, the European Lottery (EL) Association holds the EL Congress, a combination of conference with presentations and panel discussions, and a mind-expanding trade show. The last one was held in Oslo in June of 2015. (Next one will be held in Krakow, Poland in June of 2017. One reason for making this a bi-annual event instead of an annual event is that the World Lottery Association also holds its global conference/trade show every other year. The next World Lottery Summit will be held in Singapore in November of 2016.) It was at the EL Congress in Oslo that Hansjörg Höltkemeier was elected to the position of President of the European Lottery Association (EL). He has been a member of the Managing Board and CEO of the Deutsche Klassenlotterie Berlin since 2005, and a member of EL Executive Committee since 2009.

The business of government-gaming and Lottery is in flux all over the world, but more so in Europe than anywhere else. There is tremendous pressure on the lawmakers to make regulatory decisions that are unfavorable to government-Lotteries. Online private commercial gambling operators have for years been pressuring the European Commission to treat gambling like any other commodity or service, with little regulatory control. Hansjörg Höltkemeier and the EL are evolving their approach to enlisting the support of the European Commission for a more balanced framework that recognizes the special nature of Lottery and gaming.

These are interesting times indeed to be President of the EL!

**Paul Jason, PGRI:** *What are your top priorities for the EL Association in 2016?*

**Hansjörg Höltkemeier:** Government Lotteries have established the highest standards of Integrity, Solidarity, and Precaution in the games-of-chance sector. My priority for EL in 2016 is to finalize our renewed strategy and to make

these well-respected Lottery-Principles more relevant to European politicians and shapers of public policy. All EU member states and society in general will be well-served for these principles to be adopted by the entire games-of-chance sector. This will directly lead to more acceptance of the need for indi-

vidual member states to decide what is best for its citizens when it comes to the regulation of Lottery and gambling. The Lottery-Principles approach will also lead to a better understanding of the role of the EU institutions to help to enforce rules that are deemed to be best for the protection of the consumer and the sup-

port of good causes. Our goal is to forge a better cooperation with the EU Commission. It is the strong cooperation between the EU Commission (which upholds the principles of the Union) and the governments of the individual EU member states (which protect the interests of its citizens) that results in the most balanced and effective regulatory framework.

We are trying to solve the problems that the current state of confusion that European regulations and enforcement has created. We can observe the experiences of those jurisdictions which opened their markets up early. There are aspects of their experience which would not be desired by the political leaders of many European governments. Gambling expanded quickly and in ways that at least some EU member states would like to avoid. It is not the intention of the EL to prohibit a government from deciding to choose that kind of open-market model for itself. It would be our objective, though, to encourage the EU Commission to respect the rights of EU member states to choose a different path. The EL Association respects the responsibilities and the role of the EU Commission to make proposals and take decisions that serve the entire community of EU member states. That is why we are proposing that the high standard of integrity, respect for the laws of each jurisdiction, responsible gaming, and player protection established by the operators of government-gaming—that these principles be applied to all categories of gaming and gambling. The EL Association is working hard to assure that the EU Commission provide a basis of laws that enable the member states to preserve the integrity of all gambling categories, and i-gaming in particular, and empower the member states to enforce their laws and regulations for the protection of its citizens and the benefit of society and good causes.

*What are some of the obstacles to accomplishing what we need as a community of government-gaming operators? What can individual lotteries do to help our common cause to defend the lottery model on the legal/political/regulatory front? Or compete in the consumer market-place?*

**H. Höltkemeier:** Over the last number of years, the major obstacle on the European level seemed to be the widespread belief in the power of a Single European Lotteries and Gaming market. Regulation was criticized as being a tool for companies and states to protect their position and the money generated by it. Due to the difficult situation all over Europe (crises in southern Europe, refugees from Arab states, etc.) but also as a result of the experiences in liberalized pioneer-states where the negative impacts from fraud and addiction increased significantly while income to the state from gambling decreased (or, or at least did not increase as expected or in relation to the stakes), there is a real comeback of solidarity as a basic principle for the community of government-gaming operators, but not just for those, to follow. We now have a positive expectation that the EU Commission will support the rights of its member states to enforce a stronger regulation of the entire games-of-chance sector. We are hopeful! All the evidence shows that a clear, enforceable regulatory framework is so necessary to a sustainable path forward for the Lottery and gaming industry. And not just for the protection and benefit of government-Lotteries, but for the entire games-of-chance sector, and the purpose of protecting the consumer.

The next objective is to engage the support of regulators, agents of law enforcement, and lawmakers to protect licensed operators and consumers against illegal-gambling offers. Every regulation, even the most basic ones, needs the support of all these stakeholders for them to be effec-

tively enforced by regulators and agents of law enforcement. The EL is working hard to enlist the full support from everyone to fight against illegal offers. Illegal operators have much lower costs than licensed operators because they do not pay their fair share to the government or to good causes, and they do not bear the costs of operating to even modest standards of consumer protection, security and Anti Money-Laundering, and integrity. Without effective enforcement of the law, illegal operators will use their illegal competitive advantage to deliver higher prize-payouts, advertise and promote their product in ways that are prohibited for licensed operators, and thereby push legal offers out of the market. That is why effective law enforcement is a top priority of the EL Association.

But prevention of illegality in the gaming sector is not our only focus. Government-Lotteries are in a market-driven business. There will be more and more licensed operators with legal offers competing for the attention of the consumer. As a specific sector, government-Lotteries will need to innovate its games and methods of operation to attract and retain the interest of its players. The EL has initiated new programs this year, like the new Innovations Seminar held in Warsaw, to help its members be the world-class business and marketing enterprises that will succeed in the future and continue to channel billions of euros to the support of society and good causes.

*The EL has always been such a powerful advocate for its members when it comes to regulatory issues. What is the current state of the ongoing debate between the European Commission goal of applying common market laws to gambling and the EU member states goal of applying member states' authority (subsidiarity) to self-determination of the regulation and taxation of gambling?*

**H. Höltkemeier:** The legal concept

of “subsidiarity” may not have served its intended purpose for us. To some extent, the European Commission has construed this concept to mean that it should perform no role at all in the enforcement of regulatory frameworks in the Union. The fact is that member states need the support of the EU Commission, and the resource of its legal institutions and agents of law enforcement, to help member states protect their citizens from illegal gambling offers extending across national borders, or to fight adequately against match fixing and/or money laundering. Member states do not have jurisdiction to enforce their laws over against the actions of businesses based in other countries. As a sector, we need the assistance of EU institutions to ensure that all member states act to uphold the laws. It is true that it is contrary to the interests of government-lotteries and the rights of member states to protect its citizens, for the EU Commission to force member states to open up the markets to multiple operators who sell across borders without complying with the laws of each individual member state, and the Court of Justice has clearly stated this in various cases. But this sector needs the support and resources of the EU institutions to enforce the laws and require compliance by international i-gambling operators. We have already started to change the argumentation to focus on cooperation with the EU Commission towards the mutually desirable goal of respect for the laws, and respect for the rights of state governments to protect the interests of its citizens when it comes to regulating and taxing the games-of-chance industry. We are coming together to promote the relevance of the Lottery-Principles (Integrity, Solidarity, and Precaution) and to combine and integrate those with the principle of respect for the laws of the individual member states. The key part of this position is the

recognition that Lotteries and gaming are not like other businesses. The reality of money laundering, social costs like problem gambling, and illegality require a special level of regulatory control.

*Isn't the “Digital Single Market” an inevitability? Aren't we basically in a position to stanch the inevitable tide for as long as possible? And isn't it already the case that rogue unlicensed operators like LottoLand and Tipp24 are imposing the “Digital Single Market” on even the traditional lottery space in ways that are difficult to prevent?*

**H. Höltkemeier:** First of all, the “Digital Single Market” (DSM) is not the same thing as a “unified European Gaming Market,” as the vast majority of gaming revenues and stakes are still generated off-line, outside the internet. Lotteries are a special part of the entertainment-business and their operation is most often a combination of online and offline activities. This is important to keep in mind, as a DSM might solve some challenges and open new perspectives in the digital area, but it may also cause much bigger additional problems in Lottery's land-based business.

Having said this, we should recognize that regulation of the digital markets is a pressing challenge. I will not say that a DSM is inevitable for the gambling sector, and certainly would not say that for government-Lottery. I will say, though, that we all need to observe the realities of how the “winner-takes-all” dynamic (e.g. Google and Facebook) of the DSM is problematic for Lottery if it were to overtake our activities. Further to that, lawmakers, shapers of public policy, and all Lottery stakeholders should recognize the aspect in which there is no going back. Once markets evolve in that direction, there is no putting the toothpaste back into the tube. That is why we, as a sector and the EL Association, need to do everything we can to prevent that from hap-

pening to the government-gaming sector.

The challenge with the EU Commission is that their starting point is that minimal regulation is what is best for business, for the growth and prosperity of markets, and for the consumer. This philosophy does not consider the downside impacts of deregulation in the Lottery industry, and the gambling sector as a whole. Our mission is to bring attention to this vital point in the dialogue about how the regulation of Lottery and gaming should evolve in Europe.

*In your Forward to the EL Magazine, you submit that Lotteries need to support their arguments for why governments should protect the fundamental Lottery model that supports Good Causes with more facts and data. What kinds of facts and data are you referring to, and is the EL helping to coordinate efforts to gather, curate, and organize the facts and data?*

**H. Höltkemeier:** Let's start thinking of Lottery as operating by a set of Lottery-Principles instead of a “Lottery-model.” It's true that we operate as “a business,” but our mission of service to society is much broader than that, and our communications should reflect that fact. And we need to bring attention to the facts and the data that support that concept.

For example: Private commercial operators have always argued that the government will benefit by the taxes generated by their gambling operations. And that is the rationale for the government to simply grant license for illegal operators to operate legally—open up the markets to multiple operators who will compete for the business, grow the market, and pay taxes on the revenues. The EL opposed this proposal because the framework of low taxation, higher prize-payouts, and expansion of gambling has negative collateral effects that are not good for society. The reality is that the markets did expand but so did problem gambling.

And revenues to the government did not increase. They decreased in spite of the fact that gambling increased. So the regulatory framework of multiple operators competing for the business just results in the worst of both worlds. More problem gambling and lower revenues to the state. The only ones who benefit by that open-market model are the shareholders of the private companies. Those are the facts and we are gathering the data to prove it to lawmakers and shapers of public policy. Our focus, though, is less about gathering copious amounts of numbers and more about identifying the relevant data and presenting it in the most compelling, persuasive, easily comprehended way. Our goal is to position the EL Association as valued partners for politicians and regulators. Our goal is to serve our membership by using facts and data to gain the support of our political constituents for the

Lottery-Principles that we hold dear.

*What other regulatory issues are European Lotteries facing right now? Or emerging trends that will impact Lottery?*

**H. Höltkemeier:** The ones we have discussed are formidable enough!

There is an important emerging regulatory trend that is based on technological developments. Technology has enabled operators to personalize their marketing and promotional efforts. Presently, this capability is typically being applied for the purpose of increasing player-ship and GGR. These same tools, though, can be applied for the purpose of guiding and helping the consumer understand and manage her behavior as relates to gambling. Technology that is augmenting the industry's ability to increase sales will be applied to augment and drive the adoption of our "Lottery-Principles."

*What do you see as the most important trends when it comes to the game-styles that consumers are drawn to?*

**H. Höltkemeier:** There will be a convergence between the commercial and the Lottery sides of the sector in some very important respects. On the Lottery side, we will see the development of more entertaining games that deliver a much more fun, engaging, and variety of player-experiences. On the commercial side, we will see the application of Lottery-Principles (Integrity, Solidarity, Precaution) on the sports-betting and casinos side.

Lottery needs to be open to the realities of how the markets are changing. We need to embrace those realities in order to make them work for us and for the benefit of the state and good causes that Lottery supports. ■