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The Role of the EL and its Members in a Changing Regulatory and Competitive Landscape



PGRI Introduction: The business of government-gaming and Lottery is in flux all over the world, but more so in Europe than anywhere else. Lotteries all over the world operate within a political environment that is intended to serve the interests of the people. The EL and its members are tasked with complying with the will and directives of their jurisdictional political infrastructure, discerning the will and directives of the EU Commission, protecting the interests of their stakeholders, and operating a market-driven business. Perhaps more than in recent years, we have good reason to be confident that a judicious approach towards transparency and communication will support progress towards a sustainable future for government-lotteries.

Hansjörg Höltkemeier was elected to the position of President of the European Lottery Association (EL) in June of 2015. 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.

Paul Jason: *Can we hope that EU laws will ever become rationalized such that they enable the member states effectively enforce their laws against illegal operators?*

Hansjörg Höltkemeier: Rationalization is from my perspective the wrong word. It is more about the common understanding about the competencies and the direction of EU response to EU Commission policy vs. the competence and the rights/duties of the

member-states. While a common market was the main target and idea over years, the subsidiarity-principle is becoming more and more important and accepted by the commission. This is the good news.

The bad news is that this does not help us or the member-states in our daily fight against illegal offers. If we force EU to keep out of the regulation of our sector, we can't push them at the same time to support our

fight or to take its own action in law enforcement. I am nevertheless optimistic, that we will find a solution also for this challenge, as it is not just limited to the lottery industry but essential for all businesses, i.e. that change will happen through digitalization. The initiatives on anti-money-laundering and the actual discussion on sports-integrity in correlation to betting already show the need for a differentiated (subsidiarity) but nevertheless coordinated solution. European Lotteries will push in this direction.

There are some commercial i-gaming and i-lottery operators, and by extension their suppliers, which do not respect the laws of the 'consumption' jurisdictions where they operate. This is highly disruptive to the gaming industry in general, and damaging to government-lotteries in particular. Do EL member lotteries do business with commercial partners who support the illegal operators? Or do EL members make a point of boycotting those commercial companies who do business with illegal operators?

H. Höltkemeier: This is a good question, but nevertheless difficult to answer. In theory, we would like to divide into the good ones and the bad ones and we might like to play just with friends. But in prac-

tice, this is much more difficult. Not only because of competition-law which might make it dangerous to boycott companies just because of their client-base. It is critical also from a standpoint of innovation. Think about a young start-up with a brilliant technical solution. Should we deny any business with them, just because their first client is a private one with illegal operations in one or more jurisdictions? Isn't it better to make the deal and to lead the supplier to work "on our side"? And what about long lasting contracts in which the supplier changes its business-model and opens its solution during delivery? I therefore believe that we cannot make one hard and fast rule. If the solution is good, every lottery company and every member has to be free to avail itself of the best solution.

It is another case, if the supplier is systematically offering solutions to support illegal operators or if it is operating illegally itself. A "no-go" is also possible when the supplier is using money from illegal activities to fight legal operators, e.g. in being a member of an association fighting against the lottery-state-monopoly-model. As soon as activities like this are visible, lotteries should stop their relation to such a supplier. It is more a matter of quality (real support of the idea) than one of a technical business relation and it is already a task for EL and its members to get the relevant information to judge on those suppliers.

What can the EL and its members do to influence the shapers of public and regulatory policy to defend the interests of the beneficiaries of Lottery funding, or to at least enable the more effective enforcement of existing laws?

H. Höltkemeier: It is all about making transparent, what is going on and what might go on in our sector without a strict regulation and powerful law enforcement. We've seen years of illegal expansion under the umbrella of the single market approach, that is mostly linked to business indicators. Indicators and metrics of measurement for addiction, manipulation, and fraud were missing.

This is the point at which EL and its members jumped in. With our former European Lotteries Monitoring System (ELMS, today part of Global Lotteries

Monitoring System), we developed a strong tool to identify manipulations in sports in correlation with betting. Our responsible-gaming-standard is world leading and common initiatives with beneficiaries make visible the things we are already doing on a grassroots-level in sports, culture, and social engagement, while our private competition is focusing on pure sponsoring or "fig-leaf-activities". The last point is very important and growing in its importance, as we have to tell positive stories to motivate politicians and stakeholders to support our way.

This is the reason, why we started to include our members' activities in our communications, such as with the European Week of Sports.

How do you think the activities in the commercial sector (mergers, acquisitions, the actions of government-operators to move into commercial world, etc.) will affect government-operators in the future?

H. Höltkemeier: My first impulse is to say: "I can't foresee the future. It doesn't even work with predicting the numbers of next week's drawing!" Taking then a closer look to the market, I am still not able to foresee one evolutionary direction, but I do see two sustainable trends, and also a polarization in our sector.

The first trend is commercializing and privatizing. Those jurisdictions which have a long lasting history in betting and gambling tend to open and to drive the market through public tenders. This is a chance for private operators as well as government-operators to enhance their business and to reach better cost- and market-positions through economies-of-scale.

The other trend is the "re-monopolization" of former private operations. Some states define the welfare of their population as the guiding principle for their regulatory model. In this case, the government-operator has to take over some sectors and to learn how to do this businesses successfully. The commercializing seems to lead the race, but the more commercializing takes place and the more the consequences become visible, the more arguments there are for the way of re-monopolizing.

Beside this polarization, we already see

mergers and acquisitions as well as an expansion of suppliers into operations and vice versa in both models. And we recognize a trend towards cooperation between government-operators to optimize the cost-side of their business. This last point is supported by EL, e.g. through strengthened innovation seminars and workshops and through a totally new "information hub" to be introduced in 2017.

The EL is implementing many changes. How would you describe the mission of the Association and what are some of the top priorities to accomplish that mission?

H. Höltkemeier: EL defends and promotes the model of state-licensed-lotteries for the best benefit of society. EL thereby supports the lottery-values of responsibility, society/sustainability, and integrity, with tools such as GLMS and examples/data to make transparent the negative consequences already visible in those jurisdictions which started a liberalization process some years ago. The focus of EL is to help its members to operate their lotteries for optimal results within their given environment.

And to the second part of your question about how to accomplish these goals: As described before, there is without doubt a trend in some jurisdictions towards commercializing the gambling sector, or at least parts of it, and to regulate and tax it like a typical business in the non-gambling sector. The two main arguments used for that are, first, that it is better to legalize an increasing illegal market for better influence ("to pull operators out of the grey or black zone and into the regulated zone"), and second, to make additional money by applying taxes to the revenues of all operators. Both arguments look like "quick wins" that are attractive to governments and seem to be easier for regulators to implement than to follow the more difficult path of actual law-enforcement (often cross-border) to protect consumers from unlicensed and therefore illegal offers. The long-term consequences of increasing social costs from addiction, gambling-related crime, money-laundering, and fraud, seem to be

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Actually, the player just decides among a large variety of pre-existing game matrices. Players who decide the price of the ticket they want may feel like they are creating their own unique game, but they are actually selecting a pre-existing game. This works online and not in the physical world because we can field an almost unlimited variety of games online. There is no cost of printing countless tickets ahead of time, or the impossible task of finding the space for them in a retail environment. The user interface does not display the countless permutations and combinations of price/odds/reward; it just displays the option of creating your own game. But the selections end up channeling the order into a game in the system, so the transac-

tion is processed, posted, audited, settled and subject to the same administrative actions as all other lottery games.

The Omni player puts control back into the hands of the player in ways that would be hard to imagine without the integration of digital into the player experience.

M. Malul: It would be hard to imagine because it could not be done from a logistics and cost point of view. But two things are happening simultaneously that are changing the face of both retailing and lottery gaming.

One, digital is opening up a whole new world of possibilities that will transform gaming. It has already been transforming the world in myriad ways and now it is working its magic on the world of gaming.

Second, the distinctions between online and off-line are disappearing. As one young person said in a presentation at an EL Marketing conference, there are no “line-people,” there are only people embracing a world rich with options and opportunity to connect and interact and fulfill our dreams.

As digital becomes integrated into the retail space, as the worlds of online and off-line converge and the distinctions disappear, as innovation migrates seamlessly across channels and media to inhabit the world of the Omni player—this is the transformative power of digital that benefits everyone.

All aboard, because the engines are already started, the bus is leaving and the destination is clearly in view! ■

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in a distant future and hard to measure in this moment. Unfortunately, as is evident already in many jurisdictions, it is not a distant future. Market-place changes happen with astonishing speed. And it is very often not realized that the Pandora's Box of undesirable consequences might be opened without any chance to close it again.

It is a big task and top-priority for EL to make sure that the impacts of liberalization are clearly understood by those jurisdictions which are still in the decision-making process. The effects of regulatory change that open up the markets is clearly visible in those jurisdictions which have already decided on commercializing the gambling sector. The strength of the EL position is that the facts are on our side. We just need to make sure the facts of those consequences are recognized and understood by everyone, particularly those who are influencing public, regulatory,

and taxation policy. That is why it is in the interests of EL and its members to engage in active dialogue with everyone who has a stake in the issue of market liberalization. The EL must fulfil its responsibilities as an established and respected stakeholder in the games-of-chance sector. It is vital that EL has actual and relevant data to exercise influence and reinforce its position of influence within the industry. This is largely accomplished by our activities with technology partners and political institutions, through our new Infohub (be introduced this year), and by way of ongoing projects in which we coordinate and communicate the activities of our members.

Last but not least: our approach to support members in their daily business is slightly changing. Based on our strong seminar-offer and our information-sharing approach, we are working to broaden our scope to focus on the most relevant and timely business-

themes. Fighting for a strong regulated state-licensed model, we can no longer limit our focus to be solely on our legal expertise, on responsible gaming, and on security-standards. The more the legal and illegal competition breaks through to directly impact our businesses, the more it is our duty to support our members in those markets through enabling innovation, driving efficient operations, and leveraging the power of digitalization. As an industry, we must recognize the fast increasing interest in those competitive offers and we must anticipate what is driving demand.

So, EL continues its mission to fight for the model of state-licensed lotteries and its values. At the same time, the EL is equally committed to enabling and supporting its members in highly competitive markets to achieve the best results for their stakeholders, even under strict regulation and challenging market conditions. ■

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sponsible play and control other risk factors like money laundering and retailer fraud.

It might sound like I am advocating for the legalization of Internet gaming, but I am not. GLI is in the explaining business, not the deciding business. There may be

fact-based reasons for a legislator to vote to prohibit Internet gaming. It's just that the notion that you can't control the Internet and effectively manage the elements of the transaction isn't one of them. You would think that the simple facts of the matter

should put the fake news to rest. But it can be hard, as Mark Twain points out, to pierce the bubble of what people are convinced is true, especially when special interest groups make it their business to propagate disinformation. ■