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On Managing Stability, and Ongoing Support for the University of Iceland, in a Rapidly Changing Market and Regulatory Environment

PGRI Introduction: Totally owned by the University of Iceland, the University of Iceland Lottery (UIL) faces the same challenges, and some unique to its charter, as lotteries all across the globe. Like CEO's of all successful lotteries, Ms. Hrafnkelsdóttir stays focused on the mission to generate funds for its beneficiary, operate within strict regulatory limitations, set the highest standards for Responsible Gaming and Corporate Social Responsibility, and otherwise serve all its stakeholders.

Prior to her appointment to CEO of the UIL in 2010, Ms. Hrafnkelsdóttir was CFO of Landfestar, a real estate company owned by Kaupthing bank, Project Manager at Kaupthing bank's head office in 2007–2008, General Manager of Debenhams department store from 2000–2006, and CFO and member of the executive board of Hagkaup, the largest hypermarket in Iceland, from 1996–2000. Bryndís has been the board chairman of the Commercial College of Iceland since 2006, a board member at Reginn Ltd. from 2014, a real estate company listed on the Icelandic Stock Ex-

change, and alternate board member at TM Ltd. from 2014, an insurance company listed on the Icelandic stock exchange. Bryndís has a Master's degree in business from the University of Iceland and a Cand. Oecon degree in business administration from the same university.

Paul Jason, PGRI: *The University of Iceland Lottery (UIL) serves a uniquely crucial role in Icelandic society and the development of the University.*

Bryndís Hrafnkelsdóttir: It does. The UIL was founded in 1933 and its purpose is to generate funds for the construction of university buildings, their maintenance and the purchase of equipment. The first construction was the beautiful Main Building of the University which came into use in 1940. Since then, more than 20 other buildings have been funded almost entirely with lottery money. Most people in Iceland realise that without the existence and contribution of the UIL, the University of Iceland would not have been able to develop in the way it has.

What is the basic regulatory and governance model for lotteries in Iceland?

B. Hrafnkelsdóttir: Under Icelandic law, no lottery can be run in this country without a licence from the Ministry of the Interior and it is only granted for the purpose of generating funds for worthy national causes. The objective of these provisions is to prevent any damaging effects on society and to uphold public order.

There are currently 6 lottery companies operating in the market. The UIL is the oldest lottery in Iceland and is licensed to run three types of money lotteries:

- a) a class lottery, which has been run from the beginning with the first draw taking place on 10 March 1934
- b) scratch ticket lotteries which were introduced in 1987
- c) Video Lottery Terminals (VLT's), under the name of Gullnámán, which have been operating since 1993.

Other lottery companies in the Icelandic lottery market are Íslandsspil, which runs VLT's, Íslenskar gettraunir which offers sport betting, Íslensk getspá with Lotto, Viking lotto and Eurojackpot. It should also be mentioned that there are two other companies which both offer class lotteries. Íslensk getspá and Íslenskar gettraunir are run under the same hat, albeit with separate

boards of directors. The UIL has a market share of around 30%, if one looks at the profits of the companies. The number of lottery companies often causes surprise, particularly when one considers the small size of the Icelandic market with its population of just 330,000. The lottery companies all support different causes. In order to maximize the contribution of the companies to national causes they have been instructed to run their operations cost-effectively. This working environment has encouraged the companies to operate in a responsible manner and it can be said that they all enjoy a lot of trust and work in harmony with the community. In 2014, the companies paid out a total of €23,174,000/\$26,472,000 to their owners. There are also many small charitable organizations, which operate lotteries on the market, but they do not operate all year round.

The UIL is the only company with a money lottery licence and it currently pays an annual licence fee of ISK 150 million (over \$1 million USD), and one could therefore call it a National Lottery.

How are sales trending for your different products?

B. Hrafnkelsdóttir: The class lottery is the oldest product and I only know of three other comparable lotteries—Det Danske Klasseloteri, for example. The total average number of customers is 42,000 people buying an average of 2.1 tickets each month, which is 17% of the population over the age of 18. The scratch ticket division is the smallest, and its size can be a handicap. It has been difficult to develop it any further in terms of utilising the available technology. These investments are expensive and it can be difficult to obtain satisfactory returns, although we are examining very exciting solutions for the future. At any given time there are only 4 different types of scratch tickets in circulation, and each ticket is for sale for a period of 12-18 months. The UIL manages about 500 VLT machines and the machines are located in over 30 different gaming halls and bars, which are not owned by the UIL. There are no casinos in Iceland. One half of the machines are progressive and connected to a Jackpot, whereas the other half are non-

progressive. The only product available on-line is the class lottery.

And yet, the UIL has had impressive growth, especially in 2015. Total revenues for 2014 were €21,040,451. What were they for 2015?

B. Hrafnkelsdóttir: We had a very good operating year in 2015. The turnover increased by 10.1%. The biggest increase was in VLT's, although there was also an increase in the class lottery and instant games. This is, in fact, the first increase we're seeing in the turnover of VLT's since the economic crash of 2008. The total gross gaming revenue grew by 6.7%, but changes in the prize-payout percentage between years may mean that changes in turnover and the GGR do not always go hand in hand. Profits excluding capital gains increased by 14.5%. 2016 also got off to a good start. We are seeing very positive trends in the first four months of the calendar year for 2016.

How do margins vary between the different game categories?

B. Hrafnkelsdóttir: The payout percentage from VLT's is higher than in the class lottery and scratch cards. VLT's are the biggest division and the net margin in Icelandic króna, which is the gross gaming margin minus the operating costs of the system, is twice as high with VLT's as it is with the class lottery. This means that each percentage point change in the turnover of the VLT's weighs more than twice as much as a change in the class lottery in terms of its impact on the net margin. Despite this, the UIL's policy is not to advertise VLT's. On the other hand, we have worked a lot with IGT, who is our machinery and system suppliers, in an effort to make the supply of games more interesting with more effective game controls. Too, we have conducted experiments in various sites with the look and presentation of machines, messaging to customers in the locations etc., and all of this has obviously boosted our turnover together with an improved economy in Iceland.

What do you see as the best strategies for maintaining growth in the draw-based game category?

B. Hrafnkelsdóttir: We've achieved good results in the sale of class and instant lotteries. Ticket prices have risen twice in the class lottery, from ISK 1,100 to ISK 1,500, i.e. by 36%, since 2011. And yet we still have an increase of approximately 11% in the number of tickets sold between 2010 to today. I believe that can be attributed to the changes we made to the class lottery in 2012 when we offered a new winning pot, called Milljónaveltan (the Millions raffle), where all tickets are drawn for a single winning ticket of \$80,000. If a winner is not found, the prize remains in the pot and is added to the draw of the following month. Direct phone sales have also achieved great results. We strive to have humour at the forefront of our marketing campaigns and use Facebook a lot, where we have 32,000 followers. Also we upgraded the website and procedures to facilitate the buying of tickets online. Subscriptions account for 88% of the turnover, but there are always some users who stop briefly, and jump in when the Milljónaveltan pot increases. The majority of lottery ticket holders essentially do business with us to support the University of Iceland but also in the hope of winning.

People of all ages play the lottery but, as is natural, the most active participants are middle-aged people who have the most disposable income. The challenge is to turn the class lottery into an exciting option for young people between the ages of 20–35, while at the same time retaining the rest of our loyal clientele from all age groups. Today 15% of participants in the lottery are in the 20–35 years age bracket. This target group poses many challenges, such as the demand for digital communication options, greater speed and the most up to date technology.

What do you think is the future of draw-games?

B. Hrafnkelsdóttir: For the class lottery to continue as the leading lottery here in Iceland in the future, we need to keep a sharp eye on player and general market-place trends as they emerge. A fundamental precondition for this is to make sure that our website and the interface in all our gaming machinery are simple and accessible so that they do not test our customers' patience.

The younger generations in particular expect us to deliver a user experience that is just as easy and up-to-date as the most advanced e-commerce websites—everything needs to be preferably “one click away.”

There are also other challenges raised by trends today. Online marketing is constantly growing and the emphasis is shifting away from well-established media such as TV, radio, and particularly newspapers. The class lottery is following this trend and we are increasingly using online advertising platforms, such as Facebook, Google, YouTube and other popular networks. These changes entail the application of a vast volume of measurable data which market experts can examine and evaluate to assess the results of their marketing efforts. This benefits us in the class lottery and the policy is to advertise in the places where the marketing funds are best used and yield the best results.

We must be doing something right because we’re witnessing a rise in popularity among people of all ages. We believe that, with the right presentation and simplicity of our games, this popularity will continue to grow. We don’t envision any radical changes in our games or rules in the near future. What we are more likely to see is the appearance of new games. We believe that, so long as we manage to follow trends each step along the way, the future of the class lottery should be bright and we have every reason to believe we can maintain this as an exciting option for the players of the future. After all, it has been running in this country since 1934. It has had its ups and downs, and it’s still going strong.

Iceland is known for being a global hub for young innovators in the tech, entertainment, design, and media industries. Will you benefit from Iceland’s indigenous creative resources?

B. Hrafnkelsdóttir: That hasn’t been the case. The most popular online Icelandic games, Eve Online and Quiz-Up are not in gambling, and Fanaments.com is in sports which we don’t have a licence for. So, this could represent an opportunity for us to innovate further. But reality is that we have strict limitations as to the games we can offer and the media/channels through which we are allowed to distribute.

Are remote i-gaming operators as successful at disrupting the markets in Iceland as they are elsewhere in the world? Are your government or agents of law enforcement doing anything to prevent illegal i-gaming in Iceland?

B. Hrafnkelsdóttir: The lottery is a fun, exciting and useful phenomenon which offers a twofold benefit: On one hand it gives the people who play a chance to make a contribution to the community, while at the same time enjoying the hope of winning a prize that may enhance or change their lives, and this is what makes the game so exciting. On the other hand, the many agencies and organizations involved in worthy causes for the community benefit from the contributions of lottery companies and the Lotto.

In recent years there have been radical changes in consumption patterns, particularly in younger generations. Leisure, shopping and various other services are increasingly moving online. The same applies to money games, which are evolving extremely fast. People choose to play online and the use of traditional gaming machines is slowly dwindling. A vast increase in the use of smart phones and tablets is being forecast and young people grow up with these gadgets and become accustomed to using them, first as a game, which later evolves into business. Inevitably, lottery companies will move to selling their products online. The UIL has been struggling for an authorisation to expand its operations and offer its casino-style and instant games online for several years now. We’ve also lobbied for the government to confront illegal foreign i-gaming, but to no avail. The Icelandic lottery market has been affected by the involvement of foreign private companies. This applies in particular to companies that offer their services on the web. Consumers in Iceland have access to countless foreign websites that operate illegally. A number of these have become firmly implanted.

The apathy of the government is incomprehensible and it is unacceptable that the legislature has set no restrictions on the aforementioned illegal foreign websites. These companies have no connection or responsibility to the Icelandic community

—no supervision, no taxes, no fines, no obstacles. At the same time, the government prevents domestic lottery companies, such as the UIL, from expanding its operations and therefore from offering the games they are licensed for today on the Internet. Vast amounts of money therefore flow out of the country instead of supporting the work of the owners of the UIL in favour of the Icelandic public.

I don’t know what explains the apathy of the government, but it seems to have no interest in these issues and I feel the ministry fails to grasp the importance of these activities. If lottery money were not used, the operations of the institutions and associations that currently benefit from lottery money would have to be partly funded by the tax payer or their operations would have to cease or be reduced in scope.

In the spring a bill regarding casinos was submitted to parliament. The bill was produced by 9 members of parliament from different political parties and without the involvement of the ministry. What is at odds in this bill is the fact that it does not provide for the gaming activities to be managed by the organizations or legal entities that offer their proceeds to national causes—in addition to the fact that the bill actually prevents Icelandic lottery companies from participating in the market. If the bill were to be passed and become law, it would mark a fundamental change in the policy that has governed lottery and betting activities in Iceland and deviate from the arrangements that have been applied to these activities and enjoyed a broad consensus. The issue has been through a first round of discussions and reports have been submitted, but we feel that it is not very likely that the bill will be approved, and we have to bet on our MP’s common sense in this matter.

How do you see the product mix trend-lines evolving?

B. Hrafnkelsdóttir: While our offer of products continues to remain unchanged and we are unable to use the Internet as a distribution channel for our products, I can’t imagine there will be any major changes to the current mix. I’m most sat-

ified, however, when we manage to show an increase in the class lottery because when I first started working at the UIL in 2010 the attitude towards that product was that it was slowly but surely fading and that the Net would take over. Neither has happened. Once we get an opportunity to sell our products on the Net, I expect the percentage of scratch cards in particular will increase.

Do you think there are over-laps in the player-ship of traditional lottery games and “other” games like VLT’s?

B. Hrafnkelsdóttir: We don’t keep track of the customers who play VLT’s so we can’t make any statements in that regard, but we consider that the vast majority of our class lottery customers who hold an average of 2.1 tickets do not play VLT’s, but on the other hand it is quite possible that those who play VLT’s also own a number of class lottery tickets.

How challenging is it to combine a growth

agenda with UIL’s dedication to the principles of Responsible Gaming?

B. Hrafnkelsdóttir: We do not think of that as a trade-off. Our statutory role places a great responsibility on our shoulders and the UIL has always placed an emphasis on credibility and responsible activities. My predecessor, Brynjólfur Sigurðsson, took the initiative to commission the Psychology Department of the University of Iceland to conduct research on gaming problems and gambling addiction to increase our knowledge and understanding of the issues. The first study was conducted in 2004 and then again later in 2007 and 2011. A new study will be conducted in 2017. We have supported the National Centre of Addiction Medicine (SÁÁ) both through funding and prevention work. We are, among other things, participants in a Scandinavian joint forum on Responsible Gaming and in collaboration with two other Icelandic lotteries, Íslandsspil and Íslensk Getspá, we run a website to promote responsible playing. Moreover, the UIL has been certified by the

European Lotteries association for Responsible Gaming, first in 2012 and then renewed at the beginning of 2015. We have also been certified by the World Lottery Association in 2015. Responsible Gaming will always be a top priority for the UIL.

But it can also be restrictive to run activities that are subject to licences. For example, we are not able to work on our natural development as much as we would like. But we certainly have not remained idle and, over the past quarters, we have been working on enhancements which are aimed at revising and streamlining all our working procedures, in addition to making the necessary adjustments to our IT systems. Our goal is to boost the efficiency of our management, enhance services and increase security, both internally and externally, and enhance the overall player experience. Slowly but surely, this has produced cost-savings in our management so that now we are achieving better results with a leaner staff. We are not by any means finished and still see great opportunities that we are working on. ■