

Control Unregulated Lottery Sales with a Single Worldwide Merchant Code—7800

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A curious and strange situation now exists in the world of on-line lotteries that will interest many lottery executives. Changes to the Visa and MasterCard coding system designed to benefit US lotteries actually may disadvantage non-US lotteries and doesn't help any lottery anywhere and could have unintentional consequences. Up until very recently, all Internet lottery sales were coded as 7995—a high risk code that includes unregulated lottery sellers, online casinos and poker sites. A new 7800 code has been established for government licensed lotteries, which is a great step forward, except (and here's the catch) it only applies to the US lottery market and to US banks.

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Gambling		
7800	Government-Owned Lotteries	Effective with April 2015 VisaNet Release
7801	Government-Licensed On-Line Casinos (on-Line Gambling)	Effective with April 2015 VisaNet Release
7802	Government-Licensed Horse/Dog Racing	Effective with April 2015 VisaNet Release

UPDATED MCC CATEGORY

Gambling		
MCC	REQUIRED NAME IN VISANET RECORDS	EFFECTIVE VISANET RELEASE
7995	Betting, including Lottery Tickets, Casino Gambling Chips, Off-Track Betting, and Wagers at Race Tracks	
<p>Merchants classified under this MCC operate gaming or betting establishments that may or may not be associated with hotels, restaurants, riverboats, and resorts. These merchants allow customers to use their bank cards to purchase gaming chips and lottery tickets, and to place wagers. These transactions must be classified under MCC 7995. Other transactions associated with the establishment, such as the purchase of food, lodging, passage, etc., must be classified under an appropriate, separate merchant category code for that type of business.</p> <p>US merchants that do not qualify for classification in MCC 7800—Government-Owned Lotteries, 7801—Government-Licensed On-Line Casinos (On-Line Gambling), 7802—Government-Licensed Horse/Dog Racing, must be assigned MCC 7995</p> <p>Merchants classified under MCC 7995 are considered High Risk, and special registration may be required with Visa Inc.</p>		

them going into small convenience stores to buy a newspaper and chat with the neighbors and buy a lottery ticket while they are in there. We need to create a robust multi-channel ap-

proach that enables Lottery to build a relationship with its customers. That is what the mission of NOVOMATIC Lottery Solutions is all about. Lottery has a very bright future

indeed. It's just a matter of using the tools that are readily available to reach out to its customers, to let them know we care by making the investment to grow and evolve with them. ■

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Updated Categories

By excluding the rest of the world, Visa and MasterCard have allowed unregulated sellers to simply open up shop in one of many jurisdictions outside the USA. These sellers offer tickets in the US Powerball, Megamillions, Euromillions, the Eurojackpot and local games to unsuspecting customers who are unaware that these tickets are not bought from legitimate sources or in many cases, not bought at all.

For the 7800 code to be truly effective, it must be applied worldwide. All regulated lotteries worldwide must be coded the same in order to place pressure on unregulated operator sites to change their trading habits. The Internet after all spans the globe and so should the financial systems that underpin it.

The Internet Lottery Black Market

As most lottery executives are aware, a battle has been raging between regulated and unregulated sales of popular lotteries on the Internet. Regulated sellers buy tickets from the proper sources, that is the federal or state government, ensuring the correct taxes are paid, while unregulated sellers often do not even buy the tickets they sell. Not only does this rob states of taxes and funding for worthwhile causes, customers are at great risk of not receiving their winnings. While this practice is worldwide, affecting the USA, Asia and Africa, it is mostly concentrated in Europe which has a complex legal framework that allows unregulated sellers a safe haven in

several "gambling friendly" jurisdictions.

The most effective method for controlling this activity is via financial methods—stop the flow of money into the unregulated websites and problem is solved. Every online merchant must have a merchant code to be able to accept Visa and MasterCard, however up until now there has been just one merchant code (7995) that covers all internet gaming. This is a rather crude category that combines regulated and unregulated lotteries with Internet casinos and poker sites that are considered high risk. The result of this crude coding is that unregulated sellers thrive and many legitimate customers are unable to purchase tickets even from regulated websites because some banks choose to decline all transactions coded 7995. When the good gets mixed with the bad the outcome is hardly optimal.

Recent Update of the Merchant Coding System

A recent update of the merchant coding system has seen the introduction of the 7800 code for government owned and licensed lotteries—perfect for the regulated lottery industry. However here is the catch—this code is only available for the US market and US banks. This is more than a little strange because the volume of Internet lottery sales in the US market is tiny compared to Europe where the real problem is. Don't get me wrong—I'm happy with the progress but unregulated Internet lottery sales are a global problem and the 7800 code must be applied worldwide. An

unregulated Internet lottery seller based in a jurisdiction outside the USA can still offer tickets in the US Powerball and Megamillions as well as the Eurojackpot, Euromillions and local games and draws.

The 7800 code needs to be rolled out worldwide. Authorized Internet resellers and government lotteries themselves will be able to use the 7800 code to put significant pressure on unregulated sellers and swing the pendulum back in favour of the governments. Currently that pendulum is in favour of the unregulated sellers. Unregulated sellers who do not purchase the tickets they sell have enormous profit margins that can be ploughed into marketing or other customer acquisition tools that regulated sellers just can't afford. This situation compounds the issue of depriving governments and good causes of a source of funds and potentially compromising the integrity of the lottery industry worldwide.

Regulated lotteries are a huge business for the credit card companies. If all regulated sellers put pressure on Visa and MasterCard to rollout the 7800 code worldwide, the changes are sure to happen sooner rather than later paving the way for modern internet lotteries where their integrity is beyond reproach. The benefits of internet lotteries are well documented—better customer satisfaction, younger demographics, etc, etc. But before this can happen, the 7800 code needs to be uniform worldwide without advantage to just one country. The internet after all spans the globe and so should the financial systems that underpin it. ■