Following is an edited synopsis of the panel discussion held at Lottery Expo on September 13 in Miami. You can view a video of the complete presentation at: www.PGRItalks.com.

—Edited by Paul Jason, PGRI.

PANEL DISCUSSION

Moderator:
Terry Presta
Executive Director, Kansas Lottery; Chair of the NASPL Retail Subcommittee

Panelists:
Andrew Crowe
Vice President Emerging Markets, Vantiv Entertainment Solutions

Gardner Gurney
Director, Division of the Lottery, New York State Gaming Commission

John Spicknall
Director of Package Goods and Services, RaceTrac Petroleum, Inc.

Sue Strouse
VP Retail Strategy and Business Development, IGT

Drew Svitko
Executive Director, Pennsylvania Lottery

PROVIDING CONSUMER OPTIONS—MAKING LOTTERY AVAILABLE IN A CASHLESS ECONOMY

The best lotteries, like the best businesses, are constantly searching for improvements in their business model to make their products and services more accessible to the consumer. The traditional network of retailers that have served us so well in the past will continue to be our primary connection to the consumer. But there is not only room for improvement, there are big gaps in the channel partner relationship that need to be plugged. Open APIs that facilitate the transmission of data with its retail partners, standardization of business processes to rationalize the support of multi-state retailer relations, application of digital technology to enhance the in-store player experience are just a few of the ways that Lottery can reinforce the foundations of its retail connection to the consumer. Providing multiple payment options to the consumer is another. Commerce at the retail consumer level has moved to a cashless system that is putting cash-based businesses at a severe disadvantage.

Nobody wants to cannibalize the cash-based transactions by deliberately migrating consumers from cash over to cashless or credit cards. The reason to provide the cashless option is to bring in new consumers who would not have bought the ticket if cashless were not available to them.

One of the obstacles to online and credit card lottery sales in the past has been the confusion on the part of the merchant banks which process credit card transactions. Ever since the UIGEA criminalized online gambling back in 2007, the merchant banks have been unclear as to how to classify Lottery. Goods and services are classified by SIC codes, of which gambling is one. Being coded as "gambling" places the transaction into a category that severely restricts the merchant banks from even processing the transaction. Thankfully, that has now been clarified such that Lottery has its own merchant category that is separate and different from gambling. That means the merchant banks can now process credit card purchases of lottery tickets without being concerned that they are violating federal laws that prohibit illegal internet gaming. Banks, financial institutions, and payment-processing networks are recognizing Lottery as a legitimate, viable, and relatively low-risk category that they should be supporting. But there's still work to do. American Express still doesn't process gaming transactions of any kind anywhere in the world. This creates confusion for some of our retailers, some of whom have reverted to a cash-only sales position.

John Spicknall explains from the retailer point of view: *"We do accept debit for lottery. I expected cashless transactions to grow faster. 85 to 90 percent of our lottery transactions still happen in cash. We accept cashless payments for most products in order to remain convenient to the consumer and competitive with other retailers. That said, the interchange expenses associated with cashless payments are our second largest operating expense behind labor, so any decision to accept cashless payments must deliver benefits to both the consumer and to our bottom-line. When we make decisions like this, we often consider the "total cost of ownership,"* meaning we factor in all associated benefits and risks. A retailer's choice to accept credit as a method of payment could increase sales (In the case of lottery—a retailer could expect a large market basket). On the down-side, it would certainly increase interchange fees, and it would open the retailer up to increased credit card charge-backs (fraudulent

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transactions). Right now I see EMV as a wild-card for cashless payments. Some convenience retailers are choosing not to adopt EMV technology in favor of faster service. This decision decreases their likelihood of accepting new cashless payment options for lottery.

Terry Presta: *"The multi-state chain accounts have mixed feelings about cashless payment methods for Lottery. For instance, Speedway told us a benefit of being a cash-only lottery retailer is that they make so much money on the ATM fees. When the jackpot goes up, everybody withdraws cash from the ATMs and that generates fees for the retailer. Switch those transactions from cash over to credit cards, and the retailer switches from receiving additional ATM-generated income on top of the commission for the ticket sale over to paying a fee to the merchant for processing the credit card lottery transaction."*

Nobody wants to cannibalize the cash-based transactions by deliberately migrating consumers from cash over to cashless or credit cards. The reason to provide the cashless option is to bring in new consumers who would not have bought the ticket if cashless were not available to them. In fact, we need to monitor the activity to get a clear picture of how much of the cash business shifts to credit and becomes subject to transaction fees.

The whole business model that applies to payment processing may well be changing in very big ways in the future. Once Mobile payment processing passes a threshold of widespread consumer adoption, bank withdrawals will not be in cash but in a deposit to your smart-phone. We do not know the exact effect that will have on the fee structure, but we can likely expect it to lower the transaction-processing costs, which should presumably lower the fees, and so therefore be a big benefit to the lottery industry. Lottery products do not deliver a large margin to its retail channel partners, so every single point of payment fees matters a lot. Even a 1% fee constitutes a 20% reduction in profit on a sale that yields 5% commission. That's a lot. Issues surrounding fee structures are integral to the whole "cashless" dialogue. So insofar as the consumer market-place transitions to Mobile payments, that could reduce processing fees and therefore be quite transformational for our industry.

We also want to consider the relationship between cashless transactions, registering the players, and loyalty programs. We focus on the benefits of giving the consumer more payment options. But other benefits of cashless methods are that they smooth a path for player registration and migrating the players onto the Player Clubs and loyalty programs. Retailers are trying to give rewards for shopping in their locations. They are implementing loyalty programs to drive repeat patronage. As consumers walk into the store, they're already looking at their Mobile app, they're looking through the deals and promotions. They need to go to the next step where they can pay with their Mobile app. We need to be part of that conversation with our retailers. We need to explore ways for us to collaborate with them on promotions, loyalty programs, and Mobile apps.

Drew Svitko: *"In February (2016), we launched credit and debit sales in about 75 stores as a pilot program with one of our corporate retailers. Our main objective is to learn more about the impacts, and perhaps unanticipated collateral effects, of offering credit and debit. We partnered with Scientific Games to enable the transactions to be processed through the existing lottery terminals. We want to gather a lot of sales data, build and analyze the business case, look at the fees and gain insight and a more precise measure of the impacts. Mainly we want to figure out whether adding credit and debit generates adequate incremental sales to offset the risk of cash cannibalization. Is there enough upside sales growth to offset some portion of our four billion dollars' worth of cash business being subject to that two or three percent transaction fee? We also want to gauge the public reaction and figure out whether the public and other stakeholders are okay with the idea of lottery products being purchased on credit and debit. We have learned that some of our retailers have been accepting credit and debit, not for every transaction, but whenever it makes sense. There's still a lot of learning to do!"*

In the Pennsylvania model, it is integrated so the lottery terminal is telling the credit card terminal the amount to be purchased and that's all figured into the settlement. Further, Pennsylvania will soon begin testing card payments in some of its vending machines. Georgia's approach does not integrate the card reader with the lottery terminal. There are some downstream effects when you do a stand-alone like that. In Georgia, 90 percent of the sales are happening at the airport kiosks. If you compare those airport kiosks to network-wide results, there is an increase of sales, with over half of the card transactions likely being incremental sales.

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The modern world of hospitality, retailing, CPG distribution, and gaming is all about convenience and options for the consumer. The consumer expects everyone to meet the standard of service that is delivered by the very best merchants and service-providers. The bar is set high by the most progressive service and retail organizations, and the consumer is disappointed if any single merchant or service-provider fails to meet that elevated standard of service. Convenience and ubiquitous access to the product are merely the starting points. That's the cost of entry to earning the consumer business. The consumer is telling us how they want to do business and it is up to us to meet their expectations in every way possible. ■