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Public Gaming:
*Chairperson of the
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Association (APLA) is a two-year term?

June Roache: Yes. All the terms of the executive committee are two years. Since this term began in October of 2008, it ends in November of 2010, at the WLA World Congress in Brisbane.

From your perspective, how does the gaming industry and the role of the association in the Asia Pacific region differ from the other regions?

J. Roache: One of the issues with the Asia Pacific region is that it has great diversity, not only in its culture, but also with the lottery jurisdictions being in various stages of organizational lifecycles. Some have been around for decades, while others are quite young. Some operate many lottery games; some only a few. In Australia we operate many different games. We have about 40% of the world's population in the Asia Pacific region. And we also have some of the biggest, and longest standing lotteries, such as the Japan Lottery Association, Tatts Lotteries in Australia, and the Hong Kong Lottery. And there is the rapidly developing Chinese Lottery.

What are some of the agendas that APLA is trying to accomplish?

J. Roache: The next 12 months will be a time of sharing information amongst members that could benefit and add value to the younger organizations. We have a couple of opportunities each year to do that. One is an annual seminar. This year we held that in Macao in April. And the big one is our annual conference, this year held in Auckland, New Zealand. We are a relatively young organization, ten years old this year. So we're not as developed structurally as NASPL or the EL (European Lotteries Association). We don't have a full time secretariat or administrative office. An Asia Pacific Regional Member Lottery hosts the conference function, an-

other member assumes responsibility for the administrative duties of the association, and another the Treasury function. Each require a time commitment.

The WLA (World Lottery Association) has developed responsible gambling and security control standards against which members can benchmark their controls and seek accreditation. WLA's accreditation program attests to the standard of performance achieved by the operator. This is a very important program that raises the level of performance and integrity for the entire industry. So, one of our regional priorities is to promote the awareness of these programs, to inform the public and political leaders about the importance of these efforts to raise the level of performance and to encourage our member lotteries to seek accreditation with the WLA security control standards, and the responsible gambling framework. The importance and relevance of these programs is really universal, they apply equally to all parts of the world. So in spite of the tremendous diversity of our region, these are initiatives that we can embrace because they apply to all of us.

When we look at the major challenges that face our members, we can see many similarities to other parts of the world. We all have to remain strategically relevant and socially acceptable to our market. We have to protect our government revenues and consumers from illegal or unregulated operators. The illegal operators really do take a lot of the turnover from the licensed operators, in Asia Pacific just like other parts of the world. This is a problem. And that is why we need to establish standards of performance which are required of all operators. Ultimately, we need to differentiate ourselves from these illegal operators. And the way we will do that is by being better, by achieving higher standards of performance in every category, but especially those that relate to protecting the public. That's why the two accreditation programs are of immense importance.

Is it important to convince the governments and lawmakers to make WLA accreditation a prerequisite for getting a license to operate?

J. Roache: That's an interesting question. But the answer is that I don't think it is the role of governments and lawmakers to regulate specific controls. That is a corporate governance issue. The benefit of accreditation is to differentiate ourselves from illegal and unregulated operators. I also do not believe that the WLA accreditation programs should be built into the licensing terms and conditions as it would not be realistic to expect or even want the government to do so.

What is important is that we raise the level of performance so that the interests of the players and the general public are protected. WLA Accreditation is the standard against which all operators can measure their controls.

The comments you made about how the diversity spans not only over 40% of the world's population, not only over a large geographical area, and not only across all different kinds of cultures ...the interesting thing that I hadn't really thought about was that all the different lotteries would be in such different stages of evolution and maturity, and that would pose an interesting challenge to find the commonalities that you can be addressing as an association.

J. Roache: Absolutely. And in accordance with our bylaws, you know, sharing of information is the key objective. In spite of our differences, there is so much to learn from each other. There are younger lotteries who gain a lot of insight from the experience of more mature lotteries.

The diversity of our political and regulatory systems makes it difficult to deal with political issues on anything other than a jurisdictional basis. What might be acceptable in Australia may not be acceptable in a particular Asian country or countries, or vice-versa. We are quite different from the U.S. and Europe in this respect. There is diversity in all regions of course, but there are also opportunities to

speak in one voice and have a shared political agenda in those regions that we do not have in Asia Pacific.

How is internet gaming regulated in Australia?

J. Roache: Australian gambling policy and legislation is the domain of the various states and territories. It's not regulated at the federal level. There are, however, two important federal laws in Australia. One is the Commonwealth Interactive Gambling Act, which was enacted in 2001. And the other one is the High Court of Australia Decision on Betfair, which was handed down in March, 2008.

The first one, the Commonwealth Interactive Gambling Act was enacted under the telecommunications powers in the federal constitution. Essentially what that does is prohibit an interactive gambling service. However, lotteries have a general exemption with the exception that the exemption doesn't apply to electronic instant scratchies and a provision exists for a regulation to be made preventing the exemption of highly repetitive or frequently drawn games such as Keno. There are other exemptions under the Act allowing for internet and telephone betting where it occurred prior to this Act, such as off-track betting or wagering on horses, dogs and sport, etc.

It is interesting to note that a recently released Draft Report on Gambling released by the Australian Government's independent research and advisory body, the Productivity Commission, includes a draft recommendation that the Interactive Gambling Act be repealed with a managed liberalization of online gaming.

Can people in Australia play on websites that are operated in a jurisdiction outside of Australia?

J. Roache: Yes, they can. And I think one of the issues facing our industry gets back to these illegal or unlicensed operators because our players can't tell whether it's a legitimate site or not. Some of them look very real and legitimate. People play on these sites without understanding that they are not legal. Of course the real test is whether prizes are paid and sometimes the players do not know if they are genuine until they attempt to redeem a prize.

These operators are allowed to operate until and unless someone complains about them.

Well, then, why wouldn't somebody complain?

J. Roache: Two things about that. First, it is often-times vulnerable people who play on

these illegal sites and do not understand when they are cheated or what to do about it if they are. Second, as you know, these operators set up new sites with new ISP's and move around in ways that make it difficult to block them.

Wouldn't your governments want to collect tax on that economic activity?

J. Roache: You're absolutely spot on. And perhaps I'll just talk about the other law in this country, ie the High Court "Betfair" Decision.

Betfair is licensed by the Tasmanian state government to conduct online wagering in this country. The Western Australian government legislated against Western Australians being able to bet with Betfair. Betfair challenged the legislation in the High Court of Australia. And the decision came down against Western Australia's right to legislate against using a betting operator authorized in another state. The High Court Decision effectively means that any licensed online operator can sell on the internet, by telephone, or other electronic means and advertise anywhere in this country. That means that since Betfair is licensed in Tasmania, they are legally allowed to sell into all the Australian states and territories.

Does Betfair have to pay taxes to those states and comply with all of the regulatory standards of each of those states?

J. Roache: States do have the right to collect taxes from online operators like Betfair. In South Australia, for example, legislation has been passed relevant to betting operators who must be 'authorized' to sell into South Australia and to pay taxes.

Another issue is that state lotteries, e.g. SA Lotteries, are subject to very, very strict consumer protection measures. We must adhere to strict responsible gambling and advertising codes of practice. Unlicensed operators don't have to adhere to those strict consumer protection measures. Unlicensed operators don't pay the taxes nor do they comply with the stringent consumer protection measures that we are required to do.

It is complicated, though, because the High Court Decision is a reinforcement of the promotion of free trade and commerce across borders. Much the same issue as you see in Europe.

A license in just one jurisdiction does allow the operator to do business in all states.

Can each state have different tax rates, or is that pretty uniform throughout the whole country?

J. Roache: No, it is different from state to state. And the same applies in the lottery industry. There are different taxes because that is determined by the individual states. Our whole country with six different states and two territories has a population of just 22 million people. To put that in context, the state of California has 36 million. We have a very diverse and complicated regulatory framework, given the population of Australia.

What are some problematic issues that we face as an industry?

J. Roache: I believe that privacy is a key issue. As more and more jurisdictions have player customer registration card services for their games, and as more and more jurisdictions sell online, I think the privacy issue is a key one for us. We introduced our first customer registration service in 1984, and we enhanced that service in '94, which predates my time. We now seek additional information from registering members. And we use that data to micro market to those customers. Therefore, we have to be very mindful of the controls around the retention and use of that data. That's very, very much a key focus. As increasing numbers of lottery jurisdictions sell on the internet, the player identity security and the protection and system security control for online players will be paramount. Identity fraud and theft is a major and an escalating issue everywhere. And it will be a critical flash-point of reputation vulnerability if we don't get that right, if the controls are not tight enough to protect our players' identity.

Registration is not a requirement to play, is it?

J. Roache: The registration process results in a large database of player information. It captures the data of when those players play, what they play, how much they spend, etc. There's also the personal profile information including name, address, phone number for contact, birthdays, bank account information etc. We do hold a lot of that very important and private information for the individual. So it's a very powerful tool. This is a tool that helps in a responsible gaming framework as well as marketing. Creating a dialogue with our players is an important step towards helping the players to play responsibly. I think you will see more and more operators implement player registrations systems in the future. So security and the methods of guaranteeing confidentiality of that data is of critical importance.

Privatization: The whole world is watching

how things unfold in Australia. Golden Casket, the Queensland Lottery, was sold in the form of a long-term lease to Tattersalls and now New South Wales is likely to be similarly privatized. Does the privatization of a different province have any implication for the province like South Australia which has a government operated lottery?

J. Roache: It's very interesting in our country at the moment, since we too are very conscious that the whole world is watching, Paul. And when New South Wales Lotteries is privatized, there will be only two state owned lottery organizations as government business enterprises in the country. And that will be SA Lotteries, and Lotterywest.

There may be a significant impact upon those two jurisdictions depending on the purchaser of New South Wales Lotteries. That said, it would probably be better if I not speculate on what the implications may be. What is happening in the lottery segment of the gambling industry in Australia is really no different from what has happened in the off-track betting segment and the consolidation that has taken place in the gambling industry in Australia over the last few years. So it's a very interesting situation, and it's definitely got a lot of my attention at the moment.

Scratch-off games versus lotto...Why is the ratio of lotto to scratch-offs so much higher in Australia than in the US where scratch-offs seem to have had the momentum?

J. Roache: I can't say exactly. I can say that in South Australia our instant scratches really suffered with the introduction of poker machines here. Now, we run 3-1/2 minute keno, we're the only jurisdiction in the country to do so. Initially keno also took a hit when poker machines came in. And if you think about instant money games, and 3-1/2 minute keno, they're both impulse products. Gaming machines are also impulse products. We're not truly competitive with gaming machines when it comes to speed of play because one can play a game on a machine every 2-3 seconds.

That's very interesting. I suppose that explanation could have implications for the US market if casino-style gaming continues to proliferate. That is, instant scratch-offs being more vulnerable than lotto to competition from electronic gaming machines. How do the player motivations differ by age group, what are younger players interested in?

J. Roache: I think one of the key things with players in general, but the younger generation in particular, is that they do want

control. They want player choice and control of games. And choosing who they play with, when they play with that person, leading more to the community style games. They don't really want to be told what their spend limit is or how long they can play. Community and social ethics are also very important to a younger demographic. I believe we're going to have to provide games that meet those requirements if we want to engage the interest of the younger demographic.

Do you have self-service check-out in the US?

Yes. You mean at a grocery store where you scan the barcode yourself and weigh produce and punch it into the system yourself without a check-out clerk?

J. Roache: I believe we have to create games that allow for a similar level of control. We need to realize that for our generation we may prefer to have a check-out clerk do it for us because we don't feel like learning how to check ourselves out. But that's not so for the younger generation.

I didn't do it until one time when all the regular check-out lines were all too long and so I went over to the short line and discovered I had to learn how to check myself out. Even now, I typically only go to self-service check-out when the other lines are long.

J. Roache: Exactly. The thing that we need to understand is that young people actually prefer to do it themselves. They don't even want to be assisted by a clerk. They are very comfortable with figuring out how to operate in a world where they are constantly needing to learn new technologies and procedures. They know that the payoff is good in terms of time saved, they have gotten quite efficient at minimizing the learning curve since they are doing it all the time, and so now they actually would prefer to do it themselves than have clerks assist them. But it's more than just a matter of time savings. It becomes a way of thinking about your relationship to other people and the world around you. These young people assume that everyone would want to be independent and self sufficient in matters of technology and this attitude transfers over to an important shift in game styles and preferences.

We need to evolve our products to appeal to this consumer attitude of wanting control and independence and multiple options about how the game is played, how payment is made and transactions executed, who they play with, when and how

much they play...just about everything needs to be revamped to appeal to the attitudes of the younger demographic.

As you're describing it, it would seem that player cards and registration would be an important component to this trend line.

J. Roache: Well, yes, but...that is a bit of a conundrum because younger people are not patient with anything that is inconvenient. If they want to buy something, they won't necessarily be keen on needing to have a special card that they enter a number or swipe at the counter. That whole process is not necessarily consistent with their notion of control and freedom.

Another point is, the use of the mobile phone or iPhone as the scanning device and payment device. There are discussions now about using the mobile phone as a payment device. There will be new ways to execute transactions, younger people will be the first to adapt to them, and that's why I think we have to figure out how to get into these spaces as quickly as possible.

Relating the privacy issue to the younger demographic...I'm thinking that younger people would perhaps be less concerned about the privacy issue than older people would be.

J. Roache: I think that's got a lot of basis, but am not sure. I think that younger people may be less concerned about the privacy issue than about the inconvenience. With them it's more about how can I become famous quickly, how can I be a part of the hot community. Delivering the benefits they care about and minimizing the inconvenience is what will smooth the way for them to register.

You mentioned that about 30% of your players are registered. That seems like a high number. Are you pleased with that level of engagement?

J. Roache: From where I sit, Paul, I'd like to see 99%. The more information we have about our players, the better we will be able to create products that appeal to them, and work the best distribution channels, and communicate in ways that get their attention. Capturing the customer information is the key to evolving our products and business to stay relevant with our younger players. And staying relevant with each new generation of players is obviously critical to future success. Player registration is the most useful means of capturing that information. ♦