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Featured Interviews:



Henry Chan

Executive Director of the
Hong Kong Jockey Club



Joan Borucki

Director of the
California Lottery, USA



Michelle Carinci

Chief Executive Officer
of Atlantic Lottery
Corporation, Canada



Atul Bali

Senior Vice-President of
GTECH and President
of New Media &
Sports Betting Division, USA



Ann-Sofie Olsson

Director of Corporate
Social Responsibility (CSR)
and Public Affairs,
Svenska Spel, Sweden



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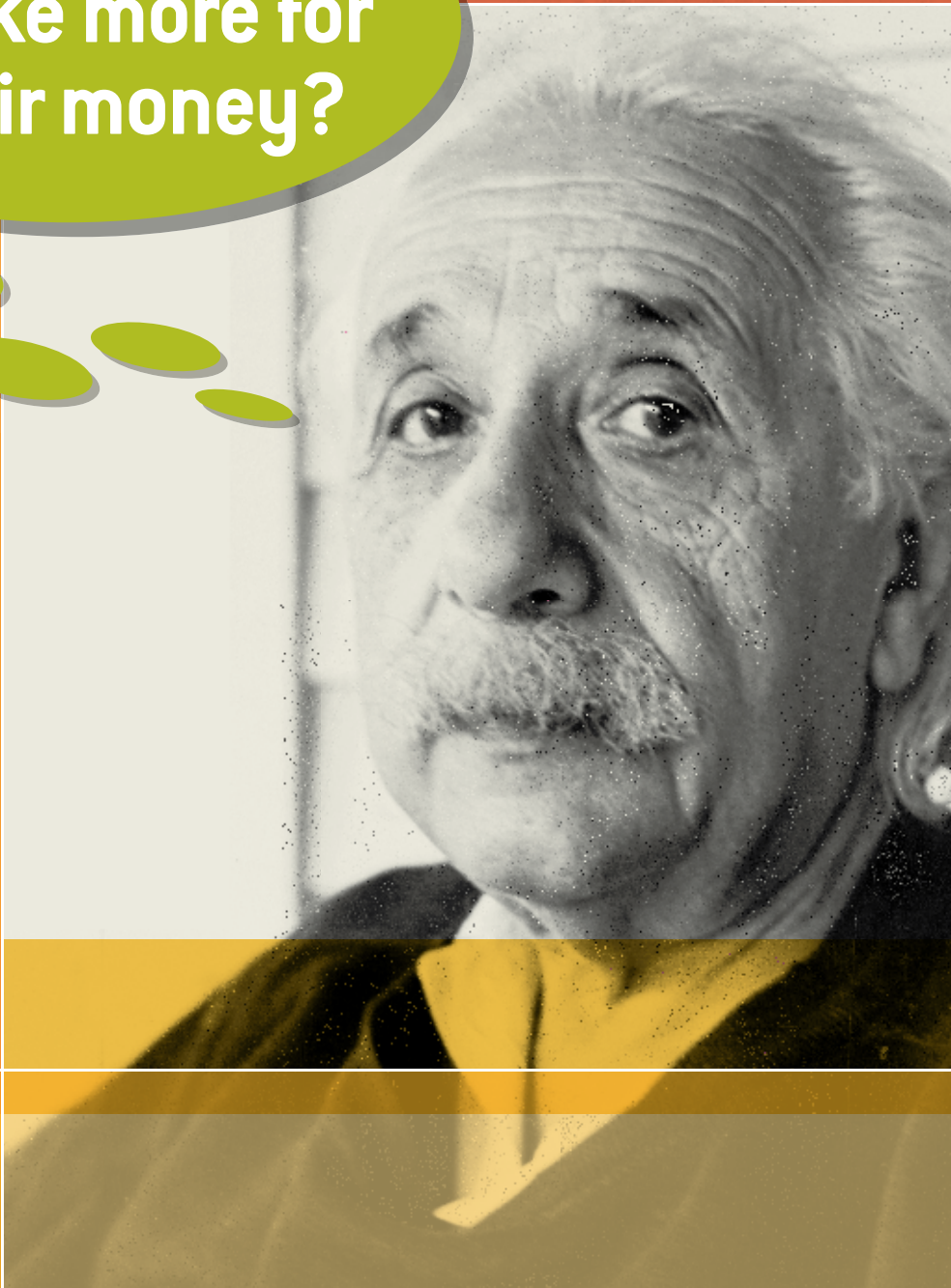


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PGRI's Morning Report is our weekly electronic newsletter. It is sent out to your e-mail address every Monday morning. This provides you with a brief synopsis of the previous week's industry news. In addition to the news items, our editor, Mark Jason, follows up to get commentaries and quotes from the news makers themselves. Join your colleagues (15,000 of them) and subscribe to *Morning Report*. E-mail your request to subscribe to sjason@PublicGaming.com.



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From the Publisher

Paul Jason, CEO, Public Gaming International Magazine

"Economists give their predictions to a digit after the decimal point to show that they have a sense of humor." We make fun of economists and others who predict the future with a level of precision that can be silly. Even so, we do need to try

to figure out what's going to happen in the future, and what we're going to do about it. That's why the theme of our Smart-Tech 2009 conference is *Resource Allocation: How, Where, and When to Invest Time and Capital for Optimal Effect*. We're all going to need to understand the risk/return, ROI, and opportunity cost analysis tools that finance people use.

One basic trade-off seems to be between the pressure to maximize short-term profits and the need to position our organizations for the future. In a recent roundtable discussion with a U.S. lottery director, the C.O.O., and others, one person observed that Internet gaming initiatives haven't really contributed to the bottom line yet. The C.O.O. responded with a quote from a hapless prognosticator of the late seventies who stated *"I can't understand why anyone would want to clutter up their workspace with a desktop computer."* Limited resources, tough calls to make... Invest in those things that will help you make your next quarter numbers, or invest in the initiatives that won't begin to pay off for another 18 months or even longer?

It was not long ago that there seemed to be an almost unlimited demand for gambling services. No matter how rapid the expansion of casinos and other gaming services, demand continued to exceed supply, ensuring success to any well-executed growth strategy. Sort of an 'If you build it, they will come' world. The past year has been a huge eye-opener on many fronts. Earlier in the year, there were indications that some markets may actually be reaching supply/demand equilibrium, causing a pull-back on capital investment. And now we are confronting a challenging economic environment, extremely stingy capital markets, increased competition making it hard to hit the top line, and customers expecting bigger prize payouts making it hard to hit the bottom line. And in the face of all that, governments and other stakeholders expect lotteries to increase their contributions to education and other Good Causes... Yikes!

The financially and strategically conservative approach may buy time, but will ultimately leave the operator in a weakened position. 'Sticking with what works,' trying to wring more mileage out of promotional and operational strategies that have served well in the past but you know need updating or even complete overhaul, may seem to be the best way to maximize profits in the short-term. But we know that leaves us vulnerable to our competitors who are working hard to change and reshape the gaming environment. We need to be the ones who set the new standards, who take action to innovate and move decisively in new directions and proactively

change the rules of the game. It does appear that the competitive landscape of the future favors the market leader. As the overwhelmingly dominant market leaders today, lottery operators do hold the inside track. But we need to invest in a future that is responsive to the game styles and preferences of a younger generation, that integrates new channels of distribution, and leverages new phenomena like 'social networking' that are likely to change the migratory habits of our customers.

Again, I'm just running some ideas up the flagpole – I welcome feedback (especially disagreement and criticism!) from you on these or any topics.

I hope you find the redesign of *Public Gaming International Magazine* easier and more enjoyable to read. Our intention is to highlight the focus of the publication, which is the interviews. Your colleagues in the industry dig in and explore provocative topics in ways that I promise you will find interesting.

Thank you all for your support. We need it and depend upon it and are dedicated to working hard to earn it. I welcome your feedback, comments, or criticisms. Please feel free to e-mail me at pjason@publicgaming.com. ♦

— Paul Jason

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Henry Chan



Henry Chan, Executive Director of the Hong Kong Jockey Club and HKJC Lotteries, discusses the Hong Kong gaming model; the Jockey Club's focus on protecting the public from illegal operators; and the trend lines for different gaming product categories and distribution channels.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Paul Jason, Public Gaming Magazine: How is the Hong Kong Jockey Club organized with respect to ownership and governance?

Henry Chan: The Jockey Club itself was formally established in 1884 as a private membership club for a group of people who love horse racing. They organized the racing and then brought in the wagering on horse racing for the entertainment of the members as well as opening up to the public who attended the race meetings at the racecourse. Over time, it has become a way of life in Hong Kong, something that people enjoy. It was amateur horse racing until 1971. Then it was recognized by the government that illegal gambling had become a widespread problem. So the Hong Kong government issued a license to the Hong Kong Jockey Club in 1973 to extend the wagering service from the racecourse to outside the racecourse. This was done as a means to provide a legalized service to satisfy the public demand and to help enforce the government's policy in containing and combating illegal gambling. It was much more about combating illegal gambling than raising more money. The Jockey Club is a not-for-profit organization. It's not part of the government and it's not a private enterprise. We have no shareholders. All our surpluses go to charity. In 1975 the government asked the Jockey Club to launch a lotto and in 2003 the government issued a license to the Jockey Club to conduct football betting. Both were done for the purpose of combating illegal gambling. We are a de facto monopoly, but under the law the government can issue as many licenses as it wants. The reality, though, is that we provide a service that meets the expectations and the needs of the people in

Hong Kong. We are supporting a lot of charitable organizations and a lot of community projects which will help to improve the quality of life of the people of Hong Kong.

The Jockey Club funds causes that the public might expect the government to provide for; things like Ocean Park, Academy for Performing Arts, Football Academy, old age and special needs homes, environmental research projects, specialized hospital equipment, and other needs that would not have the same priority in the government budget as education, medical care, social welfare, infrastructure and the like. The most recent one is that we supported the Olympic equestrian events in Hong Kong, we provided the venue, we helped run it, we funded the whole thing and also now we have given HK\$1.8 billion to support a heritage protection project. Most of these projects would have a hard time getting funded without the help of the Jockey Club. The Hong Kong Jockey Club Charities Trust acts to enhance and improve the quality of life for the people of Hong Kong. That's our role. I believe that in my 35 years' experience of observing this industry that the Hong Kong Jockey Club model is quite special.

So, back in 1973 your government identified you as an organization that would be an effective tool to combat illegal gambling. How important was the fact that you also generated revenue for good causes?

H. Chan: The priority is very much to combat illegal gambling. We have a model which is the best of both worlds. Our interests are totally aligned with those of our government, so we are allowed to operate in a more entrepreneurial way, finding the best balance between minimizing social costs, combating illegal gambling, and generating revenue for charities.

An interesting part of the Hong Kong model is that you, the operator, are incentivized to optimize performance on all fronts, revenue generation and responsible gaming and combating illegal gaming, by the fact that the government is free to assign additional gambling licenses if they feel that would serve their interests to do so. That gives them the leverage to make sure that you stay consistent with all of their goals. In turn, they allow you the flexibility to be creative and innovative to implement the best strategies.

H. Chan: Right, right. Exactly. The Chinese believe that we have to strive for equilibrium and balance in everything we do, and that ultimately the whole world operates that way and you need to create a model that supports and promotes that harmony. Checks and balances. We have to really over-deliver in order for the government and the public to feel good about allowing us to be the only gambling operator. We appreciate that it is a privilege to be given this responsibility and realize that we need to perform well because the government does answer to the public as to why the Jockey Club is the only gaming operator.

In 2003, illegal football gambling was causing a lot of social problems. The government assessed its options and chose the Jockey Club to spearhead the effort to deal with that problem. Unlike in Macau, the option of licensing private operators was never seriously considered. Here in Hong Kong, the government felt that the goal of combating illegal gambling could be combined with the public service benefit of channeling the profits back to the community. And that the best way to do that was to operate through a not-for-profit organi-

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Joan Borucki, Director of the California Lottery



Joan Borucki has more than 25 years of experience in California state government, and served as chief deputy director and acting director of the California State Lottery between April 2006 and February 2007. Governor Arnold Schwarzenegger announced the appointment of Joan Borucki as director of the California State Lottery on February 15, 2007.

Following is a discussion regarding the 1984 legislation that enacted the CA state lottery, the 2008 'Modernization' bill which relaxes some of the restrictive covenants, and re-branding with a focus on the winning experience combined with significant marketing innovations.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Mark Jason, Public Gaming: Let's start with a bit of history. The California Lottery has operated under arguably the most restrictive covenants in the country. Could you explain a bit what the 1984 lottery legislation said?

Joan Borucki: When the California Lottery was created by initiative, a number of restrictions were put into law. Over the years, the courts and the Legislature have imposed additional restrictions.

The most important obstacle relates to prizes. Originally, the lottery was limited to paying out 50 percent of the revenues it generated in sales for prizes, required to pay out 34 percent of sales revenues to schools and could only spend up to 16 percent on operating expenses.

Now we can take savings from operating expenses within a fiscal year and spend a little more than 50 percent on prizes, but we can't give schools any less than 34 percent. Luckily, we normally spend less than 16 percent of revenues on expenses so we are usually able to increase the percentage for the payout a little bit.

But we would like to increase it even more. The experience of other lotteries has shown that increasing the percentage of money that goes to prize payouts actually increases sales and earns more in profits to the beneficiary, which in our case is schools.

Originally, the 50% limit applied to each product. Eventually legislation was passed that allowed that to be an average, across different product lines. Over time we also got restrictions on the use of technology. In 1995, the

legislature passed a bill that said the Lottery could not use any technology not in existence at the time of our creation in 1984. That made it difficult to keep up with the times.

In 1996, the California Supreme Court ruled that the lottery had to base prizes on the number of people purchasing tickets. The decision made California the only state with a lottery that can't pay fixed prizes. Also in 1996, the California Attorney General opined that instant ticket vending machines were illegal slot machines. In trying to resolve this issue, the legislature got very specific in passing a law with a very limiting definition of a legal vending machine.

While it was helpful at the time, it isn't any longer. By being so specific, it took away our flexibility. Now it restricts us from getting newer, more appealing and more tech-savvy vending machines. Another restriction involves end of the year savings. Under our rules, the Lottery can not retain earnings and invest back into the business from year to year.

Our interest income, excess administrative funds, and unclaimed prizes were all mandated to go to our beneficiaries, on top of the 34%. Any planning or expansion became very difficult because we often didn't have enough money to invest in new equipment needed for retail expansion.

Are you able to offer any types of incentives to the salespeople?

J. Borucki: Not commissions, but we do have a bonus program for our sales represen-

tatives. It's probably not the most ideal. It's based on overall sales and projections.

Do I understand correctly that the 'Modernization Bill' must still be approved by the legislature?

J. Borucki: The bill that just passed includes some parts that take effect right away, but the most important part – allowing us to increase prizes – must be approved by a vote of the people.

So any change in prize payout percentage must go before a popular vote. When will the next popular vote be held?

J. Borucki: The way it's written now, the bill has to go before the voters in the next state-wide election, scheduled for June of 2010, unless the governor calls a special election prior to that. We've maintained all along that the legislature has the power to allow us to increase prizes without a vote of the people. We are asking them to do that this year.

The reason that is so important is that many lawmakers are interested in selling the profits of the lottery in advance, called lottery securitization. They are hoping that this action can help plug the state's growing budget deficit. We can earn the most money from securitizing the lottery by increasing sales and one of the best ways to increase sales is to increase the prizes we pay out.

How much time in your job is spent with

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Michelle Carinci

Chief Executive Officer of Atlantic Lottery Corporation (ALC)



Michelle Carinci is the founding chairperson and co-chair (with Dianne Thompson) of the World Lottery Association (WLA) Committee that built the Responsible Gaming Framework and Certification program. ALC continues to be a leader in Responsible Gaming (RG) and Corporate Social Responsibility (CSR). Following is a discussion which explores how and why CSR and RG continue to play such an important role in the gaming industry.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

The gaming industry is in the midst of massive, transformational change. At stake are questions about who is to benefit financially from this multi-billion dollar industry, and how are the social costs of gaming expansion to be minimized. Operators are now expected to align with an increasingly complex set of public interest objectives, to meet the needs of a broad spectrum of 'stakeholders.' Our political leaders are formulating public and regulatory policy and assessing the ability of operators to fulfill these increased expectations. They are also assessing the efficacy of different operating models. Should the state apply the monopoly model to other sectors of the industry? Or should competition be allowed in a 'license and regulate' model? How much should the industry expand, how best to optimize the benefits to society and minimize the social costs? The amount of money involved and the complexity of the factors affecting the public interests make gambling quite unlike any other industry. The stakes are huge and the public policy decisions being made now will have long-term ramifications.

One of the results of these changes is that gaming operators of the future will need to excel at Corporate Social Responsibility (CSR) and Responsible Gaming (RG). That's why the membership of the World Lottery Association is raising the bar on itself. Being proactive, integrating CSR and RG into their company culture and every aspect of operations, anticipating the need to meet an ever higher standard, is one of the hallmarks of our industry leaders.

Atlantic Lottery Corporation has received numerous awards for the manner in which it has dealt with the challenges of communicat-

ing with stakeholders in a time of crisis. The crisis involved intense media and government scrutiny over security procedures at the retail transaction level. Ms. Carinci delivered an important presentation on this topic at the WLA global, biannual conference in October. You can read this presentation at www.PublicGaming.com. The main theme of the presentation is that you can't wait for a crisis to happen to improve your focus on CSR and RG. And even without a crisis, the fact is that CSR and RG are quickly becoming critically important competitive differentiators.

Paul Jason, Public Gaming: *The regulatory environment continues to be in quite a state of flux all around the world. What are some of the most critical issues that you are addressing with key stakeholders and shapers of public policy today?*

Michelle Carinci: The gaming market continues to grow and regulated lotteries continue to lose market share. Why? Because today's players have multiple choices beyond regulated gaming and those choices are becoming more relevant to them. The problem is that it is not an even competitive playing field. Unregulated operators are expanding market share and enriching their shareholders at the expense of the public and the good causes which are funded by the regulated operators. They are able to do this because they are operating under a different set of rules and regulations than regulated operators. If Governments wish to sustain profits from gaming for good causes, they will need to allow lottery operators to compete on a level playing field. Among other things (like equitable tax

burden between all gaming operators), that level playing field must include a serious execution of Corporate Social Responsibility (CSR) measures which includes Responsible Gaming (RG). This involves the creation of standards, the means to measure and monitor performance against those standards, the political will to hold all operators accountable to those standards, and the mechanisms to enforce compliance to the standards. The goal here is not to protect the regulated operators. The goal is to protect the interests of the public and the long-term health of the gaming industry. CSR is absolutely integral to sustainability in the long run. But too, when integrated into the day-to-day methods of operation, CSR does have a positive impact to the bottom line and positive ROI for the operators. Gaming operators need to recognize that.

The World Lottery Association (WLA) recognized the importance of CSR and RG some years ago. You were among the handful of directors who got the ball rolling.

M. Carinci: It was at the World Lottery Association conference in 2003. In the Directors' panel discussion, which was moderated by Guy Simonis, we were discussing the lack of balanced reporting in the media with regard to RG and the fact that the special interest groups were getting a disproportionate amount of attention from both media and stakeholders. There was rapid growth of the wide area video lottery business and destination gaming and the media was focusing on the negative social impact. We were basically complaining that all the media atten-

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Atul Bali



Atul Bali leads GTECH's New Media & Sports Betting division as its President. This new division is focused on a large portfolio of interactive games such as online (i.e. internet) poker, casino, bingo, and skill games as well as lottery (internet /mobile draw and instant) games and both retail and internet sports betting. With the proliferation of the Internet and Mobile channels for distribution, there are many different ways the entire player experience will change, not simply content and distribution. Gaming operators need to adapt to provide a secure and entertaining player journey.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Paul Jason, Public Gaming Magazine: You're sort of in that flash-point where traditional games are being adapted to new media, new distribution, and an explosion in creative game development. Where's all this going to lead and how can lottery organizations position themselves to succeed in this brave new world?

Atul Bali: Simply put, I think almost every lottery is focused on balancing three fundamental objectives. First, they are trying to raise as much revenue as possible for good causes. Second, they need to protect their image as a public institution and reputation for integrity. Even privately held operators need to be sensitive to their role as a public institution and protect the positive image and brand that is the lifeblood of any lottery or gaming organization. And thirdly, they have an obligation to protect the players and ensure they are engaging players in a responsible manner. So our mission as a supplier is to help the lotteries accomplish those objectives and support their leaders with broad solutions that balance each of these appropriately.

Those three over-arching objectives can be therefore broken down into guiding our offering. For instance, for raising revenue lotteries, need new content and broader distribution. The internet allows a much broader opportunity for lotteries to provide socially interactive games such as Bingo, Poker or other card games. These tend to appeal to a demographic that may not play lottery today and spends much longer interacting with the lottery. Secondly a critical component to a positive image is to be progressive and innovative.

Creating exciting new games that appeal to the public (for example the video gaming generation), providing the players with a variety of games to choose from and channels to buy on...being perceived as a leader and innovator in product development is important to the brand and image of any organization, especially lottery organizations. I say 'especially' because many lotteries are under-utilizing their brand image and opportunity to appeal to a much wider demographic than they do today. The concept of image works in two ways. There's the image the operator projects to the player. Then there is the players' self image. The goal would be to project an image that is in sync' with the players' self-image. Lotteries have the inside track on integrity and honesty and user-friendliness as an integral part of their image. A reputation built over decades of irreproachable trust is by far the most valuable component to any brand. Lotteries generally have a significant advantage over their competition. But in this day and age, it's not enough. You've simply got to provide the customer with entertainment that appeal not just to themselves as an individual, but for them as part of a community or social network. For this the operator has got to project an image that is in alignment with the players' self-image. The good news is that the daunting task of creating a reputation for integrity and quality service is something that takes years of creativity, huge sums of money and the highest standards of service. The good news is that the lotteries already have that. Thirdly, lotteries must provide this entertainment service in a socially responsible

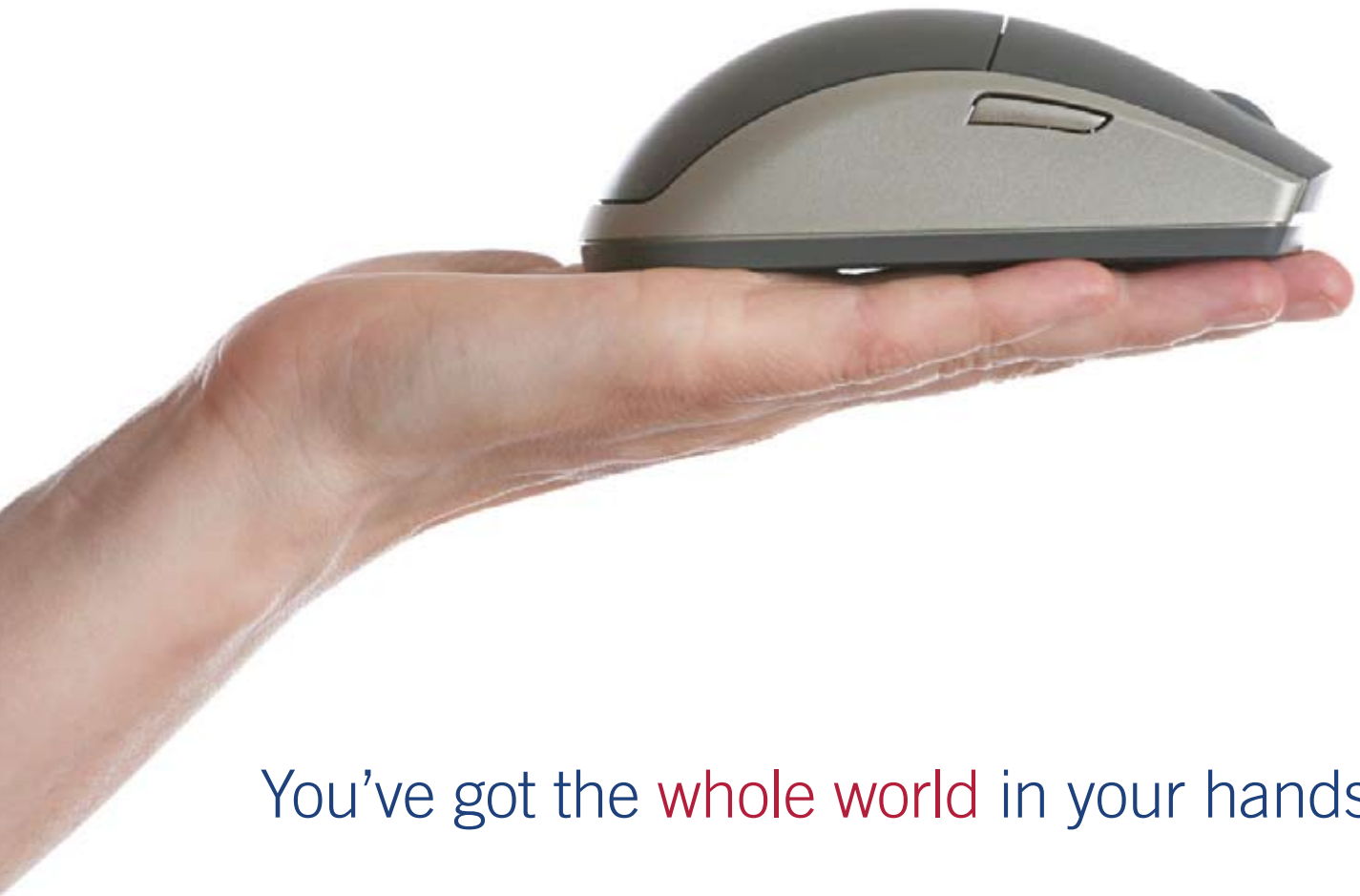
way. Like all organizations, lotteries need to really understand the customer that they are trying to reach. The internet provides them with a unique opportunity to appeal to them on their individual terms and in ways that allows them much greater long term access to their player base. Even if your mission is to market 'draw and scratch' games only, you still want to understand your players and how best to provide them access to the lottery for buying product or simply getting more information. At GTECH we are investing a great deal in this important differentiation. This is not simply about technology but also about understanding trends and analyzing the underlying information about individuals.

The modern consumer really expects to have multiple options to choose from.

A. Bali: Exactly. In the developed world, most consumers have a variety of options, both for product and how to learn about and/or buy it. This is no different for lottery and gaming operators. The player today is demanding choice – A wider variety of more entertaining game content and a wider variety of promotional and distribution channels to gain access to these games and also to fellow players. It is this that the operator needs to cater to, in order to appeal to a broader player base and support the player through a uniquely developed experience (by the operator).

The thing is, governments everywhere are sitting on the most valuable asset that exists in our industry. That is the relationship they have with millions of customers who know the lotteries,

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Ann-Sofie Olsson

Director of Corporate Social Responsibility (CSR) and Public Affairs, Svenska Spel, the Swedish Lottery and Gaming Organization



Svenska Spel has always been recognized as a leader in CSR and Responsible Gaming (RG). Ann-Sofie Olsson discusses Svenska Spel's CSR and RG initiatives and how the challenge to improve can be embraced to create positive momentum and results. One very impressive result: At the World Lottery Association bi-annual conference in October of this year, Svenska Spel was awarded the prestigious 'WLA Award for Responsible Gaming Excellence.' "It is fantastic and a major recognition for the responsibility work we pursue and invest heavily in its continued development," says Svenska Spel's acting CEO Anders Hägg, and Chairwoman Margareta Winberg.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Paul Jason, Public Gaming Magazine: Let's just start with a general question. The shapers of public policy in Sweden have expressed concern about social costs and the way in which gaming is managed and operated. I'm sure you're expected to strive for continuous improvement, but do you feel that they're more confident now than they were earlier this year at the performance of Svenska Spel when it comes to responsible gaming in particular, and corporate social responsibility in general?

Ann-Sofie Olsson: Yes, I think they are. A new Chairwoman of the Board (Margareta Winberg) was appointed six months ago. The CEO (Jesper Karrbrink) had decided to leave his position at Svenska Spel. That decision was based not on disagreements with the new Chair of the Board, but on differences with the government and the prime minister. When they expressed dissatisfaction with some aspects of Svenska Spel's performance, the CEO protested that Svenska Spel was doing well and did not need to change. And so he left.

Frankly, it is not that we are doing things much differently now than before. We are communicating much more with media and the government about what we are doing, how we are making RG and CSR a top prior-

ity and respect the fact that we must answer to the government and the public and implement the policies that the government determines are best. So we do have a sharper focus on being responsive to all of our constituents and communicating with the media about what we are doing, what some of the challenges are, trying our best to make our programs and plans as transparent as possible. To some extent, it is a tricky question of deciding how much money you want the operator to make in the short-term. While it is true that a focus on Responsible Gaming never needs to be compromised by the goal of generating more revenue, there is a short-term trade-off between the goals of generating revenue and minimizing problem gaming.

cerns or change in policy or focus that the government wants us to have. The process of making these adjustments over the past eight months have been very good for Svenska Spel. Now we integrate CSR and RG into every decision we make. Every marketing or promotion initiative is analyzed to determine whether it is consistent with our CSR and RG agendas. Svenska Spel has had this focus for many years. But the events of the past eight months have caused us to look deep inside ourselves and the way we think about things and challenge ourselves to be better at everything we do. I think that the government appreciates that we are highly focused on doing everything we can to truly embrace our mission of protecting the public, being the best

The process of making these adjustments over the past eight months have been very good for Svenska Spel. Now we integrate CSR and RG into every decision we make. Every marketing or promotion initiative is analyzed to determine whether it is consistent with our CSR and RG agendas.

So I think that one reason they are more confident today is simply that we are more open and communicative about everything that we do. And responsive to whatever con-

corporate citizen we can be, and integrating Responsible Gaming into every aspect of our business. It really is the case that for all gov-

...continued on page 27

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Michael Brennan & Tricia Metzger

Michael Brennan is the Deputy Director, Sales and Marketing & Tricia Metzger is the Deputy Director, Sales for the California Lottery

Mr. Brennan and Ms. Metzger discuss California Lottery's CVS initiative along with other important innovations in retail distribution.

Mark Jason, Public Gaming: In order to clarify retailer model changes made to accommodate CVS, let's first specify the general retailer model in California. Do retailers do their own ordering for inventory replenishment?

Tricia Metzger: We have what we call the pro-call system. We have an auto-ship for new games, through which all retailers get a delivery of new games based on sales. We also provide maintenance orders based on the retailers' sales. Those tickets are then delivered directly from our warehouse to the individual retailers.

Michael Brennan: So, neither the retailer nor the sales rep orders inventory at the store level.

The retailers are on a percentage of sale commission and a cashing bonus?

T. Metzger: Generally, here in California the selling commission is 6 percent, the cashing bonus is 2 percent for winning Scratchers tickets, and 3 percent for draw game tickets of more than \$99.

The Lottery changed its retail model to accommodate the needs of CVS, is that true?

T. Metzger: Oh yes. There's a huge difference. The biggest difference is that the CVS stores do not inventory or stock Scratchers. Normal retailers would stock the machine when they receive new orders. At CVS, we have route sales reps who carry inventory with them to replenish the machines when they visit the stores. The route sales reps actually do the machine restocking, so the labor is taken out of that process for CVS.

What kind of equipment is at the CVS locations?

T. Metzger: The GTECH GamePoint machines, which include a 20-bin scratcher

vending machine and a touch screen to play all of our draw games.

Is the inventory in CVS locations owned by CVS?

T. Metzger: The inventory is owned by the California Lottery. CVS doesn't get paid based on sales, but instead receives a weekly fee. There's no sales commission, though they do receive the cashing commission.

If CVS is paid a set fee, it almost sounds like a lease of the 'footprint' of the machine?

T. Metzger: The initial agreement with CVS involved a straight placement fee. What we've negotiated with them in the final agreement is a graduated increase in that placement fee based on sales.

The route sales reps actually do the machine restocking, so the labor is taken out of that process for CVS

So, as a chain, if their sales grow to a certain dollar amount we will increase their weekly placement fee. This provides incentive for them to keep track of the equipment and have their staff involved in reporting problems if the equipment goes down, as well as having their clerks interacting with customers.

M. Brennan: This also provides incentive for them to embrace suggestions we may have on enhancing promotions at the point of sale.

What kinds of POS have you negotiated with CVS?

T. Metzger: If the city allows it and there's room, we have street signs identifying the store as a lottery retailer. In the final agreement, we have the vinyl cling poster, door decals, brochure holders, and we are affixing a 24-inch monitor on the top of the GamePoint system that runs

our advertising show and promotes local winners. We call this our electronic point of sales or EPOS. We also have an agreement to implement several promotions per year.

The EPOS is controlled at your central office. How does that link up to your central system?

M. Brennan: It runs through the GTECH Altura system. GTECH has made some modifications to the GamePoint for us. They've increased the cash bin size, and they've added a paging capability.

T. Metzger: The automated paging will allow the Route Rep to receive notification that the machine has gone down. This way, there is minimal downtime, and the responsibility for machine function is taken off the CVS employees. The CVS

employees don't even have keys to the equipment. A normal retailer could go in and clear a jam, for instance. But we maintain complete control of the equipment at the CVS locations.

How did this program affect your outside reps?

T. Metzger: We use a new classification of outside representative authorized by the California State Personnel Board. We call this our Route Sales Representatives group. This group runs the CVS route and handles the in-store duties that we've talked about.

If another lottery were to implement something similar with CVS or a similar chain, what would you recommend to get that lottery's CVS presence to the point where yours is?

M. Brennan: You'd have to start small, with a pilot. Before this, though, you'd need to identify the legislative landscape that the

lottery operates under. Specifically, you'd need to be able to adjust the retailer model, which many lotteries can't do.

Did the California Lottery confront that initially?

M. Brennan: We had to get a change in regulations, yes. We needed the flexibility to offer and provide alternative programs to retailers.

So the first step would be to evaluate regulations, see whether these allow for flexibility in the retail programs. That being done, would you then go directly to a headquarters location or would you try to develop support at the store level?

T. Metzger: A package like this must come from a corporate headquarters. It couldn't be negotiated any other way.

How long did the process take to get to this point with CVS?

T. Metzger: We started the pilot in March of 2007. With so many changes, we and CVS needed about a year to decide that this would be a money maker for both sides. The big thing for us today is that we are going to get more than 300 stores that we haven't had lottery in, and we are going to get our brand on pretty much every street corner.

CVS has great visibility in the marketplace. By expanding its product offerings, CVS has become like the old neighborhood store. We can't afford to miss that customer that is buying milk there today and not visiting their local supermarket.

It would seem also to be a very positive thing to have control over the inventory and the POS.

M. Brennan: It absolutely makes a difference that we can control where the tickets are in the machine, be sure they are full, and control where and what types of POS are up.

Now that you have this model in place, are you going to expand it beyond CVS?

T. Metzger: We have a lot of work to do analyzing how this new system works, and its profitability. We know it's profitable, or we wouldn't be doing it. But how profitable, and how easily we can expand upon it, is yet to be determined.

The CVS program is in Southern California. To implement it in Northern California, we'd have to build the same infrastructure.

One of the best things that we accomplished when Joan (Borucki) got approval from the commission for alternate business models is that we have the flexibility now to negotiate different deals with different people, on a case-by-case basis. We have other things that we'd like to present to other chains.

Any retailer reaction to your adding such a significant retailer population to the distribution network?

M. Brennan: Not at all. We've been recruiting for the last couple of years. Our target this year is over 1,000 additional retailers, including the 300 at CVS. For the next two years our target will be to add 750 more retailers each year.

How many retailers do you have in total?

M. Brennan: We're over 20,500.

How many sales people, and route reps?

T. Metzger: Not enough. We have 142 sales reps, and we'll have 14 route sales reps. ♦



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2009 to be Another Year of Changes in European Regulatory Environment

Between 1994 and 2007 the European Court of Justice ruled in 14 cases on gambling services. In 2008 the same European Court has received the largest number ever of new referrals coming from France, Germany, Austria, The Netherlands, Greece and recently Sweden. These legal disputes surrounding gambling in the different EU Member States demonstrate the pressing need for regulatory solutions.

In his opinion in the Placanica case, the Advocate General mentioned on the last page of his opinion that the Member States already missed several opportunities to regulate gambling services at EU level. Although the comment was surprising and unfair, considering the inadequacy of the solutions proposed by the Commission, it shows that the Court is not willing to become the final arbitrator in what is becoming an increasingly difficult political problem.

Notwithstanding this, one has to admit that the European Court has acted in this area with great respect for the sensitivities and problems at stake. The Court, as always, took up its own responsibility as far as the Court could go and substantially contributed to create conditions allowing the Member States to understand what is possible within the actual context of the Treaty. From Schindler to Placanica, the Court has designed the legal framework for gambling services under the Treaty and the limits thereof.

Summarized, *the European Court does accept that gambling services are economic activities of a particular nature whereby it is perfectly acceptable for States to maintain and introduce (new) restrictions for reasons of public order or to prevent the social risks of addiction.* States are permitted to channel the public's desire to gamble towards restricted and controlled operators offering those games which the concerned State considers morally, politically and legally acceptable. Such offer of games may expand into new areas and new formats if necessary for the implementation of an effective and efficient policy and it may use several marketing methods. These are the answers that the European Court has given up to now.

But still the disputes continue and many questions remain unanswered. The European Union Treaty as such does not provide for full answers to the complexity of the gambling issues and the Court understands this. The recent Portuguese internet gambling case opposing the Gibraltar licensed BWIN to the Santa Casa de Misericordia de Lisboa illustrated just how far reaching the difficulties are. *None of the Member States present, and there were many intervening, nor the European Commission, wants the gambling market to be driven by market forces.*

The opinion given by the Advocate General BOT to the European Court in this Portuguese case is relevant to understand the exact border line between what States can and cannot do.

He argues that there is no obligation to apply market rules and competition law to gambling services as there is no additional ben-

efit for the consumer from such a competitive environment. However, he makes it perfectly clear that the attitude of the States is crucial in this regard. *If the States operate lotteries as normal economic activities with the purpose of maximizing profits, then competition law must apply.* The line is clear, at least from a legal point of view, but not always easy to draw in practise.

Even so, the situation is still not resolved with this opinion...the Court still needs to rule and even that does not resolve the regulatory problems. Hearings are scheduled in 2009 for a large number of court cases. It is not known yet whether the Court will issue rulings during 2009, but these cases will most definitely influence the political debate.

During this past year, the European Member States understood that they were obliged to look altogether into these questions and soon the world will understand that a broader reflection will be required if one wants to come to terms with online gambling problems. Indeed, in January 2009 we expect that the European Commission will rule in the Internet gambling services complaint introduced by the British Remote Gambling association against the USA under the EU Trade Barrier Regulation. Depending upon the outcome of the investigation, the EU Commission could initiate a new WTO case against the USA or close the case. The European Court of Justice could also be involved in this dispute if one of the concerned and/or interested parties decides to appeal the Commission's decision.

Where are the other EU institutions on these issues of gaming regulation? The Member States have clearly decided to take the lead on this in the course of 2008.

Indeed, following a meeting of the Government Agents to the European Court on July, 10, 2007, the Member States decided to start a dialogue on this matter. It took up until the French Presidency in the second half of 2008 before the idea was implemented through the "Services and Establishment Working Group" of the Council. Surprisingly, already during the first meeting in July the Commissioner on Internal Market declined to even participate in this dialogue with the Member States instituted by the French Presidency. This attitude has not changed over the past months. Let's hope that this changes and that the Commission Services, who have over the years acquired a substantial knowledge of the problems and understand the sensitivities, can participate and contribute to this dialogue. This is indeed the only way to come to terms in this difficult area. Although strongly focused on the problems of the online gambling market, this discussion will cover all aspects of gambling.

On 1 December 2008, the Council of Ministers decided that they want to continue the work of this Working Group under the Czech Presidency and to search for the regulatory answers. Most of them insist upon the need to approach the questions with due regard for

the subsidiarity principle. This is important because the subsidiary principle emphasizes that the problems that need to be looked into at EU or international level should be only those that cannot be adequately resolved at the national/state/regional level.

The French Presidency called upon the Commission to participate more actively in the debate and make further studies. The Commissioner of Internal Market refused this request. He does not believe that there is a sufficiently level playing field for a proper regulatory environment and prefers therefore to continue to apply the Treaty to gambling services.

He has initiated infringement cases against an increasing number of Member States, indicating that there is no simple legal problem, but rather a very serious political problem. The infringement cases will not bring solutions, but rather increase the problems. Strangely enough, the Commissioner for Internal Market does not want to take up the political challenge, although the awareness of the problem is growing inside the Commission that, as the President of the Commission is stating, "a friendly solution" must be searched together with the Member States.

Also the European Parliament wants to contribute to a better solution. Indeed, the Parliament also initially rejected the proposed solutions of the Commission, but is aware that the Treaty as such does not provide the solution. During the debate on the White Paper on Sport, it became clear that the European Parliament acknowledges the important role and contribution of Lotteries to the European sport model based upon amateur and grass root sports.

In the meantime the IMCO Committee of the European Parliament is addressing the question of gambling in its own initiative report. The fundamental discussion is scheduled for early 2009. Although initially the European Parliament considered looking into the questions of the online gambling market only, the expectations are that the Parliament will take into consideration all consumer related aspects as well as the public order elements of crime prevention. The draft report prepared by MEP Schaldemose provides a correct picture of the situation. Amendments can be tabled until mid December. Let's see where it goes.

Today it is clear that a single State cannot provide all answers to regulate properly the gambling sector. The principle of subsidiarity as outlined in the Protocol of the Amsterdam Treaty does therefore require the European Union to look for the essential cross border aspects of the problem. This is what has to be done. The coming months will show us where Europe wants to go and how it can help the world. ♦

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Gergely Koppány

The following was originally published on www.PublicGaming.com. Visit the website to get the daily news of our industry along with commentary and insight on the day's most important stories.

Gergely Koppány, head of Instant Ticket Department, Szerencsejáték Zrt., Hungary, talks about licensed properties, scratch games and the amazing productivity of their lottery-owned retail shops.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Mark Jason, Public Gaming: The entire industry is searching for ways to engage the younger generation (twenties and thirties) in lottery. Licensed properties such as your WPT offering are one way. How do you believe that licensed properties enhance the excitement of instant tickets?

Gergely Koppány: These brands have an existing awareness among players. Specific brands such as the WPT or Harley Davidson brands, as well as some others, enable the lottery to target segments that aren't currently playing lottery games. The WPT is a good segment because poker players are obviously open to gambling, and we have 2nd chance drawings with which we offer branded products.

In this game you offer different prize packages, such as a collection of WPT logo products. Do you feel that changing the prize offering to something other than money adds to the excitement?

G. Koppány: When we do research on what kinds of prizes players would like to win, 1st choice by far would be money. But it is very positive to have new prizes, different prizes to draw attention and interest, generate excitement. We've worked with Scientific Games and MDI to put together the WPT game. They've been great to work with.

We are experiencing very rapid growth in the instants. In 2005 we had a drastic increase in prize payout, which really helped our offering. Our revenue has more than doubled since then.

What is your average prize payout, and has the average purchase price point changed much?

G. Koppány: Our minimum prize payout

is 60%, maximum 65%. The average price point is growing steadily, increasing roughly 10% over the last couple of years.

What other types of game changes do you envision coming on to add to the excitement of instants?

G. Koppány: We still have a good reserve for increasing the price points, although the global economic situation may postpone that. Higher price point games would give us more flexibility in terms of the prize structure and types of prizes offered, and these are very appealing to the players. Also there may be a type of 'merge' in the method of distribution between online and scratch games. We currently distribute the online games, the Lotto type games, via Internet and cell phones. We

We have around 6,000 points of sale, of which roughly 300 are our own lottery shops. These 300 generate roughly 30% of our total revenue. So these are obviously generating significantly more than the average private outlets.

are developing different types of mobile game offerings, and hope soon to have games designed specifically for this channel.

The Lottery has 298 direct outlets. Are these actually owned by the Lottery, and operated by Lottery personnel?

G. Koppány: These shops are owned by the Lottery, staffed by Lottery employees, and sell only Lottery products.

Are these small stands or departments within large stores or actual stores in themselves?

G. Koppány: They are actually stores in themselves, with multiple terminals and our

scratch offerings.

Do you find that these generate significantly more revenue than other retail outlets?

G. Koppány: We have around 6,000 points of sale, of which roughly 300 are our own lottery shops. These 300 generate roughly 30% of our total revenue. So these are obviously generating significantly more than the average private outlets.

Why do you think that is?

G. Koppány: Our company has been operating officially since 1990, and before that we were a branch of the largest commercial bank in Hungary. In the socialist times there were only the lottery shops selling the games. The private sales network was only

developed after 1990. So the players got used to the lottery shops, and the Lottery has a very strong identification with these among the players.

That would seem to have major benefits in terms of both having total control of inventory and point-of-sale presentation and having knowledgeable and focused clerks helping the customers.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

John Pappas

John Pappas, Executive Director of Poker Players Alliance (PPA), clarifies their position regarding state rights in gaming regulation and lawmaking and the role of the federal government in gaming regulation and lawmaking. Poker Players Alliance is a non-profit organization which advocates for regulatory law that allows people to play online Internet poker.

(The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.)

Paul Jason, Public Gaming: Let's begin with the UIGEA. This is an enforcement act, and not a legislative act. I suppose your position would be that insofar as the DOJ fails to give guidance on what is and is not permissible under the law, then it becomes a de facto act of legislation? As you explain the PPA position on UIGEA, John, could you also clarify the role of the federal government in a legislative area, gambling, that has traditionally been a state prerogative.

John Pappas: The issue with the UIGEA as it was tasked as a statute and now in its final form as a set of regulations is that there is no clear definition as to what is unlawful Internet gambling. Therefore, while the intention may be to only provide an enforcement mechanism, as you say, the definition of the law continues to be unclear. So how can you enforce a law that is not clear? The federal government has remained silent on what is unlawful Internet gambling except in the case of sports betting. The fact is that the vast majority of states have never even considered the question of what is lawful versus unlawful Internet gaming. So our belief is that the unintended consequence of the UIGEA is to prohibit activity which otherwise is not unlawful. If the federal government can't even be clear about what is and is not lawful, and the states don't have laws pertaining to Internet gaming, how are the financial institutions supposed to make the determination of where and how to enforce it? The perverse result is that the banks are being called upon to enforce a law that does not actually exist. You say that the UIGEA is just an enforcement act and not a law. Well, what law is it supposedly enforcing?

If there were to be a clear definition of what

constitutes Internet gaming, and if there were some states' attorney generals who requested the federal government to assist in the enforcement of their laws that prohibit Internet poker, would you be okay with the federal government assisting in the enforcement of those state laws?

We are not opposed to setting the highest standards for performance and accountability. We just think the oversight for that should be performed at the federal level.

J. Pappas: We would never support a bill that made an explicit definition that playing poker over the Internet was unlawful. The fact of the matter is we do support the individual state's actions as granted to them under the UIGEA to provide for Internet gaming. (Publisher note: The UIGEA does allow for states to implement Internet gaming on an intrastate basis, within the borders of their state. But the DOJ has not responded to many requests to confirm that it would interpret the UIGEA in that way, seeming to indicate that there is the possibility that the DOJ would consider suing a state that did attempt to implement Internet poker). We do support that in the state of California where they are looking precisely to create an intrastate poker bill. The PPA supports the state actions to implement Internet poker because we believe that will prod our federal government to create a regulation, a federal regulation mechanism for Internet poker. For Internet poker to be successful, not only for the players but for the businesses, it cannot be confined and limited to states. There is no business model that we are aware of which would allow players to find the games that they're interested in playing and generate the revenue that enables the operators to be profitable that does not depend on

multi-state or even multi-national implementation. The model for Internet poker relies on volume and multiple players from multiple jurisdictions being able to play and get on without competing state regulations that would disallow someone from Nevada from playing with somebody from

Missouri to play with somebody from California to play with somebody in Dubai. The idea that each and every state would come up with its own set of regulations which could effectively impact the way the game is played doesn't make sense for poker. If states wanted to independently do it and then compact and be able to work together, that's certainly something that we would love to see happen, but we believe that for peer-to-peer style games, a federal license and a set of federal standards is also needed. States should be able to apply additional standards to that as long as they don't impact the way the game is played. If Missouri wants to be 18, that's fine, and California wants to be 21, that's fine. Missouri wants to have a \$500 deposit limit, that's fine and if California wants to have a \$10,000 deposit limit, that's fine. Those types of regulations on the state level we don't have a problem with. In fact, a bill that we helped draft, the Internet Skill Games Act, which was introduced by Senator Menendez, provides exactly that kind of leverage to the states, to add on additional regulations.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

zation. The Jockey Club had a track record of integrity and good management along with a high level of public trust and confidence. But you are absolutely right, in the law the government says that if you cannot uphold the public trust, if you are not performing well in any way, if you are not managing the money wisely, if you're not implementing effective responsible gaming measures and combating illegal gambling...if you are not fulfilling the public's expectations in any way, the government could and would explore alternatives to relying on the Hong Kong Jockey Club to be the sole operator. The government has a lot of alternatives so they keep us on our toes!

You recently contracted to purchase terminals from Sagem Security. These terminals have the flexibility to be either self-serve or controlled by the retailer, and easily switched from one mode to the other. What are the benefits to having the option to be either self-serve or retailer controlled? Is there a security issue with self-serve?

H. Chan: No security issues with self-serve. We have very strict age limit for access, we have security guards at every door to stop under age access. The window operators have been trained and instructed that if they have any doubt about the age of the customer they have to do an identity check for proof of age. With our self-service channels the player must open an account with us and have funds on deposit, have legal identification verified at the time the account is opened. So the age and identity is confirmed and we monitor that very strictly. By law, everybody in Hong Kong has to carry a photo i.d. issued by the government, so it's very easy for us to check.

Then why couldn't you have 100% be self-service?

H. Chan: We are moving gradually in that direction, but it will never be 100% self-serve. We would like to get as close to 100% self-serve as possible but we expect to always have some customers who, due to whatever reasons, like to be served. Many people don't mind taking a little extra time to interact with a human operator because they just like to talk to a person rather than a machine. Of course, we want all of our customers to enjoy using our service and so we try to deliver the service in whichever way works best for the customer. Also, people like to get the payout in cash right away instead having it posted to their betting account. Bottom line is that we need to be customer friendly, and so if the

customer prefers to be served by a human operator, that's fine. I'll be pleased if we can get to 60% or 70% self-serve. That is why it is important to have that flexibility to quickly and easily convert between manned operation and self-serve mode.

Sports betting...it's only football?

H. Chan: Right now we only offer betting on non-local football matches.

Is it being considered to move into other sports.

H. Chan: If or when the market demand arises and government wants us to operate other types of sports betting, we will do that. It actually does not make business sense until there is a need to combat illegal gambling, because that also means there is not enough demand.

So the government does not want you to expand beyond football until there appears to be an underground or illegal market to combat.

H. Chan: True. But it also does not make business sense for us to operate in a market that does not have demand and players. So it does not make sense from either a business or a responsible gaming point of view.

Any consideration being given to opening a casino in Hong Kong, or would Beijing prefer that you not compete with Macau?

H. Chan: That kind of policy decision is totally beyond the scope of our organization. That would be up to the Hong Kong government and the Beijing leadership. The Jockey Club has a very good image and position with the people in Hong Kong, but we do not have any influence on the government's policy of whether the city should have a casino or not.

It seems like it would be a good thing for the profits of casino gambling to be channeled back to charitable causes that the Jockey Club supports. Your approach to issues like this is admirable, Mr. Chan, in that you seem to focus on simply doing your job well so that if the government does want to expand gaming in any way, they will look favorably on the option of choosing you as the operator.

H. Chan: We'd like to always think that. We hope that insofar as we are doing a good job, the government will not choose to license other operators in Hong Kong. We like to position ourselves as the ideal candidate to implement any initiative to combat illegal gambling or to expand gaming in Hong Kong.

Yours is an operating and financial structure that creates alignment between the gaming operator and government agendas, striking the right balance between the need to generate revenues and minimize problem gambling, between the need to combat illegal gambling and yet not encourage gambling. It's difficult for many governments to find that delicate balance.

H. Chan: There are other parts of this picture that we should point out. The Hong Kong Jockey Club is the single biggest taxpayer in Hong Kong. We are one of the largest employers in Hong Kong with a customer base of 4 million people out of a total population of 7.5 million. So almost every adult in Hong Kong uses at least some of our service in one way or another. That is important because it is a source of the broad base of public support that the Hong Kong Jockey Club enjoys. We have three major lines of service: horse racing wagering, football betting and the lotto and the fact that we are running all three services together provides us with very advantageous economies of scale and efficiency, utilizing the infrastructure we have built to support the different lines of service. This enables us to keep our operating costs down. Our performance is measured by the revenue that we contribute to the government, the amount of charitable donations, and how much we consume as a business operation to provide the service.

So the Hong Kong Jockey Club is in a position to implement new games far more efficiently and cost effectively than a new operator would likely be able to do.

H. Chan: There are even more factors that go into making the Jockey Club successful. The government has given us the flexibility to determine cost and payout ratios, because they understand we need to be competitive in the market. For lotto, we are required to pay 25% of turnover as lottery duty to the government. The government gets at least 72.5% of gross profit on turnover from horse racing; in football they take 50% of gross profit on turnover. We do that along with the mission of combating illegal gambling and running our operation in an efficient and honest manner. What is left after paying the government must be enough to cover our operating cost.

That's not much.

H. Chan: That's not much. With horse racing, 72.5% tax on gross profit is the highest in the world by at least double, I think. Football 50%, that is almost double that of Singa-

pore which is the second highest in the world. For the lottery, we run everything for 6% of total revenue. If you look around the world, you will see that most lotteries pay about 5% or 6% just to the retailer.

And for you, that percentage must support the whole operation.

H. Chan: Exactly. Computers and IT, marketing, administration, everything. And at the end of the day, we still have a surplus, HK\$1 billion every year, to give to charity.

The interesting thing is that all the government does is dictate the percentage of the profit that they take from you, so if you determine that the better way to operate would be to increase or decrease the payoff percentage, the government knows that you're operating in its interest because it is in your own interest to maximize the total profit.

H. Chan: The government knows our interests are aligned. Like in the football betting, we can introduce new games as the market requires. In Lottery we have only one game, and if we want to run another game we have to get another license, and we have to justify our case. The Hong Kong government takes a view that they do not

encourage gambling. But they recognize since there is a demand for recreational wagering, it is important to meet that demand with a legalized service. We work hard because we believe that we are doing something good for the people of Hong Kong, we are creating jobs, we are helping the government to combat illegal gambling, and we turn all of the money back to the community for tax revenue and charitable donation.

So if the government were to come to you with a criticism it would not be that they need you to generate more income, it would more likely be to ask you to increase your efforts to combat illegal gaming where they think it may be expanding?

H. Chan: Yes, but it is not as simple as that either. For instance, casino gambling in Macau is, of course, perfectly legal but it still has a negative impact on Hong Kong both in social and financial terms because of the proliferation of VIP gambling junkets to Macau which can operate legally here and specifically target our customers. We would like our government to allow us to be a little more proactive at helping us keep the gaming revenue in Hong Kong.

It sounds as though your government is ac-

tually more responsive to you than many governments are to the lottery organization.

H. Chan: We have a close working relationship, but sometimes they are not as responsive as we would like to changes in the global operating environment. We totally respect the role of government to determine gaming policy, but we would like them to act more aggressively to defend against trends that threaten our market.

For example?

H. Chan: We knew back in 1998 that there were developments in football betting and that action should be taken to bring that betting into a legalized and regulated environment. As we all understand, everything takes time with the government system and so it was 5 years before we were authorized to do anything about it. That is not only lost revenue, it is too much time to allow the illegals to gain a foothold in the marketplace.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

Sagem Sécurité Bets on Innovation

As a major global designer and manufacturer of gaming terminals, Sagem Sécurité (SAFRAN Group) has acquired a special expertise in meeting the needs of lottery operators. Our most recent innovation delivers a uniquely flexible and productive solution to the challenge that all operators and retailers face. Everyone knows about the compelling benefits of self-service terminals. They reduce labor for the retailer and increase convenience for the player. "Win-Win" except for the fact that there will always be at least some locations where self-service terminals are not practicable and the retailer needs to control the transaction. Solution: Create a single terminal that can operate as either a self-service terminal or retailer controlled terminal as needed. That's what Sagem Sécurité did. The needs of the lottery and the retailer change over time, or even from one day to the next, so it is important to have a terminal that provides the flexibility to be easily activated to self-service or retailer controlled as needed. Building these functions into one terminal and one software platform provides savings in software development, testing and maintenance, and a smaller footprint for the retailer. Sagem Sécurité modular terminals deliver that versatility in designs that meet the ergonomic and security needs of the lottery operators and retailers. And perhaps most importantly, the convenience and ease of operation enhances the player experience.

With more than 180,000 gaming terminals in service worldwide, Sagem Sécurité meets the most rigorous standards for transparency and security, while giving retailers and players access to additional services. Converting technical sophistication into products that provide real-world solutions and customer benefits is what drives Sagem Sécurité. ♦



The new Sagem Sécurité dual mode self-service and retailer controlled lottery terminal.

the politics, working with the legislature and the Governor's office?

J. Borucki: When I first got here, I viewed my job as primarily focused internally. I think a big reason for that was that we weren't ready to 'go external'. We didn't have a clear action plan laid out. We were still working on the business plan.

Over the last two and a half years, I would say that the external focus evolved from about 10% of my job to probably about 70% of my job now. Much of my time now is taken up dealing with the legislature, education groups and other state gaming interests.

I suppose the first task of any new management assignment would be to get the internal structure in place and working smoothly?

J. Borucki: It's a little bit of that. It's also that I, as an outsider coming in, had to understand the industry before focusing on outside concerns.

The California Lottery has done really, really well under the difficult hand that we've been dealt. Much has been written about how we're one of the most poorly performing lotteries, down in the bottom third. But given the restrictions the Lottery has been operating under, the Lottery has actually done very well.

The staff at the California Lottery needs to get some credit for doing that. When I arrived, I needed to understand all that. Then I needed to position the Lottery for sustainable growth, based not on sales, but on profits that we could provide to our beneficiary, the schools.

You mentioned that your rebranding is based on the perception of the Lottery as being associated with not winning. Have you made changes to the games themselves to create more winners?

J. Borucki: We're looking at other games we can bring in to accomplish this. Quite honestly, we're starting to look at games to replace our in-state Lotto game, with the goal of increasing the number of winners. We just introduced a Daily 4 game to fill a void in that prize level. It's doing very well, which is surprising because daily games have not done well here in the past. Both the Daily 3 and the Daily 4 have shown sales increases from last year.

We had a campaign over the summer called "A State of Winning." The focus is getting the word out that there are winners. In the past, we only focused on getting the word out about jackpot winners. Most if not all of the jackpot

winner didn't want publicity, so we didn't get a lot of press about winners. The people didn't hear much about winners, so in the mind of the consumer, nobody was winning the Lottery. Between my media section and my marketing section, we've been campaigning to talk about local winners. We get a huge amount of press now talking about our second-tier winners, anywhere from \$100,000 to \$500,000. The press loves to do stories about a winning ticket sold at a retailer, 'where is the winner' kinds of stories.

That kind of press focuses at the local level. We also did billboards all around the state talking about the number of winners the Lottery creates every month in specific counties. There's one close to here talking about the 30,000 some winners created in Sacramento County. And we have what's called electronic point of sale screens right at the register. We're running slide shows on those that talk about the winners in that city or town.

Was there any discussion when the Modernization Bill was being created about making use of new technology, the Internet or cell phones?

J. Borucki: We aren't talking so much in terms of play, partly because we have the obstacles at the federal level as far as play and payment. We do want to get better e-communications and players' clubs going, dipping our toe in the water and getting out there. With some of the second chance drawings, the Internet provides the only way to enter. We're working on creating the capability of sending information via Internet, PDA, and cell phones.

What do you see as the future of lottery? Do you believe scratch tickets and online games will continue to generate the interest, excitement, and revenue that we've seen in the past?

J. Borucki: California is kind of unique. Once we get permission to pay out bigger prizes, I believe we have an opportunity to sustain growth for the next five, seven, ten years. After that, I believe that if we don't have the resources or the authority to move to some of the Internet gaming, it will become very difficult to maintain the interest and excitement of our players, and extremely hard to attract new players.

For myself alone, I seldom go out to shop, but instead use the Internet. It's a convenience, a time factor for me. If I'm doing that with some of the basic needs of

my life, I'm certainly going to extend that to entertainment.

Because of the restrictions the California Lottery has been operating under, as these restrictions ease the Lottery's ability to grow is extended.

J. Borucki: Right. Prize payout is a great example. There's an ideal payout percentage, one that maximizes the play and the return. Once you arrive at the point, where do you go next? For good and bad, here in California we haven't even begun to play with the payout percentages to create growth and increased return. If the voters or the Legislature provides us with the capability of adjusting the payout percentages, this should enable us to boost our sales.

Many other states have tried this and experienced great success. Sales of Scratchers tickets took off in three states that were given the ability to increase their prize payouts. In Texas, they have doubled since 1999, while in Florida they have tripled since 2002 and in New York they have quadrupled since 1999. We haven't even begun this process.

One of the big discussion among lottery directors right now is the performance measure, which is not sales but profits, the return for beneficiaries.

As I understand it, there were unusual accommodations made to bring CVS into the fold as a retailer.

J. Borucki: We had been discussing the manner in which we could change the traditional business model between retailer and lottery, with the lottery taking on more of the work and responsibility and the retailer giving up some of the commissions. That's basically where we landed with the CVS model. In the past, those stores didn't want to be lottery retailers because they didn't want to spend the labor time to do the work.

So we asked ourselves what the lottery could do to accommodate new retailers like CVS. What we ended up doing is using a self-service machine in those locations, for both scratcher and draw games. CVS will still cash, but we have a lottery representative visiting those stores to empty the cash box and replenish inventory.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

trust them and have traditionally enjoyed playing their games. These customers are consuming a wide variety of goods and services that they would much rather buy from their trusted source, their own government sponsored lottery. The operator should nurture that special relationship it has with its customer. They need to build on it or they will lose it.

Can lotteries do more to leverage the reputation for integrity that they enjoy with the public?

A. Bali: To answer your question, in some cases this is a missed opportunity for lottery organizations to differentiate themselves from the competition. Lotteries are already required by government and regulators to comply with the highest standards of responsible gaming and social responsibility. They've been held to this higher standard since inception, and so are likely to have a head start over their competition. Lotteries have been scrupulous at performing well in this respect and at projecting an image of social responsibility and genuine concern for the interests of the player. Governments everywhere, and regulators and the general public, are giving more attention to the importance of protecting the player. This presents an incredible opportunity for operators who can demonstrate superiority in this space. The European Commission, for instance, recognizes protecting the player as being the primary justification for preserving the lotteries' monopoly control of certain types of gaming in some jurisdictions. So, responsible gaming and protecting the player will be an increasingly important part of the governments' agenda and therefore an equally important part of the gaming operators' agenda.

The third principle is raising as much revenue for good causes that benefit the public instead of enriching private interests. That's what government sponsored gaming and lotteries are all about and will always be a cornerstone of their mission and purpose. That is something they should be proud of and make sure that the public and public policy makers are well aware of.

You referred to the operators building and nurturing relationships with their customer, the player. That's a big part of every business's playbook, isn't it?

A. Bali: Absolutely. Building relationships with their players should be a top priority. We need simply look at the social networking phenomenon taking place on the internet now. Whether it's Facebook, Bebo, or YouTube, the internet is changing the way we socially interact with our peers. Loyalty programs on the other hand are not a new concept. The airlines started

these over 20 years ago, followed by credit card companies and then supermarkets in the 90s. Today Casino groups, Betting Operators, Media brands, Video Game publishers and now several lotteries are signing up millions of players and members, building vast databases that will be the driver of loyalty and of course revenue. Some of these databases are now in the tens or hundreds of millions, not hundreds of thousands but tens growing to hundreds of millions of consumers that are entering into a far more dynamic and mutually supportive and productive type of relationship with providers of goods and services. The companies that are taking the initiative to engage their customers in this kind of ongoing interactive relationship are obviously going to have a huge advantage over the ones who aren't. And that is probably even more true in the gaming industry than most others. The reason for that is simple. The need for interaction between operator and player is compelling from a responsible gaming as well as from a customer loyalty and retention point of view. The profit potential in the gaming business is at least as great as any others and so the need from a competitive point of view to take the steps necessary to engage your customer in a dynamic and interactive relationship is compelling.

So how do they do that exactly?

A. Bali: It's about distribution and content. Take your lotto and scratch games and make them available in the places that your customer buys things. If they're not going into the convenience stores as much but they are buying things on the internet and playing games on their mobile, the lotteries need to convince their legislators to permit them to make the product available where the customer can buy it. That is just the first step. From there an operator needs to build a player database by using a whole variety of marketing methods on the internet. This could be by using affiliates and/or partnering with those that already have a large database of potential lottery players (for example their own retail chains). In addition, lotteries can leverage their huge retail distribution, brand and marketing efforts to get people to register directly to buy their products over the internet or through their mobile phones. This is a complex multi-faceted area which is a combination of technology and e-commerce. That's been a key area of focus at the New Media & Sports Betting Division of GTECH, helping the operator through every aspect of its business of attracting, retaining, entertaining and long term relationships with its players, including collecting payments and paying prizes and connecting with key distribution

partners and where to advertise including SEO (search engine optimization) or how to cross promote with truly viral games or messaging.

Could you describe more specifically what the player is looking for?

A. Bali: There are a wide variety of players and an equally wide variety of interactive experiences that they are looking for. But, the players are looking for an experience that includes interaction with their peers and with entertainment products and brands that speaks to them and their social group. So you are profiling the players and identifying the dynamics that will engage their interest. Managing the player experience, from the moment she enters the lottery website through each inflexion where her interest is engaged or disengaged. You build your audience by focusing on the player journey, the evolution of their experience on your sites, through your product and over time. You know, the internet is no longer just a place where people go to read news, email, gather information, shop or even to play a lotto game. Web 2.0 means there is a whole new genre of recreation being built to support individual expression, wants and needs. The lotteries need to look at making some wholesale changes to the way they think of their customer and player at an individual level. Lottery has been a fundamentally a high volume transaction focused business. It really needs to transform into a broader entertainment experience. The technology and know-how is fast emerging to move into a new age of one-to-one marketing, developing uniquely personal relationships with your customers, targeting products and promotions and responsible gaming initiatives and perhaps even non-gaming products to meet the unique needs of a customer; building an even greater social networking experience into the whole player journey. A significant area of building loyalty for your site is driven through the player interface, the wallet, chat functions as well as the quality of games. Internet operators look at two key drivers for their games: 1) The Cost of Player Acquisition (or CPA). 2) the Life Time Value (or LTV) of those players on their site. It is (2) minus (1) that drives the basic contribution of a player. These interactive functions are intended to extend the LTV of a player and therefore increase a player's contribution.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

tion put on the negative was drowning out the positive things that the WLA gaming operators were doing to protect the players and the public. We saw what needed to be done and were doing our best to implement effective Responsible Gaming programs. Even back then we were being proactive in what we now refer to as “harm minimization.” But it was during this discussion that we realized the importance of integrating a sound RG program into a more comprehensive CSR agenda. Basically, it was in that discussion that we realized that instead of complaining that the media was being unfair by focusing on the negatives, we needed to do something about it – something other than complain about biased media which never gets us anywhere! What we needed to do was use our Associations, the WLA and the regionals, to help its members implement the most ambitious CSR program possible. The scope of this effort could not be accomplished by a lone lottery operator. We resolved to work together to build the programs and certification processes that would elevate the level of CSR and RG to the point that the media and our stakeholders would recognize the positive role that their state-owned operators performed.

So this discussion back in 2003 sort of galvanized an initiative that turned out to be so vital to the health of the industry. Too, this somewhat revelatory discussion was held at a WLA Conference, it would not likely have occurred if you had not been convened for this meeting, and is a great example of why it is so important for the leaders of the industry to meet as frequently as possible to share ideas and work on problems together like that.

M. Carinci: Yes. To the WLA members’ credit, there was almost unanimous approval for the RG principles put forward to the membership the day after the director’s panel. Collectively we decided to proactively set the bar as high with CSR as we had with the security standards over a decade ago. That was really the beginning of the WLA’s RG initiative to develop standards that would guide our efforts to remain relevant to our players and at the same time protect those at risk.

This is the real benefit of WLA – the learning and collaboration that has spearheaded initiatives to help its members raise the bar in all different categories of performance. The educational programs are intense and have attained a sophisticated level of training and educating the WLA members in virtually all areas of operations, management, strategic planning, as well as CSR and RG. In some areas of particular importance to the public, like Responsible Gaming, the WLA has developed a system of certification

that is recognized by regulators and legislators as a credible measure of the operators’ level of performance capability. Another key area that has a similar certification process is security. We identified these two areas, security and RG, as being two of the most foundational elements to protecting the public. The main thing is, we decided to take action, take a leadership role in the business of protecting the interests of the public.

In hindsight, your decision to focus on RG seems pretty obvious. But I would think that at the time it would not have been so obvious to focus public attention and your own resources on an initiative that would not contribute, at least not directly and not in the short-term, to revenues and profits.

To put it bluntly, nobody would have these regulatory and tax harmonization problems if the governments implemented internet gaming through their government-owned organizations. Compliance and player protection would be a non-issue in addition to the public benefitting from the revenues. Even if licenses were given to multiple operators in far-flung locations all around the globe, it can still be regulated to comply with the standards and laws of each country. Governments can and should compel everyone to play by the same rules, paying taxes and providing the most effective RG tools.

M. Carinci: Actually what did become quite obvious was that many lottery organizations were doing significant work and making great progress in the area of RG while others did not have it on their radar screen. That is the benefit again of getting together with the membership annually to discuss the ever changing challenges and opportunities. But I would like to focus on your point with regard to profits and CSR. There are many great examples of companies that were early adopters of CSR that have realized stronger customer retention and increased attraction to new customers. In addition, employee attraction and retention was positively impacted. David Batstone, author of *Saving the Corporate Soul*, provided numerous examples in his presentation at the WLA conference in 2004.

First, one needs to agree that Responsible Gaming is part of a larger CSR agenda. The resolution that the WLA membership passed calls for a comprehensive approach to aligning our businesses with the interests of the public in absolutely everything we do. Corporate Social Responsibility in a much broader context should be integrated into everything we do. That includes the design our games, how we communicate, ad-

vertise, care for the environment, create diversity in the work place, be great employers and give back to community through corporate involvement...all the things that an organization can do to promote an enlightened, progressive approach to serving the interests of society.

At the time, this idea setting common standards was rather radical, given the cultural, regulatory and structural differences among the 80 different countries that are represented in the WLA. And even now it goes to the heart of how capitalism works and how it sometimes malfunctions. The beauty of capitalism is the way in which everyone busily engaged in pursuing a single minded goal that is consistent with their own interest, that of making a profit, results in an economic activity that theoretically benefits everyone in society as

a whole. Well, the recent melt-down of the financial services industry points at how that simple construct may be just that – too simple. Government regulation and a widespread embrace of CSR principles are needed in every business including the gaming business. That’s what the CSR initiative is about – being proactive, taking the initiative to invest in the tools, programs, resources and research to be a good corporate citizen on every level. It is important to point out that many WLA organizations were already doing this on some level. What WLA has now provided to its members is a sound set of principles, standards and a framework to guide an organization through the four levels, the fourth being the highest level which requires third party audit and finally assessment from an independent panel with representatives from around the globe. A stellar panel indeed, and the membership was able to benefit from their collective experience at the last WLA conference in Greece.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.

ernment gaming operators fulfilling CSR and RG expectations is just as important as meeting the financial objectives.

Svenska Spel has long had an excellent reputation for being a leader in Responsible Gaming. That's why it came as a bit of a surprise when the CEO left last April.

A. Olsson: While we have not always done things perfectly, we actually started on this journey a couple of years ago. And it's not just a matter of more focus. It is also a matter of investing money and resources into making the CSR and RG be the best that they can be. It gave us a good head start that we began to focus on these initiatives two years ago and have been improving ever since. But again, the events of the past eight months have been a very useful catalyst to sharpen our focus, invest more resources in RG, and communicate much better with the public and all of our constituents.

From the available reports about the positions and objectives of the Swedish government, it sounds like they were, and perhaps continue to be, concerned about the degree to which Svenska Spel promotes gambling. Yet, one of the missions of Svenska Spel is to combat illegal offshore operators and channel the profits back to Swedish people, and also to provide the Swedish people with a safe and secure environment to gamble. In practical applications, how do you combat illegal gaming and channel the gaming to Svenska Spel without promoting your games? And don't those objectives sort of conflict with each other? How do you strike a balance between those two agendas?

A. Olsson: I can see why it would appear that way. But actually, I think these two objectives go hand in hand. Responsible gaming is all about surviving and is all about business. It's not something you have to do because the politicians tell you to do it. If that is the driver of your RG program, you will not be very effective at it. You're committed to RG because it's good for the business. It is an integral part of the

It is vital that RG and CSR be perceived as being just as important to the success of the business as generating revenue. Because it is.

product you are selling. It is vital that RG and CSR be perceived as being just as important to the success of the business as generating revenue. Because it is. Think about it this way. Would you buy an automobile from the manufacturer who looked at the cost of meeting safety requirements as being a burden that interferes with profitabil-

ity? Wouldn't you feel better about buying the automobile from the manufacturer who genuinely embraced the goal of building safety into the product for the benefit of the customer? We are proud of our RG programs and promote them as being a powerful benefit to the player as well as to the public and our government. We look at RG as an opportunity to add value to our product, making it more attractive to both the player and the government. We also think of RG as an important differentiator between us and the illegal offshore operators and hope that the player sees value in it and chooses our games because they provide a more safe and secure gaming experience. We promote that and the fact that you are supporting a gaming company owned by your own Swedish government.

So when we are designing new features into our games, we look for the ways in which we can integrate more and better Responsible Gaming tools. The customers know this, they can see it and we are now finding ways to help the players appreciate that these tools can help them enjoy the gaming experience more. We are getting better and better at the goal of helping the player see RG as a real benefit, and not just something that interferes with their desire for recreational gaming. RG is really part of a good Customer Relationship Management system, a way to nurture a healthy ongoing relationship with your customer. We're just taking care of the customer. And if the customer sees that it's better to play Internet poker at Svenska Spel because I'm safe there; my credit card and money are safe and they will not cheat me, and the tools they provide help me to manage my play and money responsibly ... I think that's a way of keeping your customer loyal to your company. So that's why I say it's all about business. In the end, that will result in higher profit, if you think in terms of the lifetime profit or value of the customer.

Sweden is a rather small country. We're only nine million people and we have a lot of pressure from offshore Internet operators who are not regulated. So why will the customer stay at Svenska Spel instead of going

to one of these other operators? Of course, it may be about the games and bonus features, but other operators can offer those. In the end, the competitive advantage that we have is the safety and security that Svenska Spel provides. So I don't think responsible gaming conflicts with other business objectives, like

generating revenue. Really, I think of it in just the opposite way. It creates a foundation for sustainable long-term growth and profitability. It's just good business.

That's a truly exciting concept and perhaps even a counter-intuitive one for operators to appreciate that RG serves the interests of the public which is good business strategy.

A. Olsson: Exactly.

RG and serving the interest of the public should be looked at as an opportunity to secure a competitive advantage against offshore operators, a way to differentiate yourself from the competition and enhance the value of your product.

A. Olsson: Absolutely. I referred to the automobile industry before, and the same would apply to broader CSR objectives. Cars that are better for the environment are more popular than ever. I think that a similar sentiment applies to our industry. People feel better about supporting Svenska Spel because of our commitment to Corporate Social Responsibility, to genuinely having the public's best interests as our primary objective. Our commitment isn't driven by a need to comply with regulators. Again, embracing the public's best interest as the real driver of your business is ultimately good business strategy and will pay off in terms of long-term profitability.

You were saying that the attitude or approach of genuinely embracing CSR and RG as an opportunity to add value to your product, as good customer-focused business strategy, creates a very different result than if you were doing it out of a need to comply with government mandates.

A. Olsson: That's right. Of course, we do need to have an ongoing dialogue with the politicians and the regulators. We do look to them for guidance and direction and are accountable to them for implementing their directives. And we respect the role that public policy has and so we keep them informed of everything we do. But the way that we go about the business of integrating RG into all aspects of game development and security is done with a focus on the customer, the player. Doing it in this way results in a much more creative and inspired approach to the process. We know the business of gaming, we know the players, what motivates them, and how to reach out to them and create a positive response.

Continued online. The majority of this interview is continued online. Please go to www.publicgaming.com to see this interview in its entirety.



Michael Koch

CONNECTIONS: Exploring Gaming's New Frontiers

Putting the Player on Center Stage...Finally!

By Michael Koch, CEO, ACE Interactive

The global financial crisis has certainly not spared the gaming industry. In fact, in times of economic turmoil and uncertainty, discretionary funds traditionally spent on gaming and entertainment are first on the chopping block.

The entire gaming industry is reexamining business models and trimming capital expenditures...both hoping to find that ideal balance of income to outlay that will create a pathway back to profitability. In comparing today's gaming landscape to the unknown market conditions of the decade ahead, I've been asked by others in the industry, "What do we have to do to capture our core target group?"

My emphatic response – "Empower your players and stop patronizing them!"

Let's examine the cold, hard facts. By 2018, the occupations, interests and habits of our core target demographic group – 18 to 35 year olds – will undoubtedly be very different than the player of today. The prototypical 35-year old VLT player of 2019 would have been born in 1984 – three years after the first IBM PC.

As such, technology is certainly not perceived as something 'new' by these players – it has always been an integral part of their daily lives, much as the television is to our generation and the radio and movies were to our parents and grandparents. Video gaming is already firmly established as the most popular form of entertainment among our younger patrons, and these same players have grown up in a world where they are able to choose the color, flavor, delivery method, and terms of payment; wherever, whenever and however they decide to buy. Yet, in the gaming industry, we keep telling these prospective patrons where, when and how they must play our lottery products.

It is not too much of a reach to declare that there needs to be a paradigm shift from the more traditional lottery products to the still-to-be-defined arena of "new media" gaming if the industry is to retain and attract its most desirable demographic group. As this new reality becomes evident to the decision makers, we may soon see player loyalty programs retooled to allow players a choice – a choice as to where their accumulated rewards go... local charities, specific schools or universities, preferred retailers, travel agencies.

Let's suppose a player is enjoying some leisure time playing his/her favorite VLT game and suddenly realizes that it's his/her mother-in-law's birthday. Our quick-thinking player decides to continue playing in honor of mum-in-law and decides to divert all the winnings generated from this session directly into her bank account. Sound far-fetched? Think again...the technologies required to turn this hypothetical (on more than one level) scenario into reality are already

available and utilized in some form at locations around the globe. We (the gaming industry) need to embrace these technological advances and break away from the time-worn mantra that we tend to hide behind whenever a revolutionary concept is introduced, namely – "regulatory frameworks are not in place." Why do we continue to use the 'regulatory firewall' as an excuse not to accept changes to the status quo?

At the same time, we need to proactively empower the player with the freedom to choose – what game, in what denomination, using whatever channel of delivery, at a time and place of his/her choosing. Technology is not the issue – the widespread availability of the Internet, mobile distribution and, most recently, Server Based Gaming (SBG), can provide this advanced functionality in today's Video Lottery industry.

Our problem is a legislative and regulatory environment that is still "fighting the last war." It is not hyperbole to state that most gaming jurisdictions are out of sync with their legislative leaders in providing regulatory latitude that allows lotteries to quickly adapt and embrace new technologies.

North American lotteries are usually 5-10 years behind their European counterparts – types of games played, prohibitions against Internet-based sports betting and gaming, restrictions on mobile gaming, retail terminals with less functionality than an ATM machine, VLTs that look like old kitchen cabinets instead of appearing stylish and enticing. These limitations also shape the outlines of our future opportunity.

If we want to compete, or even survive, we have to develop a mindset (and a regulatory environment) that fosters and embraces new and innovative marketing concepts.

The players we seek have grown up immersed in the targeted and individualized marketing approaches, making use of the "Long Tail Effect" so successfully implemented by Amazon, Netflix or Apple's iTunes or the Serendipity Brand Hijack, 'accidentally' adopted by Napster. A failure to do likewise will leave us in the same dire straits as horse racing...an industry struggling to attract and encourage new and more techno-savvy patrons as the actuarial tables catch up to its core constituency.

Like it or not, we are engaged in a life-or-death struggle with industry sectors that are unencumbered by our regulatory constraints. Innovative approaches, a cultural shift that embraces modernization instead of building walls against change and an open dialogue with our political leaders are the keys to our survival. ♦





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