

UPDATE on MSL Lottery in Ukraine

A study in overcoming adversity in a market disrupted by political & economic turmoil.



By Evgeniy Vlasenko

Vice President, MSL, LLC, Ukraine

PGRI Introduction:

Paul Jason visited with Mr. Vlasenko at the EL Congress in Antwerp to get an update on the progress made over the last three years since our last discussion.



ДЕРЖАВНІ
ЛОТЕРЕЇ

Ukraine is the largest country in Europe by land mass, and has a population of 43 million. MSL is the state lottery operator in Ukraine. It was launched in 1970 to raise funds for the development of sports in the Soviet Union. That mission changed when the Ukraine became independent in 1991. MSL was originally an abbreviation for “Molod Sportloto”, but is now the brand name.

After Ukraine gained independence in 1991, there was a period of time when government regulatory structures were not fully intact. There were no regulations and private operators were free to start lotteries, sell tickets and take in money, then close without paying out prizes. Public trust in lotteries was destroyed. In the year 2000, a regulatory system was implemented. Even so, and even though MSL always operated with integrity, the entire industry was tainted and it was very difficult for MSL to reestablish public trust and confidence. But they succeeded, step by step, in re-establishing consumer confidence that its operations are totally transparent and prize monies are paid out promptly and the games always operated with integrity. The business of lottery relies not just on the confidence of the consumer. Retail and advertising partners also need to be confident that the time and resources allocated to lottery will generate a positive ROI for them, and that the lottery operator will be a good business partner in every way.

Before the political and military turbulence which began in 2014, when Russia annexed Crimea and turned eastern Ukraine into a war zone, the market was growing considerably. MSL sales were increasing at an annual rate of 50-80% between 2010 and 2013. Total revenue in 2013 was over 2.5 billion UAH (approx. \$150 million euro today but twice that before the devaluation of the Ukrainian currency in 2015). Among classic lotteries, bingo ranks first at 30% of revenues, scratch cards second at 24% and growing fast, and Lotto third at 6%. Sports-betting and toto is 40% and is the fastest growing category. Only 18% of the population in Ukraine plays the lottery at least once a year. That compares to 70% in the UK. Illegal online gambling is vast. There are more than 270 sites accessible to the Ukrainian customers. They are not properly regulated or taxed.

95% of MSL's sales are at land-based stores. Transitioning from a state-owned economy to a capitalist system is a big transition. It is not just a matter of installing modern business practices and models. The cultural adaptation as well as economic and logistical transformation is not so easily accomplished. Of course, Ukraine is over twenty five years into the process. The cultural transformation has largely been accomplished and so now it is largely a matter of executing on fundamental business plans to develop new games, categories and distribution channels.

Evgeniy Vlasenko has led MSL since 2011.

Paul Jason: How have things changed since our last interview of September 2016?

Evgeniy Vlasenko: We live in a challenging and dynamic world. European markets of traditional lotteries are under pressure from non-licensed operators, especially in the online world. Specifically to the Ukraine is that in addition to unlicensed operators on the internet, non-licensed outlets that offer VLT-like games are mushrooming in brick and mortar venues. They may not be classified as slot machines, but they deliver all the same functionality and player experience – so, in reality they are slot machines, which are illegal. And because the lottery market has been contracting over the last 5 years in Ukraine under the pressure of non-licensed gambling, we have to spend more and more of our limited resources, and time and effort, not for development of the market but to protect the business and defend the principles which the WLA and EL member lotteries stand for.

Have Russian intrusions and interference with Ukraine diminished over the last three years?

E. Vlasenko: The Crimea peninsula was annexed by and is still occupied by Russia, and some Eastern Ukraine territories are still occupied. There is no active warfare that is reported in the international press, but people continue to die on the front line. So, unfortunately, very little has changed. In addition, trade wars continue which create new economic challenges for everyone. The additional risks posed by trade wars and unrest interfere with investment into the economy including the lottery sector.

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It is already an international industry, with global reach and a strong professional infrastructure to facilitate communications and initiatives across governmental jurisdictions and cultures.

Lottery already employs numerous women, including many who occupy positions of executive leadership.

With the creation of WILL – Women’s Initiative in Lottery Leadership – in 2017, the industry directly addressed the need for more women in influential roles. Rebecca Hargrove, President and CEO of the Tennessee Education Lottery, heads up the initiative. In 2018, the Executive Committee of the European Lotteries Association endorsed WILL to operate at three key levels: in networking, training, and inspiration. With this action, WILL became a truly international program. Stéphane Pallez, (CEO of Française des jeux) and Jutta Buyse (Deputy Director of EL) are spearheading the Initiative in Europe. Sue van der Merwe (Managing Director Lotteries & Keno, Tabcorp) is doing the same in Asia-Pacific; and Rhita Lahrou (La Marocaine des Jeux et des Sports MDJS in Africa. WILL’s mission is to drive business growth through supporting the advancement of women into top positions of management, leadership, and responsibility.

WILL’s mentor/mentee program was launched in the U.S. in 2018 and in Europe on June 5 in Prague.

May Scheve Reardon, Executive Director of the Missouri Lottery, captured the spirit of WILL in words that would resonate with the many researchers who have studied the women in leadership equation: “Diversity should be seen as a core value of any business and a vital tool for a multi-billion dollar industry that provides millions to beneficiaries around the world.”

WILL is fueled by financial support from JUMBO, The European Lottery Association, IGT, Scientific Games, INTRALOT, Pollard Banknote, the North American State and Provincial Lottery Association, and many others. Money matters, of course, but no more so than changes in belief systems regarding the importance of women, ethnic minorities, and CSR in the conduct of business.

With WILL, a potent vehicle to smooth a path for women to achieve their full potential, along with the efforts of everyone in our industry, the lottery industry can consolidate its role as a beacon of light in the New Era of organizational inclusiveness, exemplary corporate citizenship, and optimal service to all its stakeholders. 

Evgeniy Vlasenko from page 20

What do you think the future holds with respect to Russia respecting the sovereignty of Ukraine?

E. Vlasenko: It is a problem for which there is no ready solution. So we need to remain strong and not relax our efforts to preserve independence and freedom. Ukraine wants to determine its own path which is to be governed peacefully by the rule of law that is decided by the people – like Western democracies. The 2014 and 2019 elections clearly showed that the people of Ukraine want the stability and openness and respect for individual rights of Western-style democracies. In fact, we do not blame Russian people and think they probably want the same thing! Instead, we differentiate Russian people from Russian official politics and their unfriendly policy towards Ukraine.

How has your product mix changed over the last three years?

E. Vlasenko: Our lottery Zabava is the most popular game over the last twenty years. It is a Sunday morning bingo show. We will continue to invest in it to maintain its position as the market leader. And terminal instant tickets rank second today, which we believe is a good success for that category of games.

Are draw games declining as a percentage of total sales?

E. Vlasenko: Number games sales are stable but due to the growth of other game categories with higher dynamics and more entertainment-value, draw games as a percentage of total sales is declining. Bingo, though, has been growing over the last three years. So overall, draw game sales are in a good shape.

Do you participate in a big multi-state draw game like Euro Millions or EuroJackpot?

E. Vlasenko: Membership in a multi-jurisdiction lottery is on our agenda. In fact, it is one of the priorities. It would be easier if Ukraine were to become a member of the EU. On the other hand, Euro Millions and EJP have a rather conservative approach towards admission of new members. So we have a long way to go to fulfill all legal, regulatory, technical and financial requirements to make it happen. But the long journey always begins with a first step.

How is the product mix likely to evolve over the next three years?

E. Vlasenko: If our new government pays attention to lotteries and takes the right steps to effectively regulate the market, all game categories will start to grow quickly within the next few years. Sports betting and on-line lottery will increase their shares in our portfolio as these categories are mostly affected by non-licensed operators which we hope and expect will be subject to more regulatory enforcement.

How is the channel mix likely to evolve? Land-based retail comprised over 95% of sales a few years ago. Is that changing?

E. Vlasenko: The online channel continues to grow, especially its mobile sub-channel. As to purely on-line games, their share is still small, mostly due to the presence of illegals.

Do you have a problem with the bet-on-the-outcome model like Lottoland?

E. Vlasenko: Lottoland so far is not active here. Maybe they see that their offer is not competitive to the ones provided by illegals that already operate in Ukraine.

Yes, we have a lot of issues with the unprotected online sphere of Ukraine - the players can bet or play online casino-style games on numerous sites which have no Ukrainian registration. This is frustrating as the country suffers a shortage of cash, has to take IMF credits every year, and illegal gambling is just taking money out of the country.

What are some of the most interesting initiatives that MLS is pursuing now and over the next 18 months?

E. Vlasenko: Within the next 18 months MSL will become 50 years old. It is a good time to reflect on our history, our experiences and progress, analyze the last half a century and build the bridges that will sustain growth for another 50 years. Therefore, in addition to new and very special games with a lot of prizes, we are planning events and campaigns and new games that will bring attention to this history and help us to recollect a lot of interesting events and accomplishments from the past and connect them to our company of today, to celebrate jackpot winners and the social projects supported by MSL. Our proud history has special meaning today because we need to show the role of the Lottery in society and why we are different from gambling companies.

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In our last interview you mentioned that the Ministry of Finance practically withdrew from regulation of the lottery market which led to chaos and a decrease of the legal lottery market. What has changed since then?

E. Vlasenko: Not that much has changed. The market still waits for the new licensing terms that establish clear, unambiguous and enforceable rules for on-line sales, and protection of the market from illegals. First we need proper regulatory documents to be issued; and second we need measures to make sure that they are followed. Until that is done, I do not expect investment to be forthcoming from the shareholders or multinationals like IGT or SGI into the Ukrainian market.

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and does offer betting on sports. There are other tribal casinos in the state that may attempt to follow the lead of the Tamya Nation.

These states have authorized sports gambling, but have not yet operationalized it:

New York – New York is wrangling through differing opinions on mobile betting platforms and requests for integrity fees by sports leagues. A public comment period on rules and regulations set forth by the state gaming commission concluded in late May.

Oregon – The Oregon Lottery in 1989 created an NFL parlay game that was exempt from PASPA, but the game was discontinued because of pressure from sports leagues and the NCAA (the collegiate governing body). Now, 30 years later, the Oregon Lottery will offer sports wagering through a mobile app just in time for the 2019 NFL season.

Arkansas – Betting will begin in early summer

The tax rate is 15 percent on the first \$150 million in GGR and 20 percent beyond that figure. There is no restriction on bets involving the state's college teams.

Tennessee – This state's new law has an effective date of July 1. Tax rate is 20 percent of GGR.

Washington, D.C. – Sports betting already has received mayoral approval, but the "on" switch awaits a U.S. Congressional review since the law impacts D.C.'s budget.



A new President was recently elected in Ukraine. And already there are a lot of new faces among top state positions. How do you think it will change gambling in general and lotteries in particular?

E. Vlasenko: Gambling is forbidden in Ukraine since 2009. So those who operate are in the "grey zone". Lottery is not classified as gambling. It is regulated according to the Law on Lotteries. These laws without license terms are expected for last seven years. If the new government team finds time to address these issues that affect the

The following jurisdictions have no legislative measures under consideration as of this writing:

Alaska
Florida
Idaho
Nebraska
Wisconsin
Wyoming
Utah

In Utah, a change in the state constitution would be required to legalize betting; that is very unlikely.

All the remaining states are in varying stages of considering legislation to authorize betting.

Analysts estimate that 20-25 states will have fully operational sports betting by 2022, and that a dozen others will follow as lessons learned are gleaned from the early-adopter states.

As more states legalize sports betting, the question will be raised regarding whether federal legislation is needed to establish a baseline of standards. The Sports Wagering Market Integrity Act of 2018 was introduced in the U.S. Senate last year, but the bill stalled. It called for minimum age requirements, mechanisms to detect illegal betting activity, and the earmarking of money to fund gambling addiction programs.

One thing is certain: the PASPA dam has burst and the flow of sports betting will only increase. 📈

sector of lotteries, the proper and effective regulatory framework based on EL/WLA standards and expertise can be implemented quickly and would boost the Lottery market.

You are chair of the Education Working Group of the EL. Describe the mission, purpose, and agenda of this working group.

E. Vlasenko: The International lottery community is a small world. Almost everybody knows each other. Most are active members of the WLA and regional lottery associations, with well-established lines of communication already in place. And I would like to point out that everyone appreciates the important role that PGRI plays in this system. This is a great achievement.

I strongly believe that people are the most valuable asset of any company, even more important than brand equity. I see the role of the EL Education Working Group as providing the tools to help people be the best they can be, optimize performance for the benefit of their careers and for the benefit of the enterprise stakeholders. Investing in education and personal development is key to making this happen. The development of human potential requires investment. The EL wants to help its members get the most out of every dollar they invest in their people. The courses of EL University are free of charge to members. We conduct 2 types of courses and are preparing a third one for different levels of experience and expertise.

Our intention is to facilitate knowledge sharing, best practices, train on how to handle difficult situations by using actual case studies and industry leaders who have experienced the whole range of lottery business challenges, as well as formal education for new employees to make sure the terms and EL standards, like RG, Security, etc., and the values of the Association have the same meaning across the world - and to encourage the adoption of these values throughout the industry! I also see this as only the beginning. There is incredible potential for the EL to be a positive force in the industry by supporting its members' ability to develop the talent and capabilities of the thousands of people who work for the benefit of good causes provided by lottery. I see a lot of opportunities in this area of EL support to its members. The next step is to collect feedback from the members to understand their training needs and reflect accordingly. So the work continues and the show must go on! 📈