

The Transformation of the Lottery Sector

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Every year, there are two important events held in London during the first week of February. ICE Totally Gaming (held at the Excell Center) hosts more trade-show booths than any gaming show in the world. The far more important event for the lottery sector, though, is the joint EL/WLA Marketing seminar. This winter gathering is where lottery CEO's, marketing directors, and many other stakeholders convene with their technology partners for presentations, panel discussions, and side-bar meetings where important issues are discussed. The juxtaposition of these events raises the question du jour: ***Is there still a relevant distinction between lottery operators and lottery suppliers?***

In years past, there was a “summa divisio” between governments, state owned operator, beneficiaries, and suppliers. Everyone stayed in their lane. Governments, not commercial firms, operated lotteries. Lottery operators did not engage in other commercial activities and technology vendors did not operate lotteries. For better or worse, capitalism is fundamentally a change agent, driving all economic units to innovate to reduce costs, increase revenues, and add value for their stakeholders. Historically, this dynamic has produced progress and macro-economic success. In the short-term, the benefits of disruption are distributed unevenly as companies adjust strategies and tactics, and governments adjust regulatory policies to address emerging issues.

The games-of-chance industry in general, and the lottery sector in particular, has seen substantial disruption over the last fifteen years. The market-place and competitive landscape bear little resemblance to what prevailed at the turn of the millennium. So it should not surprise us that business

models and strategies have changed. This applies to lotteries and their associations as well.

For instance, consider the vision of the new EL strategy and how it embraces these changes:

United in diversity, EL will be recognized as an association of responsible and successful members making the most positive social impact.

Built around 3 value pillars - Forward thinking , Sustainability and Integrity - the EL Strategy outlines a clear ambition for the association to be known as a proactive expert, assertive, and ambitious organization that fosters innovation, creativity and development, and collaborates with a diverse set of stakeholders to anticipate trends, share visions, and discover new ways to serve society.

Veikkaus CEO, Olli Sarekoski, confronted with a new government approach to partially liberalize the Finnish market, did not wait to initiate a vast transformation program. “We are gearing up for changes. The evolution in the gaming industry and internationalization are pivotal to Veikkaus’ growth strategy. We envision a future where Veikkaus stands as Finland’s premier gambling company and a significant entity in the international arena.” Veikkaus ambitions go well beyond the classic operational approach. With Fennica Gaming, Veikkaus brings its creativity and skills to the global lottery community.

The French FDJ Group and Allwyn are two other strong and independent European-based organizations which are adopting a strong financial and corporate governance

structure. Their leadership has also led them on a fundamental transformation. Both have expanded their activities to bring innovation and sustainability for governments and beneficiaries in multiple jurisdictions around the world.

On the other side of the business, commercial operators and technology companies have for years been actively participating in RFPs and/or ITA for facility management contracts, government licenses or concessions. The distinction between technology suppliers and operators is gradually disappearing and thus requires a new model of partnership based upon mutual trust and fairness.

A benefit of this blurring of lines is that lotteries are becoming more business-oriented. For instance, the content of RFP’s has changed from a cost-based approach towards a dynamic and innovative vision that places more attention on value and outcomes. More consideration is being given to a broader set of objectives like developing local markets, transferring knowledge to help other local businesses succeed, engaging local participation in operations, and finding new ways to be of service to society (examples are Morocco and South Africa).

At the same time, governmental and regulatory stakeholders are looking more carefully at how they might support innovation and modernization that addresses market changes, protects the lottery monopoly, and grows the business in a sustainable socially

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drove some companies to move to other jurisdictions, such as Malta, where they had to pay virtually no tax. The subsequent reopening of online markets in Germany in the last years tempted some of these companies to come back – this time following the legal approach by obtaining an official license. Even though they pay higher taxes by operating with a proper license, they see compliance with jurisdictional laws and regulations as being the better long-term strategy. Due to the fact that these companies are also listed on the stock exchange, investors were able to benefit from this development as stock prices increased.

Based on this experience, Andreas argued that lottery companies “have to compete in the digital markets with our core product. If we don’t do that, we lose customers to resellers. This can become a problem if the reseller offers an easy way for the player to migrate over to a wider range of products, which could include online slots, scratch cards, or sports betting”. This could also result in the risk of lottery products no longer being the core product for these resellers.

Looking at the same issues from the perspective of the politicians who set regulatory policy, Andreas highlighted the dilemma that they face when illegal operators have already built up a large customer base. “Eventually a tipping point is reached where politicians have to decide whether it would be better to give these illegal operators a license to operate

legally. That way they can be properly taxed and regulated, and the operators can be forced to improve consumer protection standards”.

Finally, Andreas argued that lottery companies should try to educate their stakeholders, arguing that regulators often do not fully understand the issues surrounding illegal operators and need to be encouraged to take action against them. This point was echoed by Younes, who responded, “In Morocco, we have probably the biggest illegal operator in the world. And they make themselves appear legitimate to the public through their advertising. They have done deals with the African Football Confederation so that when there are soccer matches in Africa-wide tournaments, the biggest soccer club in Morocco is on television with this illegal company’s name on their shirts as their sponsor. And law enforcement doesn’t seem to understand why that’s a problem.”

Picking up on that theme, Callum argued that lottery companies need to accept the reality of competition and proactively close gaps in the market themselves because governments may not always protect them. “We’re proud custodians of assets that have grown up over many decades,” he said, “and it’s a wonderful business model that does lots of good things throughout society. Gambling is at its very center, but we have a high social license to operate because we’re low spend and low social harm. But what do we need to do to preserve and protect our businesses and

prevent them going the way of Blackberry when it was faced by the iPhone?”

“Part of it is legislation and regulatory protection,” Callum said, “but all those instruments were cut in the past, and even though they get slightly modernized, it has become as much about competing as it is about regulatory safeguards. We have to accept competition in some way, shape, or form because our legislature and our governments of the day may not be able to help us when we absolutely need it. So, my main message would be this: understand the gaps in your own market and cover them yourself; take control of your own destiny as the instruments of regulatory protection are changing.”

Andreas echoed this call for the industry to be more proactive on a global level, highlighting the challenges presented by new entrants into the market in the digital world. He argued that the industry should take responsibility for setting its own standards “because if we don’t set the standards, others may come in and set our standards for us”. Andreas also highlighted the crucial role that the WLA has played and can continue to play in terms of setting standards for the industry globally.

Referencing future WLA activity, Rebecca informed attendees about plans for a responsible gaming seminar to be delivered jointly by the WLA and Nashville and hosted in Atlanta in 2024, and the World Lottery Summit in Paris in October. Further details will be made available when confirmed. ■

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responsible way (examples are Ghana, South Africa, Ukraine and Uruguay). This requires also more attention to the right, often multidisciplinary, expert advisory & educational services to address the complexity of the issues at stake.

New multi-jurisdictional games like Euro Dreams, new technologies such as AI and blockchain, digital services and more interactive online lottery products also contribute to this transformational approach. New game formats are being developed to appeal to the next generation of players. Lotteries have moved beyond talking about it and on to real and responsible action.

Lottery operators and their societal role are increasingly under attack by illegal

gambling operators. Key to the success of this transformation is to protect the common cultural heritage of Lotteries to operate for the common good in a responsible and legal manner. At the EL Congress in Sibenik, EL took this matter up and will extensively discuss it during a large Public Order seminar in February in Brussels.

In Europe the Belgian National Lottery has been advocating at all institutional levels for the recognition of the important cultural heritage of Lotteries. The festivities around “Bruges 1441” showed how important the role of Lotteries have been for centuries: *“The ingenious plan to organise a lottery with various prizes to collect voluntary contributions and use the proceeds to pay for collective needs*

proved to be a hit. This historic decision nearly 600 years ago would change the European lottery landscape forever ... and later on conquer the world in this form.”

During the Belgian Presidency of the EU Council, the National Lottery brings this again to the attention of all EU Member States as it was done in 2010.

Lotteries are a powerful force for integration, participation in social life, tolerance, and acceptance of differences. The financial contributions from lottery services provided by state lotteries play an important role for society. Any transformational approach, to be successful, relies upon these important societal foundations. ■