

# *Social responsibility*

## **The regulators**

### **Different organizational models around the world**

Lotteries are enterprises that are established, authorized, and regulated by governments in order to protect players from illegal operators and ensure responsible policies, specific monitoring, and safeguards.

#### **Lotteries operated under the direct auspices of a government agency**

Under this model, a new government agency is created when a lottery is established and is vested with the sole responsibility of overseeing and managing most of the day-to-day activities of the lottery. As a public agency, the lottery is generally required to follow the same standard civil service rules that dictate such issues as salary levels and rules and regulations for procuring supplies and services, rules that apply to other government agencies. Many European lotteries were originally established following this model. This model was copied and adopted by most of the first modern lotteries in the United States. However, now that governments have adopted a more business-like approaches, this model is increasingly in less popular.

#### **Lotteries operated under State Control**

Whereas in the first model the agency which manages is organized, owned, and regulated by government, in this second model the company which manages the lottery is set up and organized as a private company

Traditionally, there have been three basic organizational models in the world:

- ▶ lotteries operated under the direct auspices of a government agency;
- ▶ lotteries operated under state control;
- ▶ lotteries operated by private companies under license from government agencies.

#### **Lotteries operated by private companies licensed by government agencies**

In Italy, this model has been adopted by the Autonomous Administration of State Monopolies (AAMS) that is in charge of the regulation and control of the entire gaming sector, through its Gaming Directorate. It controls industry activities, overseeing the organization of all gaming operations, looks after the administrative management of concessions, controls the fairness

and consistency of tax revenues, issues directives and regulations and organizes procedures for granting new concessions through the organization and management of public calls for tender.

Through calls for tender, the exclusive licenses can be granted to a sole company or to a few entirely private competing companies that deal with day-to-day lottery operations and with core functions, such as Lottomatica in Italy. This pattern guarantees expertise, a more flexible management style, and minimal risk for government agencies. This model is being introduced in several countries, as the Italian gaming market is seen as a best practice for others to follow.

Because of changing needs in the gaming industry, the distinction between customer and supplier is becoming more flexible. The model adopted for the agreement with GTECH and Organización Nacional de Ciegos Espanoles (ONCE) in Spain and Northstar in Illinois (in the United States), Technology and Solution Gaming Provider is involved in the indirect Lottery's management, considering risks and important investment needed both to set up new Lotteries and to convert companies in existence.

### Spain: GTECH's agreement with ONCE

GTECH's agreement with Organización Nacional de Ciegos Espana (ONCE) represents this expanded business model that now positions companies in the middle between being "just a supplier" and being "just an operator".



**The Spanish Organización Nacional de Ciegos Españoles (ONCE)** is a non-profit corporate organization that focuses its activities on the improvement of the quality of life of people with blindness or severe visual impairment from all over Spain and abroad through close cooperation with Latin American blind associations. Originally a decree bestowed on ONCE was the right to sell the so-called coupon for the blind so that its members could earn a living. Today, lottery game products are ONCE's economic driving force. ONCE is a socially focused and democratic institution, concerned also about the welfare of people suffering disabilities other than blindness. Its activities are based on the ideals of equality and participation and all these goals are achieved with the invaluable support of the Spanish Finance and Inland Revenue, Labour and Social Affairs and Equal, and Internal Affairs Departments.

In 2009, GTECH's partnership with ONCE took on a new dimension, increasing GTECH's services and support of ONCE's expanded lottery brand – GanaYa! This brand was created by GTECH and partner Logista S.A., Spain's leading integrated logistics operator, whose joint venture would expand the ONCE retailer network beyond street sales and kiosks, and implement sales channels in thousands of new retailers such as tobacco stores, news stands, gas stations, and other establishments.

Through this partnership, ONCE maintains both a traditional role as technology provider and as gaming seller.

GTECH provides ONCE with an extensive range of services for the GanaYa lottery network, including all of the technology (central systems, communications network, terminals, and back office support); field service (technical call center and the management of installation, and repair services); and marketing (product development, trade marketing, and advertising).

The structure of GTECH's GanaYa agreement with ONCE enables the lottery to optimize the risk reward model between themselves and their joint venture partner.

### **The State of Illinois: Northstar Lottery Group**

In the United States, more and more jurisdictions are also looking to privatize their lotteries as a way to increase revenues. The skill set, technological know-how, and depth of operational experience that GTECH brings to the table provides these jurisdictions with a viable option to successfully transfer operations securely and confidently.

Illinois' new business model will give Northstar Lottery Group much more flexibility and accountability over lottery operations. Although the Illinois Lottery will maintain control over all significant business decisions, Northstar will be responsible for lottery-game development, supply of goods and services, and marketing and advertising. In addition to providing lottery technologies to the state, Northstar will also have the opportunity to implement innovative-marketing initiatives and management tools to maximize revenues and increase efficiencies.



The Illinois State Lottery was established in 1974 issuing the first lottery tickets and lottery drawings. The following year, the first instant game was introduced. Lotto was introduced featuring a field of 40 numbers in 1983. In 2009, players purchased 102,491,802 winning tickets and claimed more than \$1.1 billion in prizes. In 2010, Illinois was the first U.S. jurisdiction to send out a Request for Proposal that called for a private manager to run day-to-day lottery operations and its core functions. Northstar Lottery Group was chosen to be the private manager for the lottery. The State of Illinois' partnership with a private manager represents a paradigm shift for the U.S. lottery industry as a whole.

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### Italy: the Italian State Monopolies Authority (AAMS)

In Italy, the Italian State Monopolies Authority (AAMS) performs administrative tasks that are related to the regulation and control of the entire gaming sector.

The AAMS fulfills its role by devising guidelines for the dynamic and rational development of the gaming market, and by continuously monitoring gaming operations to ensure that they comply with regulations. They also act to combat any illegal activities, and to ensure the optimization of the AAMS's tax revenue.

The direct presence of the State does not exclude the contribution of individuals. Rather, the State seeks to create an open, competitive market, in strict compliance with regulations. It does so through collaboration between the public and private sectors, ensuring that consumers receive high quality and highly secure services.

This role is clearly demonstrated in the working model of the public gaming market, which AAMS has designed and is progressively implementing. The State controls network infrastructure, entrusting the marketing of games to a number of private entities, which compete to provide high quality services, and ensures that there is a perfectly competitive market.

 The purpose for the presence of the State in the gaming sector is to secure tax revenue at a level that is compatible with the protection of other important public interests, namely the protection of consumers with particular attention to minors, and combating illegal practices. 



### **AAMS - Legal and Responsible Gaming**

The significant growth that has recently taken place in the gaming market has resulted in a change in the way the AAMS communicates with the public, starting with its corporate logo. More specifically, in 2010 the “Safe Gaming” slogan that has always been used alongside the graphic symbol of the top-half of a ship’s helm, was replaced with “Legal and Responsible Gaming”. The new slogan is considered more suitable for the purpose of communicating the institutional message.

This solution was chosen to express the Administration’s public aim with even greater consistency and suitability. “Legal and Responsible Gaming” is intended to communicate a strong consistent message, focussing on:

1. legality and security, which must be the hallmark integral to the public gaming sector, with the dual aim of making the gaming products that are authorized by the State even more recognizable, and strengthening efforts to combat improper gaming practices;
2. the Administration’s social responsibility, in relation to its governance role, and the responsibility of each player, resulting in a measured, moderate and responsible approach to gaming.

### **New regulations issued in 2010**

Italian law no. 220, issued December 13, 2010, which contains “provisions for the preparation of the State’s annual and multi-year financial statements (2011 Stability Law) has important repercussions for various aspects of regulations on public gaming through the physical network, which include: combating illegal gambling, plans for integrating public gaming concessions that involve the physical network in order to comply with certain obligations, including corporate obligations, the expansion of authority with respect to control and monitoring concessionaires by the AAMS, inspections conducted at points-of-sale to verify compliance with statutory/regulatory provisions.

For the first time, there is an explicit prohibition on allowing minors under the age of 18 to play any public games with cash prizes. The owner of a point-of-sale who allows minors to gamble could face an administrative fine, between €500 and €1000, and a suspension of operations for up to 15 days.

In reference to fighting the illegal distribution of games, authorities will re-emphasize the obligation to hold licenses, permits, and national concessions in order to operate gambling operations involving receipts of money. , and the immediate closure of any business whose owner or operator is found to be lacking these qualifications.

The law also provides a special inspection plan, involving at least 30,000 inspections, for 2011. It focuses on on-line gaming and betting, but especially on gaming machines. For this purpose, a database will be created to record the number of machines, the types of premises in which they are installed, and who owns them.

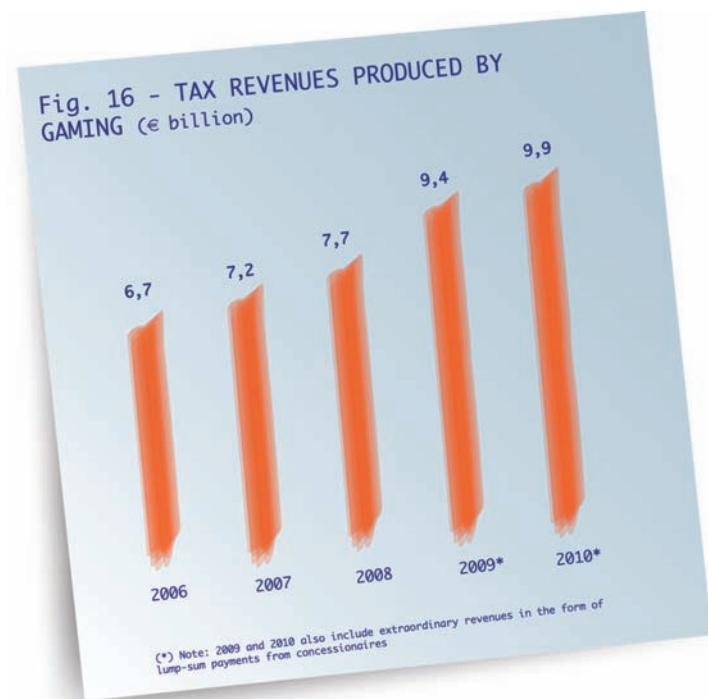
Finally, the law provides for the adoption of action lines for AAMS throughout 2011. In consultation with the Ministry of Health, AAMS developed the law, which focuses on preventing, tackling, and recovery from pathological behavior as a result of compulsive gambling.

Through these actions, the process, that began with Law no. 88 on July 7, 2009 (Community Law of 2008, which will come into force in July 2011), on remote gaming has been completed, providing a series of measures for harmonizing matters with EU provisions, with particular attention to ensuring the legality and security of gaming, and protecting consumers and minors. With reference to the last issue, the AAMS adopted a "Service Charter on remote gaming" that defines a series of obligations for concessionaires. The obligations relate to consumers in terms of information, communication, protection, security, legality, and quality of service.

### Lottomatica Group's contribution to tax revenues from gaming in Italy


In Italy, the collection of monies from gaming activities increased from €54.4 billion in 2009 to €61.4 billion (equal to almost 4% of GDP) in 2010. This was an increase of approximately 13 percent.. Players received winnings of over €44 billion, totaling 71.6% of funds collected.

The corresponding tax revenues totalled €9.9 billion (compared to €9.4 billion in 2009), of which €1.2 billion were exceptional revenues, consisting of lump-sum payments from concessionaires and €8.7 billion were ordinary gaming revenues.



Source: AAMS

Of a total of €8.7 billion in ordinary tax revenues from gaming, Lottomatica Group's specific contribution was approximately €3.6 billion, which is equal to 40% of total tax revenues from gaming.

 **Lottomatica's contribution to general tax revenues in Italy totalled €3.6 billion, or 40% of total income received by the Italian State from gaming.** 

A significant and ever-increasing portion of this total amount is produced by the lotteries, most of which are the instant type (Scratch & Win). €1.5 billion are from instant games, and €1.2 billion is from the lotto game.