Lotteries Council Annual Conference 2017

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Introduction

Thank you for inviting me to speak to you today. Although I have had the pleasure of meeting your Chair, Jo (Bucci) and some of your directors this is the first time I have had the opportunity to meet many of you.

Prior to the Gambling Commission, I spent a number of years at the energy regulator, Ofgem. I think it's fair to say that, whilst the other regulated sectors I have worked in have brought their own unique set of challenges, you don't have to look too closely to see some important themes that cut across regulation in general including the world of gaming and lotteries.

For example, the importance of:
- delivering effective regulation in the public interest
- building public and consumer trust - necessary for long term stability and growth in markets
- keeping pace with new technologies and business models
- ensuring fairness and openness to consumers
- maintaining market integrity - conditions critical to building business and consumer confidence.

Today I'm going to talk to you about the:
- current gambling market landscape
- our priorities at the Commission
- what I see as some of the issues in terms of regulating the society lotteries sector.

Before I do that I would first like to take a moment to acknowledge the work of your previous Chair, Clive Mollett, who sadly passed away last year. I know from my colleagues in our Lotteries Team that for many years under Clive's leadership the Lotteries Council and the Commission developed a strong and constructive working relationship. I am sure that will continue in the future under Jo's leadership.

The current gambling market landscape

Consumer and participation trends

Coming here today, I know that this is a time of change and anticipation for the Lotteries Council and the whole sector.

It’s really important for those across both the lotteries sector and wider gaming industry to take stock of how customers are participating so we can identify emerging issues and tackle risks. Here, our regular surveys continue to provide useful insights into key trends:

- Whilst almost half the British population had gambled in the past month (12% playing society lotteries) participation rates have, overall, declined - driven primarily by the continued drop in National Lottery draw participation.

- We are also continuing to see changes in how people gamble, notably through the growth of mobile and tablet. For example, mobile play amongst society lottery consumers rose from 13% to 18% between 2015 and 2016. Research also showed that online play has increased beyond the early adoption by 18-34 year olds, and is now as prevalent amongst 35-54 year olds.

Patterns of play are changing:

- Social media has facilitated the take up of gambling style games, with their appeal to younger audiences. Our latest analysis of gambling trends with young people aged 11-15 years, show 9% of children have played gambling style games at some point - the majority of which were via mobile apps, closely followed by Facebook and other social media sites.

- It will come as no surprise to this audience that the use of TV advertising and advertising on social media has grown. There is an increased focus on professional marketing in the lottery sector with some operators now using large scale television advertising to attract players.

- Our survey indicates almost half of those that have gambled online across the gambling sectors were prompted to do so by TV advertising, and 21% were influenced by social media.

- The increase in advertising brings some specific challenges for ourselves and advertising regulators. But it also brings wider challenges. Shaping public attitudes towards gambling and the normalisation of gambling – it is no surprise therefore that advertising was one aspect of the previous Government’s gambling review.

In terms of society lotteries, some trends include the following:

- The Commission licenses nearly 500 society lotteries, 38 ELMs and 10 local authorities. The sector has seen significant growth with our latest industry statistics showing that, in the year ending March 2016, your sector sold lottery tickets valuing over £480 million. This is a 10% increase on 2015 and well over 100% increase on the last five years. We also know that on average, 43% of the money collected via those ticket sales contributes directly to the core aims of the relevant societies.

- This remains a highly diverse sector in terms of scale, cause supported, and product, and this trend is increasing. To give examples of this diversity we know of one lottery operator which has successfully teamed up with a well-known high street bookmaker to sell scratchcards, and we know of one ELM who is considering introducing a fast draw lottery.

- Trends in channel shift apply here too with some society lottery operators migrating from face to face and postal sales to online, DRTV and other channels. The Commission currently licenses 178 remote lottery operators, and just under 200 ancillary operators. This shift is also reflected in participation trends with those participating in remote lotteries more than doubling over the last five years - increasing from 15.5% in 2013 to 38.4% in 2016, and at the same time participation in non-remote lotteries is falling, for example 88.1% in 2013 to 63.3% in 2016.

- These changes bring scope for growth but also bring issues. This is why we want to work effectively with the society lotteries sector to ensure consumer confidence in getting a fair deal from providers, including in relation to contributions to good causes.

- This is important also at a time when we are seeing a worrying decline in confidence in the gambling sector, with public trust in fairness almost halving between 2008 and 2016 from 61% to 38%.

Our priorities at the Commission

Our regulatory approach puts consumers right at the heart of everything that we do. While this has been a focus for the Commission since it was created, consistent with the statutory duties and licensing objectives, it is one we are building on for the future.

We want to see a market in society lotteries, commercial gaming and the National Lottery where consumers:

- easily understand the product and are clear on the terms, such as the contribution to good causes
- are confident in knowing their rights and having access to information to help inform decisions
- appreciate the risks as well as the possible rewards
- have access to tools to help keep play safe and reduce risk of harm
- know where to go, for example with complaints, if things go wrong.

Consumers who are confident and empowered will help contribute to the long term health of the market sector.

For all sector operators our messages are clear:

- Britain has a very liberal gambling and lottery market, in comparison to other jurisdictions, and the social contract which underpins this is based on operators recognising their responsibilities towards consumers.

- The gambling market's commercial success is characterised by innovation and creativity. Our expectation, as regulator is that operators harness the same innovation and tools to protect and empower consumers, as you use to drive growth.

- And working well, what we would expect to see, are operators focusing on their consumers first - less on the regulator. Operators meeting, and beating, minimum regulatory requirements, and operators raising standards across the board.

These themes and others are being developed now in the Commission's plans for a new corporate strategy. The process to develop this is underway and we have an open invitation to all operators, and other stakeholders, to help us shape this.

Tell us what we should be doing more of. Let us know what we should be doing less of. Take the opportunity to participate, as a start via an online form available on our website.

Nearer term, the Commission has just published its business plan for 2017-2018 which reflects our consumer priorities and direction of travel. I will give some examples of work underway, and planned, to illustrate this:

- Tackling misleading advertising and unfair T&Cs is a key theme. The Commission has joined forces with the Competition and Markets Authority and in the year we expect the CMA to complete its investigations into online gaming which will help set a new benchmark standard for transparency and fairness in terms and conditions.

- This summer we will publish final plans for reform of our enforcement policy. We want to promote a culture among operators which puts consumers first, which reinforces learning and best practice, and which raises standards. Our proposals will see tougher sanctions for persistent or systemic failures. We also propose discounts on sanctions for operators who recognise failures quickly and take effective action to put things right for consumers.

- Over the year we will complete our work on complaints handling and redress which includes consideration of the role of IBAS, the society lotteries sector ADR provider. This is against a background of consumer complaints and contacts to the Gambling Commission increasing by 300% over the last two years. We will also continue work to promote the Annual Assurance Statement – a requirement on large operators, which in the society lotteries sector captures the Health Lottery and Peoples Postcode Lottery. The AAS requires operators to review annually the actions taken to meet their licence obligations, lessons learnt and how they will build on this for the coming year – this commitment must be given at Board level to ensure the culture, leadership, and investment are focused squarely on raising standards.

- Strategically we will begin work in the year in preparation for the next National Lottery licence competition in 2023. We will also advise the new government on the gambling review and on decisions on society lotteries following the 2015 CMS Select Committee report.

Issues for regulating the society lotteries sector

To conclude my address, I want to look at the issues we see in the society lotteries sector specifically.

It is clear to me that this sector occupies a unique place in the gaming and lotteries industry. The nature of the sector is first and foremost a form of fundraising for good causes to enhance and enrich aspects of British public life. As regulator, we fully recognise this.

We know that many of you consider your lotteries as fundraising first and foremost rather than a form of gambling and you see yourselves as very different from the other operators in the gambling industry. It is also generally understood that the main motivation for many people who participate in your lotteries is to support the good cause that you represent.

Nevertheless, despite those differences, lotteries are a form of gambling which is why the law requires a licence (or registration with a local authority) and compliance with the licence objectives set by the Commission to keep play fair and safe.

In this context, society lotteries also present some unique challenges and I want to focus on two of these, transparency and convergence:

Transparency

The role you play to generate funds for good causes; the motivation of those who support you, and the trust people put in you to deliver, places a high premium on the standards by which you need to operate - specifically the transparency of key terms, and contributions to good causes.

The law requires a minimum of 20% of proceeds in a lottery to be returned to good causes - many of you return much more such that the average contributions were 43% of all sales in 2015/16. The CMS Select Committee on lotteries included a recommendation that the societies should do more to ensure greater transparency for consumers. We agree with this. We want operators to raise standards and to do more to make clear the scale of contributions to good causes. We will be considering whether further regulatory requirements are necessary here.

Further, in relation to branded and umbrella schemes, it is vital that ELMs and society lottery operators ensure sufficient information to make it clear to consumers which society lottery they are being invited to participate in. While specific requirements are set out in Gambling Commission advice (*Promoting multiple society lotteries*) again, we are considering making these regulatory requirements.

Any proposals in these areas will of course be subject to consultation including with the Lotteries Council.

Growth and convergence

The gambling participation survey published earlier this year shows that participation in lotteries, other than the National Lottery, remains one of the highest for any gambling activity.

The lotteries sector, like every other part of the gambling industry, is evolving quickly, with more diverse channels and products, and many of you now successfully promoting instants-style products. This creates more convergence of products in the society lotteries sector, the National Lottery portfolio and the commercial gambling sector. It also changes the hierarchy of harm as society lottery products move away from play that is lower risk (in relation to the licence objectives) towards more mainstream gambling products.

The Gambling Commission will look at the implications of market convergence as part of our planned future work in preparation for the next National Lottery licence. We also look to society lottery operators now to consider carefully the implications of product and channel development for compliance with the licence requirements which are designed to keep play safe. While the prevalence of problem gambling in this sector may be relatively low you have a real opportunity – and a responsibility - to promote responsible participation as your market changes and grows.

Closing remarks

We understand that you are operating in a different environment with different objectives to other gambling sectors.

Where we can, we specifically recognise this by making sure regulation is proportionate and properly targeted. For example, that is why we have decided to adjust our requirements in relation to remote technical standards (RTS) to reflect a different profile of risk in your sector, and it is why we intend to relax automated self-exclusion requirements. The details of these decisions can be shared by my colleagues.

It is clear that lotteries are a vital and growing part of the fundraising sector, last year returning over £200 million to charities and other good causes.

But, at the same time, our interests, to protect consumers and to keep gambling fair and safe, need to be high on your agenda. As principles they underpin the licence objectives with which you must comply and more widely, they are crucial to the development of a healthy market sector over the long term.

I look forward to working with you on this shared agenda. I invite you to engage with us as we shape our new strategy for the future. I am lucky to work with some very experienced colleagues who understand your sector and are here today to help and to answer your questions.

Thank you and good luck.