



## **Testimony for the Public Safety and Security Committee**

### **In Opposition of Senate Bill 358 AN ACT CONCERNING THE PURCHASE OF LOTTERY TICKETS**

**Tuesday, March 8, 2016 Hearing at 11:00 a.m. in Room 1C of the LOB**

Good morning Chairman Larson, Chairman Dargan, and members of the Committee. My name is Patrick McHugh. I am the Senior Vice President, Global Lottery Systems for Scientific Games. We have been supplying the Connecticut Lottery Corporation (“CLC” or “Lottery”) with lottery products, technology, and services related to the operation of the Lottery since 1988. I am submitting this testimony in opposition to Senate Bill 358, an act that would permit third-party lottery management service companies to purchase lottery tickets for another person via an internet Website or software application service.

Allow me to make clear that, while Scientific Games opposes the creation of third-party lottery management service companies to provide ticket purchasing services as described under Senate Bill 358, we very much support the use of the internet for the sale and promotion of lottery products and we applaud the Committee for raising this important topic.

European and Canadian lotteries have been successfully selling and marketing lottery products over the internet for more than a decade. In the United States, lottery players are able purchase lottery tickets or subscriptions over the internet in Georgia, Illinois, Michigan, North Carolina, North Dakota, New Hampshire, New York and Virginia. These jurisdictions are utilizing the internet as an additional sales channel to attract new lottery consumers and make it more convenient for infrequent consumers to play more frequently.

In our view, inserting a new third-party entity between the player and the CLC for the purchase of lottery products, as contemplated by Senate Bill 358, creates unnecessary risks to the integrity and security of the CLC. Instead, we respectfully urge the Committee to remove the current statutory restrictions on on-line lottery games and promotional activity in order to permit the Lottery to develop appropriate and responsible internet offerings for lottery players. Under current law, Connecticut General Statute Sec. 12-806(b)(4) prohibits the CLC from offering “any interactive on-line lottery games, including on-line video lottery games for promotional purposes”. This language not only prohibits the sale of lottery games over the internet, it also prevents the Lottery from offering players interactive promotions and other online experiences that could complement their purchase of a lottery ticket at existing retail agents and add value to that lottery purchase. Other state lotteries have successfully used mobile and internet programs to increase lottery sales at retail benefiting those small businesses selling lottery games. Scientific Games suggests that the Committee delete this section of the statute, and entrust the Lottery with the development and regulation of internet games and promotions in order to ensure the integrity of the products being offered.

The CLC and Department of Consumer Protection (“DCP”) employ and enforce governance controls to ensure applicable laws, security, integrity and responsible gaming related policies are enforced for Connecticut's lottery games. This includes ensuring wagers cannot be fraudulently duplicated, winning tickets can be verified as authentic, in-state sales comply with federal and state laws, and consumer

protections are maintained. To enforce these, the CLC and DCP must maintain direct oversight of suppliers, technology, and processes related to the marketing and sales of lottery tickets and payment of winning prizes.

The current legislation allows for lottery sales agents to contract directly with third party entities for the reselling and payment of prizes. This is a very significant change to the CLC and DCP's governance controls, as it would remove their direct oversight. It is not practical to expect these regulators to enforce laws and policies without this direct control and could jeopardize the integrity of the Lottery. Some examples of issues that need to be considered include:

- A lottery ticket is a bearer instrument, so prizes can only be paid to any individual presenting the ticket. Creating third-party re-sellers could create ambiguity on ownership of a winning ticket and legal challenges between consumers and the re-sellers, putting the CLC at legal risk.
- There are numerous state and federal legal and regulatory considerations that must be closely complied with when selling lottery games over the internet, including age-verification to ensure players are of legal age and geo-locating to ensure transactions do not cross state borders. There will be significant challenges for the CLC and DCP in attempting to manage these controls over multiple third-party re-sellers, while not having direct oversight, or additional staffing.
- The CLC directly controls all advertising and game promotions. Allowing third-party re-sellers to market to directly consumers removes the management and oversight by CLC and DCP.
- While the value of the internet as a sales channel is evident, it is critical that the Lottery expands in a way that is aligned with the existing retail channel. Creating an independent third-party re-seller network that is not aligned with the CLC's overall strategy could jeopardize existing lottery retailers.

To date, no other jurisdiction in the United States has adopted similar legislation creating independent re-sellers of Lottery products, and doing so, could create significant risks for consumers and would not allow the CLC and the DCP to ensure all state and federal laws regarding gaming transactions are enforced. Thank you for your time and attention and I respectfully urge the Committee to oppose Senate Bill 358.

Scientific Games Corporation (NASDAQ: SGMS) is a leading developer of technology-based products and services and associated content for worldwide gaming, lottery and interactive markets. The Company's portfolio includes gaming machines, game content and systems; table games products and utilities; instant and draw-based lottery games; server-based lottery and gaming systems; sports betting technology; loyalty and rewards programs; and interactive content and services.

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