

Challenges China Mainland Faces When Lottery is Allowed to Distribute and to Sell Through Internet/Telephone

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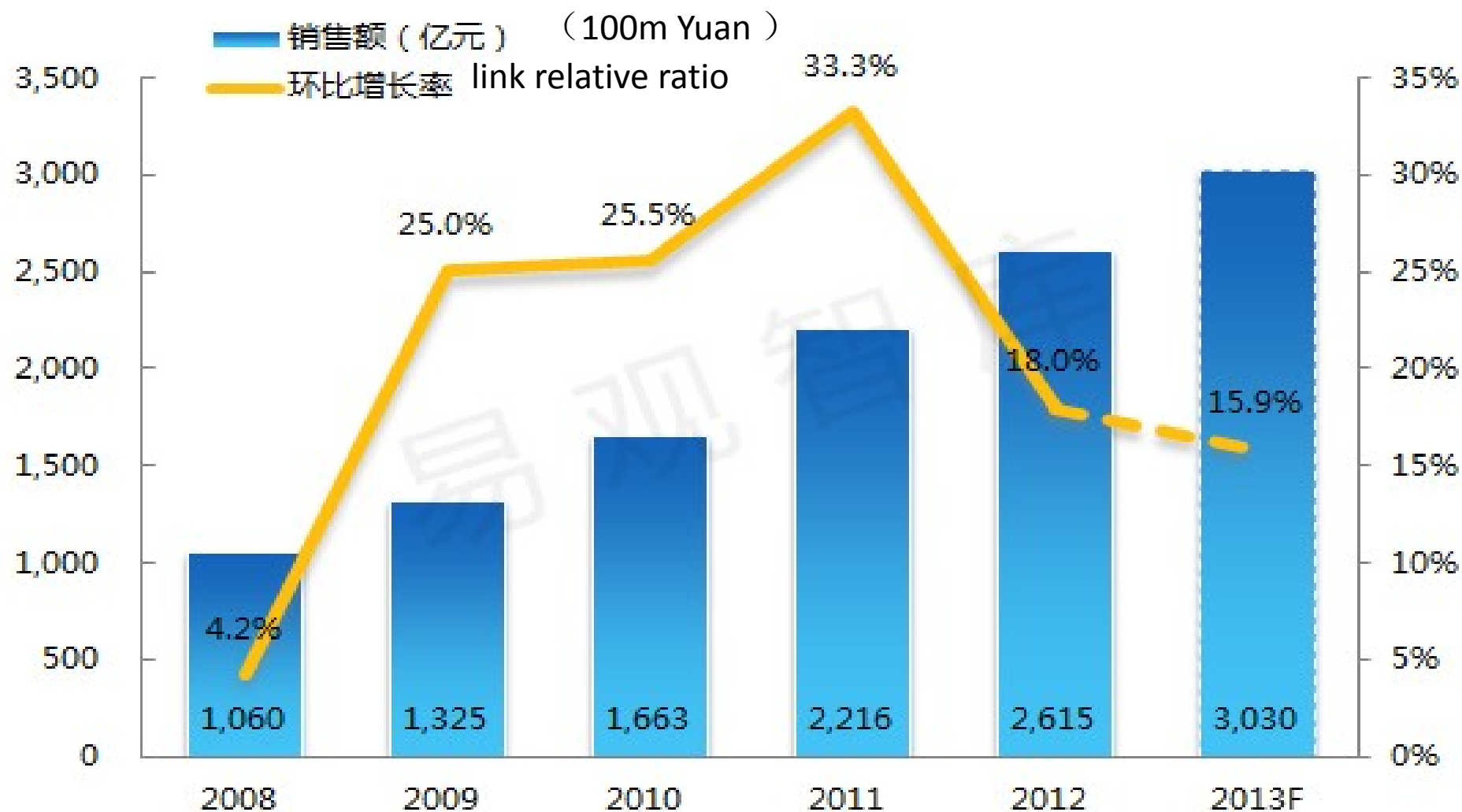
outline

1. Background
2. Lottery Administrations in Mainland
3. Challenges of electronic lottery

1. background

- Fast growth of lottery sales
- Rapid increase of network lottery distribution
- Huge market of lottery

2008-2013年中国彩票市场规模 Lottery sales



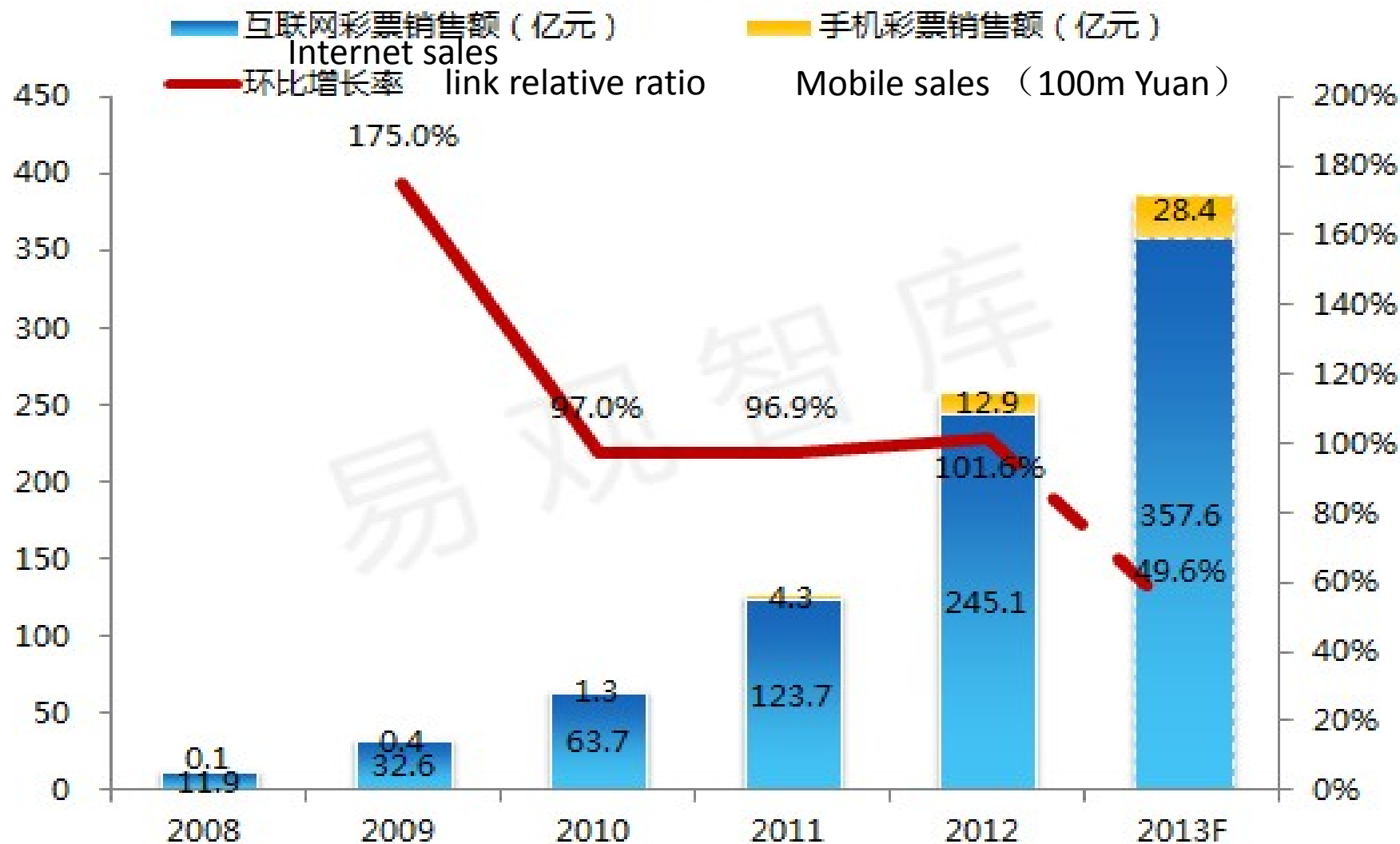
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2008-2013年中国网络彩票市场规模 Network sales



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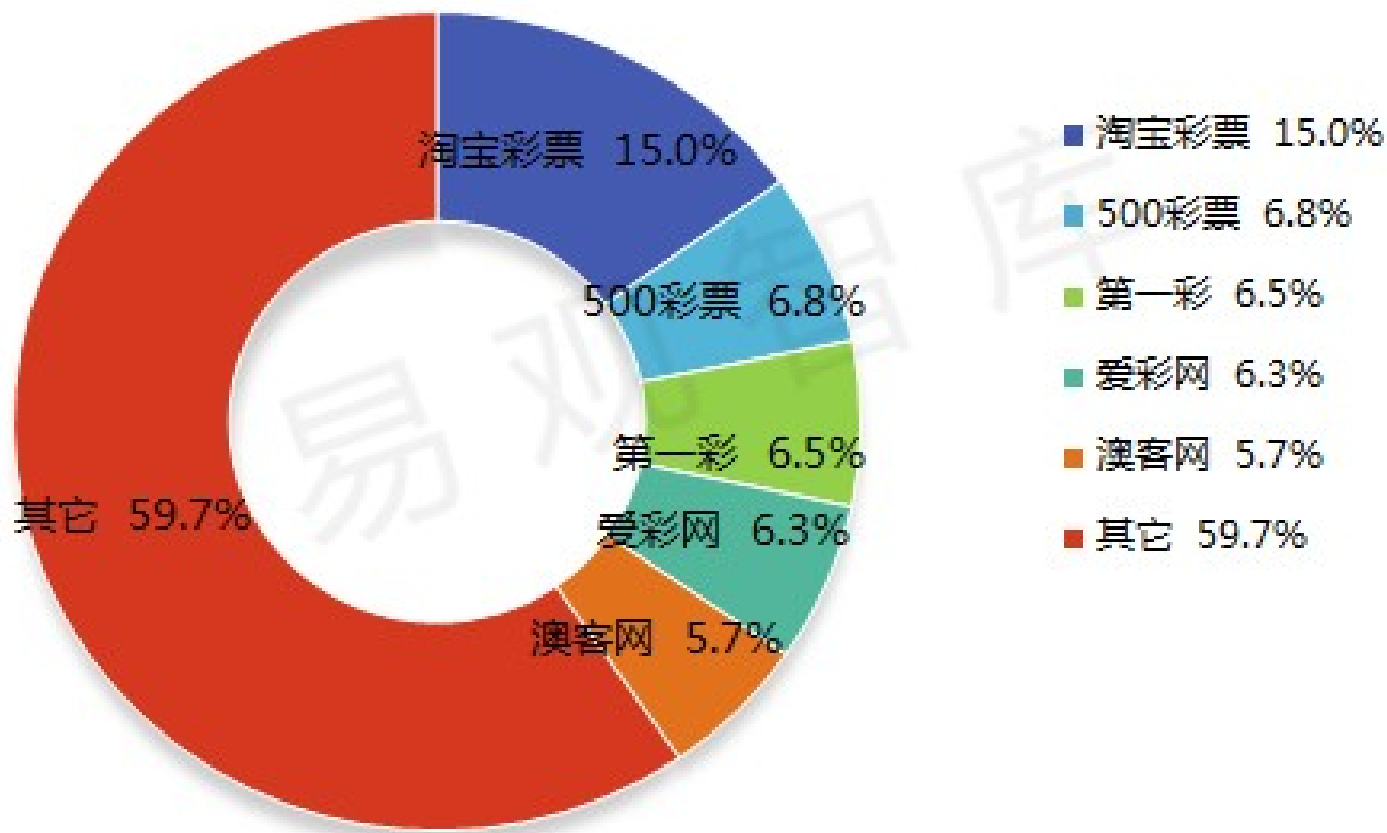


Internet Development in Mainland

- On July 17th, 2013, China Internet Network Information Center(CNNIC)released the 32nd Statistical Report on Internet Development, by the end of June 2013,
- Chinese netizens reached 591 million, with the Internet penetration being 44.1%.
- the scale of instant messaging netizens hit 497 million
- In the instant messaging via mobile phones, the number of netizens was 397 million.
- Mobile phones became an important breakthrough point for the scale growth of each type of application.

2013Q3中国网络彩票市场销售额份额

Market shares of network lottery firms in the 3rd quarter of 2013



来源：易观国际·易观智库·eBI中国互联网商情

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Lottery buyers in mainland

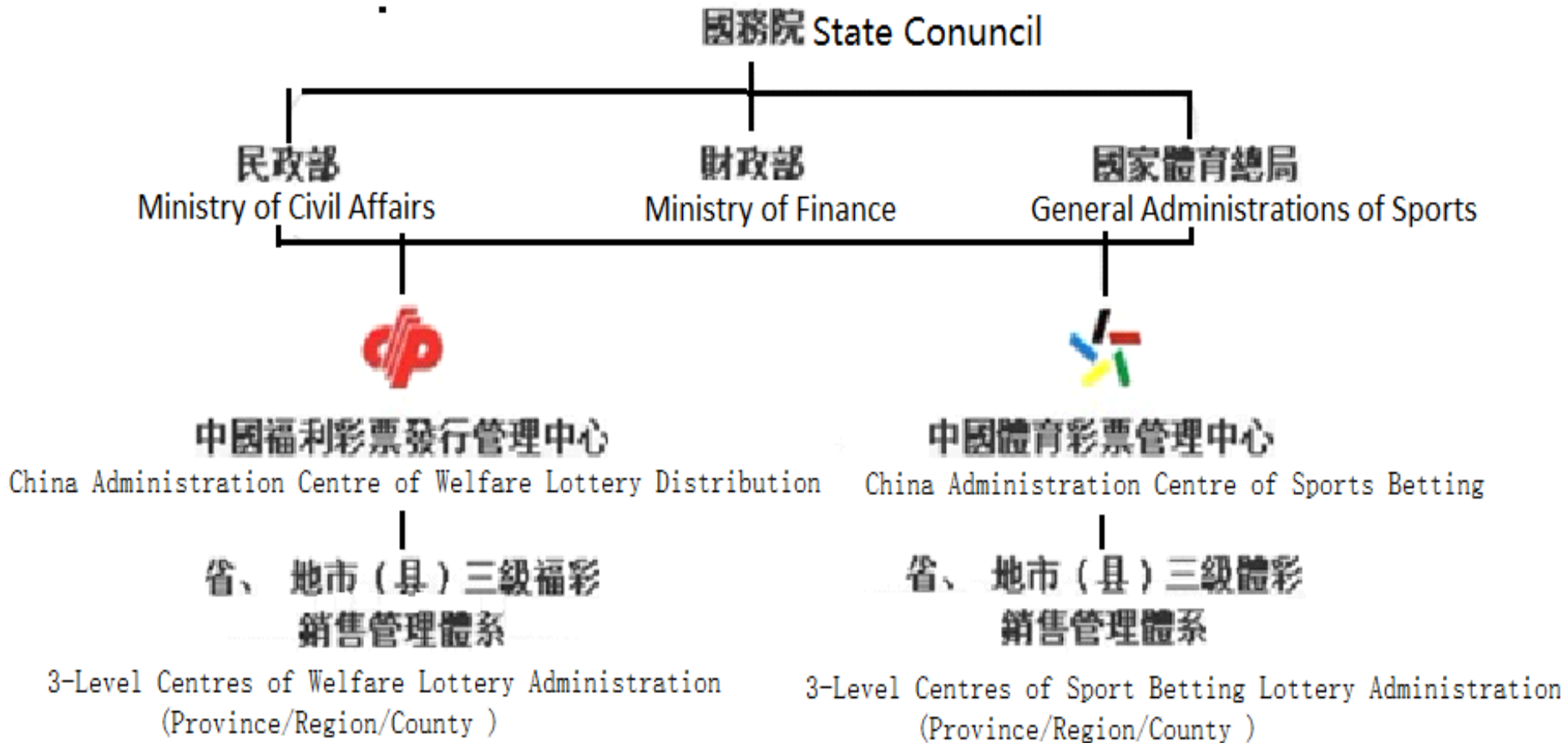
- Web survey of lottery buying in 2011, a sample of more than 176,205 raw cases from a dozen of lottery websites located in Mainland (Chen, 2012)
- Based on average lottery cost and the national gross sales in 2011, it is estimated there are 217-461 millions of lottery buyers in Mainland

characteristics of online adult lottery-players

Descriptive Statistics

	N	Minimum	Maximum	Mean	Std. Deviation
age	23069	18	80	29.66	4.993
month income	22293	100.00	7500.00	4.3659E3	1278.58060
month cost	22739	15.00	9000.00	3.2002E3	1335.36527
month cost / month income	22968	.0000	20.0000	.724753	.4144425
spent hours a week	22396	0	100	2.63	6.481
investment a time	22836	0	10000	20.61	172.711
notes a time	22768	0	10000	8.55	138.733
Valid N (listwise)	21531				

two systems of lottery administration



2. Development of electronic lottery



Lottery distribution in Mainland

- all gambling is illegal except lottery
- expense rate by lottery distribution is 15%
- As usual, Main channel to sell lottery (paper tickets) is betting shops around a corner or in a community It is estimated there are over 300 thousands of lottery sellers in China by 2012

electronic lottery in Mainland

- electronic lottery has never been endorsed formally both in law or by government before 2013
- Lottery distribution via mobile phone in recent years
- But electronic lottery is popular actually in Mainland, just because of its huge profit

Advantages of online distribution

- for buyers:
 - more convenient to buy
 - less monitoring, more privacy
 - more available
- For sellers:
 - Less cost
 - Bigger market share because of no limit geographically
 - huge profit

Problems with online lottery in the eyes of buyers

1. Slow transaction from narrow Bandwidth
2. Repeated submission
3. Congestion in rush time of drawing lottery
4. No temporary Verification of betting-hit
5. Sudden stop by unexpected events
6. Fake websites
7. No deal after payment is finished
8. More involved in lottery so that they fall into the situation of Pathological gambling
9. More cost without sense of authentic money

Problems with online lottery in the eyes of sellers

1. The isolated market by local governments
2. Multiple management with confused rules
3. Game competition among sellers
4. Databank safety VS Potential Attacks from Hackers
5. Difficulty with Identity of players , especially under-age buyers

The door is opening.....

- In Jan., 2013, China Mainland government promulgated “Administrative Rules Governing Lottery Distributing and Lottery Selling” , and it clearly makes lottery distributing and selling by internet /telephone lawful
- It is said, by now, only two experimental licenses have been released for lottery-website firms

附件

彩票发行销售管理办法

第一章 总则

第一条 为加强彩票管理，规范彩票发行销售行为，保护彩票参与者的合法权益，促事业健康发展，根据《彩票管理条例》（以下简称《条例》）、《彩票管理条例实施细则》（以下简称《实施细则》）的相关规定，制定本办法。

第二条 彩票发行机构按照统一发行、统一管理、统一标准的原则，负责全国的彩票组织销售工作。

彩票销售机构在彩票发行机构的统一组织下，负责本行政区域的彩票销售工作。

第三条 发行销售彩票应当遵循公开、公平、公正和诚实信用、自愿购买的原则。不得摊派或者变相摊派等手段销售彩票，不得溢价或者折价销售彩票，不得以赊销或者信用方式销售彩票，不得向未成年人销售彩票和兑奖。

第二章 彩票发行与销售管理

第四条 彩票发行机构开设彩票品种、变更彩票品种审批事项、停止彩票品种或者游戏，应当按照《条例》、《实施细则》的规定，报民政部或者国家体育总局审核同意后向财政部提出申请，经财政部审查批准后组织实施。

第五条 《条例》第八条所称发行方式，是指发行销售彩票所采用的形式和手段，有

事业健康发展，根据《彩票管理条例》（以下简称《条例》）、《彩票管理条例实施细则》（以下简称《实施细则》）的相关规定，制定本办法。

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第五条 《条例》第八条所称发行方式，是指发行销售彩票所采用的形式和手段，包括实体店销售、电话销售、互联网销售、自助终端销售等。

《条例》第八条所称发行范围，是指发行销售彩票所覆盖的区域，以省级行政区域分为全国区域、两个或者两个以上省级行政区域、省级行政区域。

第六条 《实施细则》第十二条所称专业检测机构，是指经批准成立或者设立，经国家有关部门认定并取得相关资质证明，从事计算机系统和软件的测试、检测或者评测，具有独立法人资格的单位。



The First IPO (initial public offerings) of Mainland lottery firms, Nov.22,2013

- Sports lottery firm raises more than \$100m on New York Stock Exchange
- More overseas initial public offerings by Chinese lottery websites are likely, after industry leader 500.com Ltd raised more than \$100 million on its first trading day on the New York Stock Exchange, analysts forecast. Closing at \$18.64 on Friday, 43.4 percent above its IPO price, 500.com was the first listed lottery company on the Chinese mainland and the third Chinese dotcom to go public in the United States this month.
- One of firstly two experimental licenses for lottery-website firms in Mainland

A sign of online-lottery burst?



The Inhibition of lottery distribution through internet in 2008

- Three Ministries of Finance, Civil Affairs, and General Administrations of Sports Jointly inhibited strictly and completely lottery selling through internet. They did not given any reasons.
- Possible reasons:
 - Disorderly competition
 - Over advertisements
 - Fake links, or false drawings of lottery
 - Moral critics
 - To harm the interest of local governments

3. challenges

The Orientation of the Industry

- in the conception of sponsors and administrators in Mainland, the lottery issuing is only something to collect money for benevolent cause, not an independent industry or a part of tourism

The Management Structure

- Compliance with the conception of lottery issuing, two isolated organizations is set up. Though a monitoring section, the Ministry of Finance is at the top, but it is not so powerful to guide the development of the lottery industry, because it is short of enough related governing personnel and governing techniques

Obstacle in law

- In the Criminal Law, gambling is illegal, but lottery is legal in the Regulations on Lottery Administration which is less powerful than the Criminal Law
- Overlapping between gambling and lottery make much confusion in practice.

The Isolated market

- The market is a structure of local government interests based on administrative divisions based on geographical restriction
- the efficiency of online distributing and selling is highly discounted due to the administrative divisions.
- As with internet lottery, new administrative rules are needed for solving the interest conflict among provincial governments, especially those disadvantaged regions in infrastructure of telecommunication and computer skill of netizens

The monitoring

- a more efficient and reliable monitoring system for internet/ telephone transactions is needed to develop, so that true and reliable identification of the issuing websites, confidential transaction data, integrity and non-repudiation and non-modifiability are guaranteed for smooth and safe promotion of Internet/telephone lottery, and there is no room left for unlawful lottery.

reliable platforms to distribute

- New reliable platforms to sell lottery are necessary for verifying prize-winning, because there have been a few cases of internet lottery fraud happened in recent years and quite a part of people used not to trust government's behaviors.

The Development drives

- All lottery firms or sellers are thirsty for rapid increase of sales
- The drive of the top management for speeding up the development of the lottery industry is not so strong since the annual lottery sales increase very rapidly. They won't take any risk that leads the lottery industry to a uncertain situation.

Prevention of PG

- Additionally, responsible lottery practice, similar to responsible gambling oversea, has not been carried out by now, which is supposed to include in the list of duties of distributing organizations. To establish a prevention and rescue service system for addictive lottery-players is very important for preventing from social problems that happen in developed gambling countries or areas.

Exclusion of under-age buyers

- There is no valid measures to prevent children and teenagers from buying lottery

The conclusion

- In sum, the conditions for extensive development of internet/telephone lottery in Mainland are not sufficient in mainland.

Q & A