

GAMBLING CONTENT

The “Gambling” Doesn’t Matter

By Paul Mathews

For nearly 25 years, I have worked in the gambling industry, mostly on the game content/supply side of the business. During this time, I have heard hundreds of times, that gambling game content (slots, black jack, poker, etc.) are just another form of “entertainment” and that responsible people, budgeting their disposal income, choose to gamble as a form of entertainment versus other entertainment choices such as going to the movies, eating out, playing golf or bowling. We in the industry went to great lengths to promote this view, usually to combat the never-ending assertion that gambling is harmful to consumers.

It has taken an entirely new industry to make this point. The explosion of social games and the “Freemium” pricing model (discussed in this article below), shows that consumers really do enjoy gambling-style games even when they are not gambling. In my opinion, this proves the “entertainment” argument that has been used for years. People enjoy the games for their innate entertainment value, game play mechanics and fun.

Social games and their evolution

Free to play social games are the latest development from the video games industry and a rapidly growing form of entertainment.

They are right at the heart of changes in consumer preference. With the size and growth of platforms like Facebook and mobile devices, many people have changed the way in which they access and play games. The “gamers” of today don’t like the traditional model of video games where you had to buy-in to try the game, whether it be a quarter in Asteroids, or a \$60 shrink-wrapped video game; today, players love to try games before they buy anything (most just enjoy the game for free) and there is a demand for shorter, “bite sized” experiences, which can be accessed and enjoyed while on the move.

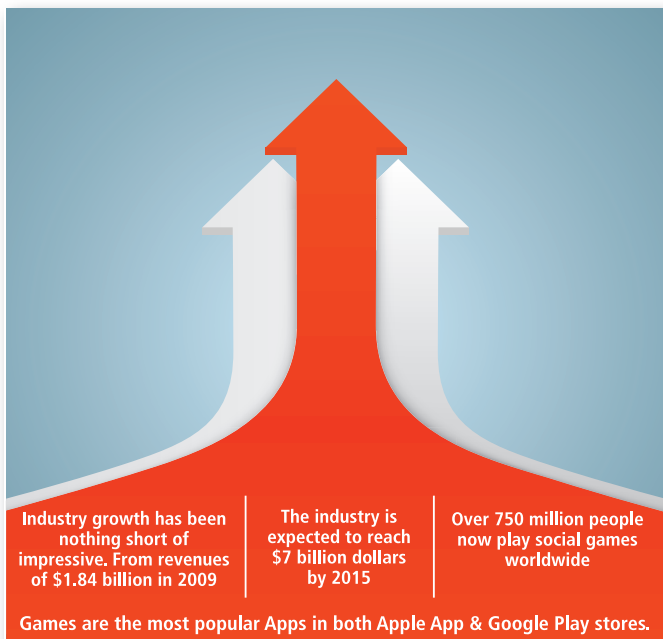


The International Social Games Association

In 2013, a group of leading social games companies set up the International Social Games Association (“ISGA”) to explain to the public, policy makers and regulators what the social games industry does, how it works and the value that it generates, both for the people who enjoy playing social games as well as for the digital economy.

Members of the ISGA include Zynga, Slingo, Plumbee, Playtika (Caesars), PLAYSTUDIOS, MGM, IGT, High 5 Games, Gamesys, Big Fish Games, Bally Technologies, Aristocrat, Akamon and Abzorba Games. Over 300 million players play our members’ games worldwide.

Since our inception, we have been pro-actively involved in upholding industry standards. In November 2013, the ISGA released a set of best practice principles.¹ Regulators and industry alike have recognized the principles as an important first step for the industry.



New industry research

Like any new form of mass entertainment, social games have provoked their share of discussion. Perhaps owing to the inevitable shortage of research for a new industry, much of that discussion has been based on anecdote and assumption rather than actual evidence.

Last year, we decided to fill the research gap through commissioning an independent study into the use, evolution and history of social games. Harvest Research, an Australian based consulting and research firm specializing in the areas of public policy and consumer behavior undertook the project. Dr Rohan Miller, Senior Lecturer in Marketing at The University of Sydney, led the social games team, with the assistance of a team of internationally recognized academics including those from the London Business School. The final report undertakes both a review of existing academic literature and data surrounding social games, as well as a survey of consumer behavior and perceptions from thousands of respondents across three continents - Australia, the U.K., France and the U.S.. We hope it brings new perspective and more of an evidence base to the debate surrounding social games.



Social games and gambling

It is important to set out the fundamental differences between social games and gambling. While some social games allow players to pay for elements in a game, there are no pay-outs or prizes and no stakes of value that can be won or lost. Legally, they lack the requisite combination of consideration, chance and prize to be considered gambling.

Casino-style social games are an increasingly popular genre of free-to-play social games that allow people to play games that resemble games such as roulette, multi-player poker or slots that you would typically find in a casino. Confusion should not be made with gambling. They simply borrow from the mechanics of casino games and deliver them to users in an

innovative and social way that is typical of social games. Players cannot “bet” or “win” anything of value.

Despite the differences, it's fair to say that the assumption that social games are somehow linked to gambling has been fairly widespread amongst media, regulators and gambling studies researchers alike. In particular, the allegation has been made that social games are a cause of gambling.

However, the Harvest's report highlights the absence of evidence that social games are converting people to real money gamblers or causing problem gambling, a finding backed up by Dr. Miller's consumer behavior survey. Consumers were asked the extent to which they could differentiate between social games and gambling. Figures were consistently high for understanding the difference.

This state of affairs is supported by the commercial experience, which is that the audiences for the two types of game are different.²

Proportionate regulation

It is a misconception that social games are unregulated because they are not within the ambit of gambling regulation. Like any other commercial transaction, social games are subject to general laws in applicable jurisdictions, including laws addressing consumer protection, advertising and promotion.

Social games are not gambling games and do not pose the same level of risk. Frameworks must be commensurate with the level of risk posed. More onerous gambling-style regulations are both unnecessary for social gaming and a threat to a highly promising industry based around entrepreneurship and creativity.





The Freemium debate

Social games are based on the Freemium or “free-to play” pricing model, meaning game access and play is free, with certain additional and special features available for a fee. This is another area where social games have come under a lot of heat.

Social games are, of course, far from an activity just for children. According to a recent study, the average gamer is 30 and nearly half are women.³ However, stories of children overspending on in-app purchases have been widely publicized. Media outlets, in U.S. and elsewhere, have covered stories of children racking up large bills on in-app purchases without their parent’s knowledge.

In March, following on from Apple’s Federal Trade Commission settlement, a class action lawsuit was filed against Google on behalf of parents in the U.S., claiming it is “unfairly profiting” from Freemium games. Since then, both iOS and Google have taken steps to develop and implement the in-app purchase controls they offer.

The U.K. has led the development of policy in the area. In September 2013, its Office of Fair Trading (“OFT”) released a set of proposed principles for in-app purchases in online games, which cover social games developers and platform obligations under existing consumer protection laws.⁴

The ISGA has played an important role in relaying the perspective of the social games industry and helping the OFT refine its draft principles into their final form in January 2014.⁵ The guidelines have already begun to act as a precedent for regulators globally.

It is of course essential that transparent, accurate and fair commercial practices be upheld in our industry. At the same time, the benefits of the freemium model should not be ignored.

To the consumer, Freemium brings lower cost, choice and flexibility. Games can be customized to user needs based on interplay between skill, time, sociability and willingness to pay.

The vast majority of players (95-99%) spend no money whatsoever.⁶ Out of the minority that do pay, the majority spend between \$1-5 per month⁷ - far less than they would for a console game.

Game companies must respond to changes in consumer habits and today’s users are less willing to pay for digital content up front. We also should not forget the role Freemium has played as a commercially viable antidote to piracy.



Freemium now accounts for as much as 98% of all revenue on Google Play and 92% on the Apple App Store. At the ISGA, we hope that policy makers and media alike will adopt a positive approach to the pricing model that is likely to form an increasingly important part of our digital economy.

Conclusion

The ISGA is committed to upholding high standards of social games operators and developers. This is consistent with a belief in a clear-sighted approach to regulation. Social games are not a form of gambling and do not pose the same level of risk. Accordingly, the same scale of regulatory control is neither necessary nor proportionately appropriate.

Our market is increasingly competitive and global. Only last month, Superdata published its findings showing the Chinese mobile games market is set to overtake the U.S. in 2015. It is imperative we do not make the error of stifling home-grown innovation with disproportionate or misdirected legislation.

Paul D. Mathews is a Founder and the Chief Operating and Chief Financial Officer of PLAYSTUDIOS, Inc., a social games company which developed and operates myVEGAS on Facebook and mobile devices.

Paul has 21 years of gaming experience in both the land-based and online segments of the industry and in January of 2011, Nevada Governor Brian Sandoval appointed Paul to the Gaming Policy Committee, a strategic group that advises the Governor on gaming policy.

In April of 2013, Paul co-founded and was elected Chairman of the newly formed International Social Games Association, a group formed by industry leading companies that functions to educate the public, policy makers and government regulators about the social games industry at a time when many changes in the way millions of people access, play and pay for games is taking place.

¹ [Ttp://www.i-sga.org/best-practice-principles/](http://www.i-sga.org/best-practice-principles/)

² See remarks made by Big Fish CEO Peter Thelen: <http://www.geekwire.com/2013/big-fish-ceo-social-casinos-closer-farmville-vegas/>

³ <http://www.escapistmagazine.com/news/view/124870ESASudFindsWomenMakeUpNearlyHalfOfGamerPopulation>

⁴ http://www.oft.gov.uk/shared_of/consumer-enforcement/oft1506a.pdf

⁵ http://www.oft.gov.uk/shared_of/consumer-enforcement/oft1519.pdf

⁶ The Freemium Monetization Model Revenue Split; Information Provided by the Casual Game Association (2012)

⁷ <http://www.swrve.com/company/press-room/swrve-finds-0.15-of-mobile-gamers-contribute-50-of-all-in-game-revenue>

Stay Connected WORLDWIDE



More than 125 member companies from 20 countries. Nearly \$14 billion in direct revenue. 32,900 employees. 16 publicly traded companies. ONE POWERFUL VOICE.

- Stay informed of big-picture issues affecting the top slot and table game suppliers and therefore their vendors
- Receive a variety of substantial discounts on booth space at G2E, G2E Asia, SAGSE and the Southern Gaming Summit
- Address worldwide regulatory and legislative issues that impact all machine and table suppliers
- Promote responsible gaming initiatives
- Benefit from important updates from influential global industry leaders
- Receive substantial discounts on goods and services through the Endorsed Service Provider (ESP) Program
- Help drive the direction of trade shows events, conferences and social activities
- Receive significant advertising discounts in leading industry trade magazines
- Enjoy educational partnerships benefiting both students and member companies
- Receive visibility in all of AGEM's print advertisements
- Benefit from enhanced exposure for publicly traded companies in the monthly AGEM Index



Association of Gaming Equipment Manufacturers

Join AGEM today and work together with the world's leading gaming suppliers.

Marcus Prater, Executive Director +1 702 812 6932 • agem.org@cox.net

Tracy Cohen, Director of Europe + 44 (0) 7970 833 543 • tracy.cohen@agem-europe.com

Connie Jones, Director of Responsible Gaming +1 702 528 4374 • conniejones@agem.org

AGEM.org

AGEM Gold Members
 Ainsworth Game Technology
 Aristocrat Technologies
 Austrian Gaming Industries
 Bally Technologies
 Global Cash Access (GCA)
 GTECH
 International Game Technology (IGT)
 Intralot S.A.
 Konami Gaming
 Multimedia Games
 Scientific Games / WMS
 SHFL entertainment
 Video Gaming Technologies (VGT)

AGEM Silver Members
 Action Gaming
 American Gaming Systems (AGS)
 Aruze Gaming America
 Casino Technology
 Crane Payment Innovations (CPI)
 Gaming Partners International (GPI)
 JCM Global
 Merkur Gaming
 Ortiz Gaming
 Suzo-Happ Group
 TCSJohnHuxley
 Wells-Gardner Electronics
 Zitro

AGEM Bronze Members
 Abblati Casino Equipment
 Alfastreet
 Astro Corp.
 Bingotimes Digital Technology
 Cadillac Jack
 Cammegh Limited
 CG Technology (CGT)
 Cole Kepro International
 Euro Games Technology (EGT)
 Galaxy Gaming
 Gaming Support
 Glory Global Solutions
 Grand Vision Gaming
 Incredible Technologies
 Inspired Gaming
 Interlock USA
 ISMS
 Iverson Gaming Systems
 Jumbo Technology
 Matsui Gaming Machine Co.
 Modern Gaming
 NYX Gaming Group Limited
 Patriot Gaming & Electronics
 Quixant Ltd.
 Reel Games
 Table Trac
 Win Systems

AGEM Associate Members
 3M Touch Systems
 Adlink Technologies
 Advantech-Innocore
 A-Game Marketing
 Arrow International
 Atrient
 British Group Interactive (BGI)
 Brown & Brown Insurance of Nevada
 Camryn Industries
 Carmanah Signs
 Casino Enterprise Management
 Cooper Levenson
 Cybertec Gaming Systems
 Daktronics
 Digital Instinct
 DiTronics Financial Services
 DynaGraphic Printing
 Eastsign International Limited
 Eilers Research
 Elite Gaming Technology
 Esterline Interface Technologies
 Eurocoin
 Fantini Research
 Fox Rothschild
 FutureLogic
 GameAccount Network
 Gaming Capital Group
 Gary Platt Manufacturing
 Gasser Chair Company
 Gemaco, Inc.
 Genesis Interactive Technologies
 GeoComply USA
 Global Gaming Group (G3)
 Greenberg Traurig
 Hanco Technologies
 Howard & Howard
 Impact Display Solutions
 Intel
 IPS
 Ipsos
 James Industries
 JCS Technologies
 Joingo
 Jones Walker
 KEY-BAK
 Kontron
 Lazcano Sámano
 Leap Forward Gaming
 Lewis Brisbois Bisgaard & Smith
 Lewis & Roca Rothgerber
 Lightstone Solutions
 Litemax Technology
 McGladrey LLP
 Metalcraft
 Outpost Creative
 Portwell
 Proforma GPS
 Rainmaker
 Regulatory Management Counselors (RMC)
 Renewable Creative
 Rye Park Gaming
 SCA Gaming
 Sightline Payments
 Southwest Manufacturing Solutions
 Spln Games
 Strategy9
 StylGame USA
 Talent Associates
 The Bright Group
 Tournament One
 TOVIS
 TransAct Technologies
 Vantiv Gaming Solutions
 Veridocs
 Wells Fargo
 Wrex Products
 Young Electric Sign Company (YESCO)