

TESTIMONY
OF
EDWIN J. MCGUINN
HOUSE FINANCIAL SERVICES COMMITTEE
HEARING ON INTERNET GAMBLING
JULY 24, 2001

Mr. Chairman, my name is Edwin J. McGuinn and I am the CEO of eLOT, Inc. We are a Norwalk, CT based company that specializes in providing services to state and government lotteries. eLOT, Inc. and its subsidiary, eLottery, Inc., are leading providers of web-based retailing and Internet marketing services to governmental lotteries. eLottery has positioned itself as the proven Internet partner to lead the governmental lottery industry into the e-commerce market.

Conducted millions of e-commerce lottery transactions using a full line of Internet, Intranet, telephone, accounting, banking and database applications and services.

Developed and field tested technology that assures necessary security, age and border controls required to process a lottery transaction.

Invested over \$30 million in the design, development and operation of Internet based lottery systems.

Exclusive web based retailer of lottery tickets for the Jamaica Lottery, a member in good standing of National Association of State and Provincial Lotteries otherwise known as NASPL.

Selected by the Maryland Lottery to provide the nation's first Internet interface to a lottery's subscription system.

Provides sophisticated Internet based marketing services for the [Idaho Lottery](#), [Indiana's Hoosier Lottery](#), the New Jersey Lottery, the [Jamaica Lottery](#), and the [Maryland Lottery](#).

I appreciate the opportunity provided to me by the Committee and I hope that I will be

able to shed some light on how our company, and others like it, service state and government lotteries. I would also like to buttress the testimony given to this Committee by Ms. Penelope Kyle, the Director of the Virginia Lottery and the current President of the National Association of State and Provincial Lotteries (NASPL). At that time Ms. Kyle said that NASPL could not support any legislation that would remove the authority of the governors and state legislators in regulating the sale of their lottery tickets. This has been a right that has been traditionally reserved to the states and they have experienced no major problems to this date in implementing a regulatory process and enforcing those regulations.

The issue that I am discussing here today is focused solely on the purchase of lottery tickets over the Internet. The issue of state lotteries has long since been resolved in the United States. Today there are 38 state lotteries and just this year the legislature of Nevada authorized the creation of a lottery in Nevada. The funds from these lotteries have gone to a wide variety of public causes, most notably education. Using the latest numbers available (FY1999) we find that in Ohio \$696 million was provided for education, in New York \$1.413 billion was sent to education, in Massachusetts \$809 million was provided to local towns and cities, in Kentucky \$161 million in lottery proceeds were used for education, road repairs, building and veteran programs, in Florida \$802 million went to education and scholarships and in Georgia \$646 million went exclusively to scholarships to deserving students that otherwise might not have gone to college. Clearly lotteries are being responsible with their funding. I have attached at the end of my testimony a more exhaustive list of the use of lottery funds in this country.

E-commerce is here. . We see it in every facet of life. We are told that we will shop on the Internet for all things in the future. In many cases the future is now. More and more people now purchase airline tickets on line, books and music are purchased on line, electronics and computers are purchased on line, and it is only logical that state lotteries

would wish to take advantage of e-commerce to expand their pool of customers, as well as to make it more convenient. No matter how attractive the economics, it is important to know that no state lottery will move its products onto the Internet without first having stringent age, border and problem gaming controls in place.

The state of Virginia is a classic example of what lotteries see in on-line sales. The Hampton roads area of Virginia has the highest per-capita sale of tickets in the state and is the lowest per-capita wired area. On the other end of the spectrum is Fairfax County. It has the highest wired percentage in the state and the lowest per-capita sales of lottery tickets. It is also the highest income area of the state. This is the demographic that lotteries would like to increase sales. The average wired household has an income in excess of \$50,000. These people do not habitually stop at convenience stores and therefore do not purchase a high level of lottery tickets. They are on line in the evenings and would purchase tickets if they could do so from the convenience of their home. Lotteries are often accused of being a regressive tax. Selling lottery tickets on line would appeal to a higher income demographic and help alleviate the regressive nature of lottery sales.

I would like to address some of the arguments that have been put forward in the past in opposition to lottery tickets being offered on line as well as the inequity of the treatment of state run lotteries vis-à-vis other forms of gaming.

First, the different versions of bills prohibiting Internet gambling have treated state lotteries differently. In the early versions, they were not addressed and the issue was left to the states. I notice that both the Leach bill and the LaFalce bill that are before this Committee do not specifically address state lotteries, but I have to assume that they would be caught up in the general prohibition. In the 106th Congress the Leach bill was amended by this Committee's predecessor, the Banking Committee, to permit the use of credit cards on any wager placed on the Internet that was considered to be legal. This was done to accommodate the exceptions in the Goodlatte bill that were granted for pari-mutuel wagering. The bill introduced in the Senate by Senator Kyl did not address

lotteries in its first version, but later included language that would allow lotteries to offer tickets over the Internet but only in a place open to the general public.

As Ms. Kyle stated previously, this is moving into the area of restricting the rights of the governors and the legislatures to control their own lotteries. NASPL objects to this and we agree with them on this key point. We find it incomprehensible that Congress would allow wagers on horse racing and other pari-mutuel events, but restrict the lottery run by the state government.

My second point deals with some of the red herring arguments that have surfaced by those that would ban the sale of lottery tickets over the Internet. The first argument against the sale of lottery tickets has been that people will be able to buy lottery tickets around the nation. This is utterly false. States now prohibit the sale of lottery tickets across state lines. If you are a resident of Ohio, and the Ohio lottery decides to authorize the sale of tickets over the Internet, then only Ohio residents can buy them. Again, the registration process will detect anyone that is not an Ohio resident. But let us assume that someone finds a way around the system. They purchase a winning ticket in the Ohio Lottery and they are not a resident of Ohio. The Lottery knows the ticket was purchased over the Internet, just as they know which store sold a ticket, and they will deny payment of any prize.

The State lottery industry has already adopted and has been conducting sales of lottery tickets using the U.S. postal service. Applications are received by mail containing their name and address. Only in-state applications are processed; out of state applications are rejected. This practice has been working fine for over 20 years. Internet sales would use this same process. Instead of using the U.S. postal service to deliver the application – it would deliver the application by email. Same rules, same controls – simply a more efficient delivery mechanism

Another argument against the sale of lottery tickets over the Internet is that this would allow minors to purchase lottery tickets. This argument does not have a factual base to support its claim. There is no study available that suggests that minors are interested in playing the lottery. Every study shows that the base players for state lotteries are older Americans. Further, Internet sales would use the same process already adopted by the states in their subscription sales. Instead of the application being delivered by the U.S. Postal service the application would be delivered by email.

What I would like to do is take the Committee through the process a player would have to go to purchase a ticket over the Internet. If a state authorized e-Lottery to become a vendor for their lottery tickets the player would go to our web site, or possible the state's very own web site that eLottery would "Internet ticket enable," and register to play. They would be required to submit their name, address and age (right now eLottery is working Equifax, a data information leader, regarding these important and necessary controls). This information would be checked against comprehensive data sources for correctness. Once it had been determined that the player was in fact a resident of the state in question and over the legal age, that player would be issued a pin number and a password to access the site where the purchase could be made. I should point out that e-Lottery does not purchase the ticket for the player; we only facilitate the purchase through the normal electronic channels that players currently buy valid tickets. If a minor somehow got his parents pin number and password, and purchased a lottery ticket, the minor would be unable to cash a winning ticket. It has been suggested that the parent would probably cash the ticket. That is a parental issue and I suggest that if a minor purchased a winning ticket at a convenience store the parent may well cash that one as well.

In both cases the fact that the purchaser of the ticket must present it to the state lottery commission to redeem the prize acts as a strong deterrent to anyone trying to circumvent the law.

As a company we work very closely with the customer, the state lottery. If the state

lottery wishes to implement any restrictions on the sale of lottery tickets over the Internet, it is easily accomplished. For example, the player could be restricted to purchasing only a certain number of tickets within any timeframe, be it hourly or monthly. There are many other technological restrictions that can be set up. Recently the Nevada casino industry demonstrated some of these restrictions in showing the legislature that they could control out of state play for Internet gambling.

In summary, we strongly support the concept of states regulating their own state lotteries. Some states have already decided not to offer lottery tickets over the Internet, while others have received authorization from the state legislature to do so. I have no comment on regulation of other forms of gaming, but I urge the members of the Committee to consider the slippery slope they enter upon as they begin to further erode the rights of states to regulate commerce within a state's borders.

I thank you for your time and will respectfully respond to any questions the members of the Committee may have.