

Lottery Messengers and Lottery Aggregators

By Tal Itzhak Ron and Kovi Skier

The gaming industry is constantly developing and opening new frontiers. Among the challenges that gamers and operators must contend with are the strict regulations governing gambling and casinos at large. Many jurisdictions ban any sort of gaming altogether; others restrict all but one or two state-run lotteries. Serious gamers in search of the Big Payoff can find themselves hampered time and again by these conditions. Yet the last six months have produced a new instrument that is being implemented by more and more gaming entrepreneurs.

Lottery Messengers and Aggregators Websites

Lottery Messengers are an innovative new development that picked up steam in 2014, and we think we can expect that trend to continue into 2015. The name gives the game away: it's essentially an arrangement in which gamers allow an operator to purchase lottery tickets for them in high payout lotteries being held in other jurisdictions. Often, such lotteries require that ticket holders be residents of the host country – such as in the U.S. – which prevents foreign gamers from purchasing tickets on their own. To surmount this obstacle, a “messenger” is provided by the operator. The messenger buys the tickets, sends the information to the client – while maintaining possession of the tickets and, thus, upholding regulations – and redeems the prize in the event of a winning ticket. The winnings are then transferred to the gamer. This arrangement is the newest big hit for big spenders living in countries with less-than-lucrative local gaming options – particularly in the Middle-East, in which almost all countries ban casino gambling. When multiple lotteries are presented, this

is effectively a lottery aggregator, where a player can use one site to test his lucky numbers on several games.

Currently, Lottery Messengers come in two forms. Described above is the “Courier Service” model of business, in which a physical courier in subject jurisdiction buys the tickets and maintains possession of them in the beneficial owner's stead. Despite the logistical limitations and expenses inherent in this model – which include having an agent on site, with citizenship, who can be trusted to hold the winnings in trust for the beneficiaries – many operators are actually preferring this method. It holds one clear advantage: according to operators currently investing in this approach, the service provided to gamers isn't actually considered to be a wagering service, but merely the provision of access to an existing wagering service; and, as such, it does not need to be licensed or regulated. Whether or not such a claim will hold up with local authorities, however, remains to be seen. (Isle of Man, for instance, regulates specifically this type of business model, leading it to be a jurisdiction of choice for some opera-

tions. Malta, whose government has a very welcoming attitude towards online gaming, is another very good option).

The second form of Lottery Messengers – known as the “Insurance” model – does not require the operator to physically purchase tickets on the beneficiary's behalf at all, but rather, to take the players' wagers on the predicted outcome of said real-life lotteries. This option is much simpler to operate and requires the gaming operator to expend fewer resources on the logistical aspects of purchasing and holding the tickets and collecting the winnings. However, unlike the abovementioned “Courier Service” model, this is far more likely to be classified as gaming, since the operator is essentially betting against the gamer on the outcome of the lottery, in effect forming a “Contract for Difference.” However, for these purposes, there are plenty of licenses available for betting on real world events or sporting events, of which operators can avail themselves.

The Insurance model also allows operators a greater degree of flexibility regarding the betting options that can be made available to players. For example,



rather than granting a specific number, the player can bet on a range. Lottonetix, for example, one of the providers in the field, offers players side betting options in which the players can bet on evens and odds. The potential side bet options are practically limitless.

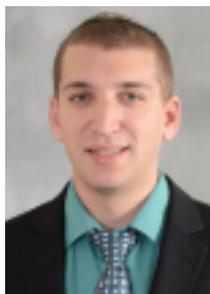
To date, there are already White-Label providers servicing this field, which means conditions are ripe for more operators to expand into it as well. The aforementioned Lottonetix is an example of one such operator providing White-Labeling services in this field, but other leading providers come up in gaming events in North America and Europe, such as Lot-to-Tech. However, the increasing popularity of this theater of operations ought not to lead operators to believe that it is risk free. Indeed, with new opportunities present, as well as new risks, companies seeking to take advantage of this option should first consult with legal and financial counsel in order to ensure that it is the best strategic option for them. One such pothole to look out for is the risks inherent in the quest for the Big Payoff. Because the client base will consist of heavy spenders seeking bigger stakes, the potential risk will be high – at least as far as the courier method is concerned. On the other hand, so is the income.

Another important factor is how local jurisdictions may react to a perceived circumvention of local gambling restrictions. It is entirely possible that authorities will attempt to block these types of services as they become more aware of them – or worse. For example, many players seek to take advantage of Lottery Messenger services owing to the tight restrictions on gambling in their respective host countries – some of which are countries that adhere to various forms and extents of Sharia law. Players who are perceived as circumventing the rules in such jurisdictions may find themselves on the receiving end of harsh punishments, even corporal punishments. Therefore, this can be considered something of a moral hazard that operators should consider when deciding which clients to register for such services. In other places, State Monopo-



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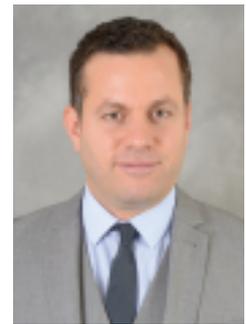
lies that run lotteries will see these type of websites cutting a share of the public interest of those lotteries (which can be rectified in part, if a website donates a share of its proceeds). Lottery Messengers and Aggregators are challenging and volatile new additions in the gaming fields – it will be interesting to see what developments await them in 2015. ♣



Kovi Skier

Offshore Specialist and Gaming Researcher Kovi Skier's areas of work extend from Corporate and International Finance Law to gaming and regional and historical politics. Research topics have included advanced research into evidential and corporate law models in various geographic regions. As a recent immigrant to Israel from the United States working at the Offshore Department at Tal Ron, Drihem & Co. Law Firm, Kovi is intimately acquainted with the business structures and regulations of major providers in the field. Dealing with recent AML and taxation regulations including

FACTA assisted Kovi in representing many Hi-tech and gaming companies throughout their incorporation processes. Kovi is also an avid gamer, specializing in real time strategy games. He has addressed student groups at various colleges across Israel, and his contributions can also be seen in articles in several major financial and gaming publications, as well as in legal journals. Kovi's background has also given him a fundamental working knowledge of various regional Islamic groups and authorities, as well as government counter-terrorism techniques.



Tal Itzhak Ron

Advocate, Notary and Certified Computer Scientist Tal Itzhak Ron is one of the most influential lawyers in the Gaming and Hi Tech industries. He established Tal Ron, Drihem & Co. Law Firm in 2003, focusing on Gaming, Hi-tech, Forex, Binary Options and Financial Technologies industries, advising top-tier international clients in these fields. Over the years, Tal gained extensive knowledge in Financial and Gaming regulation, International Taxation, Offshore Incorporation, Banking and Payments Services. Today his privately-owned group of highly seasoned attorneys and partnering professionals operating from Tel Aviv, Hong Kong, Limassol, London, British Anguilla, Curacao and Dubai offers an international one-stop shop for incorporation, banking, regulation, compliance and ongoing legal services. Tal, a member of International Masters of Gaming Law (IMGL) and Society of Trust and Estate Professionals (STEP), provides legal consultation and representation to worldwide companies and assists numerous start-ups to become significant players in the gaming industry.