

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.

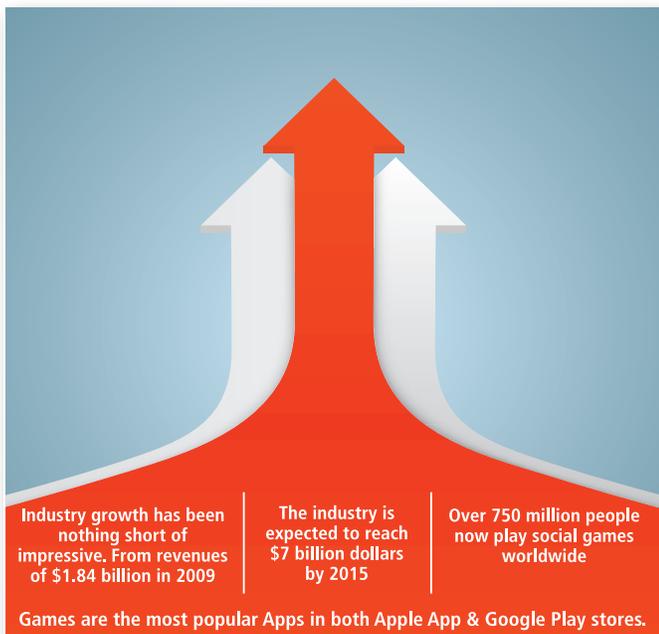


The International Social Games Association

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.

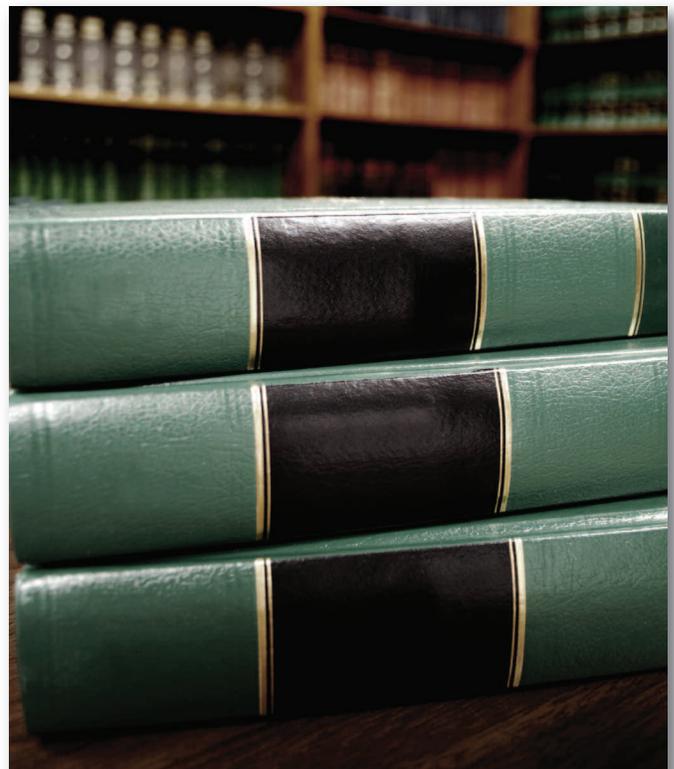
However, the Harvest's report highlights the absence of evidence that social games are converting people to real money gamblers or causing problem gambling, a finding backed up by Dr. Miller's consumer behavior survey. Consumers were asked the extent to which they could differentiate between social games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

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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>

