

PGRI

CASHLESS PAYMENTS Panel

September 2016

Agenda

- **Cashless Background:**
 - **Successes and Ongoing Hurdles**
- **RaceTrac and Retail Industry Perspective**
- **Lottery Cashless Pilot Updates**
- **Cashless Action Plan**

CASHLESS, WHAT IS IT?

Definition of CASHLESS: monetary transactions that use electronic means rather than cash

Traditional Cashless



Other Forms: Stored Value Cards

Gift cards: open loop; closed loop

Traditional Plastic Cards



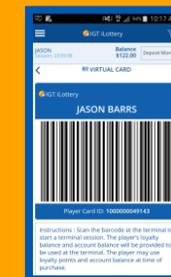
Evolution of Processing Traditional



- NFC: Near Field Communication (i.e. Apple Pay)
- EMV and NFC capable payment terminals are **required** to process EMV and NFC payments
- EMV: “Chip Cards”



Evolution and Opportunity for Lottery in Stored Value Cashless



BENEFITS OF GOING CASHLESS OUTWEIGH THE COSTS



INCREASE OPTIONS
TO
EXISTING
CUSTOMERS



MAXIMIZE YOUR
SALES
OPPORTUNITIES

Benefits

Costs

Satisfied Customers

Increase Spontaneous Buys

Increases Sales

Less Cash Handling

Processing Costs

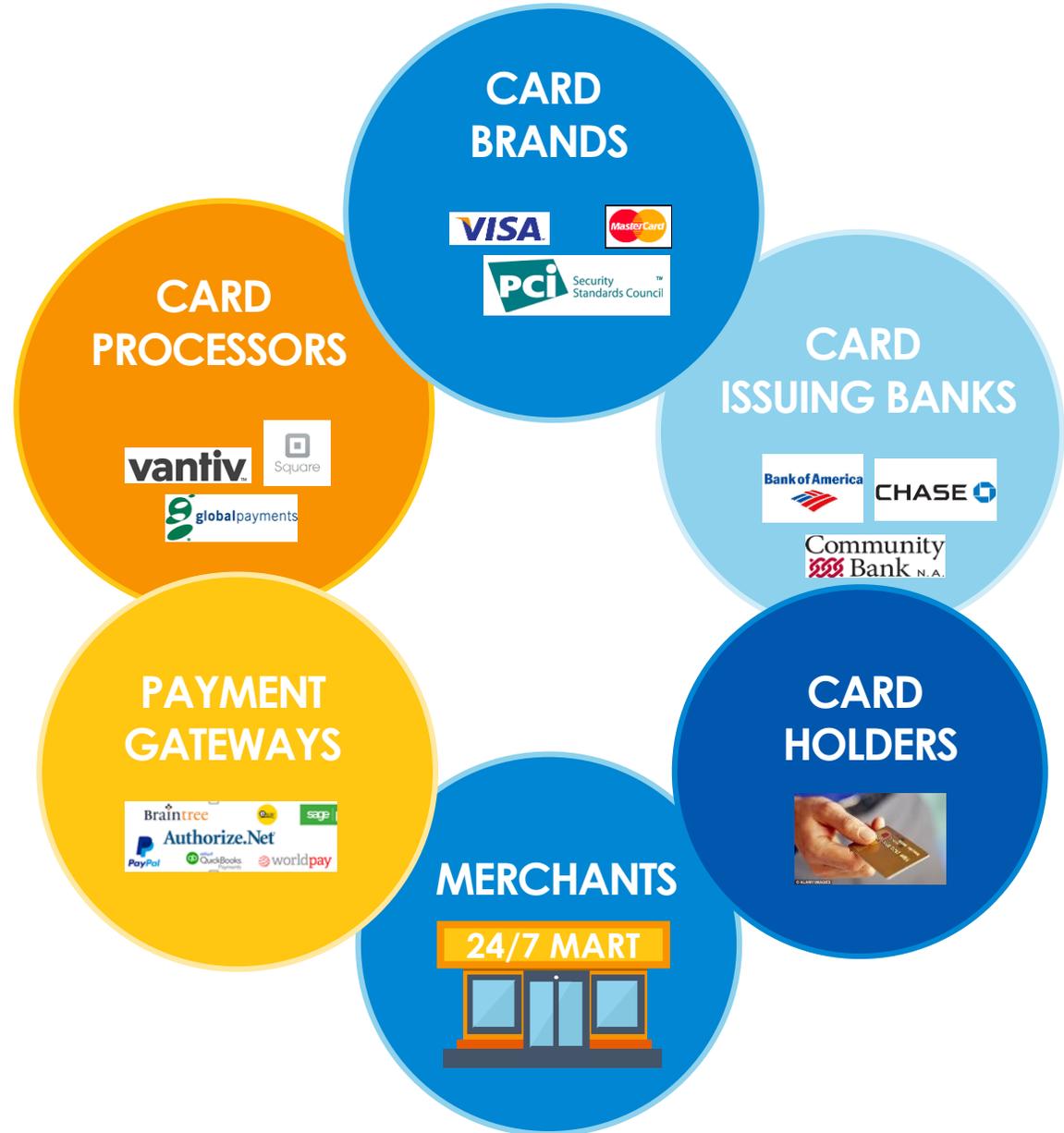
Hardware Costs



CASHLESS INDUSTRY

All the organizations which store, process and transmit cardholder data

FOR LOTTERY TO BE TRULY SUCCESSFUL IN CASHLESS ACCEPTANCE; IT REQUIRES ALL OF THESE ORGANIZATIONS TO HAVE UNIVERSAL PROCESSING AND ACCEPTANCE PRACTICES FOR LOTTERY





THE GOOD NEWS



September 12, 2016

THE WORLD'S FAVORITE NEWSPAPER

-since 2011-

BTW – DOJ said, “Internet Lottery A-OK”

WHETHER PROPOSALS BY ILLINOIS AND NEW YORK TO USE THE INTERNET AND OUT-OF-STATE TRANSACTION PROCESSORS TO SELL LOTTERY TICKETS TO IN-STATE ADULTS VIOLATE THE WIRE ACT

Interstate transmissions of wire communications that do not relate to a “sporting event or contest” fall outside the reach of the Wire Act.

Because the proposed New York and Illinois lottery proposals do not involve wagering on sporting events or contests, the Wire Act does not prohibit them.

September 20, 2011

MEMORANDUM OPINION FOR THE ASSISTANT ATTORNEY GENERAL, CRIMINAL DIVISION

You have asked for our opinion regarding the lawfulness of proposals by Illinois and New York to use the Internet and out-of-state transaction processors to sell lottery tickets to in-state adults. See Memorandum for David Barron, Acting Assistant Attorney General, Office of

BY MEGHAN MILLYUNS
AND POWERS BAHL

- New for US Lotteries – **MCC 7800!**
- Internet: sales are **growing**,
- Products **expanding**.
- **NO** retail cannibalization.
- Retail **cashless pilots** are underway.



Government-Owned Lotteries





THE BAD NEWS



September 12, 2016

THE PAPER NO ONE WANTS TO READ

-since 2006-

Banks Balk, Barriers Block Broader Betting

BY WALLIS FARGOE

AND BIANCA DI AMERICA

- Many banks are declining **CREDIT**.
- Some still don't like **DEBIT**.
- **American Express** says, "NO!"
- **Discover** hasn't approved **RETAIL**.
- Visa **rules are vague** on processing Lottery with other products at retail.
- Feds say Lottery is "**HIGH RISK!**"



Clerk-Activated Debit Card Purchase

When lottery is part of a larger purchase, incremental cost is limited to the variable fees



Example **Lottery purchases** Interchange Rate as part of larger non-lottery purchase

- **The Rate:**
 - Variable: 0.05%
 - Fixed: \$0.21
- **The Impact (Blended Rate):**
 - \$1 purchase: 0.05%
 - \$10 purchase: 0.05%
 - \$25 purchase: 0.05%

VS

Example **Lottery purchases** Interchange Rate as a standalone transaction

- **The Rate:**
 - Variable: 0.05%
 - Fixed: \$0.21
- **The Impact (Blended Rate):**
 - \$1 purchase: 22.0%
 - \$10 purchase: 2.2%
 - \$25 purchase: 0.9%

Self-Service

Debit Card Purchase

Lottery products must bear the full economics

Assumptions:

- **Debit Card Only**
- **Weekly Sales** \$3,500
self-service, per unit
- **Sales lift:** 18%
- **Cash Cannibalized:** 20%
- **Average Ticket:** \$15
- **Banking Fees:** 2.15%
- **Lottery Profit:** 30%
- **Retailer Commissions:** 6%

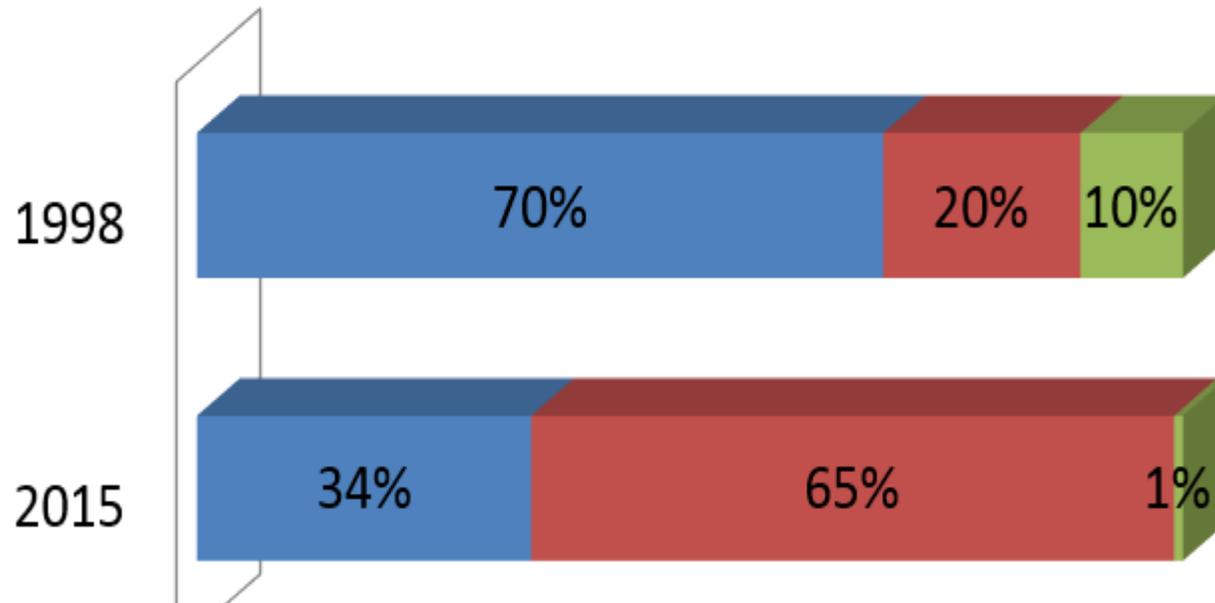
ROI	LOTTERY	RETAILER
Incremental Sales	\$630	\$630
Profit/Commission	\$189	\$38
Banking Fees	(\$29)	(\$29)
Net Return	\$160	\$9



Cashless IS our Reality

U.S. C-Store Industry: Cashless Migration

■ Cash ■ Debit/Credit ■ All other*



WHY?

Because Consumers

ARE

THERE



The Next Generation of ATM's will Accept Smart Phones

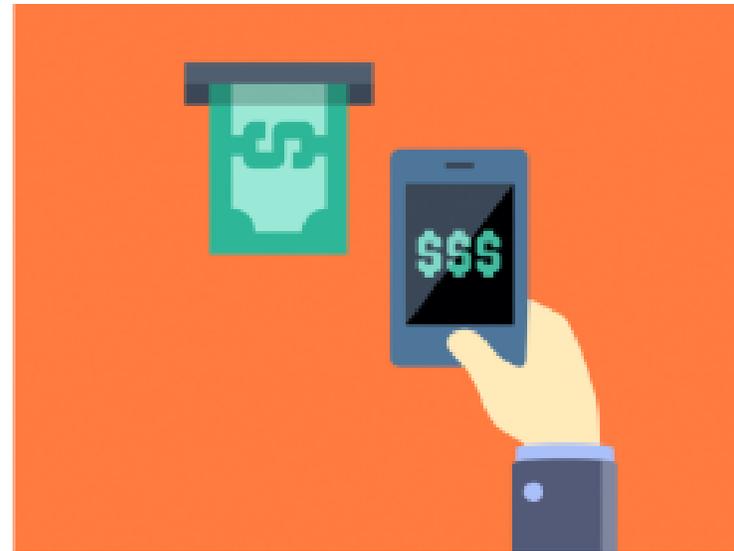
Chase is pursuing two smartphone withdrawal options over the coming year.

The first is a somewhat kludgy solution intended to allow ATM access for customers who don't have their debit card on them. Customers can authenticate themselves to their Chase app using either their Chase password or their iPhone's TouchID.

The second solution is that Chase is rolling out NFC-equipped eATMs, which will allow smartphones to communicate directly with cash machines, making transactions more like what customers are used to with Apple Pay.

Chase bank is reportedly set to roll out NFC-enabled ATMs later this year

YOUR PHONE WILL REPLACE YOUR WALLET AT THE ATM, TOO



© BETTY IMAGES/WIREID



GOOGLE IS LOOKING TO GO FROM 3 TAPS TO 1 – STARTING WITH BANKING & PAYMENT SYSTEMS



Why Your Smartphone Will Replace Your Wallet



WHEN WILL YOUR SMARTPHONE REALLY REPLACE YOUR WALLET?



What are 3 Taps?

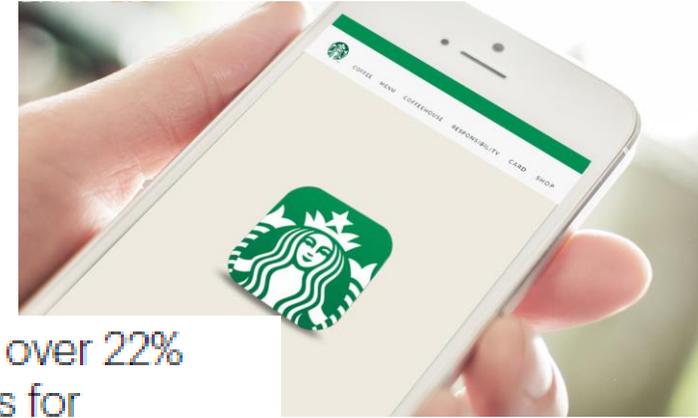
Tap Pockets..

- Once for **Phone**
- Once for **Keys**
- Once for **Wallet**

Mobile POS Payments and Mobile App Use is On the Rise

Google Wallet, Apple Pay, Samsung Pay, and Android Pay are some of the more popular digital wallet options in circulation today. These options will soon become standard on all smartphone devices.

In 2015, **Paypal's** annual mobile payment volume reached \$66 billion.



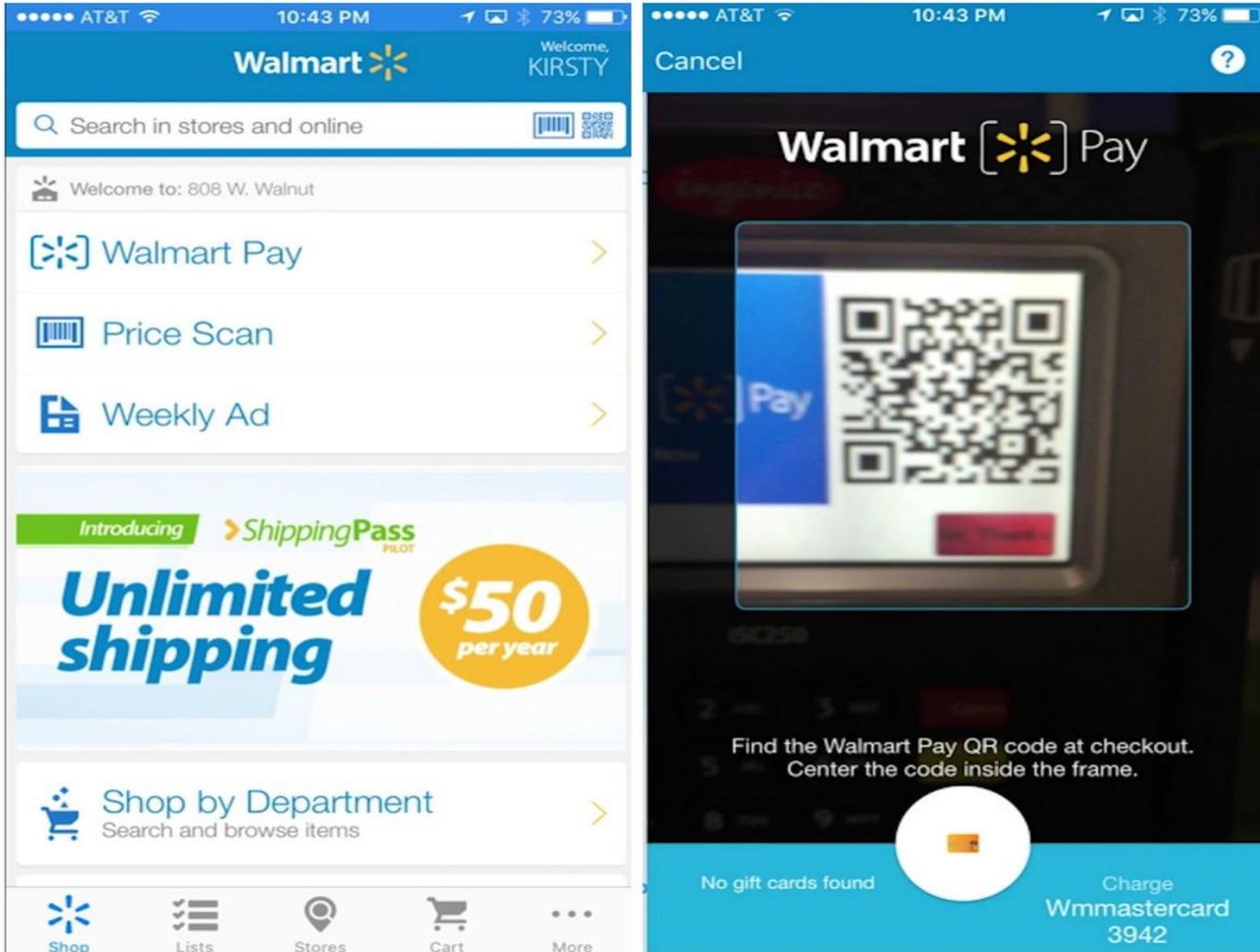
During the first quarter of 2016, over 22% of total U.S. in-store transactions for **Starbucks** were paid using the mobile apps.

In January 2016, Starbucks reported that its mobile app, which is largely developed and maintained in-house, is used for 22% of Starbucks U.S. in-store sales. The company's mobile rewards platform (its app) now has 11.1 million customers in the U.S., a 23% increase over Q1, 2015.

Starbucks is reporting it is over 6 million mobile order and pay transactions per month.

Source: Fool.com, Chase 2016 Investor Day Presentation, Philly.com

Retail Closed Loop Payment: *Walmart Pay*



Retail Closed Loop Payment Examples with Loyalty Ties: *Cumberland Farms, CVS, Starbucks, WAWA*



Why is Cashless a NASPL Initiative?



WHY?

Because
Retailers &
Players are
Confused

STATE	Cash	Check	Debit Card	Pre-Paid Credit Card	Credit Card	Money Order	Pre-Paid Gift Card
ARKANSAS	Yes	No	No	No	No	No	No
COLORADO	Yes	Yes	Yes *	Yes *	No	Yes	No
FLORIDA	Yes	Yes	Yes *	Yes *	Yes *	Yes	No
GEORGIA	Yes	Yes	Yes *	Yes *	No	No	No
ILLINOIS	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
INDIANA	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
IOWA	Yes	Yes	Yes *	Yes *	No	No	Yes *
KANSAS	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
KENTUCKY	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
LOUISIANA	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
MICHIGAN	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
MINNESOTA	Yes	Yes	Yes *	Yes *	No	Yes	Yes *
MISSOURI	Yes	Yes	Yes *	Yes *	Yes *	Yes	Yes *
NEW MEXICO	Yes	Yes	Yes *	Yes *	No	Yes	Yes *
NORTH CAROLINA	Yes	Yes	Yes *	Yes *	No	Yes	Yes *
OHIO	Yes	Yes	Yes *	Yes *	Yes *	No	Yes *
OKLAHOMA	Yes	No	No	No	No	No	No
SOUTH CAROLINA	Yes	No	No	No	No	No	No
TENNESSEE	Yes	No	No	No	No	No	No
TEXAS	Yes	Yes	Yes *	Yes *	No	Yes	No
VIRGINIA	Yes	Yes	Yes *	Yes *	No	No	No
ALABAMA	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell
MISSISSIPPI	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell
Nevada	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell
Utah	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell	Do Not Sell

There is no Industry-Wide Consumer Messaging

Consumers
ARE
Confused



Pennsylvania Cashless Pilot

What: Testing credit and debit through Lottery terminals

Where: 74 locations, all one chain (tobacco store)

How: Lottery-provided PIN pad

When: Started February 2016

Why:

- Develop expertise about cashless model
- Gather sales data
- Determine if benefits outweigh risks
- Prepare for the future
- Gauge public reaction

Learnings:

- Retailers are already accepting cards
- No negative public reaction...so far
- Many retailers not ready
- Tons of data

Caveats:

- Very complicated
- Risk of cash shift
- Tons of data

Next Steps:

- Expand test to collect much more data, include vending
- Learning more about responsibilities as Merchant of Record (MOR)
- Evaluate business case
- Share findings with industry



Georgia Cashless Pilot

What: Pilot cashless at 10 GLC owned lottery locations

Where: (2) Atlanta Airport Locations (8) GLC HQ Kiosks

How:

- Clerk-activated payment terminals, not self-service
- Debit Cards only (no credit)
- Stand-alone card terminal, not integrated to lottery terminal
- Marketing promotional material at each pilot location

When: 6 Month Pilot - Started: April 2016

Why:

- Gather Pilot Key Performance Indicators
- Obtain Customer & Retailer Feedback

Customer Survey:

“Much more convenient than carrying cash”
“Thank you for getting with the times”

Note: Clerks have noted a learning curve with the new EMV chip cards



Pay now with your
Visa debit card.

PLEASE RECYCLE ♻️ For more information on recycling, visit www.recycling.com. Always use your bin's ♻️ guidelines.
This card may be used only for purchases at participating merchants. See www.visa.com for more information. © 2016 Visa U.S.A. Inc. All rights reserved. Visa, the Visa logo, and the Visa Signature logo are registered trademarks of Visa U.S.A. Inc. in the U.S. and other countries. Visa Signature is a registered trademark of Visa U.S.A. Inc. in the U.S. and other countries.



Cashless: Next Steps

Short Term Actions:

- Provide Cashless FAQ's for Sales Teams
- Explore Closed Loop Cashless Payment Acceptance
- **Focusing on Debit**, create a communication plan and strategy to correct the misinformed that cashless IS allowed in certain states in Lottery (Industry Publications: NACS Daily Email, FMI Publications, etc.)
- NASPL Polling of State-Driven Government Merchant Processing Obligations
- Industry (lottery, retailers, vendors) collaboration to share and collect various aspects of Cashless knowledge to provide solid support longer term actions
 - Lottery Pilot awareness and results
 - Cashless Advertising / Awareness Campaigns
 - Gather Retailer case studies

Cashless: Next Steps

Longer Term:

- Identity payment and merchant industry support
- Potential State Level Cashless Lobbying (Industry level approach, NASPL)
- Payment Industry Lobbying
 - Merchant Banks
 - Card Issuers
 - Card Brands
- Explore Retailer Closed Loop
 - Walmart Pay, WAWA, Cumberland Farms, CVS, etc.