



**RFI# 1213-002**  
**Modernizing Lottery in Ontario**



## Preface

On June 7<sup>th</sup> 2012, OLG issued to the market RFI# 1213-002 for Modernizing Lottery in Ontario. The attached are the core Schedules of the RFI, more specifically these are Schedule B “Background Information” and Schedule D “Vendor Questions”.

Interested parties who wish to submit a response to the RFI must obtain a copy of the full RFI document which includes all RFI terms & conditions, submission instructions and supporting schedules. The RFI can be obtained for download at [www.merx.com/olg](http://www.merx.com/olg).

FOR INFORMATION ONLY

# **Schedule B**

## **Background Information**

## 1. INTRODUCTION

As part of the Ontario Government's new direction to the Ontario Lottery and Gaming Corporation ("OLG") in July of 2010, OLG was asked to complete a comprehensive strategic review of the lottery distribution network and land-based gaming facilities. The result of this review was a report to government called Modernizing Lottery and Gaming in Ontario (please see **Appendix A to Schedule B**).

**The report outlined three recommendations to achieve this modernization. These were:**

1. Become more customer-focused
2. Expand Regulated Private Sector delivery of lottery and gaming
3. Renew OLG's role in oversight of lottery and gaming.

**The guiding principles for OLG's modernization are to:**

- Be a modern, efficient agency operating in the best interests of Ontarians.
- Provide entertainment to Ontarians and visitors alike, while maintaining high, responsible gambling standards.
- Uphold its record of regulatory compliance with standards established and enforced by the Alcohol and Gaming Commission of Ontario ("AGCO").
- Continue to communicate openly with employees and treat them with respect.

**At the completion of the modernization exercise in 2017-18, OLG will be:**

A modern, sustainable organization, which will increase Net Profit to the Province by an additional \$1.3 billion annually – all while upholding responsible gambling standards.

This proposed reform could see key public priorities like healthcare and education benefit from the additional annual Net Profit to the Province of \$1.3 billion by 2017. The Lottery portion of the \$1.3 billion is estimated at \$300 million, with \$35 million from the previously announced introduction of lottery sales over the internet, \$180 million from further innovation related activities and \$85 million from improved efficiencies. Over the 6-year transformation period, OLG will provide an additional \$4.6 billion to the Ontario government. Employment will grow by over 2,300 net new jobs in the industry (in new gaming facilities and related amenities, as well as in digital gaming design and management), as well as an estimated 4,000 service sector jobs in hotels, restaurants, entertainment centres, and retail.

Ontario will continue to be a North American leader in responsible gambling – and support for research and treatment will increase. As overall revenues increase, Ontario's First Nations communities will also continue to receive financial benefit from the industry – based on the planned growth in revenues, it is expected that this benefit will be greater than today. It is anticipated that host municipalities (for gaming sites) will have a consistent model for funding support but, based on the planned growth, they will also receive more than the current levels overall. In addition, this modernization will create opportunities for up to an additional \$3 billion in new private sector capital investment in the province, and the capital costs are expected to be borne by the private sector service providers.

In Lottery, OLG is looking to shift the day-to-day operation of its terminal network to a regulated private service provider, and to expand options for sales to include multi-lanes checkouts in grocery and general merchandised stores, on the internet and through mobile devices. At the same time, OLG is seeking to enable Regulated Private Sector game development to foster innovation and increase responsiveness to customers. OLG is looking to explore options for private sector participation in the aspects of its lottery business required to achieve these three goals in a way that modernizes the agency and maximizes value to the Province.

At the same time, OLG is undertaking internal projects to enhance its data analytics capabilities in order to develop a more holistic and sophisticated understanding of customer behaviour in the province, which

will include customer data generated through future channels of registered lottery sales (e.g., through the internet).

OLG will continue to be the agency responsible for conducting and managing lottery in Ontario but will no longer be directly developing all games, or deploying terminals. Rather, OLG's role will focus on conducting and managing lottery in Ontario through a number of functions essential to serving as the Operating Mind of the business (these are captured in Section 5 of this document). Ultimately, Ontarians will benefit from a more effective, more valuable lottery business.

Achieving OLG's three goals of increasing operational efficiency, introducing new sales channels, and enabling new innovation will require changes to the way that OLG functions to secure its continued conduct and manage mandate, including:

1. OLG will **control the lottery offering** in the province
  - OLG will determine channels through which lottery products are sold
  - OLG will retain control of draws operations, audit draws and payments of major prizes
  - OLG will have approval and oversight of lottery products offered in the province
  - OLG will ensure the integrity and fairness of all lottery games
2. OLG will own the **transaction with the customer**
  - All lottery games will continue to be OLG games – OLG will recognize the revenue for the full ticket price
  - Prize payments to customers above a certain threshold (e.g., \$1,000) will be made by OLG, from OLG accounts
  - Private service providers procured through a subsequent RFP process will be paid fees that create an incentive for them to implement their role in day-to-day operations in a value-maximizing way
3. OLG will be the **sole owner of all customer information**
  - When a customer registers to play lottery games, personally identifiable information is stored on OLG servers
  - OLG will also be the sole owner of transaction and play information
  - Selected information will be made available to private service providers to allow them to execute their prescribed role within their agreement
  - OLG will control access to all information, and be able to unilaterally revoke access from a central location
4. OLG will deliver an enterprise-wide **Responsible Gambling** program ("RG Program")
  - Digital lottery offerings will have built-in responsible gambling controls
5. OLG will **set policies and manage performance** and agreement compliance of service providers
  - Agreements will clearly articulate service providers' responsibilities
  - At a minimum, OLG will retain review, approval, monitoring and enforcement responsibility for all policies
  - OLG will retain business-critical decision making authority

Several projects are already under way to deliver these capabilities. OLG is developing a customer management solution that will enable a single view of the customer across all lines of business. This will enable OLG to manage an integrated customer experience and implement a consistent responsible gambling program in traditional casinos, the internet, and any other future channels.

To build a digital gaming platform, OLG has already tendered for a service provider to develop an internet gaming solution - (*OLG's Request for Proposals for Internet Gaming Solution Service Provider RFP#1112-002*). Key components of this internet gaming solution will include the following items:

- (a) A Player account management system that can be integrated with casino, poker, lottery, sports betting, bingo and other games as determined by OLG, which the chosen operator could leverage. For digital channels (e.g., internet, mobile), this would serve as both the customer interface and the network.
- (b) A software solution supporting player registration and authentication
- (c) A financial payment processing solution, including a fully-integrated, single-player wallet supporting the online games
- (d) Day-to-day operational delivery and support services relating to the foregoing, including the implementation, operation and support of OLG's responsible gambling policies.

OLG will use the above solution to launch an internet gaming ("iGaming") platform within a responsible, trustworthy, and secure environment. Respondents that are eventually successful in providing services in support of the lottery modernization initiative and would be required to use the OLG internet gaming platform for any digital delivery of games, and be subject to OLG terms, conditions and approval.

This RFI is intended to generate input as to how OLG delivers the lottery-specific parts of its business in the future. The RFI is non-binding and the answers provided by respondents have no influence in the evaluation of any potential future formal competitive process. In no way does this RFI imply, directly or indirectly, that any private sector service provider will be a partner with OLG in the lottery business. At OLG's sole discretion, respondents may be invited to participate in further presentation sessions. Any information obtained through this RFI may be utilized in future competitions at OLG's discretion. Respondents are invited to comment on any or all the aspects of this RFI.

It is anticipated that the procurement process will be made up of various stages that may include the following:

- Request for Pre-Qualification (RFPQ) – target release late summer 2012
- Request for Proposal (RFP) – target release fall 2012

## **2. OLG's ROLE**

### **2.1 OLG's Conduct & Manage role**

The *Criminal Code of Canada* generally prohibits the carrying on of any gaming business (including casinos and games of chance, table games, and dice games), but it provides limited exceptions to the general prohibition. Apart from regulated pari-mutuel betting on horse races, the exceptions relate primarily to permitting the provinces of Canada to carry on gaming businesses for their own account, or to license certain other parties (i.e., religious or charitable organizations and boards of fairs and exhibitions) within the province to do so. Section 207(1)(a) of the *Criminal Code*, the key exception under which OLG operates its gaming businesses, permits the government of a province, either alone or in conjunction with the government of another province, to conduct and manage a broad range of gaming activities known as "lottery schemes" in that province, or in that and the other province, in accordance with any law enacted by the legislature of that province.

There are two key requirements that must be satisfied in order for the exception in Section 207(1)(a) of the *Criminal Code* to be available to a province:

- (a) The lottery scheme must be “conducted and managed” by the government of a province. To satisfy this “conduct and manage” requirement, the province must be the “operating mind” of the lottery scheme; and
- (b) The province must have passed enabling legislation to authorize it, or its lottery corporation, to conduct and manage lottery schemes.

OLG is constituted under the *Ontario Lottery and Gaming Corporation Act, 1999* (“*OLGC Act*”), with the province as its sole shareholder. The organization conducts and manages lottery schemes on behalf of the Ontario under the authority of Section 207(1)(a) of the *Criminal Code* and in accordance with the *OLGC Act*.

Under any business or operating model, OLG will conduct and manage and be the Operating Mind of the Lottery business, but it will look to private sector service providers for day-to-day operations of lottery delivery which will benefit from private sector expertise in operations. In particular, OLG will retain control over critical and strategic decision making in the lottery business. OLG will also have approval and oversight responsibility over operational functions as detailed in Section 5 of this document.

## 2.2 OLG role as an agency of the Crown in Right of Ontario

As an agency of the Crown in Right of Ontario, OLG will ensure that all lottery games in the Province of Ontario comply with applicable regulations and support government objectives through various measures, including the following:

- Effective systems of internal control to ensure compliance with applicable legislated requirements and other contractual requirements, including a management monitoring system.
- Implementation of procedures to satisfy privacy requirements including instituting design methods and systems that adhere to the guidelines and best practices published by the Information Privacy Commissioner of Ontario.

The successful proponent(s) of the subsequent RFP process will be required to comply with all applicable legislation and other regulatory requirements, including without limitation:

- a. Applicable legislation specific to the lottery industry in the Province, including the *Gaming Control Act 1992, (Ontario)* (“*GCA*”), the *Ontario Lottery and Gaming Corporation Act, 1999 (Ontario)* (“*OLG Act*”), the *Criminal Code of Canada*, and the *Proceeds of Crime (Money Laundering) and Terrorist Financing Act*); and
- b. Obtaining and maintaining the applicable registration granted to it by the Alcohol and Gaming Commission of Ontario (the “*AGCO*”) under the *Gaming Control Act 1992, (Ontario)* (“*GCA*”); and
- c. Laws of general application that govern how business is conducted in Ontario by the private sector (e.g., *Employment Standards Act, 2000 (Ontario)*, the *Occupational Health and Safety Act (Ontario)*, the *Labour Relations Act, 1995 (Ontario)*, and the *Accessibility for Ontarians with Disabilities Act, 2005 (Ontario)*).

Applicable legislation may also include statutes that uphold the public interest in selected areas of public policy. Examples of these statutes include, but are not limited to:

- *Freedom of Information and Protection of Privacy Act (Ontario)* (“*FIPPA*”)
- *French Language Services Act (Ontario)*
- *Family Responsibility Act (Ontario)*

OLG reserves the right to impose mandatory policies and procedures – outside of the scope of the applicable statutes noted above – on the successful proponent(s) in the public interest.

### **2.3 Responsible Gambling**

OLG is mandated to prevent and mitigate the effects of problem gambling. Its enterprise-wide responsible gambling program (“RG Program”) is defined by concrete objectives and delivered by the following program elements: employee training, player education, technology, treatment referral, research, and stakeholder relations.

All program elements are informed by independent researchers and problem gambling experts, and OLG co-designs and delivers its program with the Responsible Gambling Council of Ontario (“RGC-O”), the Centre for Addiction and Mental Health (“CAMH”), the Ontario Problem Gambling Research Centre, addictions counsellors across Ontario, and the Ontario Problem Gambling Helpline.

In 2012 and beyond, the following external standards will apply to OLG:

- Compliance with the AGCO's responsible gambling regulatory standard
- Certification to the highest level of the World Lottery Association's responsible gambling framework.

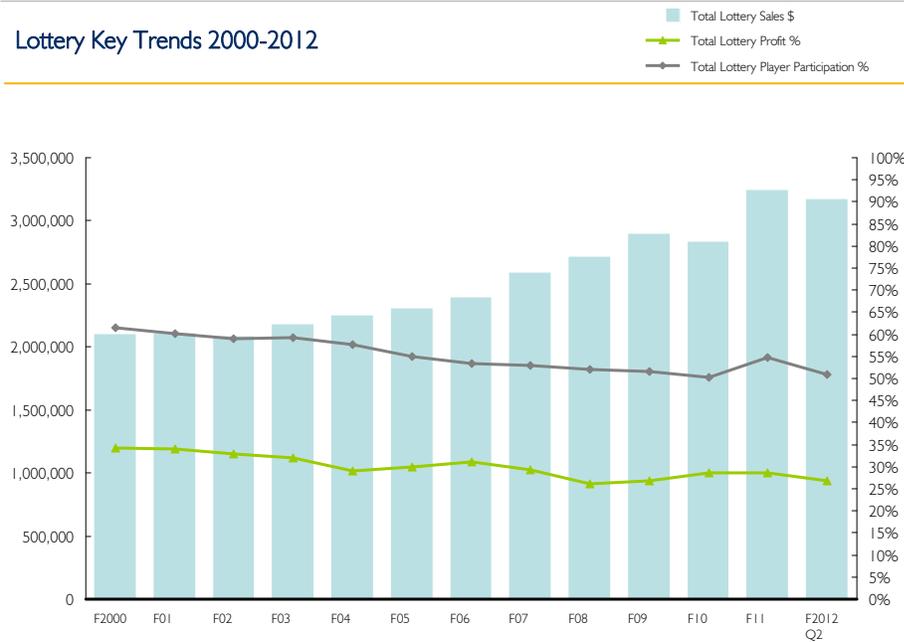
OLG will only engage with service providers for lottery services who comply with its RG Program.

### 3. LOTTERY OPERATIONS

Lottery in Ontario currently generates \$3.2 billion in revenues, an increase from \$2.2 billion in 2000. However, the bulk of this growth has come from existing players because player participation has declined over the same period. OLG's Lottery profit margin has decreased from over 33% to 27% over the same period.

The Lottery business is concerned with this trend and modernization is expected to address this challenge through game innovation and channel development.

Lottery Key Trends 2000-2012

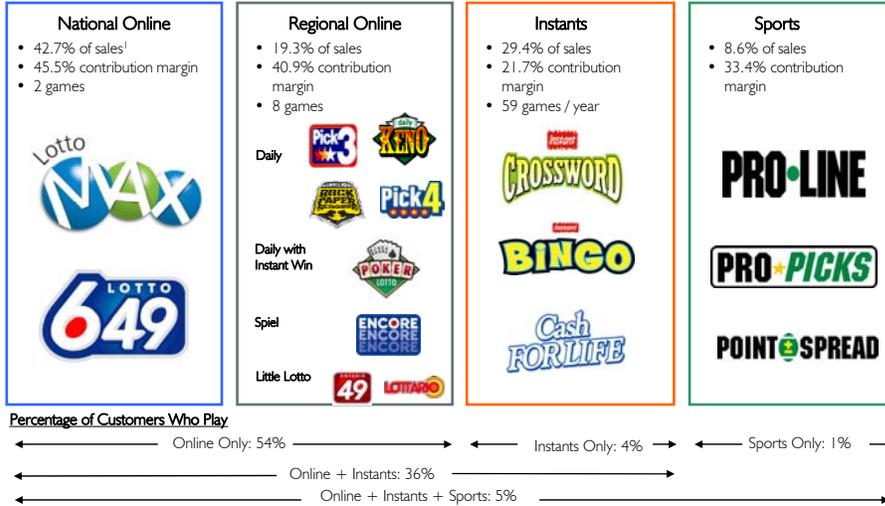


Over 8 million Ontarians (80 percent of the adult population) played lottery at some point during the past year. However, spend is concentrated, with 76 percent of revenues coming from 20 percent of players. Spend also varies by demographic group, with Ontarians in the 45+ age group contributing 62 percent of sales but representing 53 percent of the population. Men spend more than women, representing 58 percent of lottery sales.

The Lottery business has four product categories – National Online, Regional Online, Instants, and Sports – of which National Online is the largest, representing 42.7 percent of sales.

Lottery Business Overview

The Lottery Division produces and markets a range of lottery branded games

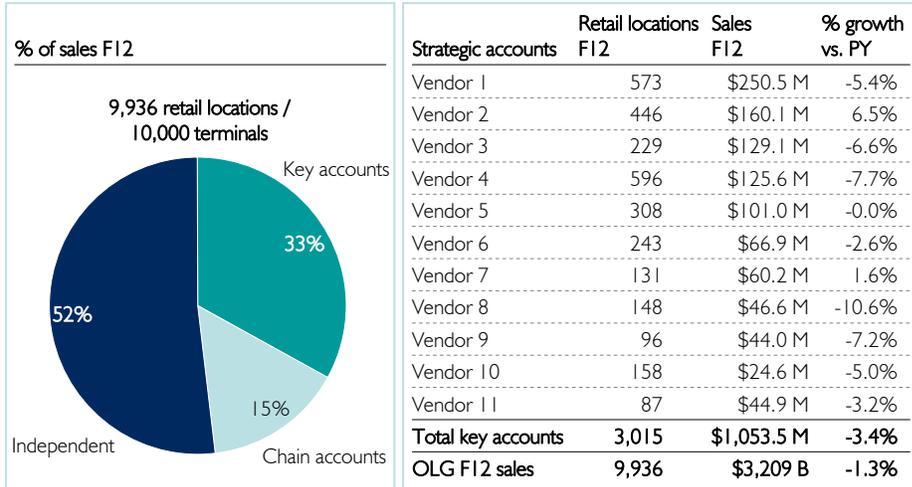


1 Financials based on YTD Feb F12

Currently, over 99 percent of lottery sales come from OLG’s network of approximately 10,000 retail locations; less than one percent (0.7 percent) of lottery sales are made through the Lotto Advance subscription service for Lotto 6/49.

91 percent of OLG’s retail locations utilize lottery terminals to sell and redeem National Online, Regional Online, Sports and Instant products, while the remainder use Instant Ticket Validation Devices to sell and redeem only Instant products. Although sales to OLG’s key accounts (large chains) are growing, the bulk of OLG’s lottery business comes from independent retailers (52 percent of sales). From a channel perspective, 70 percent of sales are generated through convenience stores and gas stations, including both key accounts and independent stores, while drug and grocery channels represent 7 and 9 percent respectively of lottery sales.

Retail Partnerships - Key Accounts



4. THE FUTURE OF LOTTERY

As part of its modernization plan, OLG is eager to explore the potential for additional private sector involvement in the operation of its lottery business. However, OLG has not defined the exact nature of private sector involvement and is requesting perspectives of respondents on potential opportunities for value creation and the capabilities required by private sector service providers to deliver on those opportunities.

OLG is committed to becoming more customer-focused as it modernizes, through the development of a new network of lottery terminals, new channels for sales, and more rapid development of new games.

OLG currently thinks of the lottery business as an integrated eight-segment value chain: the backend lottery engine, its network, support centre and logistics, the customer interface, channel development and sales, portfolio design, product development, and marketing. As OLG transitions to private sector operation of the lottery terminal network, introduces sales in multi-lane stores, and increases the pace of innovative game development, it is looking to better understand the potential for private service providers to participate in related segments in the lottery value chain. Furthermore, OLG believes that there may be significant future opportunities to be unleashed through the combination of these goals, and is seeking input from the market on how best to capture the opportunity via private sector service delivery and operations.

In the future, OLG will approve, monitor and oversee operations across all segments of the value chain, and will continue to operate critical components of the business, including the draws operations, draws audits, prize redemption, and the approval of game rules and marketing plans (subject to AGCO regulation as appropriate).

## OLG Lottery Value Chain

OLG's cross-cutting role	OLG will: (a) set the overall strategy for Lottery – managing the market by defining channel strategies and approving products; (b) own all customer information; (c) prevent fraud and money laundering; (d) manage financial risk and maintain central bank accounts; (e) define an enterprise-wide Responsible Gambling program; (f) set operational policies and manage performance and compliance of operators							
8 segments of Lottery value chain	Backend lottery engine	Network	Support Centre and logistics	Customer interface/terminals	Channel development and sales	Portfolio design and management	Product development	Marketing
Day-to-day operational roles along the value chain	<ul style="list-style-type: none"> <li>Central gaming engine for Lottery</li> <li>Non-draw related electronic Lottery services (e.g., Amber Alerts, Subscriptions)</li> </ul>	<ul style="list-style-type: none"> <li>Communication network between hard infrastructure and front end</li> <li>Relies on network/bandwidth availability</li> <li>VPN setup and maintenance</li> </ul>	<ul style="list-style-type: none"> <li>Contact centre</li> <li>Warehousing</li> <li>Distribution management</li> <li>Inventory management</li> </ul>	<ul style="list-style-type: none"> <li>Infrastructure ownership, development and maintenance</li> <li>Development of technology and software at retail location</li> </ul>	<ul style="list-style-type: none"> <li>Channel strategy</li> <li>Channel relationship development</li> <li>Channel engagement on product / service design</li> <li>Sales force management</li> <li>Retailer management / information exchange</li> </ul>	<ul style="list-style-type: none"> <li>Product portfolio development and pricing</li> <li>Product performance monitoring</li> <li>Market analysis (e.g., trends in gaming overall)</li> <li>Game management</li> </ul>	<ul style="list-style-type: none"> <li>Game development/product innovation</li> </ul>	<ul style="list-style-type: none"> <li>Data collection, and analysis</li> <li>Customer relationship management</li> <li>Advertising and promotions</li> </ul>
OLG's conduct and manage role in each segment	<ul style="list-style-type: none"> <li>Definition of functional requirements and policies</li> <li>Draws operations (including random number generation)</li> <li>Draws audit</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing monitoring of installation and operation to ensure security</li> </ul>	<ul style="list-style-type: none"> <li>Approval of product distribution</li> <li>Policies and procedures related to prize claims</li> <li>Investigations associated with prize claims</li> </ul>	<ul style="list-style-type: none"> <li>Monitoring of development, activation, maintenance, and shut down of approved lottery terminals</li> </ul>	<ul style="list-style-type: none"> <li>Approval of proposed strategy for channels (i.e., whether to offer Lottery in-lane in mass merchandisers)</li> </ul>	<ul style="list-style-type: none"> <li>Approval of overall portfolio strategy</li> </ul>	<ul style="list-style-type: none"> <li>Establish guidelines for game development</li> <li>Approval of types of games</li> </ul>	<ul style="list-style-type: none"> <li>Definition and execution of OLG brand strategy</li> <li>Definition of policies for product marketing</li> <li>Approval of strategies</li> </ul>

OLG believes each of their goals for the future of lottery is linked directly to multiple elements in the value chain:

- Increase operational efficiencies by engaging the private sector to assume, responsibility for upgrading and daily operation of OLG's network of existing lottery terminals.* This would require that a service provider be involved in the Network, Support Centre and Logistics, Customer Interface/Terminals, and potentially Channel Development and Sales segments. (NB: OLG is also investigating the possibility of private sector service providers acquiring ownership of lottery assets – e.g. lottery terminal devices. Further analysis by OLG is being conducted and we welcome input on this matter.)
- Introduce a new sales channel for lottery products, by developing a solution that allows in-lane sales at major retail outlets.* This would necessarily include aspects of the Backend Lottery Engine, Network, Customer Interface/Terminals, and Channel Development and Sales.
- Enable further innovation in the lottery business, allowing more rapid development and deployment of new lottery games, and leveraging the capabilities of the lottery network for non-lottery purposes to enhance both value-for money and for the benefit of existing and future retailers.* This would require that a service provider participate in Portfolio Design and Management, Product Development, and likely Marketing. Depending on the types of games

(i.e., developing a game specifically for a particular channel, type of retailer, or even specific retailer), it could also require involvement in Channel Development and Sales.

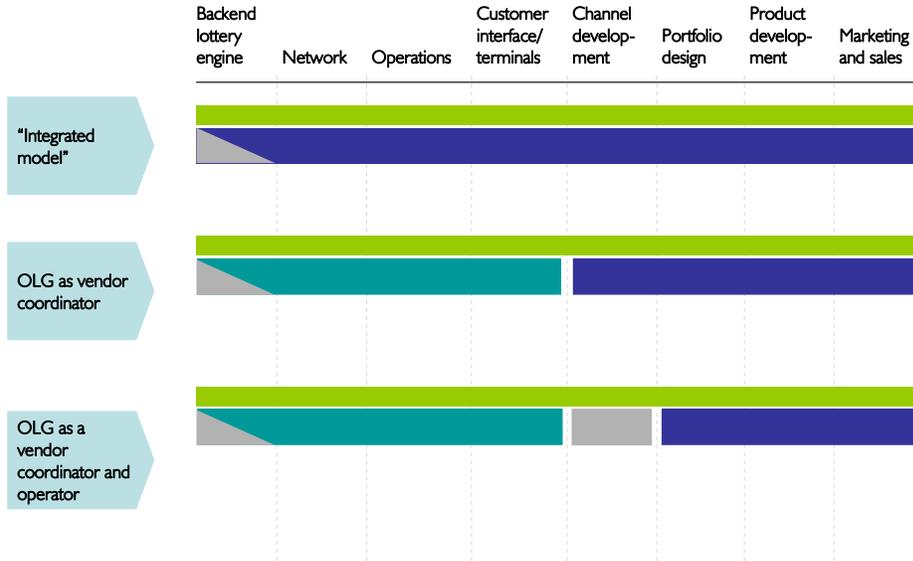
In addition, each goal will indirectly involve other segments of the value chain. For example, adjustments to the Backend Lottery engine would be required in each case. OLG is seeking input from respondents regarding their interest in assuming responsibility for one or more segments of the value chain, the reasons for that interest (e.g., creation of value; potential to enable innovation), and the key conditions, rights and responsibilities that would impact this interest.

It is anticipated that any future private service provider would initially assume the relevant parts of the current operating structure for the applicable segment(s) of the value chain, including employees and existing vendor agreements as appropriate. Future changes to deliver operational efficiencies or innovation would be the responsibility of the service provider, under the OLG's conduct and manage role and within whatever operating agreement would be in place. OLG is interested in understanding the degree of interest that respondents would have in assuming the existing operational and/or capital ownership functions relative to one or more segments of the value chain, and perspectives on how the relationship between OLG and the service provider should be structured, within the framework of OLG's conduct and manage mandate.

Ultimately, OLG is considering three potential operating models in the future:

1. An "integrated model", where a single service provider or consortium takes on the operational elements for the full value chain, serving as a single point of contact for OLG. OLG would conduct and manage the entire business, and retain business-critical decision making relative to key parts of the lottery backend, as well as approve, oversee and monitor performance across the full chain.
2. A model with OLG as a "vendor coordinator", using different service providers, for example, to operate the terminal network and implement a multi-lane sales solution on the one hand; and to enable private-sector game development (i.e., product development, and portfolio design) on the other hand. As in #1, OLG would conduct and manage the entire business, as well as approve, oversee and monitor performance by private sector service providers.
3. A model with OLG retaining more responsibility for day-to-day operations of one or more segments (e.g., for channel development) in addition to the approve/oversee/monitor functions noted above.

### 3 Potential Operating Models



Within these three models, OLG is seeking input from respondents regarding how to capture the most value. Specifically, OLG is seeking input on which elements of the value chain respondents recommend be bundled together and operated by a single provider, and the rationale behind such bundling (e.g., to reduce costs, increase efficiency, drive innovative solutions, or other reasons).

Conversely, OLG is looking to identify elements of the value chain that respondents believe could or should be separated from the others, and/or which elements OLG should retain operational responsibility for delivering.

The following sections describe each of the segments of the lottery value chain, OLG’s current state of development, a potential “future state” that OLG believes could be achieved through modernization, and an initial view of the capabilities that will likely be required to deliver on future state objectives. A view of the role OLG will play in each segment of the value chain is also included, which will include approval, decision-making authority, oversight, as well as, potential direct operational involvement. These are discussed in greater depth in the section on OLG’s involvement and are related to OLG’s conduct and manage obligations.

The following material is intended for guidance only – respondents are invited to articulate their own vision for the future state of the lottery business and the associated capabilities required to achieve that vision, within the framework of OLG’s conduct and manage mandate.

#### a. Backend lottery engine

The backend lottery engine refers to the lottery transaction processing and game management systems for all lottery games in the province, and a set of related functions that are also required to run the lottery:

managing randomized draws, ticket sales and prize payments, and incorporating data received from terminals at points of sale across the Province.

OLG's current backend lottery engine was developed in house in 1992 (with assistance from GTech Corporation for the portion that manages online lottery products). It has subsequently evolved into a large set of proprietary OLG applications that serve its entire suite of lottery products. This system operates a variety of terminal-based lottery games: two national games (Lotto Max and Lotto 6/49), one spiel (Encore), multiple regional games (Proline, Poker Lotto, etc.), and OLG's large portfolio of instant lottery products.

Lottery applications are hosted on Hewlett Packard Alpha servers running the OpenVMS operating system, with Sybase databases deployed on IBM PSeries servers running AIX operating systems. Sybase Open Server technology is used to provide a messaging interface between the transactional systems and administrative systems. In addition, separate applications provide for retailer channel provisioning (instant products, ticket stock, etc.), retailer administration and reporting and product integrity.

In the future, OLG hopes to shift to a new platform, though maintenance and management of current applications is likely to be required in the interim. However, in keeping with its role as the Operating Mind of all lottery schemes in the Province, OLG will exercise ownership, management and control of specific functions as it relates to the backend lottery transaction engine and the random number generators.

OLG will exert the following ownership, control and certification responsibilities with respect to the backend lottery transaction engine and random number generator systems.

- **Software:** OLG will continue to own the Backend Lottery Transaction Engine and Random Number Generator systems.
- **Day-to-day operations and hosting:** OLG will host and deliver all day-to-day operational needs required by the Backend Lottery Transaction Engine and Random Number Generator systems.
- **System maintenance and upgrades:** OLG will select and perform upgrades and certifications required to maintain the backend systems with respect to availability and integrity. As changes and upgrades to software are required to deliver on evolving market needs, OLG will approve changes and perform upgrades on a timely basis.
- **Product Development:** Software components that are required within the Backend Lottery Transaction Engine to offer lottery products will adhere to OLG standards and will undergo OLG testing and certification prior to install. These components include game rules.

OLG will continue to own the integrity of lottery transactions running through the lottery engine, operating draws, auditing draws, and running the prize claim and redemption process. In addition, OLG will own all of the information relating to customer play, or of sales activity on devices throughout the province. OLG will provide access to the specific information required by a service provider to fulfill operational functions as agreed to by agreement with OLG.

While OLG will play a direct and primary role in the areas listed above, a service provider will likely require a number of operational capabilities to be eligible to participate in such a future state, such as:

- **Application development and testing:** Develop a lottery transaction engine and applications to support new OLG product lines as they are introduced and existing ones as they are updated (or immediately, based on the preferences of the service provider).
- **Integration capability and speed:** Integrate existing and new applications into a new platform in an efficient and secure manner.
- **Application and infrastructure maintenance:** Maintain the new platform (once it is developed) and current set of applications until they are retired.
- **Communications system management:** Link the unified central gaming engine to all physical and digital interfaces.
- **Maintenance of and upgrades to applicable lottery systems:** Fulfill specific operational and maintenance functions of the remaining lottery engine and systems, and implement changes to the system as directed by OLG.

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them.

#### **b. Network**

OLG's network is the infrastructure that connects its customer interface (retailer devices) to the backend lottery engine. Currently, each retailer device uses a dedicated high-speed line which OLG prevents from being shared with any other device. The network is currently an IP-based Multiprotocol Label Switching ("MPLS") Network, leased at a cost of \$11 million per year. The recorded peak number of transactions from OLG's entire terminal network is over 10,000 sales transactions per minute. Proprietary communication front ends are utilized to ensure high availability of the network and devices. At present, expansion to or development of new channels would require associated network development.

Going forward, OLG's goal is to reduce data costs, network downtime, and network complexity by optimizing current leased lines (e.g., speed based on usage requirements) or new network solutions (e.g., whether a physical or virtual network-based solution).

The future state objectives of OLG can be achieved in various ways. A service provider will likely require a number of capabilities to participate in such a future state, including the following.

- **Flexible network development:** Develop a network that enables flexible expansion, rollout, and modification, enabling new terminals and software-based terminal solutions to connect seamlessly to the backend lottery engine.
- **Cost-effective network:** Reduce network costs by optimizing leased lines or new network technologies to meet current standards and data needs while reducing implementation and maintenance costs.
- **High network availability:** Maintain a network solution that provides high availability, with appropriate levels of reliability and/or redundancy.
- **Content/bandwidth delivery:** Ensure the network is able to handle transactions, messaging, and other necessary communications in timely and secure manner.

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them.

### c. Support centre and logistics

Currently, OLG runs a multichannel contact centre, which employs multi-skilled agents that provide player and retailer support. In addition, OLG provides a set of logistic services including warehousing, distribution and inventory management.

In the future, a service provider would potentially be responsible for taking on these functions, with logistics evolving to meet the changing requirements of the business. For example, all online national, regional and sports tickets must currently be printed on specific OLG paper. Potential changes to this requirement – either approved by OLG and/or subject to AGCO regulation – would have a corollary impact on logistics requirements.

While the future state objectives of OLG can be achieved in various ways, OLG – in support of its role in owning all customer information – will continue to operate some level of customer support independent of any service provider. Until the future state of OLG is achieved, a service provider will likely still require a number of capabilities during the transition phase.

- **Lottery support center:** Design, operate and maintain service support and call centres for lottery retailers and customers/players.
- **Warehousing:** Receive and store new instant tickets, online ticket consumables (paper, selection slips), and all brochures available at retail locations. Provide warehouse security for two warehouses.
- **Distribution management:** Distribute and manage lottery tickets and consumables (e.g., order fulfillment, return ticket operation, end of game reconciliation and secure ticket destruction) and manage their end of game ticket return, reconciliation and destruction.
- **Inventory management:** Develop an inventory management and predictive ordering system which will control inventory, manage instant ticket lifecycle (beginning with ticket printing) and manage consumable supply (rolls and selection slips) and lottery publications.

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them.

### d. Customer interface/terminals

The customer interface refers to the infrastructure a customer would interact with at the point of sale. At present, this interface is the network of OLG-owned terminals that are operated by lottery retailers. There are three devices typically utilized at OLG retailer locations. The most common (with over 9,000 devices) is a lottery terminal first deployed in 2003 called the Extrema-M, which was manufactured by Sagem Morpho, Inc. This terminal network will need to be replaced or upgraded by 2016. A customer display unit (customer facing screen) and lottery ticket printer are both connected to the terminal.

The second device is a customer ticket checker manufactured by SGI, which connects to the Extrema-M. All retailers with a terminal require a ticket checker.

The third device is an Instant Ticket Validation Device (“ITVD”) manufactured by Canadian Bank Note Company Limited, and is used at selected lower-volume retailer locations. These devices are deployed to enable a retailer to sell and redeem instant tickets only. There are approximately 900 of these devices in use today.

Items like pre-printed instant tickets, publications and paper (including storage in two warehouses and distribution to OLG’s retail network) are also included at the point of sale and would thus be considered part of the customer interface.

In the future, OLG’s goal is to offer a set of streamlined terminals or software-based solutions, which would substantially reduce the cost per point of sale and expand the point of sale network. Ideally, the new customer interface would also enable flexible product delivery.

OLG intends to engage a private sector service provider to assume responsibility for upgrading, and daily operations of the network of lottery terminals. OLG believes that future lottery terminals could offer additional, non-lottery functions, and is interested in innovative ideas from respondents on how lottery terminals could be used in independent convenience stores, chain stores, and other retail locations to simplify the sales process or otherwise add value for customers or retailers. (NB: OLG is also investigating the possibility of private sector service providers acquiring ownership of lottery assets – e.g. lottery terminal devices. Further analysis by OLG is being conducted and we welcome input on this matter.)

OLG will continue to “own the customer” by maintaining customer, financial, and game play data; retaining player protection; providing some form of parallel customer care and support services to customers; and operating consistently with its other conduct and manage obligations. In addition, OLG has already tendered for its digital customer facing interface – a Player Account Management (“PAM”) system, which any future solution must leverage for digital channels (e.g., internet, mobile). The PAM will serve as both the customer interface and the network for digital channels.

The future state objectives of OLG can be achieved in various ways. A service provider will likely require a number of capabilities to participate in such a future state, including the following.

- **Interface/device development:** Develop customer interface (i.e., mobile, internet, retail, multilane) for all points of sale at a significantly reduced cost, with functionality to meet the business requirements of traditional and new channels (e.g., faster turnaround time).
- **Installation and maintenance:** Deploy and maintain the interface (online lottery interface or physical lottery equipment) to ensure a high availability.
- **Point of sale (“POS”) management:** Develop POS lottery solution(s) that are real-time with minimal interruption to operation and compatible with current and new channel partners. Integrate/interface with other products on terminals if/as required.
- **POS rollout:** Flexible development to enable software and device solutions for retailers that manage their own POS, Value Added Resellers (“VARs”) who manage POS on behalf of retailers and proprietary platforms for small retailer environments (potentially requiring sales efforts or financial incentives, linked with the channel development function).
- **Infrastructure renewal:** Assess the life cycle of terminals currently in use and renew accordingly while maintaining high availability and low overall cost.

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them.

#### e. Channel development and sales

Channel development refers to setting a channel strategy – determining which channels to be present in (convenience, grocery, internet, mobile, etc.) and the mix between channels – and developing relationships with channel partners (retailers) to deliver on this strategy. Currently, OLG's largest distribution channel is convenience stores, which represent 53 percent of sales, followed by gas stations (16 percent), grocery stores (9 percent), and drug stores (7 percent).

In the future state, a private sector service provider could provide services to enable OLG to expand into new channels (e.g., multilane), operationalized opportunities that OLG is already pursuing (e.g., internet, mobile), and optimize OLG's sales mix across channels (e.g., increasing sales in grocery and drug stores to match customer buying patterns).

In this future state, in accordance with OLG's conduct and manage mandate, OLG will approve and oversee the channel development strategy and execution for compliance with contractual agreements, regulations.

The future state objectives of OLG can be achieved in various ways. A service provider will likely require a number of capabilities to participate in such a future state, including the following:

- **New channel development:** Maximize the potential of new channels (i.e., multilane, mobile, internet) and engage channel partners to make products or services available in them.
- **Channel metric tracking:** Identify, track, and manage against performance measurements of channels to assess effectiveness.
- **Tailor channel mix to products/customers:** Understand the impact of introducing new channels (e.g., cannibalization) and tailor/adjust the channel mix to meet customer demands (e.g., offering the right products in the right places for target demographics).
- **Channel engagement on product/service design:** Capture feedback and data from channel partners to improve the product offering, evaluate products following launch and adapt product offerings to shifting customer needs.
- **Retailer management and information exchange:** Assist OLG in developing long-term relationships with retailers to achieve shared objectives, exchange information, track performance, monitor compliance, and plan and conduct training to achieve more effective operations and compliance.
- **Sales force management:** Ensure sales through retailer engagement and product placement at the POS. Track performance and sales of products to manage inventory and forecast trends.

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them.

#### f. Portfolio design and management

The portfolio design function focuses on determining what portfolio of lottery products should be offered to customers and how they should be priced.

The future state portfolio design function will include current products and should be highly innovative, quickly updating product offerings to meet shifting customer preferences and market trends. It should closely track product performance, ensuring that the right products are in the right channels, both physical and digital (internet, mobile). In order to allow more rapid development and deployment of new lottery games, OLG is seeking input on the potential operational role a private sector service provider could play in this function.

OLG will continue to be responsible for strategic portfolio decisions and all other required responsibilities in order to satisfy its conduct and manage obligations. OLG will also define the guidelines within which service providers will operate.

The future state objectives of OLG can be achieved in various ways. A service provider will likely require a number of capabilities to participate in such a future state, including the following.

- **Market research:** Gather and analyze market data, including information on related markets (e.g., non-gambling gaming market) to inform the portfolio development strategy.
- **Product mix optimization:** Advise OLG in determining the appropriate product mix based on customer needs and market trends; ensure the right products are in the right channels for each customer segment.
- **Statistical analysis and performance assessment:** Collect and aggregate data to analyze business performance and identify any undesirable trends, threats to quality, and desired outcomes.
- **Product metric tracking:** Identify the performance measurements of products and services via measurements that include market penetration, revenue growth, and profitability targets.
- **Game management:** Ongoing management of the portfolio of games, including jackpots, prize structures, product features, and odds setting for sports games.

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them.

#### **g. Product development**

Product development refers to the actual process of lottery game development. Currently, the timelines for game development vary by category, with approximately 60 instant games launched per year, 1 to 2 new or revised regional online games launched per year, and 1 new or enhanced national online game launched every few years, which requires coordination and integration with other Canadian jurisdictions through the Interprovincial Lottery Corporation (ILC)<sup>1</sup>.

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<sup>1</sup> Five Lottery Corporations across Canada are members of the Interprovincial Lottery Corporation (ILC). These include British Columbia Lottery Corporation (BCLC), Western Canada Lottery Corporation (WCLC), OLG, Loto Québec and Atlantic Lottery (AL).

The primary purpose of the ILC is to enable participation in nationwide games that can offer large prize pools for players. These games include Lotto 6/49 and Lotto Max as well as periodic national instant ticket games 2 -3 times a year. (e.g. Spotlight games, Classic Black)

In the future state, OLG should have the capability to more rapidly develop games for existing channels, new physical channels (such as multilane), and new digital channels (in the internet and mobile spaces). It should be innovative, incorporating trends in gaming and creating new products that deliver on the evolving demands of customers. In addition, it should provide services designed to enhance the customer experience (e.g., internet-based ticket checking for national and regional online games). As OLG moves to a more diverse distribution network for lottery games, including digital channels and in-lane sales in large stores, games could potentially be customized – or created specifically – for individual channels or sales devices. OLG is seeking input from respondents on the operational role they could play in achieving this.

In keeping with its conduct and manage obligations, OLG will retain all oversight, management and control of business-critical functions, including product line depth, consistency, and security to ensure the fairness and integrity of lottery products offered.

The future state objectives of OLG can be achieved in various ways. A service provider will likely require a number of capabilities to participate in such a future state, including the following.

- **Innovative/trend-based development:** Leverage market research, customer analytics, and trends in the non-gambling market to develop innovative lottery game ideas.
- **Product and service design:** Architect, design, and test new products (and revisions of existing products) and services for new channels (e.g., internet) and existing ones.
- **Targeted game development:** Tailor games based on target demographics (age, play frequency, cultural background, etc.) and channels.
- **Flexible/iterative game development:** Rapidly iterate on existing concepts based on market realities (e.g., quick turnaround time to revise/launch/retire products based on customer feedback).

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them. .

## **h. Marketing**

Excluding corporate brand building expenditures, OLG's lottery division spends approximately \$50 million per year on advertising, 85 percent of which goes to media advertising. Media advertising focuses on

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The games are designed, developed and managed by the ILC Marketing Sub-Committee and each of the 5 Regional Marketing Organizations (RMOs) have an equal vote in decision making. The ILC's staff conducts the draws for Lotto 6/49 and Lotto Max. The ILC also contracts with instant ticket printers for National ticket production and advertising agencies for National advertising campaigns for the National brands.

traditional channels (e.g., 56 percent of media advertising spend goes to television advertising, followed by radio and print advertising), but expenditures on newer channels are growing (e.g., 7 percent of advertising spend is now on internet advertising).

Going forward, OLG will collect more detailed customer data to support the analysis of customer decisions throughout the purchasing process. In addition to its focus on current advertising channels, the lottery business will require strong capabilities in the digital space, with increasing investments in mobile and internet marketing. In addition, on the physical side, it should capture detailed data from retailers, which can be used to enhance sales effectiveness. OLG is looking for input from respondents on how they could assume an operational role in implementing these goals.

OLG will continue to manage its overall brand, will have a role in managing national lottery brands (e.g., Lotto Max, Lotto 6/49), and may conduct corporate marketing campaigns as a means of implementing its brand strategy. OLG will expect active cooperation from service providers in implementing its marketing campaigns. Nevertheless, while OLG will retain right of approval over any product-related marketing proposed by service providers, it will not likely market any lottery product or service itself.

The future state objectives of OLG can be achieved in various ways. A service provider will likely require a number of capabilities to participate in such a future state, including the following.

- **Marketing strategy development, execution and communications:** In all cases subject to OLG's conduct and manage obligations; set objectives and develop advertising, promotions, and marketing campaigns, taking into account all communication and distribution channels with appropriate monitoring and corrective actions. A service provider must also bring capabilities in the internet/mobile space.
- **Product launch:** Planning and launching new products and services that meet the expected revenues, profitability, objectives for player participation, quality and security.
- **Customer engagement:** Engage customers effectively at various touch points (e.g., delivering a positive experience, delivering high-quality customer support). This also includes engaging the customer in the digital space (e.g., by providing high-quality website through which the customer can gather information about and interact with different lottery brands).

To the extent that any capabilities, other than those listed above, will be necessary or desired to achieve future state objectives, please identify them. .

## 5. OLG'S ROLE

As described in Section 2.1, OLG is mandated to conduct and manage lottery in the Province. To fulfill this mandate, OLG will retain control over critical and strategic decision-making, including: strategic planning and marketing management, lottery service/product offering, service provider management, financial management, brand management, risk management, information technology, customer management, and draws operations, draws audit, and prize redemptions.

OLG is charged with maintaining the overall integrity of lottery operations in Ontario. OLG will approve the types of games offered, ensure that the games rules are fair and that individual games are implemented consistently, and ensure that lottery and gaming are implemented in accordance with applicable law.

OLG is interested in understanding how respondents would most effectively work within this mandatory framework, where OLG is responsible for:

### **Strategic planning and market management**

- Decide on objectives and goals for lottery in the Province, using analysis of the market, customers, and service provider performance.
- Decide on the number and type of lottery products, including payouts and services provided through various channels, both through receiving and evaluating and approving service provider plans related to channels, and directing service providers to change number/nature of products.
- Monitor service provider strategy execution for compliance with contractual agreements and regulations.

### **Lottery product offering**

- Approve and oversee the lottery product portfolio – ensuring that all games approved by OLG for use meet OLG requirements (i.e. pay-out, prize structure, thematic appropriateness, accordance with responsible gaming design principles, etc.)

### **Financial management**

- Regularly sweep the individual retailer bank accounts into which lottery revenue is deposited by retailers to consolidate funds into an OLG-owned bank account, and take immediate action if funds are not available in retailer accounts.
- Oversee the long-term financial health of its lottery service provider network through financial oversight activities of annual financial planning and budgeting.
- Define and monitor procedural and technology based controls to prevent fraud. .
- Integrate and reconciling all financial transactions across its service provider network (service providers will reconcile only their own transactions).
- Monitor the integrity of each service provider's accounting processes.

### **Responsible Gambling**

OLG is mandated to prevent and mitigate the effects of problem gambling. Its enterprise-wide responsible gambling program ("RG Program") is defined by concrete objectives and delivered by the following program elements: employee training, player education, technology, treatment referral, research, and stakeholder relations.

All program elements are informed by independent researchers and problem gambling experts, and OLG co-designs and delivers its program with the Responsible Gambling Council of Ontario ("RGC-O"), the Centre for Addiction and Mental Health ("CAMH"), the Ontario Problem Gambling Research Centre, addictions counsellors across Ontario, and the Ontario Problem Gambling Helpline.

In 2012 and beyond, the following external standards will apply to OLG:

- Compliance with the AGCO's responsible gambling regulatory standard
- Certification to the highest level of the World Lottery Association's responsible gambling framework.

OLG will only engage with service providers for lottery services who comply with its RG Program.

### **OLG brand management**

- Define and executing the brand strategy for OLG and all provincial brands related to gaming (e.g., “Know Your Limit”)
- Define policies and guidelines for product marketing and retaining right of approval over any product- or site-related marketing proposed by service providers.

### **Service provider management**

- Retain sole authority and responsibility for approving operational standards, and procedures.
- Actively monitor and audit service providers’ compliance with prescribed legislative and regulatory requirements, and implementation of/adherence to policies, standards and procedural controls in accordance with the applicable contractual arrangements.

### **Risk management**

- Maintain OLG enterprise risk management capabilities to protect the interests of customers and public stakeholders, focusing on disaster recovery, business continuity management, and fraud protection.
- Determine OLG risk management policies, standards, and procedural controls, and work in collaboration with each service provider to ensure significant business and/or technology risks are appropriately identified and addressed in a timely fashion.

### **Information Technology**

- Retain direct control over critical information technology systems including its customer management platform and its core systems.
- Directly manage the integration of service provider systems and data (which may include system integration testing) to its own back-office platforms, applications, and data stores.
- Operate critical business systems (e.g., master data management, business intelligence) to allow OLG to proactively manage, investigate, identify, and resolve potential issues related to responsible gaming concerns and large value transactions.

### **Customer management**

- Own, retain, and store all customer personal, transactional, and account-related data received from service providers, and determining access rights to data for all service providers.
- Continue to provide certain customer care and support services directly to customers to ensure that all customer inquiries, complaints, and investigations are addressed in a timely manner.

### **Draw Operations, draws audit, and prize redemptions**

- Retain ownership and operation of the prize claim process (i.e., prizes greater than or equal to \$1,000). Moreover, with the exception of national lotteries (e.g., Lotto Max, Lotto 6/49) which are coordinated through the ILC, OLG will retain full control over the execution, reconciliation, and audit of lottery draws, sports operations, and where applicable, instant tickets, to ensure the ongoing fairness and integrity of lottery offerings and associated draw operations.

OLG is also considering offering a number of centrally provided services to service providers (on the basis of potential scale benefits), and is interested in respondent interest. OLG is seeking input on which of these services would be of interest. The services could include:

- **Strategic sourcing:** Opportunities for strategic sourcing of a wide range of goods and services (e.g., media buying, information technology services, slips and rolls, etc.)
- **Loyalty program:** Designing and managing an integrated loyalty program for all lottery products and channels in the Province of Ontario
- **Human resource support services:** Providing additional support for human resources-related services (e.g., hiring, labour scheduling, training, payroll, etc.)
- **Program delivery for all service providers:** Administration of an integrated database which could be used by all service providers on specific regulations (e.g., service provider occupational health and safety, AGCO service provider compliance, etc.)

## 6. COMPENSATION STRUCTURE

The compensation structure is expected to be dependent on which segment(s) of the lottery value chain are operated by service providers. In no way will this compensation structure create or imply a partnership between OLG and the service provider. However, the incentive structure will adhere to several core principles:

- All lottery revenue must flow to OLG. OLG will then compensate service providers for their services.
- The compensation structure should provide fair compensation to private sector service providers for operational functions rendered. It should also secure ongoing value-for-money for the Province, which conducts and manages (through OLG) lottery schemes in Ontario.

**Appendix A to Schedule B**  
**Modernizing Lottery & Gaming in Ontario Report**

# Modernizing Lottery and Gaming in Ontario



**STRATEGIC BUSINESS REVIEW / ADVICE TO GOVERNMENT**

This document contains forward-looking statements about our expected or potential future financial performance. For us, forward-looking statements include, but are not limited to, statements about possible transformation initiatives; our future revenue and profit guidance; and other statements about future events or conditions. Forward-looking statements are not guarantees of future performance and involve risks and uncertainties that could cause actual results to differ materially from those projected.

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## **INTRODUCTION**

Brief description of process of the OLG review from government direction to stakeholder consultations and this report.

## **EXECUTIVE SUMMARY**

Lottery and gaming are part of Ontario's entertainment and tourism attractions; OLG supports public priorities in Ontario; the challenge of sustaining the current lottery and gaming business; the vision for the future of OLG in Ontario; the value of a modernized lottery and gaming system and three recommendations on how to get there.

## **THREE RECOMMENDATIONS**

Three broad recommendations: become more customer-focused; expand regulated private sector delivery of lottery and gaming, and increase support for responsible gambling while renewing OLG role in oversight of lottery and gaming.

## **APPENDIX I**

Background Note: Internet and Charitable Gaming

## **APPENDIX II**

Description of the consultation process and list of stakeholders consulted



# INTRODUCTION

In July of 2010 the Government of Ontario gave OLG new direction. OLG was asked to modernize commercial and charitable gaming through:

- an expansion of charitable gaming to allow bingo halls to deliver electronic games;
- a complete internet gaming platform including peer-to-peer games, selling lottery tickets and a process for private sector vendors to deliver internet gaming, with appropriate oversight;
- a comprehensive strategic review of the lottery distribution network and land-based gaming facilities.

All these initiatives were to include a commitment to socially responsible gambling—particularly age restricted access, privacy controls and maximum betting limits for the internet.

Since the inception of lottery and gaming in the province, the overall approach to the business has been reactive: gaming options have evolved over time. This is the first time that OLG has been asked to review its entire operation in a strategic way.

OLG was asked to report back to the Ministry of Finance with recommendations on this comprehensive strategic review.

## STRATEGIC BUSINESS REVIEW

In December 2010, based on the government's direction, OLG launched a Strategic Business Review that included consultations with stakeholders and an extensive business analysis.

The consultation asked: "What should the gaming marketplace look like in the next three to five years, based on the best interests of Ontarians?" The Strategic Business Review team asked stakeholders to consider five principles or points of discussion:

1. Respond to the marketplace: advice about products, land-based sites and channels based on market demand and customer preferences.
2. Lessen the burden of capital costs on the public purse (within legal boundaries) and maximize the opportunity for private sector investment.
3. Commit to economic development including job creation (direct and indirect), business stimulus and investment.
4. Allow for greater flexibility such as commercial contracts and appropriate risk-sharing with third parties.
5. Clarify payments to stakeholders both in terms of the economic impact of payments as well as transparency and accountability.

The Strategic Business Review team met with over 50 stakeholder groups from across the province from December 2010 to June 2011. (For full list, please see Appendix II.)

Overall, consultations revealed that stakeholders felt that there has been significant benefit to the province from lottery as well as casinos and slot facilities over the past 20 years. However, the current model in Ontario must change substantially in order to better meet customers' needs. Stakeholders also noted that there is a need to modernize Ontario's lottery and gaming industry based on developments in other jurisdictions. There was broad consensus that the sector needs to change:

- Lottery and gaming in Ontario should become more market-driven and consumer-responsive.
- The private sector is willing to invest in gaming and take on a greater operating role.
- The lottery and gaming sector should embrace the latest in advanced technology and incorporate it into products and services.
- The role of OLG as a direct operator of all lottery and gaming should be clarified.
- OLG has the potential to be more efficient and effective.

The Strategic Business Review examined a number of research ideas proposed by stakeholders. These included new retail channels and new technology for lottery, new sites for land-based gaming and more efficient operations across the organization. This research led to three key recommendations for change:

These recommendations could achieve OLG's goal of generating greater and more sustainable Net Profit to the Province as well as economic and social benefits locally.

1. Become more customer-focused.
2. Expand regulated private sector delivery of lottery and gaming.
3. Renew OLG's role in oversight of lottery and gaming.

## RECOMMENDATIONS – GUIDING PRINCIPLES – GOALS

### THREE RECOMMENDATIONS TO GOVERNMENT

1. Become more customer-focused.
2. Expand regulated private sector delivery of lottery and gaming.
3. Renew OLG's role in oversight of lottery and gaming.



### GUIDING PRINCIPLES FOR TRANSFORMATION

- OLG will be a modern, efficient agency operating in the best interests of Ontarians.
- OLG will provide entertainment to Ontarians and visitors alike, while maintaining high, responsible gambling standards.
- OLG will uphold its record of regulatory compliance with standards established and enforced by the Alcohol and Gaming Commission of Ontario.
- OLG will continue to communicate openly with employees and treat them with respect.



### OLG IN FUTURE

In 2017, OLG is a modern, sustainable organization. There are some 2,300 net new lottery and gaming industry jobs and an estimated 4,000 service sector jobs; about \$3 billion has been invested in private capital in Ontario; and OLG has increased Net Profit to the Province by an additional \$1.3 billion annually—all while upholding responsible gambling standards.

## EXECUTIVE SUMMARY

There are two key reasons to transform lottery and gaming now:

1. Lottery and gaming are here to stay. In fact, last year a total of 8 million Ontario adults (80 percent) played the lottery at least once and 2.7 million (27 percent) visited gaming sites. But OLG's offering could be more modern.
2. OLG contributes \$1.7 to \$2 billion in Net Profit to the Province for important public priorities, but the current model could provide more value. The long-term sustainability of that revenue is at risk, primarily due to a business model that is not serving customers as well as it could.

### LOTTERY AND GAMING IN ONTARIO

Lottery and gaming have been a part of Ontario's entertainment and tourism industries for decades. Lottery in Ontario began in 1975 with Wintario, which was designed to raise money for local community projects. In September of 1994, Ontario's first casino opened in Windsor. Slots-At-Racetracks were launched in 1998.

On behalf of the Ontario government, OLG is responsible for 4 resort casinos, 17 slots at racetrack facilities and 5 OLG casinos, Great Blue Heron Charity Casino as well as the sale of lottery products at over 10,000 independent lottery retailers. OLG conducts and manages 6 eBingo sites. OLG directly employs about 7,700 people (and indirectly, through private sector operators, an additional 10,000 people) across Ontario.

Lottery and gaming are popular forms of entertainment in the province. Almost two-thirds of Ontarians over the age of 19 have visited a casino or slots facility at least once. Fully 80 percent of Ontario adults played a lottery game last year and about half the adult population plays lottery on a regular basis.

In 2010, the government gave OLG direction to launch internet gaming and expand charitable gaming. In charitable gaming, OLG has launched a four-way partnership between bingo halls, host municipalities, the Alcohol and Gaming Commission of Ontario and OLG to expand charitable gaming. At the same time, OLG was asked to find \$100 million in annual efficiencies. All these initiatives are currently underway and are part of OLG's modernization plan.

**OLG is the largest gaming organization – and jurisdiction – in North America, with 33 gaming sites and 10,000 lottery points of sale**



Last year, a total of 8 million Ontario adults played the lottery at least once and 2.7 million visited casinos and slot facilities.

### **CONTRIBUTION TO THE PROVINCE**

The legislative authority of OLG is set out in the Ontario Lottery and Gaming Corporation Act, 1999 and OLG has a single shareholder, the Government of Ontario. OLG has consistently delivered profit (Net Profit to the Province) to the people of Ontario. OLG (and its predecessor organizations) has provided over \$34 billion to the Province, since 1975 (up to March 31, 2011).

OLG's Net Profit to the Province in each of the last seven years has ranged from \$1.7 billion to \$2.0 billion. In 2011–12, the profit from lottery and gaming will support health care, education and infrastructure as well as the Ontario Trillium Foundation (\$120 million), problem gambling and related programs (\$41 million) and support for amateur athletes through Ontario Amateur Sports (\$10 million).

In addition to OLG's payments to the Province, there are also several direct beneficiaries of gaming proceeds including the horseracing sector (approximately \$345 million in 2011–12), host municipalities (approximately \$92 million in 2011–12) and from both lottery and gaming, Ontario First Nations (approximately \$117 million in 2011–12).

Lottery and gaming also contributes to the Ontario economy in a number of ways. In 2010–11, OLG operations generated \$3.7 billion in total economic activity in the province (OLG data, [www.olg.ca](http://www.olg.ca)).

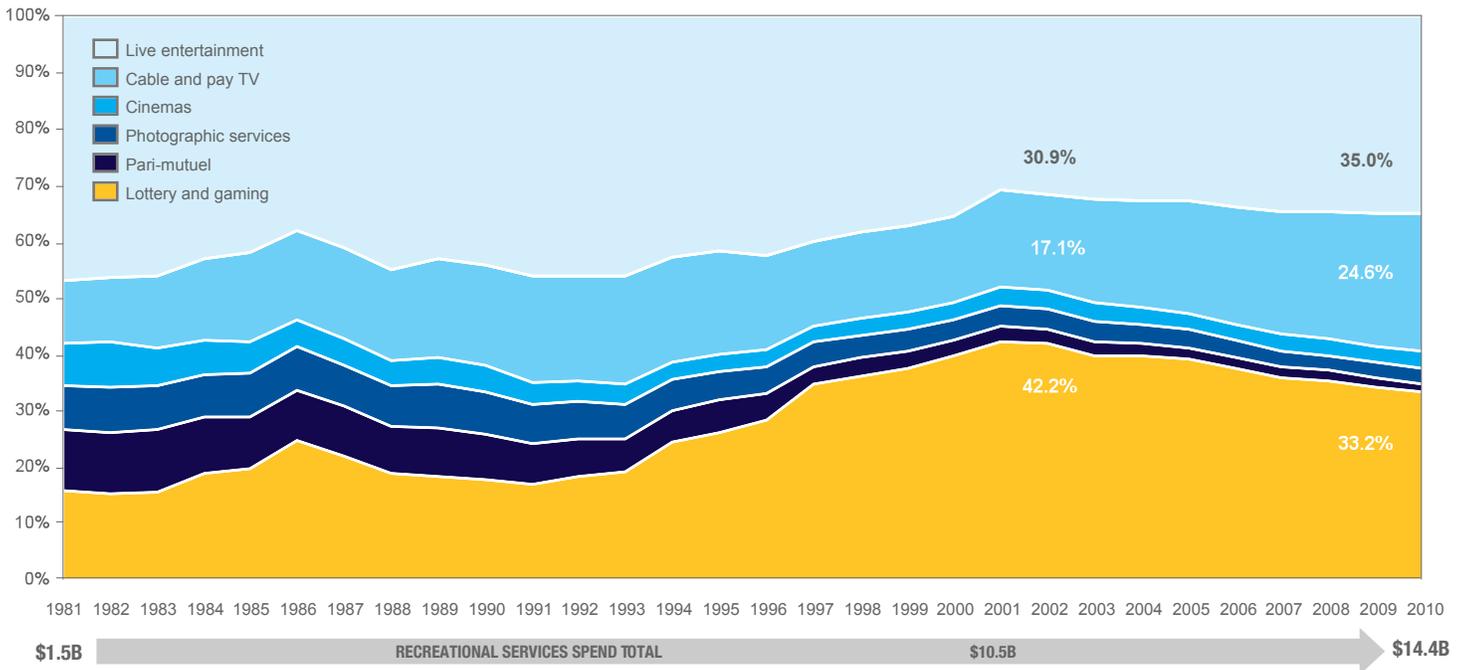
### **OLG TODAY: THE CASE FOR CHANGE**

While gaming and lottery playing have been well-accepted entertainment options for decades, the current OLG business model is not sustainable over the long term. Advances in technology, changes to shopping patterns, aging demographics, and declining visits from the U.S. have combined to threaten the industry and the contribution to the Province.

The lottery and casino games available in Ontario were designed in the 1970s and in the 1990s for the core gaming demographic of the time. Ontario is different now—people's interests in various recreation options have evolved. People shop differently and they play differently.

## Ontario Recreational Spending Growth

Currently there is increasing competition for customers' spending money. Live entertainment took up more share of wallet than lottery and gaming in 2009 for the first time since 2001. Cable & pay TV and live entertainment continued gaining share.



Source: Statistics Canada

### Advances in technology

When casinos first opened in Ontario in 1994, e-mail was new, as was the internet. Since then, there has also been a significant increase in the technology that supports the lottery and gaming business. In some aspects of the business, OLG has not kept pace with available improvements in technology.

In addition, advances in technology have also created the opportunity for online gaming. In Ontario, an estimated \$400 million is spent annually on gaming sites not authorized in Ontario.

### Changes to shopping patterns

OLG's current terminal technology limits where lottery tickets can be sold and does not fully reflect current shopping patterns. The majority of Ontario adults under 45 frequent supermarkets, big box stores and large retail locations. As a result, even though 50 percent of adult Ontarians play the lottery regularly, just 14 percent of adults under 45 play the lottery at least once a week.

### Demographic shifts

About 88 percent of OLG land-based gaming revenue is from slot machines, which have limited appeal to players under 45. These players prefer table games like black jack and poker. Demand for slot machine gaming is not expected to grow and will plateau in the coming years.

### U.S. Visits

In 2002, some 23 million U.S. residents entered Ontario every year. By 2011, the number declined to 7 million U.S. residents—a drop of 70 percent. Between 1998 and 2008, the number of U.S. residents entering Windsor has dropped by 74 percent.

Gaming revenues are also flattening, due to competition from neighbouring U.S. states. When casinos first opened, border communities had few gaming options. Now a number of U.S. cities in bordering as well as other states have casinos—or are planning to expand their offerings—including Chicago, Detroit, Baltimore, Boston and Buffalo as well as a number of locations in Ohio.

RFI 1213-002 Modernizing Lottery in Ontario  
 At the same time, OLG's existing agreements foster internal competition, resulting in less value for marketing dollars spent. OLG resort casinos and other facilities compete with one another by marketing to the same customers.

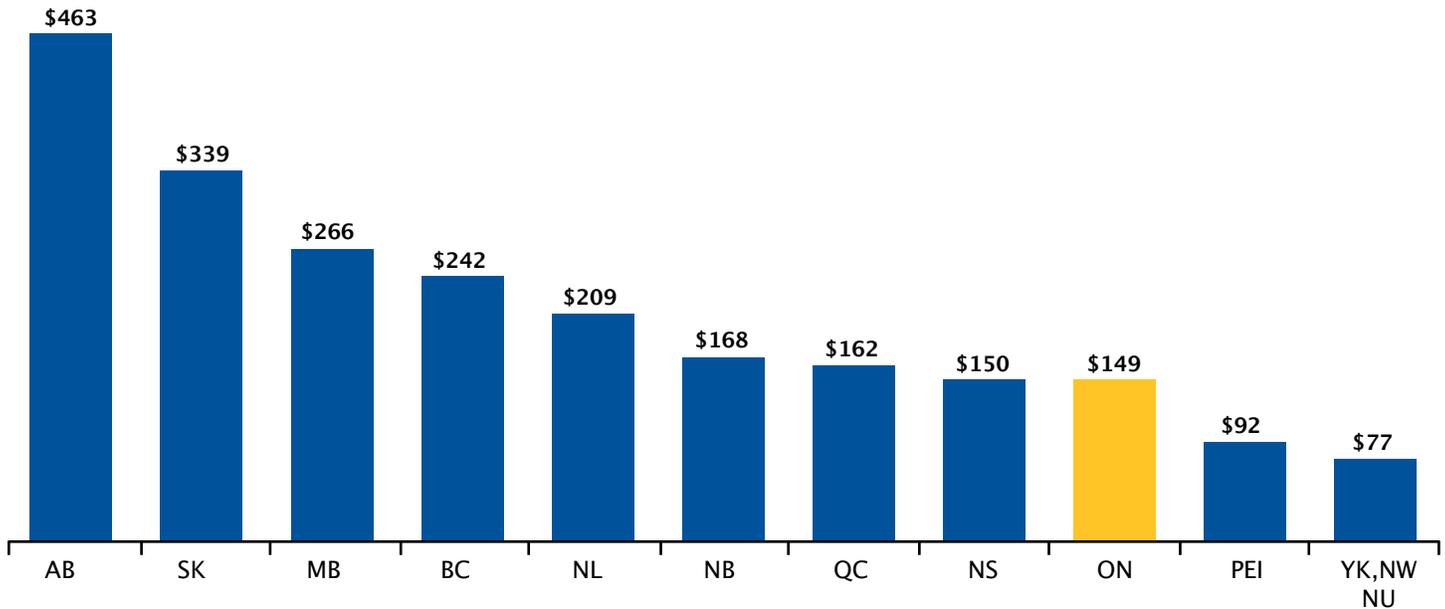
Appendix A to Schedule B Modernizing Lottery & Gaming in Ontario Report  
 Increased lottery sales and profits from LOTTO 6/49, LOTTO MAX and INSTANT tickets have only partially offset the decline from resort casinos. These games are also beginning to plateau in terms of sales—due partially to the decline in players under 45.

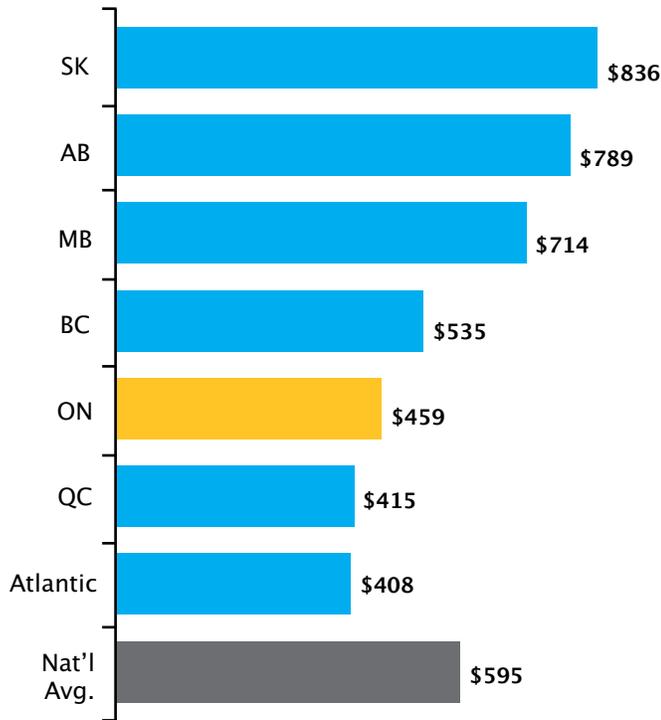
Today, investing to improve OLG's current facilities would require government money. The Ontario government has in recent years, to positive effect, been using private partnerships to move the risk of public capital investment to the private sector. For example, some 18 hospitals are being built in Ontario through these partnerships.

Based on per capita gaming profit in other Canadian provinces, the people of Ontario do not derive comparable benefit from lottery and gaming. If the customer base was significantly broadened, meaning more people playing a little, the province could benefit. On average, the lottery and gaming industry returns about \$220 to every resident of Canada. Ontario, on the other hand, contributes about \$149 per capita. B.C. and Alberta have seen considerable growth in the last five years, while Ontario's and Quebec's growth has been flat. By becoming more innovative, OLG could be more efficient and effective.

The impact of all these developments on OLG business has been profound and has led to an unsustainable future for the organization. Over the past 10 years, the profits from gaming facilities close to the U.S. border have dropped from \$800 million in 2001 to \$100 million in 2011. Resort casinos alone have declined by over \$600 million.

### Net Profit to the Province per Capita 2011





Sources: Saskatchewan Lotteries Trust Fund Financial Statements, Alberta Gaming and Liquor Commission Annual Report, Manitoba Lotteries Annual Report, BCLC Annual Report, OLG, Loto-Québec Annual Report, Atlantic Lottery Corporation Financial Statements and OLG analysis.

In recent years, OLG has maintained Net Profit to the Province to government in the absence of substantial new opportunities. However, without fundamental change, the Province should expect a gradual decline in revenue.

Most single or one-off options to improve sustainability, modernize the business and improve profit to government will not produce the best results. For example, simply reducing staffing levels would reduce costs but would not help improve the customer experiences or deliver innovation. OLG's current operating model for lottery terminals and supporting technology could be updated but it would be costly to replace the outdated infrastructure with public funding.

Over the next five years, simply maintaining existing OLG infrastructure will require an additional investment of \$1 billion in public funds. Major improvements to transform and modernize OLG's infrastructure could cost taxpayers up to \$3 billion.

Substantial change to the business within the current model could be costly, risky and unpalatable to many stakeholders. In one potential scenario, by 2017, due to the declining participation of younger adult players, the impact of technology and cross-border competition, annual profit to government could decline by \$400 million.

## OLG IN THE FUTURE

In the future, OLG will be an efficient, modern organization committed to delivering sustainable lottery and gaming entertainment that serves the needs of Ontario players and visitors in a way that benefits the province, its communities and its people while leading North American funding for responsible gambling.

Combined with previously announced plans for iGaming and efficiencies, this proposed reform could see key public priorities like health care and education benefit from additional annual Net Profit to the Province of \$1.3 billion by 2017. Over the six-year period of the transformation, OLG will provide an additional \$4.6 billion to the Ontario government.

Employment will grow by over 2,300 net new jobs in the industry (in new gaming facilities and related amenities as well as in digital gaming design and management) as well as an estimated 4,000 service sector jobs in hotels, restaurants, entertainment centres and retail.

Ontario will continue to be a North American leader in responsible gambling—and support for research and treatment will increase.

As overall revenues increase, Ontario's First Nations communities will also continue to receive financial benefit from the industry—at a level higher than today's. Host municipalities would have a consistent model for funding support but overall will receive more than the current level, based on planned growth.

Ontario will see an additional \$3 billion in new private sector capital investment in the province. The capital costs of expanding, improving or simply maintaining gaming facilities will not be carried by taxpayers. The private sector will take on the role of building new gaming facilities or expanding existing ones. The costs to the

public to own and operate lottery and gaming will be significantly reduced. Regulated private sector providers will help define where the market for new facilities exists, consistent with government policy, responsible gambling standards and municipal approval. OLG and the government will retain the right to approve the location of any new site.

OLG will become a more sustainable organization that ensures that Ontario residents and visitors can play more innovative and fun games in a responsible way. OLG will continue to be the lead agency for lottery and gaming in Ontario, but no longer be directly delivering all lottery and gaming services. The future OLG will set standards for the customer experience, but allow the private sector to decide specifics. OLG will set standards for access, integrity, security and responsible gambling. In the long term, OLG will likely have a small operational footprint—it will do less. The organization will instead focus on core customer management, delivering a leading responsible gambling program, as well as overseeing the regulated private sector providers and the implementation of government gaming policy. Ultimately, Ontarians will benefit from a more effective, more valuable operation.

The tourist experience of gaming entertainment in Ontario will be enhanced. It will be easier for Ontario businesses to participate with OLG in lottery or gaming-related opportunities. OLG will become a more efficient organization focusing on well-defined control and oversight functions, rather than day-to-day operations.

## HOW DO WE GET THERE?

This report makes three recommendations for systemic change. If followed as a whole, these recommendations will profoundly change the lottery and gaming industry in Ontario, rendering it more sustainable, more efficient and more valuable for the people of the province.

### ONE / Become More Customer-Focused

Like any commercial operation, OLG needs to be responsive to customers. Gaming across the province needs to better reflect what customers want and should be closer to them.

OLG is recommending the expansion of lottery sales options to multi-lane retailers, including supermarkets and big box stores, while continuing to support convenience store retailers.

OLG is also recommending that government allow for the expansion and consolidation of gaming sites, based on customer interest. The government should allow gaming

facilities to be located where customers are. As part of this effort, slot facility locations should not be limited to racetracks.

As is current practice, municipalities will continue to receive financial support from the gaming operations in their communities through a portion of gaming revenue for the benefit of the community. However, OLG should introduce a consistent fee model for host municipalities. This would facilitate the introduction of a mix of games at sites. Funding levels should continue to be determined by customer volume.

### TWO / Expand Regulated Private Sector Delivery of Lottery and Gaming

OLG needs to engage the private sector in building a new model for gaming in Ontario—while OLG maintains control and accountability. In order to enable efficient operations, avoid public expenditure on capital and address interest in land-based gaming, OLG should expand private sector participation in the efficient, effective delivery of casinos and gaming products. The first step would be for OLG to develop a competitive and transparent procurement process for these activities. The result would be regulated private operators selected to run existing and new sites.

OLG would manage the provincial market and the private sector would invest in it. New locations would be subject to the approval of host municipalities.

In lottery, OLG should shift the day-to-day operation of its lottery network to a regulated private sector operator. There should also be an expansion of retail options for lottery sales including multi-lanes in large stores, the internet and mobile devices. At the same time, OLG should allow for regulated private sector game development to foster innovation and increase responsiveness.

### THREE / Renew OLG's Role in Oversight of Lottery and Gaming

OLG should improve both its business and infrastructure systems to appropriately manage all customer interaction from lottery to internet to casinos. This would allow the organization to more efficiently fulfill its function as a manager, protector and steward of customer information. OLG should become a leaner, more efficient organization focused on well-defined market management and oversight functions. OLG will continue to work positively

with its regulator, the Alcohol and Gaming Commission of Ontario (AGCO).

At the same time, Ontario should continue to lead the continent in responsible gambling standards and expand research and treatment support. In any expansion of lottery and gaming, OLG must continue to provide safe gaming options and commit to increased environmental practices.

These three recommendations should be seen as a comprehensive approach to modernizing the gaming sector and they should not be implemented individually. This systemic reform of the sector is substantial and it has significant implications for various stakeholders. Some of these considerations are outlined throughout the recommendation section.

The following chapter outlines in detail each of the three recommendations for the modernization of gaming in Ontario. This approach, together with OLG’s ongoing initiatives, will, by 2017–18, provide an additional \$1.3 billion in annual Net Profit to the Province and create about 2,300 net new industry jobs—and an estimated 4,000 jobs in hotels, restaurants, entertainment centres and retail.

The estimate for increased Net Profit to the Province is based on the following:

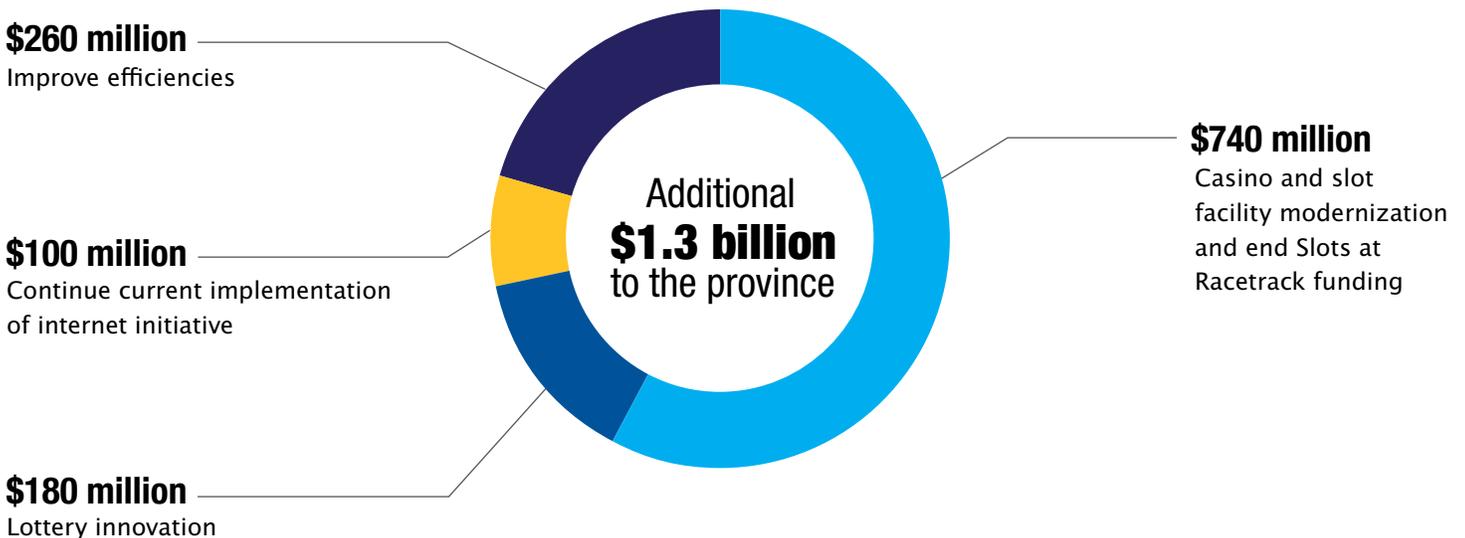
- Modernize and shift the day-to-day operation and capital development of gaming facilities to private sector; build new facilities based on customer interest; renegotiate the funding formula for municipalities to allow for a broader game offering; end the funding formula for slots at racetracks: about \$740 million increase in Net Profit to the Province annually.

- Modernize and shift the day-to-day operation of the lottery network to private sector operators; invest in new player technology; allow private sector to design lottery games; expand distribution of lottery through new channels: about \$180 million increase in Net Profit to the Province annually.
- Deliver a full range of games on the internet through an online site accessible by computer and other internet-connected devices including lottery ticket sales, interactive casino-style games (against the house) and peer-to-peer games (like poker): about \$100 million increase in Net Profit to the Province annually.
- Improve efficiencies at OLG as it focuses on being a smaller organization focused on market management and a leader in responsible gambling: \$260 million increase in Net Profit to the Province annually.

Ontario is facing a large deficit and over six years, as the plan is implemented, OLG would contribute an additional \$4.6 billion for critical services like health care and education.

All told, these initiatives would widen the appeal of gaming. OLG would broaden the player base by becoming more appealing—not increasing the amount that current customers gamble. These initiatives would also substantially reduce the amount of public capital invested in gaming sites and lottery infrastructure and encourage efficiency and innovation.

### Additional Net Profit to the Province



# RECOMMENDATION ONE

## Become More Customer-Focused

Like any commercial operation, OLG needs to be responsive to customers. Gaming across the province needs to better reflect what customers want and should be closer to them.

OLG is recommending the expansion of lottery sales options to multi-lane retailers, including supermarkets and big box stores, while continuing to support convenience store retailers.

OLG is also recommending that government allow for the expansion and consolidation of gaming sites, based on customer interest. The government should allow gaming

facilities to be located where customers are. As part of this effort, slot facility locations should not be limited to racetracks.

As is current practice, municipalities will continue to receive financial support from the gaming operations in their communities through a portion of gaming revenue for the benefit of the community. However, OLG should introduce a consistent fee model for host municipalities. This would facilitate the introduction of a mix of games at sites. Funding levels should continue to be determined by customer volume.

### CONTEXT IN LAND-BASED GAMING

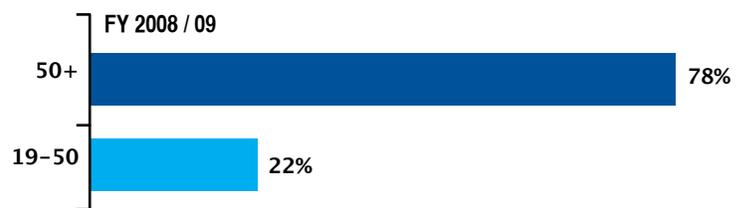
Historically, government has maintained the location and size of facilities, based on priorities that were not always responsive to customers. As a result, at some sites there are too many slot machines. In other markets however, particularly in the Greater Toronto Area, customer interest is not being met.

Three of Ontario's resort casinos, as well as five OLG facilities, are adjacent to the U.S. border, making it easier for U.S. travelers to visit. However, due to competitive U.S. casinos, the rise in the Canadian dollar, the rising price of gas and the increasing security at the border, the number of visiting U.S. customers has declined. (Sources: Bank of Canada, Ontario Ministry of Tourism, Culture and Recreation.)

Slot facilities currently, with few exceptions, are not located near population-dense urban centres—where the majority of Ontarians live.

The gaming facilities in this province were, by and large, designed over a decade ago and not only have customer preferences evolved since then, so too has technology. The customer base for gaming is aging rapidly. Adult players under 45 typically do not play slot machines. Adult customers under 45 who do visit casinos overwhelmingly prefer to play table games like black jack and poker.

### Gaming Customer Age



The requirement to locate slots at racetracks limits site locations and impedes OLG's ability to serve customers closer to where they live and is therefore not responsive to customer interest.

Based on the current Slots at Racetrack program, the horseracing sector is projected to receive \$345 million (2011–12). Since the program was launched, horsepeople and racetrack owners have received over \$3.4 billion.

OLG is also limited in the game mix it can offer to customers due to current municipal funding arrangements. If OLG were to change the game mix, the cost to OLG would be prohibitive.

Municipalities where gaming facilities exist benefit in a number of ways from gaming. Tourist appeal, employment, the use of local suppliers and economic

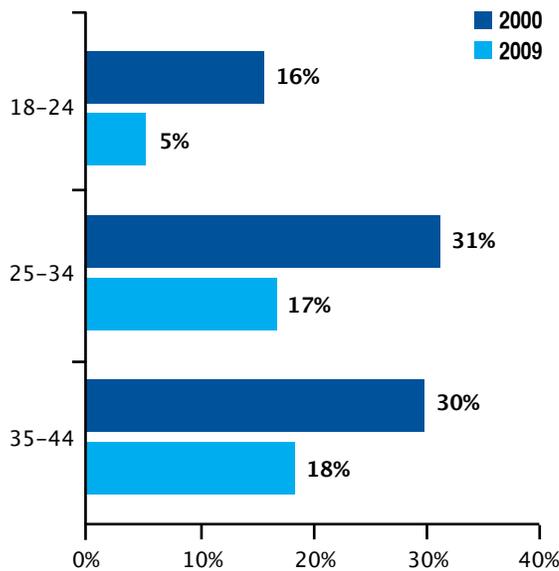
RFI 1213-002 Modernizing Lottery in Ontario development all expand when gaming facilities are located in a community. In addition, host municipalities generally receive a percentage of slot revenue. In 2011–12, host municipalities are forecasted to receive about \$92 million from slot and casino revenues.

Appendix A to Schedule B Modernizing Lottery & Gaming in Ontario Report Ontario’s sales model does not fully meet the needs of today’s customers. There are about 10,000 terminals across the province and the vast majority are in convenience stores. OLG continues to rely heavily on convenience (and convenience with gas) stores for the primary delivery of lottery tickets (some two-thirds of sales), while Ontarians are shopping more frequently at large retailers such as supermarkets and big box stores. Lottery sales have, though, become an increasingly critical component of the convenience store business.

**CONTEXT IN LOTTERY**

Since lottery games were introduced over 35 years ago, the desires of customers have evolved and technology has advanced considerably. Ontarians purchase lottery products through a retail clerk who hands them a paper ticket. OLG has a largely paper-based lottery system in an economy that is increasingly paper-free.

**Core Lottery Players**



The decline in participation in lottery by players under 45 has been severe in recent years. Overall, the average age of the player base is increasing, and current lottery games in existing channels do not attract players under 45.

Major lotteries outside North America have established internet lottery to attract adults under 45. Norsk Tipping, the Norwegian national lottery, for example, produces over 10 percent of sales over the internet, with tight responsible gambling restrictions and age verification.

In other jurisdictions, lottery tickets are sold across all lanes in grocery stores. Quebec has multi-lane sales and British Columbia has internet lottery ticket sales options. Camelot UK Lotteries Ltd., the UK National Lottery operator, achieved strong results in about five years in conjunction with a fast-pay card. Responsible gambling research indicates that e-cards for play help to combat problem gambling.

**DESCRIPTION: CUSTOMER FOCUS**

Like any commercial operator, OLG needs to be able to expand or contract gaming sites, based on customer interest—and always with consideration of OLG’s responsible gambling priorities.

New or relocated gaming sites would only go to municipalities that have explicitly approved them and where there is a clear business case. OLG and the government would continue to have the right to approve new or relocated gaming sites.

In lottery, OLG needs to improve the customer experience by offering lottery tickets in more locations where people currently shop. This would mean expanding sales to multi-lanes in supermarkets and big box stores.

The Slots at Racetracks Program limits OLG’s flexibility to locate gaming facilities near OLG customers. Furthermore, the formula restricts OLG’s ability to maximize revenues for key government priorities. As such, the Slots at Racetracks Program should be drawn to a close.

To improve the ability to offer a mix of games at sites, OLG should establish a fair and simple funding model that would supply a portion of slot machine revenue to host municipalities, independent of the type of facility.

A straightforward formula would have two key benefits:

1. Make the formula consistent across municipalities.
2. Provide flexibility for the decision to add table games or other new games, based on customer interest, municipal consent and OLG’s provincial market plan.

Once existing site holder agreements have been terminated, OLG will engage in negotiations on new arrangements for OLG and/or private sector vendors to occupy space at racetrack locations where there is customer interest.

Casinos that are operated in cooperation with First Nations have separate agreements that are subject to current contracts.

**KEY CONSIDERATIONS**

- Convenience stores are expected to continue to be the source of the majority of lottery ticket sales.
- Convenience store lottery terminal locations will continue to be a priority.
- New games, enabled by third party developers, would add to lottery sales in convenience stores.
- Employment is growing annually in Ontario's digital media sector. With the addition of expanded opportunities in lottery, there would be additional growth in game design jobs.
- New lottery sales options must be consistent with Ontario responsible gambling standards.
- New contractual arrangements with racetracks and municipalities will require the re-negotiation of existing arrangements, with sufficient notice.
- The majority of host municipalities would continue to receive the same benefit under a revised formula.
- New arrangements should ensure that municipalities retain the ability to use funds as they see fit, as is current practice.
- With municipal council approval, a new facility in the Greater Toronto Area or elsewhere in the province would increase revenue to that municipal government.
- Explicit municipal consent would be required for any host community.
- Any new facility proposal would include government sign-off and oversight, AGCO registration, a business case completed by OLG, and the need for local community consultation, support and approval.

## RECOMMENDATION TWO

### Expand Regulated Private Sector Delivery of Lottery and Gaming

OLG needs to engage the private sector in building a new model for gaming in Ontario, while OLG maintains control and accountability. In order to enable efficient operations, avoid public expenditure on capital and address interest in land-based gaming, OLG should expand private sector participation in the efficient, effective delivery of casinos and gaming products. The first step would be for OLG to develop a competitive and transparent procurement process for these activities. The result would be regulated private operators selected to run existing and new sites.

OLG would manage the provincial market and the private sector would invest in it. New locations would be subject to the approval of host municipalities.

In lottery, OLG should shift the day-to-day operation of its lottery network. There should also be an expansion of retail options for lottery sales including multi-lanes in large stores, the internet and mobile devices. At the same time, OLG should allow for regulated private sector game development to foster innovation and increase responsiveness.

#### CONTEXT

OLG is currently responsible for 23,000 slot machines and over 500 games tables in Ontario as well as 27 gaming facilities and over 10,000 lottery terminals. Currently, any maintenance and improvements to facilities or products require public sector investment. At the same time, the Ontario government has been using alternative financing and procurement processes to invest in public capital projects, such as hospitals.

OLG directly employs about 7,700 people at sites and facilities as well as at head offices sites. Through the privately-operated gaming sites, there are about 10,000 indirect employees. OLG assumes the cost of these employees as well.

Today, the commercial operators working with OLG compete with OLG for customers. A private sector provider will not invest in a market where it is asked to share customer information with OLG while competing with OLG's owned and operated sites.

At the same time, OLG facilities in need of capital improvements rely on public funds to do so. Any new facility, under current arrangements, would be built with public dollars. OLG could focus more clearly and more effectively on its role as the operating mind of the gaming sector by bringing in the private sector for capital investment and some operating expenses.

In consideration of maintaining profit to the Province, OLG has under-invested in the infrastructure required to run its lottery business over the last five to 10 years.

The lottery and shared services divisions of OLG are operating on a patchwork of outdated systems that require significant maintenance to keep running. Direct ownership of the technology has created extensive financial and labour commitments across the province.

The lottery terminals are also not being used at capacity—namely, they are only used for lottery tickets, though other options are technically available (such as phone cards and iTunes® cards). The terminals are almost fully depreciated and will soon need to be replaced.

#### DESCRIPTION: GAMING

OLG could engage regulated private operators to run the day-to-day operations of all existing OLG-operated gaming facilities and all new facilities. They would be paid a fee for this work.

To do so, OLG should implement a consistent set of terms and conditions for operating a land-based gaming site in Ontario that is fair, transparent and that encourages private sector investment. Location and site designs would be approved and overseen by OLG, but initiated, built and paid for by the private sector.

OLG needs to establish a level playing field by establishing a consistent private operating model that gives regulated providers the incentive to operate in their own interests, while OLG controls the parameters of gaming, maximizes Net Profit to the Province and ensures Ontario's responsible gambling standards are upheld.

This would include identifying distinct gaming zones where existing or new gaming sites could be permitted. These defined gaming zones will help reduce the impact of one gaming site upon another. Customer interest should determine the size and genre of gaming facility in a zone.

The right to operate in a particular geographic area should also be determined by OLG. Regulated private sector operators would have defined rights to operate land-based gaming inside the boundaries of a zone. In advance of an open, transparent procurement process to obtain operating rights, a map of zones, their definitions and their parameters should be planned by OLG in consultation with stakeholders.

Should OLG move out of the daily operation of facilities, OLG's current direct employees at gaming sites could have the option of working at privately-operated facilities.

OLG could also transfer the assets that are required to operate business to the regulated private sector providers. And in the future, the private sector would build and own new capital assets. By reducing OLG's interest in capital assets, regulated operators could finance their expansion plans through capital markets.

OLG would be the sole steward of customer information and would determine market management principles for all sites.

## ONTARIO FIRST NATIONS

The Province has a funding arrangement with Ontario First Nations whereby OLG distributes 1.7 percent of total revenue (estimated at \$117 million in 2011–12) to the Ontario First Nations Limited Partnership, 2008 (OFNLP, 2008). The funds are to be distributed to Ontario First Nations for use in education and health initiatives as well as economic, social and community development. With this plan, payments to OFNLP are expected to increase.

In addition to the two current gaming locations (Casino Rama and Great Blue Heron Charity Casino) on First Nations land, Ontario First Nations should be free to bid in OLG's procurement process, either as a solo proponent or in partnership with other organizations, for the opportunity to operate in a zone.

## DESCRIPTION: LOTTERY

Based on defined criteria, customer interest and Ontario's responsible gambling standards, private operation of the lottery distribution network would enable a selected vendor to determine the distribution and location of future lottery terminals.

While maintaining the integrity of lottery games, OLG should shift the day-to-day operation of the lottery network to a regulated private sector operator. A private operator of the terminal network would have the incentive to work with convenience store owners to save money and expand the services they provide via lottery ticket terminals. This would also enable the introduction of new points-of-sale for lottery products including multi-lane checkouts in large stores, mobile devices and home personal computers.

Lottery terminals have the potential to provide many more services—and could do so with private sector investment. These services could include the ability to sell phone cards, gift cards and iTunes® cards. This would help retailers to reduce inventory costs.

OLG should also consider various approaches to reusable tickets such as stored value cards or RFID (Radio Frequency Identification) cards. A stored value card is similar to a phone card and an RFID card could store a customer's preferred numbers—and allow the customer to check his or her numbers. These innovations would be carried out in consultation with Ontario's Privacy Commissioner.

The introduction of new capabilities for lottery terminal devices should, first and foremost, maintain the integrity of games and could also focus on several areas:

- Effectiveness of store operations (automation of paperwork, just in time inventory management)
- Operational cost reductions (security/surveillance, monitoring, alarms)
- Connectivity for Point-Of-Sale (leveraging the high speed network)
- Communications ability (phone, fax, internet)
- New revenue generation (prepaid services, instant coupons, gift cards, digital signage, government services, etc.)
- Additional services (connectivity for micro payment solutions, Wi-Fi connectivity, etc.) and all while maintaining the integrity of the games.

OLG should set the standards for external developers to create new and innovative games. This should also encourage the faster development of new games that appeal to new customers.

**KEY CONSIDERATIONS**

- Considerable interest exists among private sector stakeholders to invest and to assume a greater role in operations.
- Private sector operators would be able to run operations more efficiently and effectively.
- Private sector experts in technology support and channel sales have indicated interest in working with the largest lottery jurisdiction in Canada—and one of the largest markets in North America.
- Competitive procurement process will need to consider parameters of geography, population, tourism zones and proximity to the U.S.
- The procurement process will also need to account for existing bingo locations and current private sector investments.
- OLG will continue to be responsible for setting the rules, the odds and the payments as well as conducting the draws for all lotteries in Ontario.
- It is important to OLG to make sure that lottery terminals maintain the highest security standards.
- OLG will control game integrity and design while managing the private sector's access to the market.
- OLG will work with the private sector to ensure that customers are served in all parts of the province.

## RECOMMENDATION THREE

### Renew OLG's Role in Oversight of Lottery and Gaming

OLG should improve both its business and infrastructure systems to appropriately manage all customer interaction from lottery to internet to casinos. This would allow the organization to more efficiently fulfill its function as a manager, protector and steward of customer information. OLG should become a leaner, more efficient organization focused on well-defined market management and oversight functions. The OLG will continue to work

positively with its regulator, the Alcohol and Gaming Commission of Ontario (AGCO). At the same time, Ontario should continue to lead the continent in responsible gambling standards and expand research and treatment support. In any expansion of lottery and gaming, OLG must continue to provide safe gaming options and commit to increased environmental practices.

#### CONTEXT

The lottery and gaming marketplace is comprised of a number of different sectors, industries, regulated and unregulated operators, as well as provincial and federal bodies that oversee, regulate, and set standards in the lottery and gaming business.

OLG, often referred to as the “operator”, is a Crown agency of the Ontario government with responsibility for “conducting and managing” lottery games, a number of casino gambling facilities and charitable gaming centres (i.e. bingo halls with electronic games). The *Criminal Code* sets out the parameters under which lottery and gaming is legal in Canada. Under the Code, gaming may only be “conducted and managed” by the province or certain licensed entities. OLG “conducts and manages” lottery and gaming on behalf of Ontario, in accordance with the Code.

AGCO, often referred to as the “regulator”, is also a Crown agency of the Ontario government, responsible for the regulation of resort casinos, facilities directly operated by OLG: OLG casinos, slot facilities at racetracks, and lotteries conducted by OLG. AGCO’s responsibilities also include a range of other responsibilities, such as administration of the *Liquor Licence Act*.

Historically, OLG has been responsible for the oversight and operation of its gaming sites. This has resulted in a large proportion of the organization dedicated to operations.

Today it is more appropriate for OLG to focus on customer information, market management, oversight and responsible gambling. Other Canadian jurisdictions have moved to more modern approaches to the operation of lottery and gaming.

When Ontario expanded gaming beyond resort casinos, the most accessible way at the time to demonstrate control was to own and operate all facets of the gaming experience. Since then, technology has advanced considerably and OLG’s experience in gaming has evolved.

Currently, OLG is working on a number of initiatives to help position the organization for change and help it function more efficiently.

For example, OLG’s knowledge of its customers today is managed and secured across multiple business units and shared services, both internally and via third parties. OLG’s customer database includes:

- almost 2 million Lottery players
- 2.6 million Slots & Casino players; and
- over 5 million Resort Casino players.

#### BCLC

The British Columbia Lottery Corporation (BCLC) determines where gaming facilities go. BCLC owns the games and the game management system as well as the loyalty program. BCLC works with the private sector on where and how gambling opportunities will be made available. Private sector providers supply the facilities and operate casinos.

RFI 1213-002 Modernizing Lottery in Ontario  
OLG is currently implementing an advanced gaming management system that will allow for an integrated view of all operations as well as all product and customer behaviour across all properties.

While the majority of Ontarians gamble without any detrimental impact, a small portion develop moderate to severe gambling problems.

Ontario is an acknowledged North American leader in Responsible Gambling prevention, research, and treatment. This province has one of the broadest networks of gambling counselors and some of the world's leading thinkers and practitioners in the field. These specialists and experts inform OLG's Responsible Gambling program.

## DESCRIPTION

OLG should renew its approach (consistent with that of other provinces) to focus more on what is required for the successful operation of a modern gaming model including:

- customer and game management (customer touch points, databases, approval of marketing programs).
- market management (channel strategy, high-level planning for new gaming sites, product strategy);
- oversight (integrity, security, legal compliance);
- and responsible gambling.

## DESCRIPTION: CUSTOMER INFORMATION

OLG should become a leader in customer information data. Reliable and consistent customer information is important from both a customer-preference and responsiveness point of view as well as for responsible gambling purposes.

OLG should adopt a "privacy by design" strategy to ensure careful stewardship of the personal information contained in OLG's customer database. This will safeguard customer privacy and ensure—among other things—that personal information is used only for defined and express purposes.

OLG will continue to seek the expertise and guidance of the Ontario Information and Privacy Commissioner on how best to embed best-in-class privacy protections in its data management systems.

## DESCRIPTION: OVERSIGHT

It is important however, to retain a government presence where the public interest needs to be protected. Lottery and gaming are forms of entertainment widely enjoyed by millions of Ontarians so it is critical that OLG maintain a substantial degree of control over how they are run.

Appendix A to Schedule B Modernizing Lottery & Gaming in Ontario Report  
There must be OLG-set standards for access, integrity, security and responsible gambling. In the long term, OLG will likely have a small operational footprint—it will do less—but maintain oversight over the gaming experience in Ontario. Ultimately, Ontarians will benefit from a more modern, more sustainable and more valuable operation.

Under the transformed model for gaming, OLG would continue to define all policies and set thresholds for number of sites and games. For example, OLG would determine the maximum number of gaming devices in any site or geographic area. OLG would also set policies in relation to marketing activities and maintain the enterprise brand.

OLG would also help ensure legal compliance (along with AGCO and the OPP) in areas such as money laundering, investigations, fraud and collusion.

All told, OLG would be a much smaller organization focused on customer information, market management, the oversight of a portfolio of private operators as well as responsible gambling.

## RESPONSIBLE GAMBLING

In a transformed industry, OLG would continue to set policies and help establish Ontario's Responsible Gambling standards—maintaining and improving its current leadership in the responsible gambling field.

OLG will continue to provide North American leadership in responsible gambling by:

- maintaining a strong funding base;
- ensuring all operations meet rigorous external standards
- advancing technology practices;
- integrating safe measures into overall customer experience; and
- continuing ongoing partnerships with independent provincially-funded agencies.

The evolution of technology to support customer decisions while gambling enables greater personal control and the collection of data. This information helps OLG better understand how it can encourage players to make informed choices. OLG plans to promote a new suite of individually-directed help services being developed by the Centre for Addiction and Mental Health, including a world-first internet counseling program for gamblers. Facial recognition technology, now being rolled out by OLG, allows facilities to better detect those who have signed up for the voluntary self-exclusion program.

**“OLG supports and engages with a wide range of stakeholders, and demonstrates its commitment to innovation through its support for players ... by actively reaching out to support and counselling services.”**

World Lottery Association’s award letter to OLG for Highest Certification for Responsible Gambling programs

These external controls will ensure that OLG’s program is continually evaluated and improved so that it meets the best interests of Ontarians.

OLG’s role is to help prevent problems from occurring and to assist those who need it. In order for gaming to continue to be a safe, sustainable option for Ontarians and visitors, OLG wants to ensure a broad base of sustainable players who can gamble safely and play for many years. It is not in the interest of OLG or Ontario to attract problem gamblers.

OLG’s future role should be to continue to build on a culture of responsibility where front line staff can identify and respond to players who need help as part of basic customer service. At the same time, OLG will direct and require operators of lottery channels and gaming sites to exceed regulatory compliance standards. OLG will provide operators with strategic and tactical support, performance evaluations, incentives, and plans for improvement. Ontario must continue to expand its leadership in the responsible gambling field, so OLG recommends increasing funding.

### **SAFE PLAY**

Fair gambling is the foundation of player trust. In Ontario, games of chance are run with regulated and transparent odds, pay-out ratios, game mechanics and money management. Facilities and sales channels are monitored and well supported by licensed security officers, EMS trained staff, and as part of the oversight of the AGCO (Alcohol and Gaming Commission of Ontario), by the presence of the Ontario Provincial Police. All gaming staff in Ontario are “Smart Serve” trained on the service of alcohol, and strict age verification requirements support lottery sales and access to gaming facilities. This would continue in a transformed gaming industry.

### **GREEN GAMING**

Gaming in Ontario is going green. For over four years, OLG’s Bet On Green program has been lessening the environmental impact of OLG’s operations, promoting environmental awareness to employees, increasing green awareness among customers and helping OLG become a global leader in energy-efficient gaming. The program focuses on paper reduction, employee engagement, customer education and reducing energy consumption.

In new and renewed facilities, OLG will have the opportunity to increase environmental efforts. New buildings are likely to be LEED (Leadership in Energy and Environmental Design) certified—as are OLG’s most recent gaming site developments. Other current strategies could also extend to any new operations, including:

- ongoing paper reductions;
- and the use of environment-friendly certified cleaning products.

### **KEY CONSIDERATIONS**

- Employees would be affected by OLG’s focus on oversight instead of all direct operations. Depending on decisions, there would be a transition period as many employees move from OLG to a private sector operator.
- Consider appropriate balance between customer knowledge for responsible gambling and business marketing purposes and privacy concerns.
- While increasing the role of the private sector in the delivery of lottery and gaming, it is even more important to focus on oversight and responsible gambling.
- Security and safe lottery and gaming are critical values to Ontario and must be maintained by OLG.

# APPENDIX I

## Internet and Charitable Gaming

### INTERNET GAMING

While only provinces or their designates are allowed to operate betting or lottery schemes under the *Criminal Code of Canada*, Ontarians wager an estimated \$400 million on gambling websites that are not authorized in Ontario. The British Columbia Lottery Corporation and the Atlantic Lottery Corporation have created authorized internet lottery and gaming sites and Loto-Québec also recently initiated “espacejeux” for online gaming in December of 2010.

When it is first launched in late 2012 (and fully in 2013), OLG’s internet gaming site will uphold standards aimed at protecting players from risks such as problem gambling

and identity theft or financial fraud. Over the first five years of operation, internet gaming is estimated to deliver a cumulative \$375 million in Net Profit to the Province and create about 50 jobs (both at OLG and in the industry) in Ontario.

Following a staged rollout of products, OLG will deliver a full range of games on the internet through an online site accessible by computers and other internet-connected devices offering lottery ticket sales, interactive casino-style games (against the house) and peer-to-peer games like poker.

### EXPANDED CHARITABLE GAMING

OLG will roll out a standardized suite of paper and electronic games to all interested bingo halls in Ontario. (The suite of games will not include slot machines.) OLG will offer Bingo, Break-Open Tickets, Raffles and Lottery games or variations of these games to be played on paper, electronic devices or delivered through electronic

dispensing units. Over eight years of operation, this Charitable Bingo and Gaming initiative will deliver about \$475 million for Ontario charities. This initiative will create hundreds of part-time jobs while preserving the role of the thousands of volunteers who are currently involved in community-based charitable activity.

## APPENDIX II

### Stakeholder Consultations

To support Strategic Business Review, from January 2011 to June 2011, OLG conducted a stakeholder consultation to:

- hear stakeholder perceptions on the future of lottery and gaming in Ontario;
- learn about best practices from within the province and around the world; and
- identify opportunities to work with the private sector or stakeholders in new ways.

The Strategic Business Review team met with over 50 stakeholder groups from across the province and in a number of other jurisdictions. The consistent message from stakeholders was that the current model of lottery and land-based gaming in Ontario needs to change substantially in order to meet customers' needs.

The Review team met with representatives from First Nations, casino owners, responsible gambling researchers, racetrack owners, horsepeople, industry leaders, operators in other jurisdictions, convenience store operators as well as related government organizations.

Stakeholders raised three major issues:

#### 1. Market Demand

Stakeholders felt that the future of gaming should be determined by the market. Expansion or reduction in the number of sites, slot machines, table games and lottery distribution must be considered in the context of under- or over-served markets in the province. The GTA is one of the most under-served gaming markets in North America.

“Economics should drive the thinking, and it has not. Historical thinking has been ‘slots are less than full casinos...’ Both slots per adult and tables per adult are dramatically under proportion in the GTA compared to other large Canadian cities.”

Great Canadian Gaming Corporation, Consultation, March 11, 2011

“OLG should be encouraging more private sector involvement or investment.”

Chippewas of Rama First Nation, Consultation, June 2, 2011

#### 2. Private Sector Involvement

OLG should take advantage of the expertise of the private sector to reduce the burden of capital investment on a government agency. It should increase third party operators' participation in the market. The result would be a return based on a reasonable risk/reward and substantially smaller costs.

#### 3. Re-define Purpose

OLG should re-define its role as an operator, focusing on minimizing social costs while improving customer knowledge. This should also include clarification of OLG's role in responsible gambling.

Stakeholders also raised concerns about:

- The need for clarity in the roles and purpose of OLG relationship with stakeholders
- Transparency of where funds are allocated
- Transparency of relationships across the sector
- Efficiency of process
- Effective use of technology
- Fair implementation of rules and restrictions
- Communication from OLG should be consistent, respectful and timely
- Government should be at the forefront of responsible gambling initiatives (particularly in regard to online gaming)

# LIST OF STAKEHOLDERS

- A** **Alberta Gaming and Liquor Commission (AGLC)**, Gerry McClennan  
**Alcohol and Gaming Commission of Ontario (AGCO)**, Jean Major, Don Bourgeois, George Sweny  
**Aristocrat Technologies**, Seamus McGill, Christopher C. Rowe, Keith Wood, Robert A. Perry, Brendan McCarthy, Ron Baryoseph
- B** **Bally Technologies**, Bruce C. Rowe, Robert J. Parente, Tina M. Kilmer, Stan Kozlowski, James Marino, Derik Mooberry  
**Boardwalk Gaming and Entertainment**, Jordan Gnat  
**Boyd Gaming Corporation**, Laura De La Cruz, Samuel Johnson  
**British Columbia Lottery Corporation (BCLC)**, Michael Graydon, Marsha Walden
- C** **Caesars Entertainment Inc.**, Tom Jenkin  
**Caesars Windsor**, Kevin LaForet  
**Camelot Global Services Limited**, Richard Wheeler, Mark Biscoe  
**Canadian Gaming Association (CGA)**, Bill Rutsey, Paul Burns  
**Canadian Niagara Hotels Inc.**, Dino DiCienzo Sr., Dino DiCienzo Jr.  
**Casinos Austria**, Great Blue Heron Charity Casino, Arnold Block  
**Central Ontario Standardbred Association (COSA)**, Bill O'Donnell  
**Centre for Addiction and Mental Health (CAMH)**, Wayne Skinner, Barney Savage, Robert Murray, Nina Littman-Sharp, Nigel Turner  
**Chippewas of Rama First Nation**, Chief Sharon Stinson Henry  
**City of Niagara Falls**, Mayor Jim Diodati, Ken Todd  
**City of Windsor**, Mayor Eddie Francis, Onoerio Colucci  
**Commercial Gaming Association of Ontario (CGAO)**, Peter McMahon
- D** **Delta Bingo**, Cameron Johnstone  
**Draft FCB**, Sophie Mair, John Boniface, David Williams
- F** **Falls Management Company (FMC)**, Clare Copeland, Bruce Caughill
- G** **Golden Eagle Charitable Entertainment Centre**, Patrick Brett, Eric Luke, Chief Skead  
**Great Canadian Gaming (GCG)**, Vic Poleschuck, Rod Baker  
**GTech Corporation**, Tom Dawley, Jay Gendron, Tim Simonson
- H** **HLT Toronto**, Lyle Hall, Rob Scarpelli, Drew Chamberlain
- I** **IGT**, Eric Tom, Chad Helm, Duane Frahm, Jeff Millar  
**Inter provincial Lottery Corporation**, Liz Kneible
- K** **Konami Digital Entertainment Inc.**, Sam Constantine, Ross O'Hanley
- M** **Ministry of Tourism**, Steven Davidson, Michael Kurts  
**Mississaugas of Scugog Island First Nation and Great Blue Heron Charity Casino**, Chief Tracy Gauthier, Kelly Larocca, Dela Charles  
**Mississauga First Nation #8**, Chief Daybutch

- O** **Office of the Information and Privacy Commissioner (IPC)**, Brian Beamish, Michelle Chibba  
**Ontario Bingo Development Fund (OBDF)**, Peter McMahon  
**Ontario Charitable Gaming Association (OCGA)**, Lynn Cassidy  
**Ontario Convenience Stores Association (OCSA)**, Dave Bryans, Steve Tennant  
**Ontario First Nations Limited Partnership, 2008 (OFNLP, 2008)**, Randy Sault  
**Ontario Harness Horse Association (OHHA)**, Ken Hardy, Brian Tropea, Jim Whelan  
**Ontario Horse Racing Industry Association (OHRIA)**, Sue Leslie, Dr. Ted Clark, R. Glenn Sikura  
**Ontario Korean Businessmen’s Association (OKBA)**, Kenneth Kim  
**Ontario Problem Gambling Research Centre**, Judith Glynn  
**Ontario Teacher’s Pension Plan (OTPP)**, Lee Sienna  
**Ontario Racing Commission**, Rod Selling, John Blakney, Steven Lehman
- R** **R2 Gaming**, Rocco DiPaola, Ravi Sharma  
**Racetracks Ontario (for profit)**, Jamie Deacey, Robert Locke, Bruce Barbour, Alex Lawryk, Andrew MacIssac  
**Responsible Gambling Council (RGC)**, Jon Kelly
- S** **Saskatchewan Gaming Corporation (SGC)**, Twyla Meredith, Tony Coppola  
**Saskatchewan Liquor and Gaming Authority (SLGA)**, Barry Lacey  
**Scientific Gaming**, Lorne Weil  
**Six Nations of the Grand River**, Matt Jamieson  
**Standardbred Breeders of Ontario Association (SBOA)**, Anna DeMarchi-Meyers, Liz Wappels  
**Standardbred Canada**, John Gallinger, Pat Kennedy, Tami McNivon, Doug McIntosh, Chris Roberts
- W** **Wauzhushk Onigum First Nation**, Chief Skead  
**WMS Gaming Inc.**, Dean Hendrickson, Dean Ehrlich, Amy Lipton, Bob Hayes  
**Woodbine Entertainment Group (WEG)**, Nick Eaves, Jane Holmes

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# **Schedule D**

## **RFI Submission Requirements**

## RFI SUBMISSION REQUIREMENTS

### SCHEDULE D OF THE RFI

#### QUESTIONS

The objective of this RFI is to gather information on respondents' views about the lottery business in Ontario. In order to cover all key subjects, the questions have been grouped into four main areas: interest and opportunities along the lottery value chain, OLG's role, compensation structure and process.

Each respondent to the RFI should answer the questions below and submit them to OLG prior to the deadline defined in Schedule A of this RFI. Submissions received after the deadline will not be accepted.

#### **1. Interest and opportunities along the lottery value chain**

*For information regarding the lottery value chain, please refer to **Schedule B Section 4** of this document.*

- a. What elements of the value chain would you have interest in operating, either individually or in combination with other elements? Please explain why (e.g., cost reduction, innovative ideas for operation, etc.).
- b. What elements of the value chain should be operated by a single service provider? What synergies exist between those elements? What would be the effect on value if they were separated?
- c. Which elements of the value chain could or should be operated by a separate private sector participant? What arrangement should be in place between different private sector participants? Which functions, if any, would you prefer OLG to retain? Please provide rationale.
- d. To your knowledge, how have the elements of lottery value chain been divided in other jurisdictions, including but not limited to other Canadian jurisdictions where conduct and manage requirement provide a common reference point? If various elements of the lottery value chain are divided among multiple service providers, what would you recommend OLG might do to coordinate among such service providers?
- e. Where do you see the biggest opportunities increase the value of the lottery business? What distinctive capabilities would be required of a private sector service provider to capture this value? Please provide rationale.

#### **2. OLG's Role**

*For information regarding OLG's operational involvement, please refer to **Schedule B Section 5** of this document.*

- a. Given OLG's conduct and manage mandate, how could OLG best implement its responsibilities to ensure future private sector service providers are best able to maximize value?

- b. Based on the functions that OLG will retain or continue to be involved in, please describe any significant challenges these will create in terms of interaction with a private service provider? How should the relationship between OLG and a service provider be structured to maximize effectiveness?
- c. Would you have interest in exploring any of the centrally provided shared services that OLG is considering (as per schedule B)? If so, which ones? How would you value each of these services? Are there other shared services that you would like OLG to offer?
- d. How will OLG's continued operation and management of its PAM (for digital game delivery) potentially impact your ability as a potential service provider to maximize value? What do you anticipate needing from OLG in order to be able to work with this PAM effectively?

### 3. Compensation Structures

*For information regarding compensation structure, please refer to **Schedule B Section 6** of this document.*

- a. What return on capital would a service provider expect to achieve? How do your expectations vary across different elements of the value chain? Please provide rationale.
- b. Please describe the compensation structure that you would propose for each segment of the lottery value chain that you may be interested in operating. How should the incentives and behaviours of OLG and each service provider be aligned?

### 4. Other topics

- a. If OLG were to pursue a competitive RFP process, should all of the elements of the lottery value chain be included in a single RFP? Alternatively, would you prefer multiple, simultaneous RFPs or sequenced RFPs? Please explain your rationale.
- b. If OLG were to pursue a competitive RFP process, how much time would be appropriate for you to develop a proposal for each part of the lottery value chain you are interested in?
- c. Please provide any other comments on the matters addressed in this RFI.

# **Schedule E**

## **Definitions to RFI Schedules**

## DEFINITIONS TO RFI SCHEDULES

### SCHEDULE E OF THE RFI

The following definitions apply to the Schedules in this RFI:

“**AGCO**” means Alcohol and Gaming Commission of Ontario. The AGCO is responsible for regulating casino gaming and lottery gaming, including bingo, within Ontario. Further details can be found at <http://www.agco.on.ca/>

“**CAMH**” means Centre for Addiction and Mental Health. Further details can be found at <http://www.camh.net/>

“**Employment Standards Act**” means the *Employment Standards Act, 2000*, S.O. 2000, c. 41, as amended.

“**ERM**” means Enterprise Risk Management.

“**Family Responsibility Act**” means the *Family Responsibility and Support Arrears Enforcement Act*, 1996, S.O. 1996, c. 31, as amended.

“**FIPPA**” means the *Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, c. F.31, as amended.

“**French Language Services Act**” means the *French Language Services Act*, R.S.O. 1990, c. F.32, as amended.

“**GCA**” means the *Gaming Control Act*, 1992, S.O. 1992, c. 24, as amended. Further details can be found at [http://www.e-laws.gov.on.ca/html/statutes/english/elaws\\_statutes\\_92g24\\_e.htm](http://www.e-laws.gov.on.ca/html/statutes/english/elaws_statutes_92g24_e.htm)

“**iGaming**” means internet gaming

“**ILC**” means the Interprovincial Lottery Corporation. ILC is an organization that operates lottery games in Canada. It is owned jointly by the five provincial lottery commissions (British Columbia Lottery Corporation, Atlantic Lottery Corporation, Ontario Lottery and Gaming Corporation, Loto-Quebec and Western Canada Lottery Corporation).

“**Information Privacy Commissioner of Ontario**” means the office of the Information Privacy Commissioner, as established by the *Freedom of Information and Protection of Privacy Act*, R.S.O. 1990, c. F.31, as amended. Further details can be found at <http://www.ipc.on.ca/english/Home-Page/>

“**Instant Products**” means a lottery scheme played on a paper scratch ticket. Further details can be found at <http://www.olg.ca/lotteries/games/games.jsp?game=instant>

“**IT**” means Information Technology.

“**ITVD**” means Instant Ticket Validation Device.

“**Know Your Limit**” means OLG’s responsible gambling program entitled “Know Your Limit.”

“**Labour Relations Act**” means the *Labour Relations Act*, 1995, S.O. 1995, c. 1, Sched. A, as amended.

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“**Liquor Licence Act**” means the *Liquor Licence Act*, R.S.O. 1990, c. L.19, as amended.

“**MERX**” means the MERX electronic tendering system.

“**MOF**” means the Ministry of Finance.

“**MPLS**” means Multiprotocol Label Switching. MPLS is a mechanism in high-performance telecommunications networks that directs data from one network node to the next based on short path labels rather than long network addresses, avoiding complex lookups in a routing table.

“**National Online**” means games offered through lottery terminals in every jurisdiction in Canada from the five Lottery Corporations across Canada which are members of the Interprovincial Lottery Corporation (ILC). These games include: LOTTO 6/49 and Lotto MAX. The ILC enables participation in nationwide games that can offer large prize pools for players.

“**Occupational Health and Safety Act**” means the *Occupational Health and Safety Act*, R.S.O. 1990, c. O.1, as amended.

“**OLG**” means the Ontario Lottery and Gaming Corporation. Further details can be found at <http://www.olg.ca/index.jsp>

“**Ontario First Nations**” means all Status and Non-Status “Indian” peoples in Ontario.

“**OLG Act**” means the *Ontario Lottery and Gaming Corporation Act, 1999*, S.O. 1999, c. 12, Sched. L, as amended.

“**Ontario Problem Gambling Research Centre**” means the not-for-profit corporation known as the Ontario Problem Gambling Research Centre. Further details can be found at <http://www.gamblingresearch.org/>

“**Operating Mind**” refers to the functions performed by OLG to “conduct and manage” Gaming & Lottery in the Province of Ontario subject to the Criminal Code of Canada.

“**OPGH**” means the Ontario Problem Gambling Hotline. The OPGH is an information and referral service available to members of the public, including problem gamblers, family/friends of problem gamblers, and service providers working with clients experiencing problems related to gambling. Further details can be found at <http://www.opgh.on.ca/>

“**PAM**” means Player Account Management.

“**POS**” means Point of Sale. POS is the location where a transaction occurs.

“**RBR**” means Risk Based Registration.

“**Regional Online**” means games offered through lottery terminals in Ontario only. They include: Daily Lottery games: Pick 3 Pick 4, Daily Keno, Little Lotto games (Ontario 49 and Lottario), a spiel game (Encore) and a "Watch n' Win" game (Poker Lotto) that has an Instant win features as well as a nightly draw.

“**Regulated Private Sector**” means private sector service providers whose lottery and gaming operations will be regulated by the Alcohol and Gaming Commission of Ontario.

“**RFI**” means Request for Information.

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“**RFP**” means Request for Proposal.

“**RFPQ**” means Request for Pre-Qualification.

“**RG**” means responsible gambling.

“**RG Check**” means the accreditation program created by the Responsible Gambling Council based on the RGRC’s Responsible Gambling Index (standards). The program offers gaming companies the opportunity of an independent endorsement of the quality of their responsible gambling safety net. Further details can be found at <http://www.rgcheck.com/>

“**RGC-O**” means the Responsible Gambling Council of Ontario.

“**RG Program**” means an operational program that is integrated into business activities and customer interactions, and is designed to support and promote responsible gambling behaviours by providing information and tools to assist in the prevention of problem gambling, and to help players make informed decisions about gambling.

“**RMOs**” means Regional Marketing Organizations.

“**SBA**” means Standards Based Approach.

“**Sports Games**” means sports wagering products which are purchased through lottery terminals in Ontario only. These include: PROLINE, POINT SPREAD and PRO PICKS.

“**World Lottery Association**” means the international association of state lottery and gaming organizations known as the World Lottery Association.