DISCUSSION OF THE LOTTERY COURIER SPACE AND JACKPOCKET'S FOCUS ON COMPLIANCE: AN INTERVIEW WITH JACKPOCKET CEO PETER SULLIVAN

Steve Ruddock is the Editor-in-Chief of Gaming Law Review.

Peter Sullivan is the CEO of Jackpocket in New York, New York.

Gaming Law Review Editor-in-Chief Steve Ruddock sat down with Peter Sullivan, the CEO of Jackpocket, a tech company operating as an online lottery courier service in several states, with an emphasis on compliance and working with local regulators in order to operate within the legal frameworks of the jurisdictions it services.

STEVE RUDDOCK: How does Jackpocket differentiate itself from a typical lottery courier service?

PETER SULLIVAN: Yeah, we are a courier service, but one thing I want to make clear is that while we are a courier service, we're only domestic. Meaning we only serve customers within a certain jurisdiction.

I think what makes us distinct is working within legal frameworks. In New York and New Jersey, we worked with the regulatory bodies and the official state lotteries to create the first set of regulations and frameworks that would allow a courier to become registered or licensed in the state. In December,

we became the first officially licensed courier registered in New Jersey, and the United States for that matter. That was kind of a historical moment for the lottery space.

And our approach has been to focus on compliance from day one. We really pride ourselves on ensuring that we're providing the highest level of consumer protections and meeting all the regulatory requirements. And I think even going above and beyond them in most cases.

What we learned is there are no shortcuts in that. We've been building this platform for seven years, and we always joke that we're halfway to becoming an overnight success. As you know, things move slowly in this space, but I think we are in a really great position now.

We have a really elegant consumer-facing experience that is much better than the current online lottery experiences out there, specifically around draw-based games, which is what we're currently offering. And my background is as a UI-UX [user interface-user experience] designer, so I really care about the product. And I think consumers really care about the product, especially the younger consumers lotteries are trying to attract. So, we pride ourselves in really being a technology company that happens to be in the lottery space. I think we've taken that approach to heart, and its design and experience are part of our DNA, which has kind of separated us.

STEVE RUDDOCK: Have you experienced or do you anticipate any difficulties getting licensed and regulated in a state that has an online lottery and might view Jackpocket as a direct competitor?

PETER SULLIVAN: What we're finding is some of the states that have been offering iLottery products for many years are doing one percent or less of all their sales through the digital channel. So, for states that have launched an iLottery product, we think we can be supplemental.

We don't believe in a one-size-fits-all product, and we believe there are a lot of consumers, especially

younger, affluent, tech-savvy consumers that may have a negative brand connection to the lottery.

STEVE RUDDOCK: So, you offer them a new brand?

PETER SULLIVAN: Right, and by interacting with the new brand, they still want the same products. They still want to buy a Mega Millions or Powerball ticket, or in our case, order a ticket. But building an e-commerce solution is not as simple as just launching an e-commerce site. What we engage in is a very comprehensive algorithmic, high level, sophisticated consumer acquisition, as well as CRM [customer relationship management] and creating innovative products.

And I think state lotteries tend to think they can just buy a white-label solution, and everyone will come. It's not that way. This is especially true of younger players. If your user experience isn't amazing within the first 30 seconds, they're going to churn. And I think lotteries are starting to understand that. They're saying to themselves, "wait a second, we actually have to pay for consumers to download this app and start using it."

They've been able to build up some mailing lists, so I think when a state first launches, they see a little spike, but afterward, it's really hard for them to continue to acquire and retain customers. And that's where we can help.

We use our marketing dollars to help create more incremental sales. So, as state budgets continue to have their lottery marketing budgets cut, we can step in and provide additional resources to help sell more products and reach a new audience. At the end of the day, it's all about creating incremental revenue for the state beneficiary.

STEVE RUDDOCK: Could you walk me through the customer process from account creation to how they fund their account and order tickets?

PETER SULLIVAN: We built a native app in Swift on iOS. As you know, Apple has changed its rules on real-money gaming (RMG) and requires all RMG apps to be built natively. We've been building in Swift for quite a few years, and we think it's a superior product.

Customers can download the app in the App Store, where we have a 4.7 rating based on over 6,000 rat-

ings. And I think if you compare that to some of the other lottery apps, it's a stark difference.

The next step is for the user is to register an account. They can connect with Facebook or register using their e-mail and phone number. Then we send them an SMS [short message service] shortcode that expires within a few minutes. We use that to verify the phone number. They can then enable face ID, so they can enter and utilize the app and place orders using biometrics with either their touch ID or face ID.

After that, we ask them to either scan the bar code on their license or enter first name, last name, date of birth, zip code, etc. We tie that all together in the back end using the same ID solutions that many of the online casinos use, and then we take all that information, and once we confirm the person's identity with that phone number, we allow consumers to add funds to their account.

We also use geolocation, so customers have to allow the phone's native geolocation services. We've created our own anti-spoofing software too. We're really proud of that.

Essentially then we can share with the lotteries that they can play, and then they add funds to their account through ACH, PayPal, and credit or debit cards depending on the state, as states have different policies when it comes to credit and debit cards for lottery purchases.

When players fund their account, they're charged a convenience fee and then they can play any of the games that they want to play at no additional costs. At that point, they can basically order a ticket in one of several ways. They can order a ticket with their favorite numbers or do a quick pick, and we built technology that allows us to process a paper ticket and actually print the ticket, scan that ticket, and perform OCR, which is optical character recognition on that ticket.

We watermark the bar code and send that ticket back to the consumer. So, they get to have an e-mail that contains the serial number of the ticket as well as the numbers they selected, we then send them an image of a ticket within the app. They get a push notification and they see a high-resolution image of the front and back of that ticket. We think that's really important

because it boosts consumer confidence and lets the consumer know that they have actually ordered a ticket that has been processed and they can actually see the physical evidence that the ticket was processed for them.

Also, our random number generators are certified with GLI [Gaming Labs International], in fact, our whole system is certified with GLI, all player funds are segregated, and we work with officially state-licensed vendors.

STEVE RUDDOCK: And how does that relationship with lottery retailers work? And is there any caps or limits on the number of tickets? If somebody wants to buy 10,000 tickets for the Powerball is that doable?

PETER SULLIVAN: We have a processing center and we work with a brick-and-mortar in each state. That processing center allows us to provide quick access to the retailer.

As far as a cap, we currently cap players. It wasn't a mandate, but we currently limit deposits to no more than \$250 per day and purchases to \$100 per day. We also let players personalize deposit and spending limits so that they can adjust our limits down on a daily, weekly, or monthly basis.

But that said, we are able to highly scale our product. We're doing hundreds of thousands of tickets.

STEVE RUDDOCK: So, the limits are a self-imposed responsible gaming policy by Jackpocket?

PETER SULLIVAN: Yeah, that's a responsible gaming private policy that we kind of put on ourselves.

That said, we are starting to get a lot of inquiries from people that want to play more when it's larger, especially when they're interacting with a pool. So, we're actually working through that process and working with the National Council on Problem Gambling to start testing the idea of allowing additional play.

One reason for this is we would really love to allow celebrities to play and then be able to pledge it to a charity. So, if a celebrity wanted to play \$10,000 and pledge 50% of it to a charity if they want. I mean, that would be fantastic.

Like I said, we're doing over 100,000 selling tickets in certain jurisdictions and with a single retailer a day. We believe we could scale up to at least a million dollars per day in each jurisdiction.

STEVE RUDDOCK: Those retailers must love you.

PETER SULLIVAN: Yeah. Well, we have an interesting relationship with those retailers and the retailers that we work with are the largest selling retailers in the state.

STEVE RUDDOCK: What jurisdictions are you active in right now?

PETER SULLIVAN: We're currently live in Minnesota, New Hampshire, Texas, Colorado, New Jersey, and we're live in DC but we haven't publicly launched yet.

STEVE RUDDOCK: And is there anything specific about those jurisdictions that has made them first movers?

PETER SULLIVAN: They've been receptive to new technologies. They're seeing the incremental revenue, and they understand that new distribution is better for the lotteries. We're from New York and New Jersey, so those made sense when we first started, and those were the first two states that we moved forward with getting regulatory frameworks built around courier services. The other ones were progressive and wanted to work with us. And I think we've proven that it's been quite a success in other states, specifically Texas and Minnesota, which had been our biggest markets until we launched in New Jersey.

We're doing pretty good right now.

STEVE RUDDOCK: What would you say to someone who says what you're doing is just a work-around to legal online lottery products or a stand-in product until a state legalizes?

PETER SULLIVAN: What we would say is this: we ensure that we comply with all the rules and regulations before we enter a state. We go through a due diligence process and compliance to us is top of line. What we've done is find an interesting distribution format that people have always been doing. People have always gone and bought tickets on behalf of

other people. States always promote office pools, so we've basically created a more efficient means to do that and have done it at a cost savings to the state.

The state doesn't have any integration costs, they're not licensing any software, and we're paying for all the marketing dollars that lead to additional sales for that state. Rather than a work-around or a stand-in, I think it's actually much more beneficial than an iLottery product. We don't ask for anything special in the sense of, we're using the existing point of sale solutions that were provided by their existing lottery. So, I think it's a win, win, win across the board.

STEVE RUDDOCK: Would it be fair to say, just to summarize it into a sentence, that you're taking a way people have always bought lottery tickets (through a third party) and using modern technology to make the process more efficient?

PETER SULLIVAN: Exactly. And that's exactly what we've done.

STEVE RUDDOCK: What precludes you from entering certain states?

PETER SULLIVAN: As far as we know, the state of Virginia and the state of Wisconsin have language that would not allow a courier service as it currently is. Otherwise every other jurisdiction is pretty silent on it, and usually had some supporting regulations or has supported the premise of individuals buying on behalf of other individuals. And like I said, before we enter a jurisdiction, we do a comprehensive deep dive to ensure that we comply with all the rules and regulations. Recently we've seen more and more interest from lotteries every single day. It's taken us a long time to get here, we're the only lottery courier that's a member of NASPL [North American Association of State and Provincial Lotteries], which is the state provincial lottery association, so I think we've proven that we want to be part of the industry from a long time.

We've gone above and beyond, even in states where we're not regulated. We use the same exact highly regulated, highly compliant system that's running in states where we are regulated.

All of our systems are audited by GLI. We've gone through a number of different third-party audits to ensure everything we do is at the highest standard.

And I think states are starting to realize, "Hey, wait a second, we have multiple brick-and-mortar channels, adding additional channels is only going to help us get more of our product out there." Especially as new forms of gaming and gambling become available. I think what you're going to see is, in the next year or so, state lotteries that currently have an iLottery product, I think they'll be more open to working with another third party.

I think the future is going to be where the third-party digital retailers will be able to become licensed through the state. They'll go through a comprehensive licensing program, but through that they'll be able to offer lottery products to consumers, just like the lotteries themselves. And I think there's a bunch of additional benefits to that.

We are a multi-jurisdictional brand. So, every time, you know, we make major improvements in our technology, every state that we're engaged in sees those improvements. We get economies of scale. As such, we're able to really invest in our technology. We have an app build almost every two weeks and we're always looking at the latest and greatest technology. Like I said, we really look at ourselves like a technology company.

The other benefit of that is you have cross-jurisdictional play. So, you know, rather than having a siloed app, because it's multi-jurisdictional, someone like my dad who used to live in New Jersey and work in New York, he can use that same app, and literally in the morning he can order a ticket in New Jersey and makes sure that the New Jersey beneficiary would see that 30%, and then in the afternoon when he's at work, he doesn't have to switch an app. It's like Uber, the app understands where he is, what his favorite numbers are, and what games he plays.

And we'd love to see a situation where he's going in with a friend in Minnesota or Texas on the Powerball together and they're both splitting the prizes, but he's ordering a ticket in New York and his friend is ordering a ticket a Texas. We think having a multi-jurisdictional brand and application can actually create more value.

And again, being able to handle our own marketing dollars to do innovative stuff. We're working with,

we're talking to a bunch of partners that we hope to announce in the next year and I think there's a bunch of fun, exciting, entertainment media-driven stuff that we can do.

STEVE RUDDOCK: You just mentioned storing favorite numbers, that's a feature that would ease the lives of many lottery users. What other features do you have in the app?

PETER SULLIVAN: Yeah, so we have the ability for someone to set up what we call an auto-play subscription. They can either have it randomly choose their numbers or they can play their favorite numbers all the time. And what's cool about it is you can have it set to play every drawing, or only the lotteries over, say \$200 million. You can also have it set to play for two bucks at \$200 million, but once cross is \$500 million, it's set to \$10. So, we have that, and it will auto-fund your account, which is really cool. We obviously have a referral program, so every time you refer a friend you get credits.

But what's really fun is the pooling. So, we have, what we call public pools. That's where people that don't know each other can play in a pool together to try to win and beat the odds. We've had up to like 6,000 people playing together across multiple states. Every time they're ordering a ticket to play in that pool, they're ordering it from the state that they're currently located in. And then additionally we just launched private pools, which is basically where you create a private group, with a private link that you can invite your friends, family, or colleagues to. Everyone can like order the amount of tickets that they want to order, and we'll actually

show the breakdown and do the price sharing automatically. So, if someone wants 10 tickets but everyone else wants two tickets, you know who's going to get the benefit of having more tickets.

STEVE RUDDOCK: That's interesting, because a lot of office places will all hustle around collecting money for a pool when the lottery gets to a certain point. And it can be a hassle. Chasing people down, and everyone needing to be in the same amount of money to keep the math simple.

PETER SULLIVAN: Yeah. And they have to photocopy the tickets, keep track of who was in the pool, collect the money, and all that. And then there's also the situation like, okay, where's Denise? Well Denise is always in the pool, is somebody going to put her money in to hold Denise's spot in the pool? And then you win the pool, and there's no record of who was in the pool.

We've had like 5,000 groups graded so far, since we launched it. And it's fun because people get to name their pools when they invite people and some of the names are just hilarious. Like fantasy football, and I think we're just at the beginning of it. There are all kinds of fun, interesting things we can do. I think we're just at the tip of the iceberg of what like an Internet lottery product could be.

When we first started it was let's use the games people know and love. But we think in the future there could be all new types of game formats that have never been imagined before, and we want to be sure that we're there, and figure out, how can we create those games?