An Overview of Italian Gaming The State of the Industry

Roberto Verona

Abstract

In recent years, the field of gambling in Italy has registered significant growth and Italians have demonstrated high propensity to play. The purpose of this article is to analyze the dynamics of such growth, in particular of the sectors that have developed more than others, and the effect of State policies and regulations on decisions taken by economic operators. From our research, it emerges that the gambling sector has been affected by a complex and contradictory State normative policy. Despite the fact that the Italian legal system allows only four casinos to operate, contradictory State polices throughout the years have determined a significant expansion of the offer of games but also resulted in a disparity of treatment of different sectors of the gaming industry.

Keywords: Italian gambling, Lotto, SuperEnalotto, lotteries, Bingo, sports betting, horse racing betting, gaming machines, skill games, casino

Introduction

In the period 2003-2009, the Italian gambling sector has experienced significant growth in particular in the gaming volume, which, in 2009, reached € 54.41 billion scoring an increase of 351.19 percent since 2003. If we compare the whole gaming volume with the number of potential players (individuals above the age of 15), who are approximately 51.6 million, in 2009 per capita gaming volume per year reached € 1,061.80. In the same year, players have won[1] € 37.61 billion that is 69.12 percent of the whole gaming volume. Thus the actual per capita expenditure for gambling amounted to € 325.48.[2] Figure 1, highlighting the trend of gaming and tax revenues for the period 2003-2009, confirms the Italians' growing interest and propensity to gamble.

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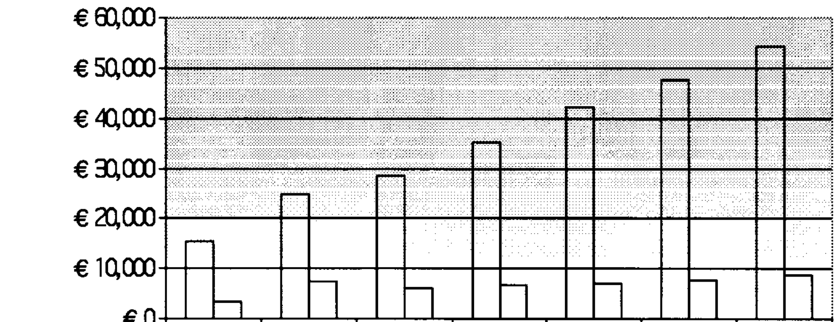
1 It is worthy to clarify that, for taxation purposes, the amounts won by gamblers will not affect their total income as they are net of taxation that was levied at the origin by the State.

2 The average payout has registered the following trend: 54.5 percent in 2004, 63.2 percent in 2005, 65.7 percent in 2006, 68.7 percent in 2007, 68.5 percent in 2008 and 69.12 percent in 2009. The State has implemented, among other measures, the reduction of the prices of games to encourage consumption and consequently increase the volume of income revenues. It emerged that the increase in discretionary consumption of families was directed to gambling. Contrary to the general assumption, the propensity to gamble in Italy is not inversely proportional to wealth. The common expression that indicates gambling as a tax on the poor is not correct. A survey conducted in 2008 by Censis ("Gioco Ergo Sum" - "I gamble therefore I am") has shown a positive correlation between gambling volume and some socio-economic indicators, such as GDP (0.867), family consumption (0.867), and employment rate (0.805). The results further proved that in relation to a low employment rate (-0.855) there is a low income, therefore the propensity to gamble is likewise lower.

Figure 1
Trend of gaming revenues and tax revenues in Italy between 2003 and 2009
(In millions of euros)



	2003	2004	2005	2006	2007	2008	2009
Gaming revenues	15,493	24,785	28,487	35,244	42,193	47,555	54,410
Tax revenues	3,505	7,298	6,157	6,717	7,195	7,746	8,810

Source: Autonomous Administration of State Monopolies, website http://www.aams.it

It is important to bear in mind that the Italian legal system prohibits gambling and such general principle is enshrined in Articles 718 to 722 of the Penal Code. However, the State does not pursue a strict policy of prohibition; the games that, directly or indirectly, represent an exception to the general principle by virtue of *ad hoc* legislation are considered legal. The purpose of our research is to examine the evolution of the gaming industry and the effects of the introduction of new forms of gaming, which resulted in significant expansion of the sector, despite it was considered a mature market. The research paper includes a systematic analysis of the impact of State policies, such as the promotion of gambling products and a more permissive legislation, on the development of the gaming offer and on the necessary strategic decisions adopted by the economic operators of the sector. In order to facilitate the understanding of the complex dynamics of the evolution of the gambling industry in Italy, this paper includes an Appendix that details the relevant statistics on gaming volumes (Tables 6) and tax flow (Table 7) for each game for the period 2003-2009. The relevant statistics and data for the research have been obtained from the official record of the Autonomous Administration of State Monopolies and of the Ministry of Finance.

The State Monopoly

Modern history of the Italian system of State monopolies started in 1862, one year after the unification of Italy, when the State began to produce essential items (salt), discretionary products (tobacco) to maximize the revenues for the benefit of tax flow, and also of products of social value (Quinine) without lucrative aims and exclusively for public health. In 1928, the Autonomous Administration of State Monopolies (*Amministrazione Autonoma dei Monopoli di Stato* – hereinafter AAMS) was created for the modern management of national monopolies. After 80 years from its establishment, the AAMS is still playing a crucial role despite the significant changes in the socio-economic context in which it operates.

The AAMS has gradually undertaken new and important tasks, in particular in relation to the management of gambling games: in 1988 of the lotteries; in 1994 of Lotto and instant lotteries; in 2000 of Bingo; in 2002 of SuperEnalotto and eventually of all the games of the Italian gaming portfolio. The institute is practically in charge of all public functions on public gaming, including those related to the management of the tax flow. It is worth noting that the AAMS mission has evolved from the original mandate of direct management of State monopoly to the governance of economic sectors of social importance. At present, the institute exercises an active role in regulating, controlling and ensuring effective functioning of the gaming sector in Italy and its identity of simple administrator of State monopolies has changed to that of actual regulator of the gaming market.

Nevertheless, it emerges that the Italian gaming industry is still characterized by strong State control, in pursuit of a two-folded purpose: ensuring consistent tax flow while preventing interference of organized criminal groups to maintain security and public order. In the following paragraphs, the research will focus on the main economic and normative events that have accompanied the growth of public games in Italy.

Lotto

The game of Lotto, whose origins date back to the XVI century, consists in guessing at least one number in a combination of five numbers drawn from a container holding the numbers from 1 to 90. At present, the national Lotto has three extractions per week (Tuesday, Thursday and Saturday) during which the combinations of five numbers are drawn from 11 different containers, each called "*ruota*" (literally meaning "wheel"). In 2006 Instant Lotto was created allowing players to bet on immediate and customized extractions whose absolute random nature is guaranteed by an algorithm.

Since 1993, the Lotto has been operated by "Lottomatica s.p.a." by virtue of an exclusive State license (this license was renewed in 2003 until 2012). Lottomatica s.p.a. is in charge of the implementation and control of both the physical premises and the data transmission system of the game's distribution network. This network consists of approximately 210,000 distribution points located throughout the national territory, at tobacco shops, Lotto collection points, Bingo halls, supermarkets, shopping centers and permanent special collection points located in train stations, ports, airports and gas stations along the motorway.

The distribution of Lotto is controlled by the AAMS, exercising State functions, and managed by a licensee, namely, "Lottomatica s.p.a.", whose proceeds are represented by a percentage (approximately 6 percent) of the whole gaming volume. The numerous collection points, representing the last component of the distribution chain, are in charge of collecting bets from players and for their services they receive an 8 percent commission on the whole gaming volume.

The State is the economic actor that effectively takes on the risk of gaming, whose net tax revenues are obtained by paying winning bets at a lower amount (often excessively lower) to what it would pay should the game be fair. The table below (Table 1) illustrates the resulting payouts for each bet Euro.

Table 1: Payouts of Lotto

RESULT	PAYOUTS	PAYOUTS %
Singolo (one number)	11.232 €	62.40%
Ambo (two numbers)	250 €	62.42%
Terno (three numbers)	4,500 €	38.30%
Quaterna (four numbers)	120,000 €	23.48%
Cinquina (five numbers)	6,000,000 €	13.65%

Source: Autonomous Administration of State Monopolies, website http://www.aams.it

The above table details that for every € 100 bet on a combination of five numbers out of five *(Cinquina)*, € 13.65 are distributed as winnings; € 86.35 are shared amongst the collection points (€ 8), the licensee Lottomatica s.p.a. (approximately € 6) and the State. Additionally, it must be noted that the State will benefit of a further tax flow represented by the taxation of winners, whose winnings are subjected to a 6 percent tax before payment. It can be concluded that the effective net prizes after taxation for each combination of numbers are the following: € 10.558, € 235, € 4,230, € 112,800 and € 5,640,000.

The Lotto is one of the most important games in terms of gaming revenues and one of the few public games where the State, at least in theory, assumes the risk of losing its own money, due to the lack of a jackpot to be shared amongst players like in other games. However, as the game operates on large amounts the actual risk for the State to lose is almost null. In this game the prize depends on the type of bet placed, but the State has established € 6 million as the maximum amount of wins.

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The possibility that some numbers are not drawn for several extractions, in some cases more than 100, creates a very strong psychological attachment to the game, which can reach the form of cultural phenomenon. This popular interest in the game attracts the attention of the media, which further amplify the phenomenon effectively leading to increasing gaming revenues. As detailed in the Appendix, respectively in Table 6 and 7, in 2004 gaming revenues and the consequent tax flow of Lotto registered exceptionally high peaks, caused by an extraordinary frequency of "latecomer" numbers that were not drawn for a long series of extractions.

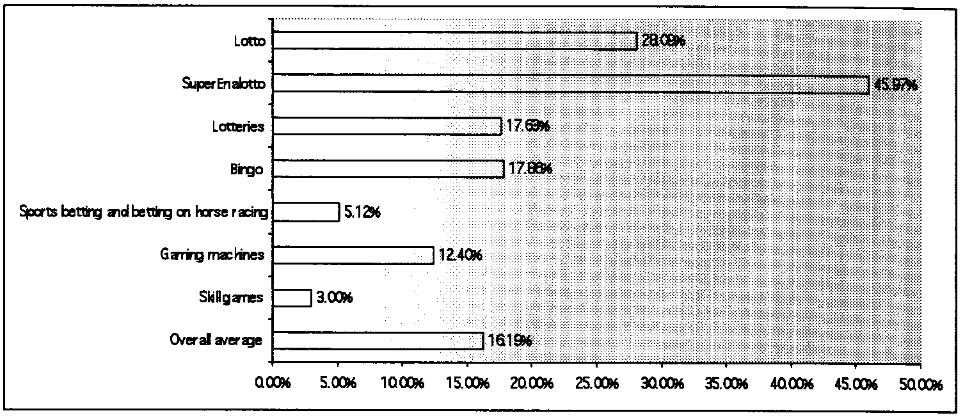
SuperEnalotto

In 1997, the game of Enalotto, established in 1957, was modified and the SuperEnalotto was thus created. The players place their bets guessing a combination of up to six numbers drawn from a container holding the numbers from 1 to 90. Extractions of the six-number combination and of a *Jolly* and a *Star* numbers (representing further prizes) take place at national level three times a week. SuperEnalotto has two main features: 1) the winnings, unlike in Lotto, are not fixed but vary in function of a jackpot equivalent to 34.648 percent of all bets; and 2) in case of no winners the jackpot will increase the jackpot of the following week. Unlike Lotto, in SuperEnalotto the State does not bear any betting risk. Despite the relatively low payouts of the game, the first category prizes can reach exorbitant figures as the possibility that six numbers out of six are forecast is only one out of 622,614,630, thus a high number of drawings, more than tens, are required for the first category prize to be won, which result in the jackpot reaching tens million euros. For example, since 2003, 17 wins of exceeding 36 million euros have already been registered.

The presence of a jackpot above average creates a strong enthusiasm in players, who are more inclined to place further bets. This phenomenon was amplified in 2008 and 2009, when the jackpot reached respectively over 100 and 147 million euros and the gaming revenues significantly exceeded those of previous years (see Table 6 of the Appendix). It is to be noted that in the game of Lotto the effect of numbers that are not drawn for a long time is purely psychological and does not affect the amount of winnings and gambling odds, while in SuperEnalotto higher jackpots effectively increase the expected value of the game.

SuperEnalotto is operated, by virtue of an exclusive license, by Sisal s.p.a., which is in charge of the distribution network necessary for the collection of bets and is entitled to a profit of 8 percent of the whole wagers. This game is both the one with the absolute highest winnings and the one that, in percentage, provides the State with the highest tax revenues (in 2009, for every € 100 of wagers the State collected € 45.97). Details of the ratio of gaming volume and tax flow for each game are provided in Figure 2.

Figure 2: Tax revenues /Volume of wagers by game type



Source: Autonomous Administration of State Monopolies, website http://www.aams.it

Traditional lotteries and instant lotteries

Italian legislation allows for a maximum of 12 national lotteries and one international lottery per year, each with a first prize (varying between one and six million euros) and other smaller prizes depending on the sale of tickets. The AAMS has delegated to "R.T.I. Lottomatica s.p.a." (now called *Consorzio Lotterie Nazionali*) the automated operations of national lotteries (with both postponed and instant drawings); thus, the sale of tickets (available for 60/90 days prior to the drawing) can benefit from an extended sales network, such as tobacco shops, Lotto sales points and petrol stations on the motorway.

National lotteries (postponed drawing) are one of the oldest forms of public games; however, in recent years they have lost some of their appeal due to the high competition of new public games, in particular instant lotteries, known as "*Gratta e Vinci*" ("Scratch and Win"), that were introduced in 1994. Players are required to scratch over the special coating of instant lotteries tickets and they immediately know whether they won. Since 2006, it is possible to play instant lotteries online, placing the bets on the Internet. Table 2 illustrates the competitiveness of instant lotteries vis à vis traditional lotteries focusing on data of 2008 and broken down for each game, in gaming revenues and tax revenues.

Table 2: Lotteries year 2008
(in millions of euros)

	Gaming revenues	Tax revenues
Instant lotteries (Scratch and Win)	9,108 €	1,626 €
Traditional lotteries	97 €	21 €
On-line lotteries	69 €	12 €
Total	**9,274 €**	**1,659 €**

Source: Autonomous Administration of State Monopolies, website http://www.aams.it

Bingo

In the game of Bingo (in Italy known as *Tombola*) each player buys, for a fixed price varying from one to three euros, a sheet containing 15 numbers (five numbers on three rows) between 1 and 90. The winners are respectively the first player who has on the same row five drawn numbers (*Cinquina*) and the first one holding a sheet where all the numbers have been drawn (Bingo). Additionally, some further prizes such as, Super Bingo, Super *Cinquina*, Golden Bingo, Silver Bingo and Bronze Bingo, can be associated with other specific combinations.

The State has exclusive operation of Bingo and, in 2001, through AAMS, the management has been transferred by public bid to 300 licensees, of whom 200 are currently still active. Licensees have to be reliable and to set up suitable Bingo halls, provided with specific technical and qualitative characteristics to be approved by AAMS, such as appropriate location, restoration areas and playground for children. Still in its starting phase is the implementation of "interconnected Bingo" that is a network of Bingo halls apt for on-line gaming, resulting in one single virtual hall that can generate larger prizes.

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Until 1 November 2009, the regulations in force established that 58 percent of the whole gaming proceeds had to be distributed as payouts and 18.2 and 3.80 percent were the remuneration for respectively Bingo halls licensees and the State authority (AAMS). The taxation of the game was fixed at 20 percent of the selling price of the tickets. The presence of an established ratio of profit for each actor of the distribution network of Bingo and the limited number of licenses available affected the competitiveness of the market, where individual licensees could offer higher prizes only if they had collected more wagers from customers.

On 1 November 2009, the State modified the existing regulations, initially as a trial period until 31 December 2010, reducing the remuneration of the AAMS and the taxation respectively to 1 and 11 percent and establishing the payout of Bingo as at least 70 percent of the gaming proceeds. These measures constitute a timid attempt to create a more competitive market, as they allow more discretion to the licensees in establishing their prize strategy, even if only in terms of quantity, because the strict discipline impedes the introduction of new types of prizes.

Sports betting, betting on horse racing, and pool-betting games

Until 2006, the Italian system was organized on a national network of approximately 1,500 betting offices (with a gaming license) to collect sports betting, betting on horse racing and other events. This system, dating back to 1998-1999, was raising issues of compatibility with the principles established at European Union (EU) level, which guarantee freedom of establishment and provision of services within member States; thus, in 2006 a public call for tenders, open to contractors from all EU countries, allocated 158 new licenses (Bonanno, 2008). The licenses allowed the trading of public games (betting on horse racing and sports, pool betting games based on forecasting sport results, national horse racing, remote skill gaming) to 13,686 sales points. The sales network has different features, such as gaming shops, whose primary activity is marketing public games, and betting outlets, where marketing public games is of secondary importance. In particular, through the 2006 call for tenders have been assigned 158 licenses (112 sport betting, 46 horse racing betting) to 115 licensees. These licensees represented 13,686 royalties (out of the available 16,400) for opening 1,571 gaming shops (1,281 for sports betting and 290 for horse betting) and 12,115 betting outlets (4,340 sport betting and 7,775 horse betting), which were meant to replace the existing 20,000 authorized gaming collection points (Sacchetti and Grimaldi, 2009). This new scenario, to which some 1,500 existing gaming agencies have to be included, represented a great change in the offer of gaming in Italy.

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All sales points have to comply with specific requirements, which are stricter for gaming shops than for betting outlets. Examples of such criteria are the distance between sales points (which depends on the number of municipal residents); a minimum number of screens, televisions and gaming terminals; a clear separation between the back end (the space reserved to staff members, where the appliances to collect wagers are located) and the front end dedicated to the public, and a minimum of square meters for the front end, 30 square meters for sports gaming shops and 60 square meters for horse racing gaming shops. Obviously, it is possible to place horse bets directly at the 44 racetracks located throughout the national territory.

All games (horse racing, sports betting and other pool-betting games) refer to two main types of games: fixed-odds betting (book betting) and totaliser. The former is characterized by predetermined winnings independent from the jackpot, while in the latter the whole wagers collected at national level are consolidated and then, net of taxes and proceeds, shared amongst all the winners.

In 2004, a new category of totaliser games with a jackpot of 75 percent of the gaming proceeds was introduced. This category, called Big, includes betting on football matches (Big Match), other sport competitions (Big Race) such as athletic, skiing, car and motorbike racing, and cultural events (Big Show) such as music contests. In 2005, a new group of totaliser horse racing games (called National Horseracing) was introduced, which includes a wide range of wagers whose jackpot varies between 57 and 71 percent.

A further category of games, some of whom are part of the traditional Italian gaming environment, is the one of so called pool-betting games, which have lost much of their appeal due to the competition of other games. The two major pool-betting games are "Totocalcio" (football pool) and "Totogol"; Totocalcio consists in forecasting the outcome of 14 soccer games (win, draw, defeat) and Totogol consists in forecasting the number of goals scored in each of the 14 soccer games of the sheet (there are four possibilities: zero or one goal, one or two goals, three goals and four or more goals). Both games consist of a national jackpot to be shared amongst the winners and a possible further prize pot.[3]

The complex legal framework of gaming[4] is further complicated by the likewise intricate fiscal discipline that governs the public tax levy for such categories of games.

In particular, it has to be noted that operators are obliged to make payments to the CONI (National Olympic Committee; it is in charge to promote and strengthen Italian sports) and to UNIRE (National Union Equine Race Growth; it is dedicated to the promotion and improvement of the equines for competitions and in charge of organizing horse racing), calculated approximately on the total amount of bets placed and with a fixed minimum. In relation to public tax, operators are obliged to pay state taxation, whose discipline, constantly under revision and amendment, is particularly complex as it provides different methods of calculation for each type of game (pool-betting games, betting "tris", totaliser and fixed-odds horse racing, fixed-odds and totaliser on events other than horse racing) and different rates (related to the whole amount of bets collected the year before) calculated on the degree of difficulty and the propensity of gamblers to the game.

Despite the fact that detailed analysis of fiscal discipline is outside the main purpose of this article, it is particularly useful to report, as illustrated in Table 3, the amount of revenues divided by category of game and the amount of tax flow generated in 2008.

3 Additional pool-betting games, such as "il9" and "+goal" can be played in conjunction with Totocalcio and Totogol. Other pool-betting games, such as "Totosei", "Totobingol" and "Totip" have been discontinued. In 2008, Totip, a horse racing game, was replaced by "V7".

4 It is worth considering, for example, both the variety of existing operators and the different types of games that they are authorized to offer:

- sport gaming sales points (both gaming shops and betting outlets) can offer sports pools (Totocalcio, Totogol games and related projects), horse racing, V7, Betting Big (Big Match, Big Race, Big Show), fixed-odds betting on non-equestrian events;
- horse racing sales points (both gaming shops and betting outlets) can offer sports pool-betting (Totocalcio, Totogol and related games), horse racing, V7, Big games (Big Match, Big Race, Big Show), fixed-odds horse racing games;
- horse racing betting offices (already existing in the years 1998-1999) and racetracks can offer fixed-odds betting, National Horseracing and multiple reference;
- sport betting offices (already existing in the years 1998-1999) can offer fixed-odds sports betting.

Table 3: Sports betting, horse racing betting and pool-betting, games in 2008 (in millions of euros)

	Gaming revenues	Tax revenues
Pool-betting games	163 €	55 €
Big	12 €	2 €
Fixed-odds betting	3,910 €	192 €
Total (sports)	4,085 €	249 €
National Horse Racing	600 €	36 €
Betting on horse racing	1,672 €	74 €
Total (horse racing)	2,272 €	110 €
Total	**6,357 €**	**359 €**

Source: Autonomous Administration of State Monopolies, website http://www.aams.it.

The betting industry has a large set of programs, including the possibility of placing "live" bets, such as betting while the game is taking place, which, in 2008 only, consisted of 43,000 events for sports betting and 22,000 for horse racing betting. Such a diversified offer prevented the "liberalization thrust" of this sector, which would have increased disputes with players that are currently restrained by the presence of the "public regulator", who is perceived as impartial and reliable.

Additionally, it needs to be highlighted both the strong weight (in recent years significantly grown) of sport games compared to horse racing betting and the almost total predominance of soccer, as the Italian bettors' favorite game, which in 2008 has registered alone the 92.27 percent (approximately 3,6 billion euros) of the whole sport gaming revenues (other sports registered more marginal quota, such as 2.9 percent for basketball, 2.26 percent for tennis, while the residual 2.53 percent of the market is shared amongst the other 43 sports and other events such as music and film events, the U.S. elections, televised events and events related to the stock exchange).

Compared to other games, sports and horse racing betting are characterized by a strong versatility to the market: the various operators, in fact, have the opportunity to "offer" their "fixed-odds" betting at different prices (shares), the system however does not enjoy full "liberalization" as the maximum amount of winnings is fixed in € 10,000. In other words, operators can use the strategic leverage of the price to attract more customers. Such strategy cannot be pursued by other public games (such as Lotto, SuperEnalotto and public lotteries) due to the fact that the State regulates all aspects of the games, in particular the prizes.

New Slots: Entertainment Gaming

In 2000, the State decided to intervene in the sector of entertainment gaming, the so-called "New Slots" (equipments very similar to slot machines) with the primary intention of preventing the proliferation of illegal slot machines for gambling. The lack of effective implementing regulations had created a regulatory vacuum that has lasted until the end of 2002 effectively delaying the marketing of the new games. Since 2003, this sector has been subjected to ongoing regulatory changes regarding the importation, production, installation, operation and taxation of New Slots, up to the current set-up, which will probably be further amended in the near future.

In order to protect security and public order and to prevent illegal interferences, importers and producers of New Slots have to ensure that each device is referred to the Certification Bodies (under the supervision of the AAMS) to verify the compliance with the requirements established by law. A further clearance is needed in order to distribute and operate the machines.

The production chain consists of:

- Agents (currently ten) who, following a public tender, have obtained concessions for the management of the data transmission network for the slot machines;
- Operators, who ensure the distribution, installation and economic management of slot

machines they own and the collection of the coins contained in the latter;

- Dealers, namely those who own the premises where the machines are installed and who have to provide the essential services for their functioning (electricity, space, cleansing).

The New Slots can be installed in a variety of different places, such as those for the administration of food and beverages (bars, restaurants and fast-food), seaside resorts, "gaming halls" (halls with electronic games, billiards, pinball, pinball machines or jukebox), hotels, private clubs, betting and gaming outlets. The number of New Slots installed is not discretionary, but is bound by the square footage of the premises (or the number of rooms, in case of hotels) and, usually, it cannot exceed a certain number of devices; for example, a bar with an area below 14 square meters cannot install any slot machine, for an area of up to 29 square meters there can be only one, and over 150 square meters the upper limit of four New Slots can be reached.

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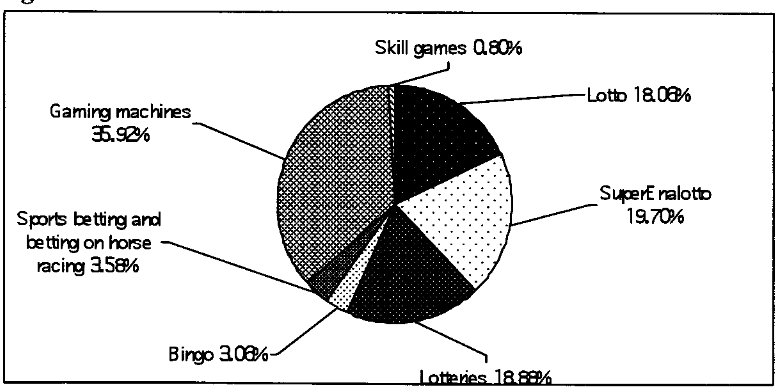
New Slots gaming is prohibited to people under 18 and each device has to respect the following specifications: each game, whose cost cannot exceed one Euro, must last at least four seconds and cannot provide for cash awards above the amount of € 100, which are to be distributed immediately after the conclusion of the game itself. Winnings must be non predictable and must not be lower, on a total cycle of not more than 140,000 games, of the 75 percent of the amounts staked. The devices cannot play the game of poker with its basic rules and the games combining random events and the player's skill, so that the latter can choose a game strategy, either at the start up or during the game, selecting the most favorable options amongst those proposed.

From a fiscal perspective, the New Slots are subjected to a tax calculated as a percentage (the rate has been repeatedly amended over the years) of the total amount of games played by each unit. For 2009, for example, the tax rate has been established in 12.6 percent if the total amount of gaming revenues did not exceed the one of 2008, while any additional amounts are taxed at decreasing rates.

The 25 percent of gaming revenues is not redistributed in form of winnings but shared amongst the actors involved in the gaming industry; namely approximately 12.6 percent is levied by the State, up to 3 percent is paid to the agents, the 0.8 percent is collected by the AAMS and the residue is shared between the operators and the dealers.

Since their introduction in 2003, the popularity of New Slots has considerably grown (as shown in table 6 and table 7 of the Appendix) and they have become the most popular game in terms of gaming volume and tax flow, both in absolute value and as portion of the entire gaming industry. Details of the tax flow generated by each in game in 2009 are shown in Figure 3.

Figure 3: Revenue tax rate



Source: Autonomous Administration of State Monopolies, website http://www.aams.it

The number of New Slots located throughout the national territory is above 400,000 units and they individually generate more than € 7,815 in tax revenues per year. The number of slots is very high especially when compared to the whole Italian population of about 60 million people. It has been recorded that there is a New Slot every 150 residents, while in the United States there is a slot machine every 400 residents (Hashimoto, 2008).

In 2009, the State introduced the procedure to install the so-called Videolottery slots, in a measure of 14 percent of the existing ones, which provide cash awards of some thousands euros up to a jackpot of 500,000 euros (the New Slots had a maximum cash award of 100 euros); their minimum rate of redistribution of wagers to the winners is 85 percent, while it is 75 percent for the New Slots, and the tax levy they will be subjected to is of 4 percent of the bets, whose amount cannot be above € 10 (the present limit of New Slots' bets is set to one euro).

It can be concluded that since 2000 and even further since 2003, under the stated aim of preventing illegal proliferation of gambling and with the pursued aim of increasing tax flow, the State has promoted the diffusion of New Slots. The introduction of the New Slots represented an important shift in the State policy of protective and supportive measures in favor of the four gambling houses operating on national territory. Therefore, the relevant "secondary" effect of the introduction of the New Slots has been the transformation of the gambling sector from the pre-existing protectionist regime into a more competitive market. This competition is likely to become even more evident in 2010, with the introduction of the above described Videolottery, which for its higher limits of bets and wins can be compared to the slot machines presently available in casinos.

The strategy of the Italian State to combat illegal gambling has focused on the offer of new online games to attract those players who could have been lured into illegal games.

Skill games and remotely collected gaming proceeds

The Internet has significantly expanded the possibility of gambling and despite the recent attempts to respond to the lack of legislation, the current legal framework is still insufficient to allow online illegal gambling. The strategy of the Italian State to combat illegal gambling has focused on the offer of new online games to attract those players who could have been lured into illegal games.

Since May 2008, economic operators holding the necessary license can offer on the Internet the so-called skill games, which include a range of games with different features, such as with multiple variants, individual gaming or tournament mode. This diversified offer is meant to meet the increasingly demanding interests of online players.

The main feature of these games is that they can be played only on the Internet, however they should not be confused with "remote gaming", such as those games whose wagers are collected on the phone, electronically or via television gaming of traditional games, such as lotteries, pool-betting games, horse racing and general bets and where the Internet simply represents a tool for facilitating bets as they are regulated by the traditional discipline for gaming.

As shown in Table 4, in 2008, remotely collected gaming represented only a small portion of the whole gaming revenues and primarily focused on sport games. It needs to be clarified that the figures listed in Table 4 are not directly comparable, as some games have become available for remote collection at different times: National Horse Racing, pool betting games and Big games in March 2008, skill games in September 2008, SuperEnalotto in July 2009 and Bingo on 23 December 2009. It is worth noting that in 2009 there was a significant increase in gaming revenues for skill games, which are those with the highest payouts in the whole public games offer.

Table 4: Remote collection
(in millions of euros)

	2008	2009
Pool-betting games + Big	3.31 €	3.96 €
National Horse Racing	17.21 €	28.72 €
Instant lotteries (Scratch and Win)	69.12 €	75.88 €
Betting on horse racing	82.57 €	82.86 €
Sports betting	1,069.71 €	1,221.61 €
Skill Games	242.42 €	2,347.52 €
SuperEnalotto	-	5.03 €
Bingo	-	0.08 €
Total	**1,484.35 €**	**3,765.66 €**

Source: Autonomous Administration of State Monopolies, website http://www.aams.it

Over the past two years, telematics collection has increased from 3.12 to 6.92 percent of the whole gambling volume, which confirms the customers' preference for skill games and sport betting (together reaching 94.78 percent of the gaming volume) due to their online fruition, to the disadvantage of other games characterized by the traditional "physical" fruition. It is important to underscore that the increase in telematics collection has been fully driven by skill games, which can be played in tournaments, like "Texas Hold'em", with a number of other participants varying from two to several thousands. This boost is not justified by the increased "price" but by the significant growth of the number of tournaments (increased from 3.8 million per month in January 2009 to 11.4 million per month in December 2009) and the number of "tickets" purchased for individual participation to the tournament (increased from 17.5 million per month in January 2009 to 39.2 million per month in December 2009). Additionally, it should be noted that the price of each "ticket" (varying from 0.50 to 100 euros) decreased from a monthly average of € 8.11 (January 2009) to € 6.42 (December 2009). These data confirm the strong market penetration of these games, which in 2009, only one year after their introduction, have sold 365,711,946 tickets. Their successful diffusion is the result of favorable State legislation that established its tax flow for the game at 3 percent of the collection, the lowest rate in the entire gaming industry (see Figure 2), and allocated at least 80 percent of the collection for wins, which is the highest rate for public games.

The marketing of telematics collection, in particular of skill games, is very attractive due to its further expected growth and for its merit in highlighting characteristics and preferences of players. Online gaming is less anonymous than the traditional "physical" fruition of games and allows the collection of a large amount of data on the preferences and inclinations of players, which can be used for different purposes, such as marketing, estimation of future trends and in planning new products. It can be concluded that the Internet is not only a tool for collection but a proper management tool, due to its power of tracking bets and players.

Casinos

In 1919, the government closed all the 58 casinos existing in Italy at that time and suppressed all forms of gambling, with the exception of the State lottery. Subsequently, four different decrees specifically authorized the opening of four casinos, respectively in Sanremo in 1927, in Campione d'Italia in 1933, in Venice in 1936 and finally in Saint Vincent in 1946. These decrees were not complemented by any specific legislation establishing an exception to the general ban on gambling, which is still in force, as set forth in Articles 718-722 of the Italian Penal Code. This anomaly in the legislation was highlighted by the Constitutional Court in its Decision no. 152 of 1985, in which the Parliament was requested to adopt a more consistent legal framework on gambling at national level in order to rationalize in a "reasonable time" the entire sector. The inertia of the legislative power has led the Constitutional Court, sixteen years later (Decision no. 291 of 2001), to reiterate its views by stating the "urgent" need for a proper legal framework on casinos. At present, no new legal discipline has been adopted; therefore, it should be concluded that only four casinos can operate at national level and the possibility of opening new ones is excluded.

The four casinos are connected to respective local authorities (San Remo, Campione d'Italia, Venice and Saint Vincent), which operate the gambling halls through operating companies that own the majority of shares in the capital. All proceeds of the games, determined by the difference between the volume of wagers and the winnings, are collected by the local authority that subsequently pays the operating company for its services. The operating company therefore undertakes all the responsibility for the proper functioning of the gambling house, such as salaries of the employees, purchasing the necessary supplies, advertising and utilities costs, and their profit consists in a predetermined portion of the whole gambling revenues.

The four casinos are connected to respective local authorities (San Remo, Campione d'Italia, Venice and Saint Vincent), which operate the gambling halls through operating companies that own the majority of shares in the capital.

Despite the quasi-monopoly, which has existed for over eighty years, it emerged that in recent years the market of the four casinos has experienced a sharp downsizing, in contrast with the high growth of the gambling industry as a whole. The State, having created new gambling opportunities at national level and maintained its ban on new casinos, has generated a strong competition. Comparing the data of Table 5 and 6 of the Appendix, it emerges that the revenues of casinos and slot machines (that in 2009 represented more than 61 percent of total revenues) have significantly decreased, whereas in the same period, the total volume of gambling at national level has increased by 351.19 percent. It is worth noting that the data of Table 6 show the total volume of gambling revenue, while the data of Table 5 (related to the casinos) illustrates the difference between the total volume of gambling revenues and the winnings distributed to players (GGR: gross gaming revenue), thus the two tables are not, in absolute terms, perfectly comparable. However, some unofficial data unveil that the casinos find very difficult to cope with the strong competition of the New Slots, but they obtain from their own 2,300 slot machines a gambling revenue of approximately 3 billion euros and redistribute approximately 90 percent (2.7 billion euros) of it as winnings, while New Slots redistribute only 75 percent of their gambling collection.

Table 5
Trend of gaming profit and slot machines revenues in the four Italian casinos (in millions of euros)

Gross gaming revenues

Casinò	2003	2004	2005	2006	2007	2008	2009
S. Vincent	139.10 €	142.20 €	120.86 €	116.68 €	117.40 €	102.00 €	94.50 €
Campione	120.50 €	121.10 €	108.09 €	103.25 €	113.36 €	121.00 €	118.00 €
Venezia	183.70 €	191.40 €	186.03 €	214.01 €	191.40 €	200.00 €	164.50 €
Sanremo	98.10 €	102.60 €	87.06 €	90.04 €	92.60 €	83.20 €	78.50 €
Total	**541.40 €**	**557.30 €**	**502.04 €**	**523.98 €**	**514.76 €**	**506.20 €**	**455.50 €**

Gross gaming revenue slot machines

Casinò	2003	2004	2005	2006	2007	2008	2009
S. Vincent	61.90 €	67.00 €	57.17 €	55.65 €	54.74 €	46.54 €	42.50 €
Campione	71.70 €	77.20 €	61.34 €	61.09 €	72.40 €	77.10 €	73.50 €
Venezia	114.60 €	127.10 €	103.80 €	116.68 €	121.39 €	123.01 €	110.00 €
Sanremo	66.30 €	72.70 €	63.25 €	63.86 €	63.42 €	54.56 €	52.70 €
Total	**314.50 €**	**344.00 €**	**285.56 €**	**297.28 €**	**311.95 €**	**301.21 €**	**278.70 €**

Source: National Association for Tourism Development, website http://anit-it.it

Summary

From the analysis of the Italian gambling industry, it can be concluded that this sector, despite direct and indirect State control, can offer a large variety of games, including both traditional and more modern and developed products. The offer of games with different characteristics aims at meeting the diverse preferences of players and needs of the market and at the same time ensure a reliable tax flow.

Figures 4 and 5 highlight the trend of respectively the gaming volume and of the tax flow generated by each game in the period 2003-2009, and indirectly indicate the most successful game in the market.

Figure 4: Gaming revenue trends (in millions of euros)

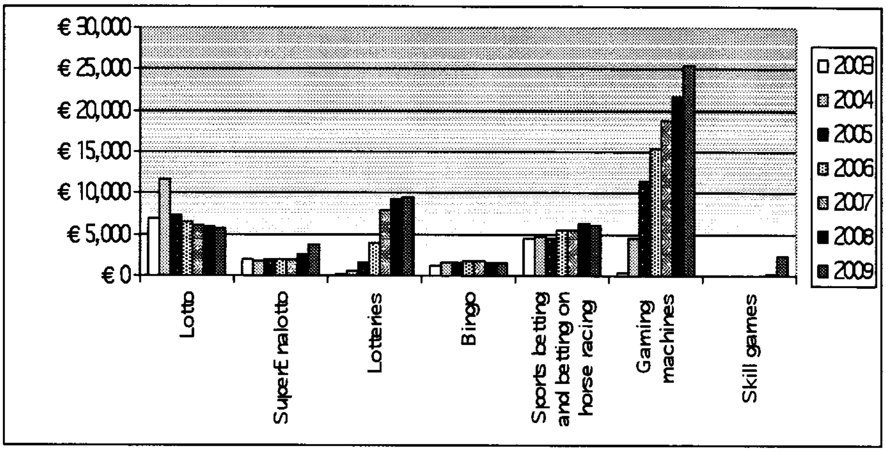
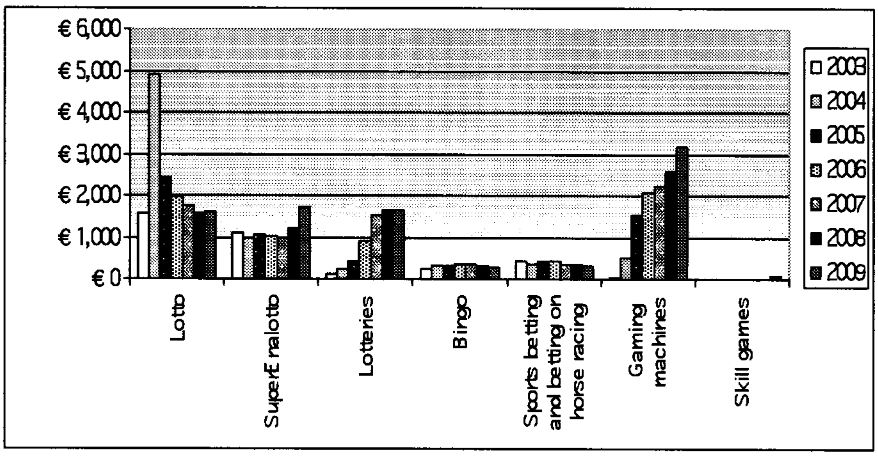


Figure 5: Tax revenue trends (in millions of euros)



Each game features different technical characteristics and is subjected to a specific normative framework. Some types of games, such as Lotto, SuperEnalotto and lotteries are still under a regime of public monopoly characterized by the exclusive license to respectively "Lottomatica s.p.a.", "Sisal s.p.a." and "Consorzio Lotterie Nazionali" to manage the distribution network: in these sectors the State retains the infrastructure of the network while private operators, through "State licenses", are in charge of marketing the games. Therefore, there is no form of competition within individual sectors; licensees can compete only if working in different sectors and mainly using advertisement campaigns given that they cannot set prices nor introduce new products. Conversely, the game of Bingo has experienced a limited normative evolution towards a more competitive market with the recognition, in November 2009 (and for a short trial period) of some discretion in devising the policy of prizes.

A competitive gaming sector is represented by sports and horse-racing betting and pool-betting games, where 158 licenses entitle the marketing of the games through a network of 13,686 sales points. Operators can establish customized prices, so this sector is characterized by more competitive regimes despite the existence of heavy State constraints, including imposed limits on wins and bets.

The New Slots currently represent the most important game of the Italian gaming sector both in terms of gaming collection and tax flow. The efficiency of this game is ensured by the diversified types of actors operating in the distribution network (agents, operators and dealers) and the lack of exclusive State licenses; however this sector is still far from being a competitive market due to the strict State regulations on every single economic aspect of the game (such as the number of slots, remuneration, prizes, bets and payouts).

The expression "State monopoly," used to define the Italian gaming industry, does not fully reflect the multifaceted reality of public games.

Finally, in 2008 the State decided to exploit the potential of the Internet both to obtain a larger volume of gaming proceeds and to offer new products, such as skill games. Consistently with other games, the State has organized this sector through the system of licenses but allowed more discretionary powers to economic operators in establishing prices.

Conclusions

This article, obviously, is not intended to enter into the merits of government decisions however, it must be highlighted that, from the analysis of the gambling industry in Italy the growth experienced by this sector has been accompanied by a complex and sometimes contradictory State legislation often geared to protect vested interests and to encourage the consumption of gaming products in order to increase tax flow.

The expression "State monopoly", used to define the Italian gaming industry, does not fully reflect the multifaceted reality of public games. Layers of inconsistent State legislation have influenced, and in some cases forced the choices of economic operators and resulted in the disharmonious development of the sector, which is characterized by significant disparity in treatment between different types of games.

A clear evidence of the contradictory State policy is the prohibition to open new casinos beyond the four already operating, which is inconsistent, for example, with the expansion of the gaming offer created by the widespread diffusion of bet collection points (gaming shops, betting outlets and Bingo halls), the presence of more than 400,000 New Slots, of Internet gambling and a per capita gambling volume, in 2009, of € 1,061.80.

Positive outcomes of this government policy are the effective State control over illegal gambling and a large offer of games, as required by the market. However, the current opening to a more competitive gambling market has been considered insufficient by economic actors who have criticized the system of "State licenses" as contravening EU principles, which affirm the freedom of establishing and providing services within member States. Nonetheless, consolidated jurisprudence of the European Court of Justice ("Gambelli ruling" of 6 November 2003 and "Placanica ruling" of 6 March 2007) has established that the limitations to a free and competitive market are admissible when they are justified not by tax flow needs but by exigencies of security and public order, to ensure that gambling takes place in a controlled manner and to prevent criminal degeneration, such as fraud and money laundering. Additionally, it has been consistently confirmed that the Italian gambling system is non-discriminatory as both Italian and foreign companies have equal access to tender for State licenses. Finally, it must be noted that the simplicity of the new regulations allowing the diffusion of games previously banned is only ostensible; on the contrary, the sector needs a consolidated law to reorganize and streamline the intricate web of existing laws, decrees, regulations and European Union provisions.

Appendix

Table 6

	Gaming revenues (in millions of euros)							Revenue gaming rate						
	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009
Lotto	6,938 €	11,689 €	7,315 €	6,588 €	6,177 €	5,852 €	5,664 €	44.8%	47.2%	25.7%	18.7%	14.6%	12.3%	10.4%
SuperEnalotto	2,066 €	1,836 €	1,981 €	2,000 €	1,940 €	2,509 €	3,776 €	13.3%	7.4%	7.0%	5.7%	4.6%	5.3%	6.9%
Lotteries	282 €	594 €	1,546 €	3,970 €	7,955 €	9,274 €	9,434 €	1.8%	2.4%	5.4%	11.3%	18.9%	19.5%	17.3%
Bingo	1,257 €	1,542 €	1,553 €	1,755 €	1,726 €	1,636 €	1,512 €	8.1%	6.2%	5.5%	5.0%	4.1%	3.4%	2.8%
Sports betting and betting on horse racing	4,583 €	4,650 €	4,622 €	5,495 €	5,568 €	6,357 €	6,151 €	29.6%	18.8%	16.2%	15.6%	13.2%	13.4%	11.3%
Gaming machines	367 €	4,474 €	11,470 €	15,436 €	18,827 €	21,685 €	25,525 €	2.4%	18.1%	40.3%	43.8%	44.6%	45.6%	46.9%
Skill games	-	-	-	-	-	242 €	2,348 €	0.0%	0.0%	0.0%	0.0%	0.0%	0.5%	4.3%
Total	15,493	24,785	28,487	35,244	42,193	47,555	54,410	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%

Table 7

	Tax Revenues (in millions of euros)							Revenue tax rate						
	2003	2004	2005	2006	2007	2008	2009	2003	2004	2005	2006	2007	2008	2009
Lotto	1,565 €	4,919 €	2,425 €	1,959 €	1,747 €	1,565 €	1,591 €	44.7%	67.4%	39.4%	29.2%	24.3%	20.2%	18.06%
SuperEnalotto	1,100 €	976 €	1,054 €	1,013 €	962 €	1,235 €	1,736 €	31.4%	13.4%	17.1%	15.1%	13.4%	15.9%	19.70%
Lotteries	114 €	219 €	426 €	891 €	1,526 €	1,659 €	1,663 €	3.3%	3.0%	6.9%	13.3%	21.2%	21.4%	18.88%
Bingo	251 €	308 €	311 €	351 €	345 €	327 €	270 €	7.2%	4.2%	5.1%	5.2%	4.8%	4.2%	3.06%
Sports betting and betting on horse racing	442 €	363 €	427 €	431 €	364 €	359 €	315 €	12.6%	5.0%	6.9%	6.4%	5.1%	4.6%	3.58%
Gaming machines	33 €	513 €	1,514 €	2,072 €	2,251 €	2,594 €	3,165 €	0.9%	7.0%	24.6%	30.8%	31.3%	33.5%	35.92%
Skill games	-	-	-	-	-	7 €	70 €	0.0%	0.0%	0.0%	0.0%	0.0%	0.1%	0.80%
Total	3,505 €	7,298 €	6,157 €	6,717 €	*7,195 €	7,746 €	**8,810 €	100.0%	100.0%	100.0%	100.0%	100.0%	100.0%	100.00%

* For 2007, it must be added 431 million euros deriving from the adjudication of royalties for the license of public games.
** For 2009, it must be added 596 million euros deriving from the adjudication of royalties for the license of public games.

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