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Senator Hickman, Representative Supica and Members of the Committee, Thank you for the opportunity to testify today, my name is Sean Ostrow and I am the Managing Director of the Social Gaming Leadership Alliance, an alliance of established market leaders and innovators in the Social Plus gaming space.

We rise in opposition to SP 825 in consideration today, which seeks to ban, and in fact criminalize the entire Social Plus industry, including law-abiding businesses that have operated in Maine since 2012 and provide Maine adults with safe, free and low-cost online entertainment. Banning this popular pastime would be antithetical to the policy objectives of strong consumer protection and revenue generation.

Social Plus is a subset of the popular Social Games industry, which includes casual mobile games that everyone is familiar with, including games like Words with Friends, Candy Crush, and many other card, casino and bingo games that can be played for free, but also offer purchase options that enhance gameplay.

Social Plus takes the same concept of free-to-play social games, but enhances it with opportunities to win real prizes through well-established and widely utilized sweepstakes promotions that are recognized under Maine Laws defining game promotions. Social Plus games are always free to play, and include alternative methods of entry so that no purchase is ever necessary to participate in the sweepstakes. To be clear, there is no consideration given by customers for the opportunity to win a sweepstakes prize.

Furthermore, SGLA partner companies have voluntarily established a regime of strong consumer protections including mandatory 21+ age requirements, age and identity verification, responsible social gameplay tools, advertising standards, geolocation and many other trust and safety provisions that go far beyond what comparable social casino games, including those affiliated with licensed Maine casinos, currently offer.

If the language of SP 825 is passed, the outcome will be sadly predictable – the law-abiding operators will exit the state, but illegal operators will stay and prey on unsuspecting Maine consumers. Social Plus operators that offer real consumer protections, that keep minors from playing, that protect consumer data and finances, and encourage responsible social gameplay, will be replaced by illegal offshore copycats, many of which are based in China, that use exploitative marketing techniques to trick Maine consumers and far worse. The SGLA agrees that this behavior must be stopped, but the only way to do that is through regulation, not a ban that will only widen the playing field for illegal offshore operators.

Instead of a ban, we propose common sense regulation as a more pragmatic pathway forward. Regulation would protect the games loved by thousands of Maine adults and generate upwards of \$3 million in new annual revenue for the state through a combination of sales taxes on purchases and operator registration fees. This proposal would ensure that ALL operators enforce strict age-verification restrictions to keep people under the age of 21 from participating, protect consumer data and privacy, ensure prizes can be redeemed promptly, provide clear and truthful advertising to adults only, and provide resources to ensure that customers are interacting with Social Plus games responsibly.

We ask the committee to study this issue closely, but not rush to a judgment that will ban many popular, law-abiding companies from doing business in the state. We estimate that over 50,000 Mainers regularly interact with these Social Plus games. We ask that you consider regulation, and not a counterproductive ban, as the pragmatic pathway forward. We hope to continue this productive conversation and stand ready to assist in this endeavor.

How do you project \$3 million in new revenue for Maine by regulating these games? At the prevailing state sales tax rate of 5.5%, digital purchases made on Social Plus platforms (approx. \$60M) would generate approximately \$3 million in annual sales tax. Additionally, a registration fee for Social Plus operators would generate between

\$360 – 600 thousand in revenue depending on the amount of the fee and how many operators register to do business in Maine.

Compared to gaming verticals, which pay an excise tax based upon the amount of revenue after deducting for prizes paid out to customers, a 5.5% sales tax rate, which would be collected up front on Social Plus game purchases, would be equivalent to about 17% under an excise tax model, which is a higher effective rate than online sports betting (10%) and in line with iGaming (18%).

Excise tax model equation = (Social Plus sales) \$58M – prizes redeemed (\$40M) = \$18M

Tax of \$3M = 17% of \$18M in gross revenue after prizes

Are these games legal today? What is the statutory authority?

Maine rules on Game Promotions are found in 16-633 CMR chapter 32.

SGLA operators comport with these laws in addition to various generally applicable state consumer protection laws as well as federal laws, FTC, FCC and US Postal Service regulations and guidance.

Our proposal is to give more specific regulatory authority and structure to online-based promotional contests, including a registration requirement for any operator seeking to offer online promotional contests in the state. Registration would require all operators comply with consumer protection laws as proposed in the SGLA amendment.

Are Maine casinos offering sweepstakes games?

I am not aware of any Maine casinos that directly offer Social Plus games, but some social casino games are affiliated with licensed casinos here in Maine. These games allow in-app purchases and give customers rewards that can be turned into free play at real-money casinos, gift cards and other things with real-world value.

Remarkably, the language in this bill doesn't ban casinos from offering freemium social games with casino rewards, even though the consumer protections are nowhere near the same level as Social Plus games with sweepstakes prizes, and the games are, to the common consumer, nearly indistinguishable.

The fact that this bill only criminalizes operators using sweepstakes as a marketing tool seems like a targeted distinction that doesn't serve any valid regulatory or consumer protection function.

How does Social Plus compare to iGaming?

iGaming is pure dollar-for-dollar wagering, it is a casino in digital form.

Social Plus games are more akin to a digital Dave and Busters – the games vary from casino-style games to card games, puzzle games, hybrid skill games and many other innovative social games that look and play more like Candy Crush than a casino game. Yes, you can win a prize, but it's about the fun of the journey to win the tickets or coins to get the prize, than it is the prize itself.

The reason people play Social Plus is because it's a great value proposition. Less than HALF of all customers ever make a purchase – they enjoy the free offerings. And of those that do make purchases, the median spend is about \$25 per week. Which is about 1/3 of what the average iGaming customer spends.

If the assertion is that people are using Social Plus games as a substitute for gambling, then lets put that hypothesis to the test. iGaming will be legal in Maine within a matter of months, and Mainers will be able to gamble for real money online.

Everything we know about our customers is that they engage with these games as a form of casual entertainment, they are not likely to gravitate towards real-money iGaming as a substitute. In other words, Social Plus occupies its very own niche and would continue to do so whether or not iGaming is available.