



# LOOT BOXES

**January 31, 2018**

SB 6266 | Public Hearing  
Senate Labor and Commerce Committee



Washington State  
**GAMBLING**  
COMMISSION

## WHAT ARE LOOT BOXES?

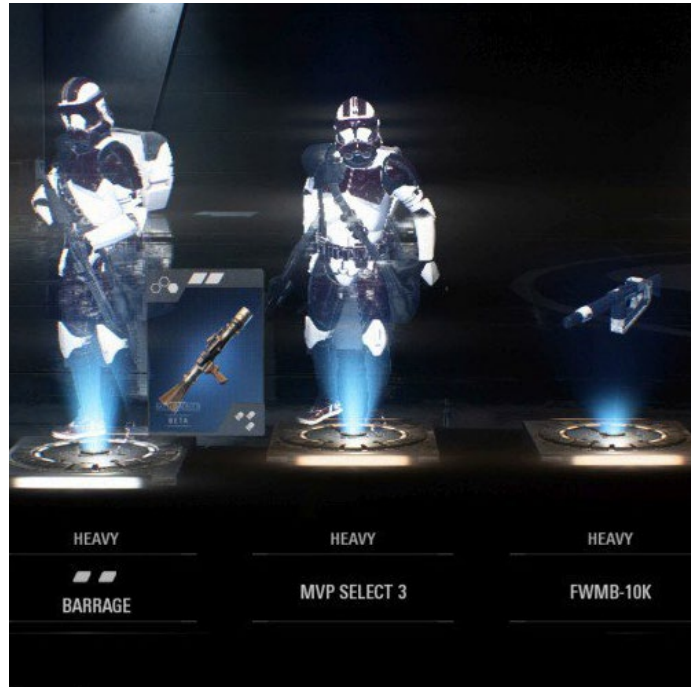
Loot boxes are digital grab bags within video games that players purchase with real or in-game currency, without knowing what is inside. There are two types of loot boxes:

1. **Cosmetic:** Players can purchase items such as costumes, avatars and character voice lines. These microtransactions allow players to be creative and customize the appearance of the game; however, cosmetic loot boxes do not affect actual gameplay.
2. **Pay2Win:** Players can purchase upgrades such as enhanced skills, extended health, increased strength and additional weapons. Unlike cosmetic boxes, these contents have a direct affect on gameplay. The odds of winning specific prizes are not published and are not visible to the player. Since items in Pay2Win loot boxes can be re-sold, they take on a monetary value.

Game developers artificially restrict gameplay in order to get players to invest in microtransactions (loot boxes) that make the game more fun and allow the player to progress in the game much faster.



*In Overwatch, cosmetic loot boxes contain “skins,” which change a character’s appearance, but do not help players progress in the game.*



*In Star Wars Battlefront II, players can acquire loot boxes containing more powerful weapons, which help them progress in the game.*

## HOW DO PLAYERS GET LOOT BOXES?

Players can get loot boxes in a variety of ways:

- Loot boxes are often given to players as rewards for actions such as completing a multi-player game without quitting.
- Loot boxes may also be given out through promotions outside of gameplay, such as watching certain streaming events.
- Players can also buy loot boxes directly, most often with real-world money, but also with in-game currency.

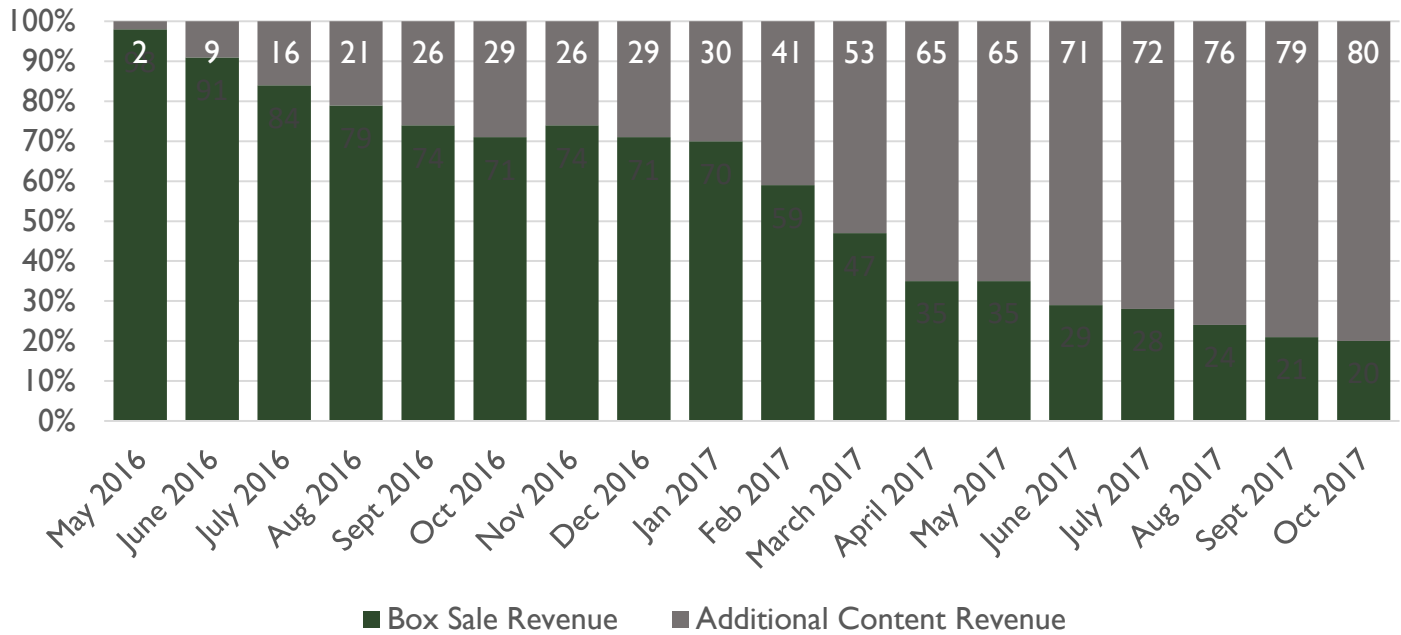
Some loot boxes can be redeemed immediately, while redeeming others requires further consumable items dressed as keys.

## LOOT BOX INDUSTRY

Loot boxes have gradually spread from free-to-play games, which don’t require an initial fee to download, to premium titles such as: *Overwatch*, *Star Wars Battlefront II*, *FIFA 17*, *Forza Motorsport 7*, *Middle-earth: Shadow of War*, *Gears of War 4* and *Halo 5: Guardians*.

According to gaming industry researcher SuperData, *FIFA* and *Madden* console players spent roughly \$500 million in 2017 on Ultimate Team, a game mode where users buy packs of random athletes to assemble a dream squad. In November 2017, SuperData also reported that \$395 million in cosmetic loot boxes had been purchased in the *Overwatch* game since its launch in May 2016, which led it being named the best esports game of 2017 by The Game Awards show.

## Overwatch Share of Additional Content Revenue



Source: SuperData

## WORLDWIDE REGULATION ANALYSIS

Regulators worldwide have been discussing loot boxes and some have taken a position on whether or not loot boxes should be classified as gambling.

**New Zealand:** The Gambling Compliance Office of New Zealand’s Department of Internal Affairs determined that loot boxes do not meet the definition of gambling under New Zealand’s Gambling Act.

**Victoria, Australia:** The Victorian Commission for Gambling and Liquor Regulation has indicated that it believes loot boxes meet the elements of gambling under its state laws.

**Belgium:** Belgium’s Gaming Commission is investigating loot boxes and its Minister of Justice has called for a ban of loot boxes in Europe, finding it constitutes gambling.

**United Kingdom:** The United Kingdom’s Gambling Commission determined loot boxes do not meet the elements of gambling under its laws.

**United States:** The Electronic Software Rating Board (ESRB) determined that loot boxes do not meet the elements of gambling; however, Hawaii State Representatives Chris Lee and Sean Quinlan announced a desire to regulate loot boxes due to consumer protection concerns.

In January 2018, a bill that would classify loot boxes and video games as gambling was introduced by two Indiana senators. If passed, the attorney general would be required to: (1) study certain issues concerning the use of loot boxes in video games; (2) make a recommendation whether loot boxes should be regulated as gaming in Indiana; and (3) report the result of the study and recommendation to a study committee.