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Gambling Industry in Web3

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The emergence of Web3 technologies has brought about fascinating parallels between gambling and investing in cryptocurrencies and non-fungible tokens (NFTs). Initially, attention was drawn to the overlap between sports betting and crypto investing. However, it was during the NFT boom in 2021 that this connection became more evident. Although early NFT projects were not directly linked to the gambling industry and lacked established companies, roadmaps, and utilities, the astonishing prices at which NFTs were sold and the market's extreme volatility created an atmosphere akin to gambling.

The debate surrounding whether investing in cryptocurrencies and NFTs should be categorized as gambling or investing is ongoing. Nevertheless, it is evident that the gambling culture prevalent in the Web3 space played a significant role in introducing NFTs to the mainstream and fostered their adoption in real business models. The hype surrounding these early NFT projects generated widespread interest and education about blockchain technology, thereby unveiling its potential benefits for both established companies and everyday consumers.

The initial wave of NFT projects marked the beginning of the rise of NFTs, with blockchain technology finding applications in various industries beyond the gambling culture. In 2022, over 250 NFT projects were successfully launched by major international retailers and brands worldwide, targeting segments of the Web3 community outside the gambling culture. These initiatives also aimed to onboard existing customers by providing them with additional value through NFT projects.

Despite the increasing adoption of NFTs by non-gambling industries, the existence of an active gambling culture within the Web3 community remained significant. The overlap between individuals investing in cryptocurrencies and NFTs and those engaging in sports betting platforms created a logical connection for real companies within the gambling industry to explore opportunities in the Web3 space. In the text which follows we focus on the gambling industry and their use cases of blockchain technology, particularly in relation to NFTs.

In its broadest definition, the gambling industry allows individuals to wager money or valuable assets on events with uncertain outcomes. The primary objective is to win money or material goods. The terms "gaming" and "gambling" are often used interchangeably within the industry, although gaming typically involves skill-based outcomes, while gambling relies on chance. This differentiation is crucial for implementing appropriate legal regulations in the majority of jurisdictions worldwide.

The gambling industry encompasses various forms of entertainment, including casinos, lotteries, and sports betting. It operates on a global scale, with both online platforms and brick-and-mortar establishments catering to a diverse range of customers. However, the industry faces challenges related to regulations and public perception, which have prompted companies to explore innovative solutions in the Web3 space. For the purpose of this article, we will primarily focus on the online gambling industry sector since that is where we find Web3 strategies applied.

The gambling industry is continually evolving, influenced by changing consumer preferences and technological advancements. Several key trends are expected to shape the future of the industry. These include mobile casino games, cryptocurrency gambling, and virtual reality casinos. In addition to these trends, the integration of non-fungible tokens has emerged as a significant development within the gambling sector.

The advantages of using cryptocurrencies in the gambling industry are evident, and numerous online crypto casinos have embraced this technology. One such pioneer is **BitStarz**, which became the first casino to accept Bitcoin in 2014. The utilization of cryptocurrencies enables fast, anonymous, and cost-effective transfers, providing enhanced security and privacy for both casinos and players. As the gambling industry explores the potential of blockchain technology, the integration of non-fungible tokens has become increasingly prevalent. NFTs are being incorporated into various aspects of online gambling platforms, such as game tokens, rewards, and loyalty program assets. They are also used for betting, alongside traditional currencies and cryptocurrencies.

Prominent crypto casinos like **BC.Game** and **Rollbit** have fully embraced NFTs within their platforms. **BC.Game** not only offers its own NFTs for players to win but has also invested in NFTs and acquired land in the **Sandbox** metaverse. Their commitment to the growth of NFT betting is exemplified by the recent introduction of NFT deposits and withdrawals on their platform. Similarly, **Rollbit** provides a range of NFT-related gambling solutions, enhancing the overall player experience. NFTs are also used in metaverse casinos that are emerging as a significant trend in the online gambling industry. These casinos not only allow players to create personalized avatars but also provide opportunities for social interaction. In addition to text-based communication, players can engage in virtual reality casinos where they can communicate and hear each other through audio format, further enhancing the immersive experience. For instance, **ICE Poker** is a metaverse casino located in **Decentraland**, where players are represented by their virtual avatars and are required to equip themselves with virtual clothing known as ICE wearables before participating in the games. The presence of well-established companies like **Atari**, which recently purchased a plot of land in the **Decentraland** metaverse to launch a casino, further demonstrates the growing mainstream acceptance and adoption of metaverse casinos.

As we delve further into the case studies from the **United States** and **France**, we will witness how these Web3 strategies, incorporating NFTs and metaverse experiences, are reshaping the landscape of the gambling industry.

In the **United States**, sports betting is the most popular form of online gambling. It was federally legalized in 2018, but each state has its own regulations. However, playing daily fantasy sports have gained mainstream acceptance as a skill-based alternative to traditional sports betting. **DraftKings Inc.**, a fantasy sports and sports betting company, is the leading sports betting service in the U.S. and their Web3 strategy is based on NFTs.

DraftKings initially made its foray into the crypto world in April 2021 by purchasing a rare NFT, **CryptoPunk #1871**, for $70,400 worth of ETH. CryptoPunks, being one of the oldest and most valuable NFT collections, hold a special place in the market. This NFT was offered as the first-place prize in **DraftKings'** contests, tapping into the booming NFT culture and the desire to stay at the forefront of technological innovations.

Simultaneously, all three founders of **DraftKings** joined Tom Brady's NFT platform, **Autograph**, as advisors, creating synchronicity between their respective ventures. In a significant move, the largest shareholder of **DraftKings** purchased **CryptoPunk #7523**, for $11.8 million in a **Sotheby's** auction. This rare Alien CryptoPunk, adorned with distinct attributes, showcased the company's commitment to NFTs. The CEO of **DraftKings** even promoted the CryptoPunk alongside the shareholder at the Nasdaq opening. These initial steps highlighted **DraftKings'** connection to NFTs and their willingness to explore the Web3 space. Despite strict legal regulations surrounding crypto online betting, **DraftKings** found a way to engage with Web3 since there were no specific regulations prohibiting the acquisition and promotion of NFTs. However, **DraftKings** was not yet fully immersed in the crypto world.

To fully embrace NFTs, **DraftKings** launched its **NFT marketplace** to provide mainstream accessibility for buying, selling, and trading digital collectibles. The company further strengthened its technological infrastructure by acquiring **Scarcity Labs**, a technology company, and entering into a strategic blockchain agreement with **Polygon**, an Ethereum-based eco-friendly platform. With **Polygon**, **DraftKings** gained the opportunity to become a validator node of the blockchain network, enabling them to handle a large number of transactions simultaneously without the risk of crashing. This infrastructure not only facilitated their **NFT marketplace** but also paved the way for potential own cryptocurrency launch and enhanced security measures.

In partnership with **Autograph**, **DraftKings** initiated its first drop of NFTs on its marketplace, catering to sports enthusiasts and collectors. Furthermore, they developed their own NFT collection, connecting it with their core product by enabling the holders of NFTs to receive **Draftkings** site credits and place bets. The final step was the offering utility for holders to engage in a gamified experience with the NFL. This included the release of their first **NFT-based fantasy football game**, **Reignmakers Football**, where users could create line-ups based on the

NFTs they owned and earn points based on real-world performances. For this project, **DraftKings** also collaborated with the well-known NFT project **Deadfellaz** to release NFTs of NFL players transformed into **Deadfellaz** characters. In 2023, **DraftKings** extended its **NFT-based fantasy game** to golf and launched its third **PFP** collection.

The company's expansion into various sports and collaborations demonstrated its commitment to the Web3 audience and solidified its brand presence in the Web3 space. By entering the NFT community through CryptoPunks, leveraging partnerships, launching their own NFT marketplace and collections, and collaborating with Web3 native companies, **DraftKings** has successfully laid a strong foundation in the Web3 era. The personal interest of their founders in NFTs, their commitment to self-education about blockchain technology, and their ability to offer what Web3 people enjoy—games and NFTs—have allowed **DraftKings** to expand their reach and cater to the growing Web3 audience.

Having explored DraftKings' journey into the Web3 space, let's now turn our attention to examples from **France**. **France,** known for its stringent gambling laws, is also at the forefront of adopting new technologies and establishing appropriate legal regulations. In 2010, **France** legalized online sports betting, horse betting, and poker, allowing operators to apply for licenses from the National Gambling Authority. While **Française des Jeux (FDJ)** and **Pari Mutuel Urbain (PMU)** hold monopolies in lottery and horse pool betting respectively, other operators have entered the market. **PMU**, also the leading online betting platform in France, entered the Web3 space at the beginning of this year.

PMU is the dominant player in France's horse racing industry, overseeing design, promotion, marketing, and bet processing. It is the largest horse pool betting operator in Europe and the third-largest globally.

PMU has been researching blockchain platforms since early 2022 and developed the fantasy game narrative by the end of the year. In January this year, **PMU** entered the web3 space with an NFT collection and the fantasy game called **Stables** in development. Their goal is to provide an alternative to traditional horse race betting by bringing horse races into the Web3 world. Web3 strategy is part of their marketing strategy to attract new, digital-savvy customers who enjoy gaming.

Their first **NFT collection** represents real racehorses that players can race in the virtual game. Each NFT represents a 3D-rendered horse, also known as a digital twin. In the future, the holders of this first NFT collection will be enabled to create a **hybrid NFT** derived from real horse NFTs. This hybrid collection will be a collection of **composable NFTs** allowing players to breed and sell components of the composable NFTs. NFT owners can participate in the Stables game, compete against other players, and earn rewards. Through these **composable NFTs**, they can also improve their horses' abilities through training and gear acquisition. The game also enables players to earn in-game currency (S-Points) through real-life races. While S-Points are not yet a token, **PMU** plans to release them on the **Tezos blockchain** and potentially allow players to convert S-Points back into Tezos in the future. This depends on the changes in legal regulations. **PMU** acquired land in **Sandbox** but has decided to build its own metaverse with the main **Stables**' hippodrome, while the local hippodromes will be within various metaverses.

PMU's foray into the Web3 space has been a well-executed plan, as evidenced by their initial steps. In January, they successfully launched **Stables'** Web3 identity across various platforms, including Twitter, their website, and a whitelist for the **Stables NFT collection**. The following month, they hosted their first Twitter Space, attracting an audience of nearly 400 listeners. Additionally, **PMU** sponsored the **NFT Paris** event, where they not only had a booth but also delivered a compelling talk on the main stage. It's worth noting that Stables' NFT collection garnered significant attention and sold out by the end of March. To accommodate those outside the Web3 community, **PMU** smartly introduced the option of purchasing NFTs with **fiat** currency, enabling them to engage with a broader audience unfamiliar with cryptocurrencies. PMU's efforts to bridge the gap between traditional

and Web3 communities became even more evident in April when they hosted their second **Twitter Space**. This time, their audience skyrocketed to approximately 2,700 listeners, showcasing their successful outreach to the Web3 community. These milestones illustrate **PMU's** effective strategy in extending its community to the Web3 space.

By leveraging existing platforms and events, they have managed to connect with both traditional and Web3 audiences, expanding their reach and establishing a solid presence in the evolving landscape of blockchain gaming and NFTs. The next step is the Stables's inauguration race in **Equiverse**.

We included **Sorare** in our review, although it falls outside the realm of gambling. The **"Sorare case"** highlight France's commitment to adapting to the changing online gambling landscape and leveraging emerging technologies while ensuring the development of suitable legal frameworks.

Sorare, a French-founded startup established in 2018, has made significant waves in the world of fantasy sports gaming and digital collectibles. As an **NFT-based fantasy sports game** and **marketplace**, **Sorare** offers a unique gaming experience centered around digital trading cards featuring real-world players.

One of the key strengths of **Sorare** lies in its official licenses from global sports leagues, allowing them to feature renowned athletes and teams from various disciplines. Since its inception, **Sorare** has garnered partnerships with over 350 sports organizations worldwide, including prestigious leagues such as the **NBA**, **MLB**, **MLS**, and top European football leagues.

In just a few years, **Sorare** has experienced remarkable growth and achievements. **Sorare's** impact extends far beyond its home country, as it operates in 180 countries worldwide. With a user base exceeding 3 million players and a dedicated team of more than 160 employees, **Sorare** has solidified its position as a leader in the realm of NFT-based fantasy sports gaming. The combination of **Sorare's** innovative gameplay, official licenses, and extensive partnerships has propelled the platform to the forefront of the industry, attracting sports enthusiasts and collectors from around the globe. As they continue to revolutionize the world of fantasy sports, **Sorare** remains committed to sports fans while pushing the boundaries of NFT adoption in the sports gaming arena.

The case of **Sorare** plays a pivotal role in shaping discussions around legal regulations. The importance of understanding the specific nature of NFTs has not gone unnoticed by the French government. In April 2021, the **National Gambling Authority** initiated discussions with **Sorare**, leading to a provisional solution reached in November 2022. This agreement required **Sorare** to develop a free part of its platform to comply with existing regulatory requirements. In May 2023, temporary adaptations have been put in place to cater specifically to France-based users, providing an alternative entry method that complies with existing regulations while allowing individuals to participate in **Sorare's** platform.

As part of these efforts, the French government is actively preparing a draft of a special law called **"Exchangeable In-Game Items"** under the project name **"JONE"**. This specific framework for games with NFTs aims to differentiate them from traditional gambling activities. Web3 games, including platforms like **Sorare**, would not be regulated as gambling but would instead operate within this new regulatory framework. This new regulatory framework should be less stringent than that applied to traditional gambling companies. Instead of requiring a license, Web3 gambling companies would be required to register with the **National Gambling Authority**, which would then oversee their operations and impose sanctions if necessary.

Sorare strongly advocates for its product to be categorized separately from existing sports betting and daily fantasy sports regulations. The fact that players could never lose their NFTs and truly own these digital assets constructs a new context for addressing the challenges and opportunities presented by NFTs and online gaming. The decision by the **National Gambling Authority** provides clarity and allows prominent platforms like **Sorare**

to continue offering their services. This new regulatory framework addresses the previously ambiguous status of Web3 games in France, providing legal guidelines and ensuring a transparent operating environment for companies in this emerging sector.

Overall, the **Sorare** case serves as a catalyst for discussions and actions surrounding legal regulations for NFTs and online gaming. As the industry continues to mature, initiatives like the French government's proposed bill and **Sorare's** collaboration with regulatory authorities highlight the need for comprehensive frameworks that foster innovation, protect consumers, and provide clarity for businesses operating in the Web3 space.

In conclusion, the successful implementation of NFTs in Web3 strategies has paved the way for innovative opportunities in the gambling industry. We find them mostly in **NFT-based fantasy games** since these games are defined as games rather than gambling. This is also where the rise of the metaverse trend is particularly evident. The collaboration between traditional gambling companies and Web3 projects and companies has proven to be mutually beneficial. Strategic partnerships have enabled gambling companies to tap into the growing Web3 ecosystem, while also providing support and resources to foster the development of **NFT-based fantasy games**. Moreover, the development of **NFT-based fantasy games** has played a significant role in shaping the Web3 ecosystem as a whole. These projects have not only pushed the boundaries of innovation but have also contributed to the advancement of legal regulations specific to the Web3 landscape. The establishment of the **"JONE"** project in France demonstrates a proactive approach toward providing a clear regulatory framework for Web3 gaming. Overall, the integration of NFTs and Web3 technologies in the gambling industry has opened up new avenues for growth and engagement. The strategic collaborations, successful audience outreach, and the development of legal regulations have all contributed to the advancement of the Web3 ecosystem, signaling an exciting future for the intersection of gambling and Web3 technologies. In addition to that, the attempt to define NFTs in a specific context could serve as the basis for defining NFTs in any other given context and foster the development of legal regulations within the Web3 ecosystem in general.