Prediction Markets: A Watershed Moment for Lottery



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PGRI Introduction:
Prediction markets seemingly came out of nowhere. What only a few years ago was largely associated with election forecasting and relatively esoteric financial applications has rapidly evolved into a multibillion-dollar business that increasingly overlaps with regulated gaming. Sports-event contracts have accelerated that convergence, major commercial gaming companies are positioning themselves to participate, and extraordinary amounts of investment capital are flowing into companies that barely registered on the gaming industry's radar a few years ago.

For lottery, the immediate competitive impact may appear limited. Prediction markets are not selling instant tickets or operating draw games, and their most obvious collision today is with state-regulated sports betting. But Mark Michalko argues that focusing only on today's direct competition misses the larger significance of what is happening. The regulatory architecture governing gaming is being challenged, consumers see little distinction between a sports wager and an "event contract," and enormously well-capitalized companies are building businesses intended to fall outside many of the state regulatory structures that have historically governed legal gaming.

Michalko brings an unusually broad perspective to the issue. He has unparalleled depth and breadth of experience across all sectors of gaming, having led major service and supplier organizations in the US, Asia-Pacific, and EMEA, as well as lotteries in California and North Carolina. Approaching his 50th year in gaming, he has seen the industry evolve from an era when state lotteries were often the only legal game in town to today's intensely competitive marketplace. NCEL not only operates the lottery but also regulates commercial sports betting, giving Michalko and his team a front-row view of how prediction markets intersect with state-regulated gaming.

His message is emphatic without being alarmist. Prediction markets are not an existential threat to lottery today, and nobody knows precisely how the courts, Congress or the marketplace will ultimately define their role. But waiting for those answers would be a mistake. The capital is flowing, consumers are embracing the products, commercial gaming companies are adapting, and the legal process could take years while prediction markets continue to grow. After five decades in gaming, Michalko calls this a watershed moment. His approach is straightforward: Don't panic. **Don't catastrophize. But start preparing now.**

From Curiosity to a Gaming Disruptor

Paul Jason: Prediction markets were barely on the lottery industry's radar a couple of years ago. When did you begin to see them as something the industry needed to take seriously?

Mark Michalko: Before the 2024 election, we had all heard about political and election forecasting, but it was largely a tool for academics and political operatives. It wasn't really a concern because it didn't appear to have much to do with gaming or lotteries. The moment we really started paying attention was around the 2025 Super Bowl, when CFTC-registered exchanges began to offer bets, in their parlance "event contracts," on sporting-event outcomes. Suddenly we went from, "Well, this is interesting," to, "Wow, they are actually taking what looks very much like wagers on sporting events, without navigating the license and regulatory requirements applied to sports betting operators."

That was the watershed moment when prediction markets moved from something we watched with academic interest to an active business issue. At NCEL, we have a regulated gaming division because we regulate sports betting in North Carolina, and prediction markets are now a daily discussion. I've been in gaming for nearly 50 years, and I don't say this lightly: depending

on what happens in the courts and subsequently with lawmakers, this could be a genuine game changer for the industry.

Should lotteries think of prediction markets as a uniquely formidable threat, a manageable new competitor, or something else?

M. Michalko: They're a disruptor, and I use that term intentionally because they're potentially disrupting two very different things: the financial sector and the broader gaming industry. For sports betting, they're already a direct competitor. They could also have significant implications for casinos, Native American gaming and other forms of regulated gaming. For traditional lottery products, the impact is less clear because prediction markets haven't entered into the draw games or instant tickets space yet. The important word is yet.

The immediate concern is where jurisdictions overlap. NCEL is tasked with licensing sportsbooks in North Carolina. Those operators comply with our rules, go through a vetting process, pay licensing fees, meet consumer-protection requirements and operate within a regulatory environment we've painstakingly put into place. Prediction market operators are entering much the same competitive space without submitting to those same state requirements. They'll say they're regulated by the CFTC, of course, but they aren't operating within the regulatory framework that applies to state-licensed sportsbooks.

If somebody has a better product and consumers prefer it, I'm fundamentally a capitalist who is comfortable with competition. Lotteries have always adapted amazingly well. That's the free market. The problem comes when we're competing on fundamentally different playing fields, with prediction markets receiving highly favorable treatment that is not only unfair, but disrupts an equilibrium that fosters a healthy and vibrant market-driven economy.

To the consumer, how different is predicting the outcome of a football game through a prediction market from placing a sports wager?

M. Michalko: That's exactly the issue. The average consumer can hardly tell the difference between what a traditional sportsbook offers as a sports bet and what a prediction market offers as an "event contract." To the consumer, it looks like two different companies offering an opportunity to bet on the outcome of a football game. But from a regulatory perspective, there's an enormous difference.

Following the PASPA decision, states were recognized as having authority to regulate sports betting. North Carolina created a structure with licensing, vetting, consumer protections and responsible gaming requirements. Prediction markets can offer something that looks very similar to the consumer without operating within that state regulatory structure. The consumer may not know or care about the difference. They just see another platform offering an opportunity to predict whether something will happen, i.e., bet on the outcome of a sporting competition.

Buying Time, Building Scale

States are suing prediction market operators for violating laws, and litigation is proliferating around the country. Does waiting for court decisions make lotteries and others vulnerable while these cases wind through the system?

M. Michalko: I think it does. Regulators have prevailed in some cases; prediction market operators or the CFTC have prevailed in others. Tribal gaming is also part of the discussion because of the Indian Gaming Regulatory Act. Right now it's a hodgepodge, and while litigation works its way through the courts, prediction markets are essentially buying time. Their businesses continue to grow, they continue to attract customers, and capital continues to flow in.

People keep saying, "We'll see what happens when this gets to the Supreme Court." The Supreme Court will certainly be an important step, but it may not be the final step. The states are arguing that this involves state regulatory authority, while prediction market operators argue that these products fall under federal jurisdiction through the CFTC. The Supreme Court decides the specific legal questions presented in the case before it; it does not typically resolve the broader policy issues surrounding them. Whatever the courts ultimately decide, additional legislative steps may be required to clarify where the jurisdictional boundaries belong, what consumer protections apply and who manages the licensing process.

Congress may ultimately need to determine whether "event contracts" involving sporting events constitute betting and therefore fall under the authority of states to license, tax, regulate or prohibit. Or Congress could alter the historical protocol that confers regulatory authority for gambling to the states, or decline to take up these issues at all. The main idea is that the future is unpredictable, and the status quo of legal and regulatory confusion favors prediction markets, not lottery. The longer this goes on, the more established and normalized these products become.

Commercial gaming companies themselves are already adapting. DraftKings, FanDuel, Fanatics and others have positioned themselves in prediction markets. What does that tell you?

M. Michalko: They've answered the question through their actions. They're keeping a foot in both camps. If prediction markets continue expanding, they're positioned to participate. If the state-regulated model prevails, they already have established businesses there.

Historically, lotteries operated with a degree of exclusivity. When I first entered the business, lotteries were often the only legal game in town. That world is gone. Sports betting is here, casinos and tribal gaming have expanded, offshore operators remain an issue, and the exclusivity model lotteries once enjoyed simply doesn't exist anymore. Prediction markets further redefine that competitive environment by replacing the monikers of "gambling" and "betting" with "event contract."

Something else that seems underappreciated is the financial story. These companies have attracted extraordinary valuations and investment capital in an incredibly short period of time.

M. Michalko: I actually think that's one of the most interesting parts of the entire story. A few years ago, most people had never heard of companies like Kalshi or Polymarket. Now we're talking about companies with enormous valuations and substantial amounts of capital behind them. That's not simply the market saying, "Here's an interesting new consumer product." Investors are potentially looking at an industry-level change.

Think about the economics. If these products were treated as traditional sports betting, operators could face state licensing fees, gaming taxes and consumer-protection obligations. If they're classified differently, they may avoid much of that cost structure. To a sophisticated investor, that's enormously attractive. Investors see a rapidly growing business entering a huge marketplace with a very different regulatory and economic model.

That's why the capital-markets story is every

bit as important as the competitive-product story. Whatever ultimately happens, these companies will be well capitalized to adapt. If regulations change, they'll pivot. We're looking at companies potentially capable of finding and exploiting legal loopholes and creating business models that fall outside existing regulatory frameworks, just as they've done with prediction markets.

Consumer Protection and the Regulatory Wall

I'm concerned about whether policymakers even care about these issues, or whether they have the political will to vote for the right thing instead of bending to the will of lobbyists.

M. Michalko: That's actually the part I find most troubling. Lottery operators have had to adapt to competition, and we'll continue adapting. Competition itself doesn't frighten me. But our business centers first and foremost on the welfare of the consumer, and we have guardrails. North Carolina is a WLA Level 4-certified organization, and responsible gaming and consumer protection are at the forefront of what we do every day.

Our regulated sportsbooks also have safeguards. There are deposit controls, self-exclusion programs, problem-gambling resources and other protections, and operators are vetted and licensed. Prediction markets don't currently operate with the equivalent framework. I want to be careful because these products are relatively new and we don't yet have evidence establishing the degree of clinical harm they may or may not cause. We shouldn't claim something that hasn't been demonstrated.

But public sentiment is revealing. The National Council on Problem Gambling conducted a survey showing that 84 percent of Americans want prediction platforms to carry consumer protections equivalent to those associated with sports betting, and 82 percent support protections such as deposit limits and cooling-off periods. That's public perception, not proof of clinical harm, and the distinction matters. But it tells us consumers themselves recognize that these products raise many of the same concerns as other wagering activities.

If prediction markets have a superior product and consumers want it, fine. Let's compete. But competition works best when everybody is playing by reasonably comparable rules. If one group has substantial regulatory and tax obligations while another group offering essentially the same product doesn't, that inequitable playing field is unfair to players and society as well as to the competing brands.

Should lottery directors be going to Capitol Hill now?

M. Michalko: I do think there may be a time for that, but I don't think that time is now. The legal process needs to advance. Once we understand what the courts have said, we'll have a clearer picture of what Congress may need to address, and that's when the industry should be ready with more precise and effective messaging.

When Does This Become a Lottery Problem?

Some lottery directors might reasonably say, "I see why this matters enormously to sports betting, but why should I consider prediction markets a direct threat to lottery?"

M. Michalko: It's true that today prediction markets are much more directly competitive with sports betting than with traditional lottery. They aren't printing instant tickets or operating draw games. But we need to think beyond what they're doing today. What's to stop a prediction market from eventually offering contracts on the outcome of a Powerball drawing? Suppose there's a billion-dollar jackpot. Offer an event contract on whether the jackpot will be hit in tonight's drawing. There are all sorts of possible event contracts that could be constructed around lottery outcomes.

Suddenly they're closer to our space. That small leak in the dike could become something much more significant. Even today, prediction markets compete indirectly with lottery for discretionary dollars. We don't need to catastrophize because we simply don't know how things will unfold or whether they will be harmful to lottery. But we should recognize that the possibility exists and prepare for it. These are very well-capitalized companies, and if they decide there's a lottery-related market they want to pursue, they have considerable resources to do it. I don't think prediction markets are an existential threat to lottery tomorrow, but the scale of their potential impact should not be underestimated. That's why I keep coming back to the same point: we need to pay attention now.

So the productive response isn't to catastrophize, but neither is it to dismiss the potentially dire implications. It's to prepare.

M. Michalko: Precisely. I'm not worried about competition per se. If somebody builds a better mousetrap, let's compete. What worries me is being surprised by competition we could have anticipated. We can't put our heads in the sand and then two years from now say, "Oh God, what do we do now?" We need to think through the possibilities and prepare action plans as the regulatory landscape changes.

What happens if prediction markets remain under federal jurisdiction and can flout state laws? What happens if authority shifts back to the states? What happens if commercial operators begin developing products more directly adjacent to lottery? What happens as sports betting companies integrate prediction products into their own platforms? We need a Plan A, a Plan B, a Plan C. Frankly, we're doing that internally at NCEL now.

The lottery industry has adapted repeatedly over its history. We're not going out of business because prediction markets appeared. But they could fundamentally alter the environment in which we operate, and that's enough reason to take them seriously. This is where the industry needs entrepreneurial thinking. We should be thinking about our products, our consumer relationships and our competitive position before external forces force us to.

After almost 50 years in gaming, I view this as one of the biggest developments I've encountered. That doesn't mean we know how the story ends. We don't. The court cases are unresolved, the regulatory framework is unsettled, and the business models themselves are evolving rapidly. The message I would leave with lottery directors is simple: don't panic, but don't dismiss it. Understand what's happening, follow the litigation, understand the capital formation behind these companies and think through how their products could evolve.

Prediction markets may ultimately remain largely adjacent to traditional lottery, or they may become a much more direct competitor than they are today. That's why I call this a watershed moment. Not because we should assume the worst, but because we should recognize that the landscape beneath us is shifting, possibly in profound ways. What we can know is that the gaming marketplace is changing rapidly, the old exclusivity that lotteries once enjoyed is eroding, and the organizations that thrive will be the ones that recognize change early and act quickly to defend the interests of lottery stakeholders. ■