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Tuesday 23rd November 2010

Report



KPMG eGaming
SUMMIT



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SUMMIT

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Introduction

The Isle of Man is one of the world's most attractive jurisdictions for the licensing and running of an eGaming business.

The KPMG eGaming Summit, held at the Mount Murray Hotel on 23rd November 2010, recognised and built upon this strength by bringing together key players from the industry, service providers and members of the Government to discuss the future of the sector locally and globally.

The morning session was opened by The Honourable Allan Bell, Minister of the Department of Economic Development, and focused on the Isle of Man as an eGaming jurisdiction. A number of key speakers from Government and the private sector discussed how the Isle of Man is 'a good place to play' and how to ensure it remains competitive in a globally growing industry. The afternoon session then focused on broader issues affecting the industry as a whole, such as regulation, insurance and future trends. It drew to a close with a panel of experts fielding questions from the delegates. Over 150 delegates attended the event.

This document summarises the presentations of the various leading industry figures who spoke on the day, as well as the questions and answers in the afternoon panel session. KPMG's hope in publishing this document is to retain the momentum and dialogue generated by the event. We would also like to take this final opportunity to once again thank everyone who took part and contributed to making the Summit such a success.

KPMG employs a number of eGaming industry specialists both in the Isle of Man and globally and is committed to cutting through the complexity of this constantly evolving industry.

A word from the Sponsor

At Continent 8 Technologies we believe the Isle of Man is the perfect location for eGaming and eBusiness infrastructures.

The Island's AAA Sovereign Credit Rating, stable, supportive Government and world-class telecommunications infrastructure ensure that. That's why our multi-jurisdictional model for hosting and managed services links the Isle of Man to our data centres in Europe, North America and Asia via the Continent 8 private network.

As such, we are deeply committed to the eGaming community on the Island, and we are proud to have been a sponsor of this Summit. It was an excellent opportunity to deal with the major issues affecting the industry



today. We have supported KPMG in producing this report in order to do our bit to keep the Isle of Man at the top of the global list of premier eGaming jurisdictions.

I hope you find it an interesting read.

Richard Ebbutt

Continent 8 Technologies

Welcome Address

Allan Bell

Minister of the Department of
Economic Development
Isle of Man Government



Allan Bell

“The Isle of Man is in a strong position. We have a number of world leaders based on the island and a high level of professional support here for the industry.”

The Summit was opened by The Honourable Allan Bell, the Isle of Man’s Minister of the Department of Economic Development.

In recognising the increasing importance of the eGaming industry to the Manx economy, he showcased the Island as “A Good Place to Play” and called on delegates to build relationships, knowledge and encouraged collaboration between eGaming companies, service providers and the Manx Government in order to capitalise on the Island’s significant eGaming credentials.

Mr Bell began by saying how delighted he was with the huge attendance and said that the timing of the Summit was very appropriate. In contrast to the global economic events of the last two or three years, the most recent Isle of Man Treasury figures for 2008/9 showed net growth of the Island’s economy in real terms of 4.7%. “The Isle of Man won’t go into recession on the back of that,” he declared. Yet it was vital for a small economy, such as the Isle of Man, to be more diversified and to pursue new opportunities. In respect of the eGaming industry, this fitted the bill perfectly.

He said previous attempts at the start of the millennium to develop the gambling industry had faltered because the Isle of Man

misunderstood that focussing on terrestrial casinos was very different from eGaming. Other jurisdictions had stolen a march as a result. But since then, Government had got its act together and started talking to companies about where the opportunities lay. Government restructuring, and in particular the formation of the new Department of Economic Development (DED) in April 2010, was also a significant step in helping the economy to diversify.

“We have now put in place a structure on the island which has allowed the eGaming industry to grow and prosper,” said Mr Bell.

It wasn’t just big operators that would benefit. Opportunities had been created in a diverse range of businesses such as hosting and software which had developed as result. The overriding concern, however, was protection of the Isle of Man’s reputation as “a well regulated, blue chip, AAA-rated jurisdiction to do business in, free from rogue operators.”

He reported that the eGaming industry was growing apace on the Island. 22 licensees were in place with a further eight now going through the approval process and a steady flow of new enquiries in the system on a regular basis.

“The economic forecasts for 2010 showed that the industry will support nearly 700 jobs and that makes it one of the biggest employing sectors on the Island,” said Mr Bell.

“The total spend for the Island in 2010 will be £154m;” he confirmed. “At a time when the economy is slowing down, this investment is massively important not just to your own industry but to the Island’s wider economy as well,” he said, adding that the eGaming sector would raise £19m in taxes which would more than pay for the DED’s entire annual budget of £15m.

Mr Bell revealed that the average salary in the eGaming sector was £50,000, making it probably the highest paid sector in the Island per capita. The ICT sector, which was largely the eGaming sector, grew by 56% in 2008/9 which Mr Bell said was a phenomenal achievement and demonstrated the strength of the industry in recent years.

He said the Government had established eGaming training programmes in conjunction with a local recruitment consultancy and these were always considerably over-subscribed. There were waiting lists which reflected the quality of the eGaming business and showed that more and more people locally were willing to retrain in the sector because

they saw eGaming as a viable career option.

Mr Bell said that since the last eGaming conference on the Isle of Man three years ago there had been a sea change in the world economy, brought about by the credit crunch the banking crisis and the recession. General economic turmoil was on the Isle of Man’s doorstep, said Mr Bell. The World had changed. Most countries were looking to rebuild and Government were looking to replenish their public finances. As a result, attitudes were changing towards eGaming and former opponents now saw the sector as a way of developing different income streams.

The worldwide eGaming industry would be worth \$29bn by 2012, huge growth on the 2008 figure of \$20bn.

He said that competition amongst jurisdictions for eGaming business would undoubtedly increase and it was important that the Isle of Man recognised these challenges and found solutions.

The United States was edging towards regulation, as were France and Italy and whilst it was important to face up to increased competition, the Island was well placed to do so.

“The Isle of Man is in a strong position. We have a number of world leaders based on the Island and a high level of professional support here for the industry. You have the 100% support of Government and my department has the responsibility for marketing eGaming and we will be working energetically to ensure your business grows and develops,” said Mr Bell.

Highlighting the importance of public and private sector partnership, he said the DED was working closely with operators to ensure the industry continued to expand on the Isle of Man and to encourage new operators to be based here. “Most other jurisdictions don’t enjoy that close proximity of working and we have a major advantage in plotting the way forward,” said Mr Bell.

Nevertheless, he warned against complacency. Many challenges lay ahead. The eGaming industry was mobile and it was important to keep improving conditions to ensure that business remained sustainable into the future. It was important that the conference debated all the issues and the sector found solutions. Getting together to build relationships and improve collaboration was a positive move.

Mr Bell said improving market access as countries began to regulate was also vital for the Island’s eGaming industry and whilst the Isle of Man had done well to gain access to the UK’s white list, which had been hugely beneficial to the island, there were outstanding issues to be resolved, citing zero/ten taxation, VAT and the “thorny problem” of banking facility provision for many eGaming operations. “My hope was that we would be able to generate money for the banks with the new business coming here but it is a matter of real frustration that eGaming businesses have had difficulty using local banks to facilitate their business,” said Mr Bell.

In declaring the Summit officially open, Mr Bell re-iterated that eGaming presented a great opportunity and the industry had his and the Government’s 100% support. He also recognised the role played by KPMG which was a great supporter of the Island and were bringing the same level of energy and enthusiasm to the eGaming industry.



Summit Opening

Russell Kelly

Director: Audit & Advisory
KPMG Isle of Man

“People have always gambled, and will continue to do so by whatever mediums are available to them, especially through the internet”.

Russell Kelly works with a number of eGaming clients providing audit and advisory services.

Mr Kelly set the scene by stating KPMG was very encouraged by the huge level of interest in the Summit. This was testament to substantial growth in the eGaming industry together with the Isle of Man having a leading position in the sector. The Island was committed to remaining at the forefront of the industry, he said.

The Summit had been organised on the back of KPMG's 2010 global publication "Online Gaming – A Gamble or a Sure Bet" which examined features and trends in the online gaming industry. Two of its authors would speak later in the day. Mr Kelly explained that KPMG had been involved with the industry on the Island for a number of years, acting initially for Betinternet who had been a license holder for 10 years. Since then they had become more and more involved.

Growth was inevitable. "People have always gambled, and will continue to do so by whatever methods are available to them, especially through the internet," said Mr Kelly. "The industry has moved very quickly and continues to do so. We had the Unlawful Internet Gambling Enforcement Act (UIGEA) in 2006 and now we have an evolving regulatory position in Europe."

Research from H2 Gambling Capital forecasted a global market growing by almost 50% over a four year period to US\$30bn by 2012 which showed that the industry was moving from a niche to the mainstream.

Locally, online gaming was a "significant contributor" to the local economy, said Mr Kelly, with 22 live online gaming licenses in issue, in excess of 700 direct jobs, plus many more employed in ancillary services. Annual spend on the Island was over £150m and tax revenues generated more than £20m.

But Mr Kelly said it wasn't just licensed gaming operators that made up the local market. Market leading software companies, payment and telecoms providers, hosting businesses, corporate service providers, lawyers and accountants were all playing a major part in the growth of the eGaming industry.

"This wide variety of support sectors ensures the Isle of Man is able to compete strongly with other leading jurisdictions such as Alderney, Malta and Gibraltar and often acts as a key attraction to people looking to locate here," said Mr Kelly, before outlining the Summit's diverse range of expert speakers; the morning session focus being more on local developments with the afternoon looking at the global industry and generic issues affecting the sector.

“This wide variety of support sectors ensures the Isle of Man is able to compete strongly with other leading jurisdictions such as Alderney, Malta and Gibraltar and often acts as a key attraction to people looking to locate here.”

eGaming Sector Update

Steve Brennan

Director

Isle of Man Gambling
Supervision Commission

Garth Kimber

Head of eGaming
Development

Isle of Man Government,
Department of Economic
Development

The Summit began with an upbeat, jointly presented Sector Update by Steve Brennan, Director of the Isle of Man's Gambling Supervision Commission (GSC) and Garth Kimber, Head of eGaming Development within the Isle of Man Government's Department of Economic Development (DED). They explained the different functions of the Regulator and the marketing team charged with promoting eGaming on the Island.

Mr Brennan explained that the GSC, established in 1962, consisted of an independent panel headed by a Chairman and four members. Mr Brennan's main responsibility within the Commission was for the development and maintenance of the regulatory framework to license and supervise all forms of gambling in the Island including the online sector. He confirmed that there were currently 22 eGaming licensees operating with a further nine applications now approved and another seven applications in process which was an "unusually high number".

Mr Kimber was primarily tasked with promoting the Island's unique package of benefits for eGaming companies whilst ensuring the Government's reputational balance was retained and, by association, that of all companies on the Isle of Man, not just gaming operators. To date, Mr Kimber had secured a number of the world's top online companies and assisted them with setting up in the Isle of Man.

Above all, Mr Brennan said that whilst the Government received direct revenues from VAT and licence fees, maintaining the Island's economic reputation and retaining UK white list status was the prime consideration. "We don't want operators that are going to tarnish the sector," he said.

Mr Kimber emphasised the rigorous framework the Isle of Man had adopted to build its reputation as a first rate, high quality jurisdiction. The Government was both open to and supportive of the online gaming sector and was positively encouraging operators to make a permanent base in the Isle of Man.

Mr Kimber stressed that the growth of the online gaming sector meant benefits extended beyond licensed operators. The fulfilment sector had a major role to play in attracting new customers. It employed many people and contributed greatly to IOM plc. There were opportunities in hosting, IT, software, the legal field and, especially, for CSPs to attract new business. "I want CSPs to understand that by helping their gaming clients to develop and become more independent, they will get more business. We are actively looking for more large CSPs to come into the sector."

He said two banks on the Island currently handled transactional business for the sector, but also urged the rest of the banking community to support the eGaming sector and stressed that DED was keen to talk to banking decision-makers. "Hopefully we can show it is well regulated here and nothing to be scared by," said Mr Kimber.

Continuing the banking theme, Mr Brennan emphasised that the GSC could only protect players' funds when they are deposited with an IOM based operator. "We can only cost effectively do that if those banks are available on the Island," he stressed.

Mr Kimber recognised the impact that eGaming operators were already showing to the Isle of Man, supporting many local charities and getting involved in sports sponsorship.

It was important that there was a clear separation between the GSC and the DED to maintain impartiality. Mr Brennan explained that to reinforce this position a very recent piece of legislation, the Gambling Supervision Act, was passed in the November 2010 Tynwald. This moved the GSC from under the wing of the Treasury and turned it into a statutory board, working closely with, but independent of, the Government; like the FSC. He said the GSC had nine members of staff responsible for regulation and all eGaming licenses on Island. Their framework was to maintain an open and accessible approach. "This will ensure efficiency is maintained in the application process," said Mr Brennan.

Another key benefit of the GSC's newly created independent status was that it was well positioned to work in mutual assistance with other regulatory authorities. "A theme of cooperation is starting to resonate across Europe and we have the ability to be included in those talks," he said.

The three main areas in which the DED could help businesses to grow;

Firstly by introducing new suppliers and potential partners and assisting businesses on the Island to grow new business models; secondly by encouraging new business to the Island through promotion at overseas shows and exhibitions; and thirdly working with the GSC in testing new business models and making sure new businesses fitted with existing legislation and even changing legislation if necessary.

"We want to show that the Government cares, is approachable and interested," said Mr Kimber, stating that 80% of new businesses looking at the Isle of Man actually

chose to locate here. "The Island does usually put on a good show," he added.

The GSC's three core principles

Mr Brennan outlined the three principles which form the foundation of all of the GSC's work and said that all decisions were primarily influenced by the need to ensure that games were fair, crime was excluded from the sector and that the young and vulnerable were properly protected. Mr Brennan said there was also a duty under law to support the local economy and changes to the law were made if deemed appropriate.

He said the application process was quite straightforward. New applicants needed to show a clear business plan, solid income and realistic projections but advised: "It is not our experience that everyone becomes a millionaire in three or four months."

Player protection, banking facilities and social responsibility were paramount. The GSC carried out background checks to ensure any application was "good to go". Due diligence was undertaken far and wide on all key personnel regardless of their country of origin. Corporate structures were scrutinised to ascertain names of beneficial owners, defined as anyone with a 5% or greater shareholding in the company. "If an operator is not prepared to reveal the identity of the beneficial owner then that application could fail," Mr Brennan warned. He said that GSC approved testing houses were also used to assess the suitability of new operators.

It was rare to find disagreement between the GSC and DED on the type of companies receiving licences, said Mr Kimber, adding that the DED

Brennan

Steve Brennan



would also advise new entrants on potential pitfalls, especially start-up businesses.

Mr Brennan said operator advertising was carefully monitored to ensure it didn't target the young or vulnerable and regulation stated that all players must be over 18. As the GSC didn't have departmental technical expertise in the field of IT, test houses were also used to provide verification of all games' software.

Mr Brennan said under the terms and conditions of the GSC, there needed to be a very open relationship between the operator and the player. For player protection, the law required that mechanisms were put in place to ensure anyone depositing money with a failed operator would get their money back. Whilst the existing mechanisms were expensive, the GSC had now drafted regulations to allow operators to establish client accounts which held players' money in trust and which would be much more cost effective than the existing mechanisms. He indicated it was due to come into force at the December Tynwald. "But this mechanism will only work if banking is on Island," said Mr Brennan.

To do away with red tape, recently, a Gambling Forum consisting of the Treasury, the DED and GSC had clarified guidelines to ensure that a whole raft of business activities no longer needed to be bound by regulation. This extended to marketing and advertising activity, the provision of software and hardware, the hosting of client downloads and a number of associated activities which supported the gambling operators without requiring licensing or approval.



Garth Kimber

Garth Kimber

All licence holders were subjected to rigorous on-going compliance. Frequent checks were made of operator websites and any breaches found would be quickly dealt with. As social responsibility was such a key theme of the regulatory framework, the GSC would also look at specific strategic risks covering all operators, such as compliance with self-exclusion requirements and on-page references to organisations who could advise and assist problem gamblers.

All operators received site visits by GSC staff every 12-18 months and regular intelligence sweeps were carried out to detect any information that had become available in the public domain and which could constitute an early-warning sign of a problem: specialist gambling blogs and feeds were a particularly rich source of information. Companies were also required to submit quarterly returns confirming their players' fund-protection cover remained adequate, amongst other details.

The economic significance of the online sector was also highlighted. The local industry spend was put at £140m and operators contributed £3.5m to the Treasury in licence fees and gambling duty, set against an overall cost for regulation and marketing of just under £1m.

Over 600 people were currently working in the industry with over 30% of those in gaming coming from the finance sector with cross transferable skills. "As business grows there are a lot of people on Island who can fulfil those roles," said Mr Kimber.

So why was the Isle of Man a good place to play?

It was down to a combination of factors, said Mr Kimber. "What we've got is a package of things. The support of the Gambling Commission, access to Government, people you can really talk to, the ability as an industry to generally take part in consultation to shape things."

Mr Kimber said the Government was now well positioned to provide operators with full assistance. Obtaining white list status with the UK was also highly important, the Island had a competitive cost structure and, unlike most jurisdictions gave financial assistance for business moving here.

"In the last three years we have built a reputation where you are regulated fairly. We deliver what we say we will and we do it more quickly than any other jurisdiction." In exceptional circumstances a licence could be processed from start to finish in as little as six weeks, added Mr Kimber.

No gaming company would move to the Isle of Man unless they felt they had a Government and a Regulator they can work with. "Partnership makes things happen – we see that all the time when we talk to businesses," said Mr Kimber.

He said the annual growth in spend in the economy from eGaming was running at 25%. "There are always issues but as long as we remain competitive, fair and continue to deliver what we promise, we expect growth to continue," Mr Kimber concluded.

Q and A session

Russell Kelly then moderated a question and answer session, covering the challenges and opportunities relating to the Isle of Man as well as upcoming regulation and legislation.

VAT

Mr Kelly began by asking if VAT was a disadvantage set against rival jurisdictions in the Channel Islands and Gibraltar. Mr Kimber agreed it was a tough issue but there were certain corporate structures available to help mitigate VAT and lower bandwidth costs as well. It was also pointed out that the VAT advantages of other jurisdictions were not always as beneficial in reality as the "no VAT" headline suggested because of establishment rules and in any case any VAT advantage a given jurisdiction enjoyed could easily be eroded by an unfavourable judgement and so might not always be there. Mr Brennan's message was clear. "Come here and work with us. We are probably in a safer position in the longer term."

Staffing levels

Mr Kimber also revealed that at a time of Government cutbacks, a new executive level appointment was imminent reflecting the DED's continuing determination to promote the sector around the world.

Strategic issues

Mr Brennan said the biggest strategic issue over the next three to five years was the Isle of Man's position within the UK white list. It had been good for the Island and business had been

drawn here as a result. But the terms and conditions of white list status were still under review even though the list was currently closed to new applicants. Mr Brennan said the Island had given a very good response concerning betting legislation and the protection of betting consumers. Conclusions had yet to be reached. Recently the GSC had met the UK Gambling Minister John Penrose but it could be some time before the process was concluded. For the time being "the threat remained. But there should be plenty of warning of any changes," said Mr Brennan.

Regarding access to Europe, there was confidence that regulation was moving in the right direction. Mr Kimber believed in the future it would not be so much where the operator was based but whether it was paying taxes in that jurisdiction. It was all about money, said Mr Kimber. "We are fairly confident that it would be possible to do that from the Isle of Man just as easily as Malta. Mr Brennan cited the Danish example where you could operate outside Denmark as long as you were not blacklisted. With the liberalisation of European markets there was a move towards local licensing on a country by country basis. Likewise, the United States appeared to be moving towards state by state regulation.

Mr Brennan said that the Isle of Man wanted to ensure that future licensing wasn't closed off to EU member states and the Isle of Man was talking to the EU to ensure that the granting of licenses would extend to specialist jurisdictions like the Isle of Man, where there was the comfort of white list status. Encouragingly, Mr Brennan said the Island was looking for confirmation from the current Belgium EU presidency that a broader framework approach would be acceptable.

"Regulatory cooperation is going to be the key as the EU landscape opens up and the Isle of Man has got a part to play in that and we will have the opportunity," Mr Brennan concluded.

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Garth Kimber

Steve Brennan

Zero-Ten Tax

Malcolm Couch

Assessor of Income Tax
Isle of Man Government,
Income Tax Division



Malcolm Couch

Malcolm Couch is the Assessor of Income Tax of the Isle of Man and is responsible for all direct taxation and national insurance collection matters in the Island and internationally, including representing the Isle of Man at OECD and EU forums and negotiating tax co-operation agreements.

Mr Couch said his aim was to provide the Summit with “a thoroughly open, honest and up-to-date summary” of the issues relating to Isle of Man business taxation, focussing on the ongoing work of the EU Code of Conduct Group (the Code Group). He also reviewed the current status of the Island’s international tax cooperation work especially in relation to the zero-ten taxation issue.

He firstly moved to assure delegates that in answer to the burning question ‘Can the Isle of Man keep its zero-ten taxation’ by declaring: “Yes, I’m pretty sure we can.”

He began by providing background as to how we had arrived at the present system. He said in 1999 the Code Group assessed 11 tax measures in the Isle of Man and considered six of them harmful according to the criteria of the 1997 Code of Conduct for Business Taxation.

As a result, in 2002 the Isle of Man gave a commitment to the Code Group to roll back the contentious measures and indicated it would replace them with a zero-ten system of company taxation which was designed not only to comply with the principles of the Code but also to protect and retain business on the Island and add to its competitiveness.

“We told the EU exactly what we were doing and I don’t think anything

was hidden about this” said Mr Couch. He said that the zero-ten concept has been developed by the Isle of Man and that Jersey and Guernsey had felt they had to slipstream us to some extent to maintain a level playing field.

In 2003, the Code Group stated and the Council of Finance Ministers, ECOFIN, agreed that a zero-ten system would not in itself be considered a harmful measure. Mr Couch described this as “a key finding. They can’t take back decisions they had already made,” he said.

The zero-ten system was finally introduced in 2006, providing a generally applicable rate of corporate income tax of 0%, with a special higher tax rate of 10% for income from banks and property companies.

But the system was deemed problematic by the EU, said Mr Couch, because it was accompanied by an anti-deferral measure, the distributable profits charge. “We were informed in October 2007 that the Code Group considered this to be a harmful measure,” said Mr Couch. As a result, the Isle of Man abolished the measure and, with effect from 6 April 2008, introduced the Attribution Regime for Individuals (ARI) whereby residents with an interest in a relevant company would be charged with income tax on their share of the attributed profits from that company. Mr Couch said this had been a highly effective policy with only 300 or so ARI charges, even though there were tens of thousands of companies registered on the Island.

“We have not yet been given an assurance by the Code Group that it is content that the ARI conforms to the principles of the Code,” warned Mr Couch. He added that the Isle of Man learnt in September 2009 that the

Code Group had some concerns in relation to zero-ten systems and that an assessment of the ARI would likely involve a reconsideration of zero-ten.

As a result, Mr Couch said the Isle of Man announced a review of its business taxation system using the following criteria:

- It should meet the requirements of the Code of Conduct;
- It should meet the needs of as many domestic businesses as possible;
- It should contribute to competitiveness allowing existing businesses to continue to grow and attracting new businesses to establish on the Island and
- It could potentially increase the attractiveness of the Isle of Man as a location for businesses in economic sectors not currently widely represented, if at all, on the Island.

To gather the necessary information, Mr Couch continued, the Isle of Man Government announced it would:

- Explore with the UK and EU interested parties the rationale to be applied when the Code group considers business taxation systems;
- Review business tax regimes in the EU member states (and regions or dependent territories);
- Conduct a public consultation to seek views on potential changes to the business taxation system and
- Engage Deloitte as external consultants to support the whole exercise.

“Regulatory cooperation is going to be the key as the EU landscape opens up and the Isle of Man has got a part to play in that and we will have the opportunity.”

With the exception of the Code Group’s opinion, the programme of work had been completed, Mr Couch confirmed. On September 23rd 2010 delegations from the Isle of Man and Jersey attended a Code Group meeting in Brussels, the first time non-member countries had been invited to address the Group. “We were given the opportunity to make a presentation and we also answered any questions put by the EU member States,” said Mr Couch.

“The thrust of the Isle of Man’s presentation was to review our company taxation system against the Code of Conduct criteria.”

“In our view, the zero-ten system does not affect, in a significant way, the location of business activity within the EU. However, even if it could have such an effect, it is not harmful under the Code criteria because no measure in the Isle of Man provides a lower effective level of taxation than the general rate of 0%,” said Mr Couch. Over 95% of corporations and corporate income are taxed at zero.

The logic of the Code of Conduct indicated that the additional “tests” set out in it didn’t therefore need to be considered. Furthermore, as ARI was a personal tax measure, it was not strictly within the scope of the Code of Conduct, Mr Couch added.

“It is evident, based on a decade long track record that the Isle of Man is fully committed to tax cooperation”, Mr Couch continued. “Indeed, we have been prepared to move ahead of other small international financial service centres.”

He said this was evident by the early adoption of a policy of concluding tax information exchange agreements and the announcements of moving to automatic exchange of information under the EU Savings Directive in 2011.

“We believe the Isle of Man business taxation system conforms to the principles of the Code of Conduct. At this point we have made no moves to change it,” confirmed Mr Couch.

The Isle of Man’s view was that there was no case to answer regarding zero-

ten. “For us the only thing on the agenda was the ARI and that’s because we considered that the zero-ten tax system had already gone through.” But he said that if the Code Group had any concerns in relation to zero-ten and the ARI, the Isle of Man had asked it to set them out in detail so that they could be appropriately addressed.

He said it was important that the Isle of Man was seen to be a good player and that its tax system was EU compliant “because if we are a financial services centre in a global market place then there are rules which you have to conform to. If you don’t, you will be excluded.”

Mr Couch added that if further change was necessary then the Isle of Man wanted, as far as possible, to have a system which would suit everyone. “It would be nice if our tax system was not commoditised but had aspects that made people excited about wanting to go there because of its features.”

Whilst jurisdictions such as the BVI, Bermuda and the Caymans had zero tax, Mr Couch said it was important to offer other features. “It would be nice if there were more USPs provided through the tax system. We really have to keep striving to stand out to maintain the Isle of Man’s competitiveness,” he said.

He said that the Code Group’s most recent meeting on November 19 had proved inconclusive. He said the Group’s response had been “convoluted” and it was as if they were deliberately trying to find something harmful. He hinted that if any concessions were necessary in future then perhaps ARI was the area to consider.

The reality was that the Code Group didn’t really know what to do about zero-ten, said Mr Couch. One key point was whether the Group was actually even empowered to look at personal tax in conjunction with business tax; and this had led to difficulties. He said a new ‘High Level Working Party’ would be set up by ECOFIN in 2011 to consider the scope of the Code of Conduct.

“Where we are the moment is that the zero-ten system has not changed,” he confirmed. Mr Couch stressed that the final policy considerations could not be carried out until there was a definitive and detailed assessment from the Code Group. He accepted that this position caused uncertainty, and that uncertainty wasn’t good for business; although the Government was doing exactly what it had set out to do at the beginning of 2010.

Being labelled as ‘harmful’ by a body like the Code of Conduct Group was not something that could be ignored, said Mr Couch. Economic sanctions had been threatened against ‘non-cooperative jurisdictions’, but that hadn’t happened yet.

He felt there was a subtle shift from the UK since the election of the Coalition Government.

Mr Couch said that the EU was not able to rule on tax rates in its member states or other countries. The Code Group had no competence to impose rates of tax, he said.

“We will almost certainly be able to sustain zero-ten for a period,” said Mr Couch but, comparing our system with the Irish 12.5% corporate tax rate, which had suddenly come to the fore during the recent bail-out negotiations as being resented by some forces in the EU, Mr Couch said that he expected further pressure on zero-ten: which meant that it would be necessary to keep under constant review “the optimal system” to have in the Isle of Man.

Welcoming the opportunity of getting to know all parties within the eGaming sector, Mr Couch concluded: “As far as your sector is concerned we want to maintain a symbiotic relationship of sharing issues and sharing ideas, I’d like to get to know all of you, so we understand where we are all coming from.”

Making Sense of Payments

Dan Starr

Executive Vice President
Neovia Financial

Dan Starr is Executive Vice President and Chief Marketing Officer at Isle of Man based Neovia Financial, which provides an alternative payment network for large global businesses. Mr Starr leads the Group's brand, positioning, marketing strategy and communications, promotional and product initiatives. His role also includes P&L responsibility for the consumer business including debit accounts and cards. He spoke on the subject of payments within the regulatory framework of the eGaming industry.

Mr Starr explained that Neovia had been based in the Isle of Man since 2004, was globally proven since 1996 and specialised in the gaming sector, processing billions of dollars annually. The Company was a trusted and transparent payment provider offering innovative payment solutions through its core products such as Neteller and Netbanx with overwhelming market recognition amongst operators and players. The Company had a reputation for being safe and secure and offered remote identity and fraud services. "We are required to maintain 100% of funds on deposit, in transit funds and cleared funds in trust accounts, so you would never get a run on a system like ours," said Mr Starr.

Describing Neovia as offering "a strong value proposition" for the eGaming industry, Mr Starr said the emergence of alternative payment companies in the last ten years had filled a void left by banks. "They haven't shown up for the eGaming industry which is part of the problem," he declared.

In appraising the 2010 eGaming market he said the 'wild west' days were now substantially over. Operator consolidation was now well underway along with more enlightened regulation which was encouraging free competition, innovation and growth. Furthermore, legitimate eGaming businesses wanted to come to well run jurisdictions like the Isle of Man.

He said that traditional payment companies had been, at best, ambivalent to eGaming during its period of rapid growth – hence the rise of legitimate large businesses with strong domain expertise, like Neovia. But whilst traditional companies were now more fully engaged and a more coherent future was being created, companies like Visa and MasterCard were still getting their act together.

"The question is will MasterCard actually tolerate gaming transactions or not – we don't know," he commented.

The services of alternative payment providers was varied but having capability in areas of risk and fraud was what had really paved the way for money to flow in the gaming world and allowed the industry to grow.

High net worth VIP players wanted the ability to transfer substantial amounts of money, especially in US\$ and the traditional banking system couldn't be relied on to do this because they had no domain expertise and could routinely block transactions.

Overall, despite enhanced regulation, the payment environment was still subject to card transaction declines, blocked wires, payout card issuing difficulty, lack of customer knowledge and ambivalent corporate banking.

Money was the business of eGaming, said Mr Starr, and it was critical that operators could offer multiple payment types taking into account country by country variances like in Germany where giro banking was very popular.

Alternative payment partners, therefore, with global reach had stepped up to provide frictionless immediate deposits with high conversions and high success rates on payouts. Dependable and fast payouts were also important to maintain customer loyalty and trust and merchants themselves needed both cheap and dependable payment options.

"To ensure a high success on payouts, it is critically important to work with partners that have global reach," said Mr Starr.

He demonstrated that high card decline rates crippled operators and that global penetration of Visa and MasterCard was mixed. The challenge for operators was finding payment companies that could work in emerging markets like India, Russia and Brazil.

Mr Starr said operators also needed help with risk and compliance solutions, especially in situations where payment companies operated indemnified transfers. It was essential to have good identity controls in place.

He also said that a good payment provider should also be able to offer shared purse facilities which allowed money to flow across multiple games such as spread betting, poker and sports.



Dan Starr

Executive Vice President
Neovia Financial

“Psychologically people don’t feel they have won until they have cashed out. By putting it into an e-wallet they feel they have cashed out. It’s all about understanding the psychology of consumers.”

He went on to expose the shortcomings of card transactions, highlighting research carried out by H2 Gambling Capital that was based on an aggregated cross section of eGaming related operator transactions in 2009. This showed that in Brazil there was a 99.3% decline rate in card transactions. South Korea and Japan were also above 90% and even in the UK the rejection figure was nearly 57%.

What’s more, relying on cards alone was not enough, said Mr Starr. Even in a well regulated gaming environment like the UK only 62% of UK adults had a card, a percentage that was declining due to the credit crunch.

“The hardest thing for the industry is that the financial tool that the consumer has in their pocket generally won’t work,” said Mr Starr.

So it was important that operators should offer a variety of payment types to allow money to flow, said Mr Starr. Alternative payment options such as those provided by other types of card, bank pull/push options such as direct debit, e-wallets like Paypal which allowed funds to be topped up and that could accept back winnings, payment accounts and cash vouchers. This ensured eGaming operators experienced frictionless deposits, instant payments which drove higher conversions and facilitated high limits for VIPs.

“These are the tools by which alternate payment companies can help operators decide which would be the best payment method to use according to the country in which they operate,” said Mr Starr.

He said that research in Germany showed operators providing four or more payment types increased the likelihood of a successful purchase by 22%.

Payout needed to be hassle free, too, he ventured. Smart operators wanted cheap and easy methods with a high success rate and customer satisfaction. Operators deployed multiple payout methods such as OCT/payback to cards, wires and e-wallets.

He said it was proven that hassle free payouts reaped rewards for operators in repeat business. He said that following recent changes to the law in Norway 90% of transactions that come out of gaming sites through Neteller went back to the operator because of its simplicity.

“Psychologically people don’t feel they have won until they have cashed out. By putting it into an e-wallet they feel they have cashed out. It’s all about understanding the psychology of consumers,” said Mr Starr.

He said Neovia needed to be experts in risk and indemnified transfers and were also required by FSA regulation to know who their customers were.

Whilst bricks and mortar financial institutions and bookies could look their customers in the eye, eGaming and payment companies couldn’t.

So payment companies had, by necessity, to become experts in risk “because we are running things like indemnified transfers.” Solid anti-fraud measures needed to be put in place along with water tight chargeback management. Neovia used a whole slew of technology, such as device sniffing, electronic identity, anti impersonation checks to identify status, identity and age of customers. It was important to know your customers, for instance, to spot if they were registering in Germany but operating an account from Taiwan.

Whilst banks and cards were not good at dealing with remote consumers, there was lots of technology and innovation that alternative payment companies could bring to bear regarding secure transactions.

Ten things to look for when selecting a gaming payment partner.

They should be:

- Gaming proven,
- Have global reach,
- Be resilient,
- Operate multiple payment types,
- Support core gaming requirements,
- Have solid fraud tools in place,
- Have compliance regulation,
- Offer simple integration,
- Have flexibility and white label branding and
- Possess the ability to take payments by multiple channels options.

“The right choice in partner enables payments to become a business facilitator rather than just a necessary cost of sale,” said Mr Starr.

“Alternative payment companies will continue to provide domain specific expertise to support the industry through its next phase. I don’t think the banks and the card companies are going to get there any time soon,” he concluded.

Summarising, Mr Starr said the industry was becoming more mature and there was a lot of consolidation going on. He pointed towards recent moves towards regulation in Norway and France although he said the French approach was “prohibition dressed up as regulation. Lots of operators aren’t going there because of the tax.”

He also urged operators to seek partner relationships with their payment providers. “I would recommend you to really leverage your payment relationship because your business is money and we can help you move it,” said Mr Starr.



Choosing the Isle of Man

Rory Anderson

Chief Executive
12BET.com

Rory Anderson joined 12BET.com at the start of 2010 with a remit to grow its European business from scratch. Before joining the company he spent eight years working in senior marketing roles for eGaming companies such as 888 Holdings, Empire Online and PartyGaming.

He spoke about the reasons 12BET.com chose the Isle of Man to be their preferred jurisdiction in which to apply for a Gaming Licence, describing the company's experience throughout the application process.

Mr Anderson explained that the company was established in 2007 as an Asian based remote gambling company, offering live sports betting. "After initial success, the decision was made to enter the European market providing competitive odds and thousands of in-play events. The company was striving to be the best remote gambling business in the European market by providing a superior, unsurpassed core product.

12BET.com also expected the completion of their acquisition by former rival firm Asianlogic by January 2011 which would further underpin the Group's activities in the Far East, but the aim was to make the European operation self sufficient, said Mr Anderson.

The Company's website now offered thousands of in-play events every month from the Isle of Man. "We provide customers with a recognised branded portal to conveniently enjoy deposit gambling in a safe, transparent, socially responsible environment, regulated by one of the premier remote gambling licensing jurisdictions," said Mr Anderson.

He said customer needs would always come first and corporate activities were conducted to the highest ethical and professional standards.

Mr Anderson provided examples of how 12BET.com had raised its profile. The company sponsored the recent 12BET.com World Open Snooker tournament followed by sponsorship of the UK Snooker Championships in December. The Company were official sponsors of Sevilla FC in the Spanish Primera Liga as well as being the official betting partner for Newcastle United FC. "These deals give great exposure in Europe but also in Asia where there are restrictions on advertising for online betting," said Mr Anderson.

The reasons for choosing the Isle of Man

He said there were four key reasons why 12BET.com chose to be based in the Isle of Man, ahead of rival jurisdictions such as Gibraltar and Malta:

- A Cooperative Governing Body,
- Solid Infrastructure,
- Reputation and
- The Isle of Man Government's General Enthusiasm for the Sector.

It was important to work with a cooperative and communicative jurisdiction, he stressed. "The willingness of the Gambling Supervision Commission to work closely with us throughout the process was great. I spoke on a weekly basis to our liaison officer at the GSC so we were able to address and iron out any problems very quickly. This was refreshing as many places pay lip service. The GSC was completely genuine," said Mr Anderson.

Furthermore, the Island's stable Government had created an independent and well-regulated environment, conducive to growing an eGaming business, said Mr Anderson. There were also several world class data centres already established on the island.

"The Isle of Man is a white list jurisdiction, meaning that 12BET.com can freely advertise in the UK. The Island has earned a reputation as a well organised and regulated financial centre. This is a positive association for 12BET.com."



Rory Anderson
Chief Executive / 12BET.com

Whilst advertising and sponsorship was important in building customer trust and loyalty "having the Isle of Man Coat of Arms on our home page is a rubber stamp that adds tremendous value," said Mr Anderson.

"The Isle of Man is a white list jurisdiction, meaning that 12BET.com can freely advertise in the UK. The Island has earned a reputation as a well organised and regulated financial centre. This is a positive association for 12BET.com," said Mr Anderson.

Focussing on the GSC's approach, he said there was absolutely no compromise on rules and regulation. "What's the point of a licensing authority if it doesn't properly vet its licensees? This, for us, was very reassuring," he said.

12BET.com's experience of the licensing process had been favourable. The hearing took place in April 2010. He said that timing of the license was key. "We were able to take our first bet for the premier league season in August, so we delivered on target.

"There is no doubt that being based in the Isle of Man has added to our credibility," confirmed Mr Anderson.

He also pointed out some key issues that were emphasised to him, from the GSC's perspective, namely the 'Know Your Customer' standards, the importance of anti money laundering policies and, at all times, to be a responsible gaming company.

For prospective new licensees going through the process Mr Anderson also recommended that a well prepared application pack submitted ahead of time would enable the GSC to familiarise themselves with the applicant's business plan. "Any issues that do arise can then be discussed and resolved ahead of the hearing itself," Mr Anderson said.

As for the future, Mr Anderson was upbeat and said that 12BET.com was delighted with its decision to be headquartered in the Isle of Man. "We are confident in our product and marketing initiatives."

The willingness of the Isle of Man Government to be proactive rather than reactive on European issues was also important, said Mr Anderson.

He warned that regarding access to EU markets, with pan-European regulation not expected in the near future and local licensing looking

probable in most key European countries, there was still huge uncertainty about entry to these newly regulated markets.

However, from 12BET.com's viewpoint, being based on the island was not seen as a barrier to operating in the European eGaming sector. And he was bullish about the Isle of Man Government's ability to handle the Europe question.

"We simply don't have the resources to have licences in each country. We need a strong stance and a big effort from the Isle of Man Government to ensure that we won't be disadvantaged in terms of access to European markets. We have had assurances from the DED that ensuring the Isle of Man is not disadvantaged in terms of EU access is a top priority issue. From what we have heard today we are very confident that they will deliver," he told the Summit.

Staying in the Isle of Man

Nick Nally

Chief Development Officer
Continent 8 Technologies

As Chief Development Officer of Continent 8 Technologies, Nick Nally has almost 25 years' experience in many sectors of the IT and telecommunications industry in Ireland and the US, encompassing senior management, consultancy, sales, carrier relations, engineering and business development.

Joining Continent 8 in 2006, Mr Nally looks after business development and strategy as it relates to the rollout of offerings to service the eGaming market. He was previously an advisor and consultant to the Department of Communications within the Irish Government where he worked on a number of initiatives including the Irish Connectivity Project and related data centre activity.

He explained why the Isle of Man was, and remains, the right location for Continent 8's headquarters.

But in 1998, MIT started getting an increasing number of calls about providing data centre services for the developing online gaming market and following regulation by the Kahnawake Gaming Commission in 1999, MIT started offering such services. Over the years, MIT has developed into a highly influential centre with some of the world's largest online operators and software providers having started their operations in Kahnawake.

Mr Nally said that Continent 8's aim was to take the principles learned in Kahnawake onto the global stage and to develop global offerings. "We wanted to stay focussed on online gaming but address it on a multi jurisdictional level," he said. As a result, Continent 8 was born – the eighth Continent referring to the internet, beyond the seven terrestrial continents.

In selecting a headquarters for the company, whilst competitive tax was an option offered by a number of jurisdictions, there were other "softer factors" that were as influential, said Mr Nally. "We wanted to be able to work with Government, with influencers and decision makers and with communities rather than countries." He said that for a successful data centre business, the two most important factors were top class power and telecommunications.

Validation

The decision to be headquartered in the Isle of Man followed an intensive review. The company had looked at a number of countries including Guernsey, Malta and even Ireland. Today, outside of MIT's Kahnawake operation, by far the largest investment by Continent 8 in any of

Continent 8 - the eighth Continent referring to the internet, beyond the seven terrestrial continents.

Background to Continent 8

Continent 8 Technologies is a data centre provider that looks after the technical infrastructure for online gaming operators, providing a full range of co-location and managed services. Continent 8 focuses on the delivery of market-defining Internet technologies across a global platform.

Mr Nally said the company's origins date back to Mohawk Internet Technologies (MIT) which is based in Kahnawake, a 50 square kilometre territory south of Montreal and home to approximately 9000 Mohawks. The original intention was to set up a data centre to service the financial services sector. A key differentiator for this location was the fact that all of the telecoms infrastructure from New York State passed through the Kahnawake territory.



Nick Nally

Chief Development Officer
Continent 8 Technologies



“We need to see why we are winning business and need to consistently push forward and do some things that are maybe a little closer to the edge than where we are at present.”

its data centres is in the Isle of Man, from where all Continent 8’s major company decisions are made. “The aim was to provide a multi-jurisdictional model and attract companies who wanted to take advantage of that,” said Mr Nally.

The company has opened other operations in Malta, Singapore, France and the UK and there are plans to develop further centres in Europe and North America. But when it came to validating and setting up data centres in other jurisdictions, the Isle of Man model now provides the benchmark. “In every one of those locations, if it matches our experiences on the Isle of Man, that tells us if we are there or thereabouts in our decision making process.” said Mr Nally.

“We have found it an extremely open place to do business and where we have been able to work with the various stakeholders,” Mr Nally confirmed, citing the Manx Electricity Authority (MEA) as an example of where Continent 8 had been one of the first commercial bodies on the Isle of Man to support the MEA’s new fibre network service. Likewise on the regulatory side, Continent 8 had provided strong input into the Government’s disaster recovery and exclusion regulations. Mr Nally said this had been “a very positive experience.”

He said that they had also been positively influenced by the number of their own customers who had also based themselves in the Isle of Man.

The Island’s technical infrastructure is also first rate. There is an abundance of power on the Island. “The Government has put a lot of money in and it is paying off for companies like

us,” said Mr Nally. He told the Summit that power levels in Continent 8’s data centre on the Isle of Man were engineered at 7.5 kVA per rack. This was over 50% more than even some of the best Tier 1 markets. In places like France it wasn’t possible to get more than 4.5 kVA per rack but, even though the Isle of Man levels were extremely strong, he hoped they could be pushed even higher.

Telecoms were also praised. Even though the Island was small, it had greater telecoms capacity than many larger islands. It was important to have access to multiple systems and that’s where other jurisdictions fell down, said Mr Nally. Malta, as an example, was for a long time reliant upon just two networks. “It amazes me that businesses which are 100% online put themselves at the mercy of networks that aren’t capable of handling the business,” he pointed out. The fact that the Isle of Man had first class operators like Cable and Wireless and Manx Telecom made it “a very attractive place as far as networks are concerned,” said Mr Nally.

And whilst other jurisdictions had some good data centres, the Isle of Man was very fortunate in having at least three world class data centres, said Mr Nally, highlighting Manx Telecom’s and Domicilium’s centres as examples.

As far as skill sets were concerned he didn’t envisage this being a problem at the moment but as Continent 8 expanded its customer product portfolio this might impact on the company’s ability to recruit the necessary skills here in the future.

Stable local working practices were also a feature of the Isle of Man but were not necessarily as reliable in other Tier 1 markets. He said Continent 8 worked its suppliers hard and expected efficient, drop of a hat service at all times. “We built in the Isle of Man because we believe the Island will be here for a very long time. We are happy to facilitate our customer base here but we remain cautious about other jurisdictions,” said Mr Nally.

The future

Looking forward, Mr Nally thought the Isle of Man would need to keep evaluating its position in the overall market place. The nature of the industry was changing. It was no longer the domain of entrepreneurs and start-up operations. Over the last 12 years Continent 8’s customer base has changed. There were many CEOs coming into the business from other sectors and vertical markets, bringing in some established practices like business compliance procedures. Similarly, highly qualified and experienced IT professionals from telecoms companies and multinationals are entering the online gaming sector. “So we have to be more on our game every single day,” he said.

Many customers no longer want just one gaming licence, they want multiple licences for a variety of market and company related reasons. Many customers want disaster recovery but very few of these customers have the financial ability to put in a disaster recovery system in isolation. Instead, they wanted a

combination of solutions; to incorporate disaster recovery, testing, pre-production and even Cloud scenarios. “They want to be able to leverage their assets that they are putting their money into,” said Mr Nally.

The problem with technology was that it nearly always outpaced regulation, he ventured. Sometimes technology was being adapted to suit regulation. “We think it should be the other way round, that regulation should be adapting to technology in the market place,” said Mr Nally.

Complimenting the DED’s policy of marketing the Island to vertical market companies like CSPs, he said Continent 8 was working hard to encourage new business to come into the Isle of Man. Often, decision makers are based outside the Isle of Man, they are in places like Israel, South Africa, London and Stockholm. “We have to be continually working to move out into those markets to bring those operations and personnel into the Isle of Man,” he said.

There were other challenges that the Isle of Man faced but stressed the island’s need to be competitive.

“Although we have a fairly attractive bandwidth cost here in relation to other gaming jurisdictions, that’s not enough for us to rest on our laurels,” warned Mr Nally. “If we are to be competitive – and I do believe that there is a jurisdiction out there that one day will get everything right – then there has to be a better local cost structure and costs need to be continually driven down. We have to be aware of this. I don’t want to be antagonistic towards suppliers here,

but it is important in the future, especially if we are to win front-end connectivity here in the Island.”

He said that Continent 8 didn’t want to look at a base outside the Isle of Man so it was important for the Island to nurture the necessary skill sets for the future.

There is a lot of regulation and development going on in Europe at the moment and the outcome is not that clear. Mr Nally said it may be retrograde if there was a fragmentation of technology and infrastructure throughout the continent. “It would be best if everything stays here and places like here,” said Mr Nally.

Whilst it was important to strengthen relationships with countries like France and Italy, he said it was also vital to focus on bilateral agreements with other established jurisdictions, stating that, in terms of technology, the Isle of Man could lead the way in talking to other forward thinking jurisdictions.

“Everything points to a very successful market place in the Isle of Man but when you look at the number of licensees here, I don’t think anyone would agree that we have as many as we want,” Mr Nally ventured. Places like Malta, Gibraltar, Kahnawake and Guernsey were “massively installed places for licenses” and the Isle of Man needed to work with these jurisdictions. It was important to encourage more large operators into the eGaming market place. “We need to see why we are winning business and need to consistently push forward and do some things that are maybe a little closer to the edge than where we are at present.”

Introduction to the Afternoon Session

Mark Summerfield

Head of Gaming
KPMG Europe

“Despite all the challenges facing the online gaming industry, I remain more upbeat today than ever before.”

The afternoon session was introduced by Mark Summerfield, Head of Audit for KPMG Europe’s European Gaming Group.

Leading the firm’s relationships with Ladbrokes, the Rank Group and PartyGaming, his gambling team is based in London, Gibraltar and the Isle of Man, working with Gala Coral, 888, bwin, PartyGaming, Betfair, William Hill, SportingBet and most other major players in both the online and bricks and mortar sectors.

His personal experience includes the provision of audit and transaction services and various forensic and IT investigations. Recent industry projects include work for Business in Sport and Leisure (“BISL”) and the Gambling Commission. Mr Summerfield is a member of BISL’s Gaming Working Group and a Trustee of the hospitality charity, Springboard.

Mark’s opening address gave an overview into the four key themes that KPMG believe are facing the sector beyond the Island’s shores and how the global eGaming industry was developing.

Mr Summerfield opened by saying he was disappointed that the key themes and issues facing the industry had changed little over the past few years. In the UK, for instance, arguments were still raging about selling the Tote, funding of horse racing and the myriad of UK taxation structures which were best summed up as “a working model to the rest of the world of how not to do it.” So he was delighted to hear the Isle of Man Tax Assessor Malcolm Couch’s Summit speech earlier in the day “giving a more enlightened approach to taxation.”

Nevertheless, potentially, many of those offline issues could affect the eGaming sector. “They do show that there is one global gaming industry with thin walls between online and offline,” said Mr Summerfield.

Industry consolidation

Despite previous false dawns, he believed the industry had now reached a tipping point, with the merger of bwin and Party forcing the industry down the path of consolidation. “It might take a while to bed down but the combined group will have a strong market position in every country and leading software, in all verticals, and first rate IT, marketing and customer relations teams – the best of both organisations.”

He said that further acquisitions by the newly combined group could simply be about buying players, “Take over a business with NGR of \$150m and costs of \$130m and then take, say, \$60m out of the cost base. Suddenly you really start to see the power of the first mover who seriously sets out to consolidate,” reasoned Mr Summerfield.

Despite suggestions by some analysts that certain impediments made mergers unlikely, such as US legacy risk, shareholder interests, cultural differences, geographic revenue risk; companies that waited to see how the Party/bwin merger panned out “would be taking a flawed approach”, he said.

Over the next three to five years Mr Summerfield envisaged the possibility of just three big online gaming companies emerging. This assumes the US aren’t involved, with favourable US legislation “We could see the American super casino brands driving



Mark Summerfield

consolidation at an undreamt of speed,” he said.

He said he could also see bricks and mortar companies acquiring because they would have to diversify earnings outside of their own domestic markets. In the UK the demise of the traditional bookmaker was long predicted in favour of more convenient transaction methods. In particular, the emergence of the smart phone would force bookies into the mobile world and beyond.

Merger or acquisition - How will consolidation happen?

Despite the recent successful IPO of Betfair listing, Mr Summerfield believed it would remain difficult for listed companies to access acquisition capital from shareholders. And with the continuation of European market regulation at a national level, the actual timing and uncertainty of exit and re-entry strategies of different verticals, together with the cost of market entry, would all continue to cause volatility in earnings. This would continue to make it difficult to raise money. “In these circumstances, the main way of pulling off large scale consolidation is likely to be through mergers,” said Mr Summerfield, adding that it would be commercially imperative for companies to overcome their differences in order to agree merger terms.

Regarding the US market, the big unanswered question remained how London-listed companies could gain access to the US gaming market post regulation, especially with the US’s tendency towards protectionism. He suggested that any regulation would likely favour American companies, but

that didn’t mean the door was closed to European operators.

“When I look to who might succeed, I look to those businesses who already have a legal US presence, such as Betfair and Sportech, or those software providers, such as Playtech and 888 who have both a strong B2B operation and existing US relationships,” he predicted, adding that “To understand the US you really have to be in the US”

There was no consensus view on when US legislation would come but it was inevitable. “You can’t ignore the level of demand that exists or effectively criminalise that many domestic voters,” said Mr Summerfield.

The move from dot com to dot national

Mr Summerfield believed the concept was here to stay with the UK, Italy, Germany, France, Sweden and Spain leading the way in European gross gaming yields. “But for the type of growth in major European markets forecast by the likes of H2 Gambling Capital, deregulation must continue,” he urged. France, Spain and Denmark would grow strongly in the next three years although France’s licensing framework review “may not bring all the hoped for benefits”. US facing operators, Pokerstars and Full Tilt, would continue to gain market share in European poker, he predicted.

He said all companies had to focus increasingly on tax, especially the location of intellectual property, to invest heavily in IT and achieve cost efficiencies in each country. “The fundamental message is that they will have to recognise the need to run

international structures rather than just an Isle of Man or Gibraltar base.” That required having a greater appreciation of local employment laws and providing sophisticated remuneration packages, he added.

The impact of moving from dot com to dot national, he reasoned, was apparent from bwin’s Q3 results which highlighted the change in earnings and revenue profile from the loss of casino and bingo, initial entry costs and costs associated with adapting platforms to many different national models.

“What’s interesting is that the lack of immediate returns may well prevent new players from other industries, notably media, moving heavily into this sector,” said Mr Summerfield.

Emerging jurisdictions

Referring to KPMG’s recent report ‘Online Gaming: A Gamble or Sure Bet’ which looked at emerging jurisdictions such as the BRIC countries, Asia Pacific, Argentina and Australia, Mr Summerfield said they all had advantages of a developed banking system and large populations with a penchant for gambling.

A move to a dot national approach in Europe would help companies better understand that people were not homogenous and that regional variances existed, so each country would need to take these factors into account when formulating an operating model, he said.

“Despite all the challenges facing the online gaming industry, I remain more upbeat today than ever before,” he concluded.

Regulation in the Sector

Archie Watt

Senior Manager: Advisory
KPMG Isle of Man

As one of the industry's foremost IT experts, Archie Watt joined KPMG Isle of Man in July 2010 from KPMG London, where he was working as an IT Advisory Senior Manager for the Information, Communication and Entertainment practice, with a particular focus on online gaming clients.

He has worked for KPMG since 2006 and before that with BDO in London, where he worked on the public listings of 888, Playtech and PartyGaming amongst others. He recently co-authored the KPMG report 'Online Gaming: A Gamble or a Sure Bet?'

Mr Watt spoke extensively about regulations in the sector, covering the growth in regulation, how we have got to where we are and the influence of the EU.

Mr Watt said, at present, the sector itself was not widely understood and that education was required both on and off island to show where eGaming fitted in to the regulatory environment as a whole.

As with the financial services sector, he continued, the eGaming industry was also sitting on large deposits of customer money at any one time and customers wanted that money back. In the Isle of Man's case, the role of the GSC was to allow companies to make best use of that money but to ensure that it was returned to customers in due course.

"Gaming is a leisure activity and successful operators are those that combine the enjoyment with the means of making money for themselves," said Mr Watt. At present, there was a patchwork of regulation. In some places it was better than others. The UK was an example of having a good regulatory framework although "what they forgot to do was put in place the necessary tax structures to go with it," he added.

"The Isle of Man has not made the same mistakes," he continued. Instead, they had brought in a far more comprehensive, understandable and enforceable regulatory regime than in other jurisdictions.

Kahnawake, in North America, was one of the early exponents of online gaming, Mr Watt continued. There were a number of casinos on their territory and they naturally evolved into the online sector, principally to provide sports betting options for people living in the US, although since 2006 this was prohibited to Americans. But anyone in the world could go online to play legally on a website which was in a properly licensed jurisdiction.

Range of regulations

Controversially, France and Italy have gone down their own routes on regulation, where to provide services to their citizens the operator had to be licensed in that jurisdiction. This was completely contrary to the approach of jurisdictions such as the UK,

Kahnawake, Antigua and the Isle of Man, said Mr Watt.

Consequently there was a fragmentation on regulation requirements in Europe and the rest of the world which meant that operators had to separate out their business models, with all the resultant complexities, according to whether they were dealing in France, Italy, Denmark or Spain," said Mr Watt.

There was a whole range of legislation that operators in the sector had to comply with to ensure that money laundering didn't take place. These included the Third European Union Directive (2005), Money Laundering Regulations 2007, Proceeds of Crime Act 2002 and the Terrorism Act 2000. "Contrary to what some Governments believe, in reputable jurisdictions no online gaming sites are operated by money launderers," said Mr Watt. "That is categorically not the case in the Isle of Man. If it was, they wouldn't even be shown the front door. That is not what happens."

Attempts at money laundering are spotted very quickly by responsible organisations, he continued. If an operator suspected a crime then he had a responsibility and requirement to report it. "If they don't then it could mean going to jail. So it is in an operator's interest to have well constructed and well regulated procedures in place to protect them and prevent illegal money coming in to their organisations," said Mr Watt.



Archie Watt

Senior Manager: Advisory
KPMG Isle of Man



Why have these regulations in place?

Above all, for operators, it helped provide peace of mind for their players, he said. "If you have got the Isle of Man badge on your site, that's good enough for them. They assume there are processes in place to protect them, that there is a regulator sitting on top of them making sure that it is a safe and secure place to play" he said.

Regulations are normally drawn up as a response to state monopolies that ran lotteries. "Those state monopolies have been losing money hand over fist to online gaming operators," Mr Watt said. Why? Because online operators have provided far better returns to their players.

He said state lotteries claimed "to have a divine right to prevent fraud." The message they gave out was that no fraud happened on a state lottery. Consequently, Mr Watt added, online operators were having to fight against that perception very hard. He gave an example of the European Court of Justice hearing an appeal by the Portugese authorities against bwin for sponsoring local football.

The reason the state lottery gave was that it was to prevent fraud and that the subtext of this was that bwin wasn't preventing fraud. "But it was in the interest of bwin to prevent fraud. Fraud cost bwin money, so why would they want to encourage someone to defraud them. This was not the case," said Mr Watt.

It was also in the interests of online operators to know who their customers were. "If you are a sports book, you've got to know that the player has the money to pay you if they lose," said Mr Watt. They would also want to know if the player was part of a betting ring because if they were then the sports books would lose money. Equally it was important to know if someone was involved in terrorist activity, so knowing your customers was a key part of regulation.

It was also a requirement to know if people were old enough to play and to block them if they were not. "All these sites have procedures in place to prevent and protect against under age play," said Mr Watt.

How can the rules be applied?

With potentially hundreds of thousands of bets taking place daily, how was it possible for operators to know that customers were who they say they were? asked Mr Watt.

For ease, most organisations used a four stage automated application process to verify players.

On registration

There were third party operators who could look into customer validation, often using Government websites and databases. Whilst Mr Watt ventured that this was all rather "big brotherish" it was done to make sure only the right people were getting access to the system and to play fairly. "If we aren't who we say we are or where we say we are, then that is going to get caught," he said.

On deposit

If you had a bank card BIN number from the UK but claimed to be from somewhere else then immediately a warning would be sent to the operator's site which could block the application before it was submitted, he said.

On win

If it was found that someone was winning consistently it might be because they were lucky but they might also be in collusion with someone on the operator's site, said Mr Watt. He gave an example of a poker operator where a friend of the online player worked for the operator and was able to tell the player the identity of the cards on the table. The individual's identity was traced and they were caught.

On withdrawal

To comply with money laundering legislation, any payouts of over \$2000 had to be recorded and checks on an individual's identity would also be carried out, Mr Watt revealed.

He said that online operators arguably had more controls in place than most of the banks. "They have to be more and more sophisticated as the level of knowledge of the operator grows."

He concluded by stating that to comfort those with little or no previous experience of the eGaming sector it was a well regulated and well run industry.

"But those with experience, you can be comforted that your views and your hopes and beliefs are being fulfilled. I am very positive for the sector, I love it and I have worked in it for over 10 years," said Mr Watt.

"Gaming is a leisure activity and successful operators are those that combine the enjoyment with the means of making money for them."

Safe and Fair

Tex Rees

eCOGRA Limited
Fair Gaming Advocate



Tex Rees

Fair Gaming Advocate Tex Rees currently runs responsible gambling initiatives and dispute mediation services for eCOGRA (eCommerce and Online Gaming Regulation and Assurance).

She joined eCOGRA in 2003 with more than 15 years of management and customer relations experience in both land-based and online gaming businesses. Ms Rees has mediated thousands of player disputes originating from eCOGRA Approved Sites. She established eCOGRA's Responsible Gaming Requirements and continues to ensure they are correctly implemented across over 140 leading online gambling websites and mobile operations. She has also created responsible gambling training programs for a number of eCOGRA certified operators.

Ms Rees explained that eCOGRA's role as a UK based, non-profit organisation is to help make the global online gambling industry safe and fair for all players by providing assurance that operators are honest, games are fair, monetary deposits are safe and that winning bets are paid in a timely manner. eCOGRA is about player protection, she said.

But this doesn't mean simply scrutinising operators. "In order to make it safe and fair we also look at the software provider. We make sure we conduct reviews at both the operator and the software provider to protect players thoroughly," she said.

eCOGRA is a fully transparent, independent standards authority established in 2003 and was originally a Microgaming and 888 initiative to demonstrate that they and their

operators offered best practice. Shortly after, they were joined by Ogame (bwin) as a Founding Member. In the ensuing years, eCOGRA has completed almost 500 onsite reviews, each lasting between three and five days. They have reviewed approximately 200 sites against eGAP, the EGBA Standards and for compliance with regulations at different jurisdictions. Of those 145 operators now hold the eCOGRA Safe & Fair Seal.

To gain approval, each organisation receives a visit from an eCOGRA Compliance and Advisory Services (CAS) team member on site looking at all areas of the business. The CAS team member then prepares a compliance report for management comments and once he is confident that the operator has complied with all of the requirements as set out in eGAP, the report is presented to eCOGRA's Seals Compliance Committee, made up of Independent Directors, who decide whether the operator is awarded the Safe and Fair Seal.

Responsible gambling initiatives

Responsible Gambling is often misconceived as only being about problem gambling, said Ms Rees. "Although it plays a large role it's not just about the vulnerable. It's about making sure that the operator works in a responsible environment." The aim is to protect the underage and vulnerable, to ensure that operators act with integrity and that promotions are delivered in a responsible manner. "If you are a responsible operator then you are going to make sure there is a

place for the player to go if they have a problem," she said.

She highlighted that eCOGRA run onsite training programs, the majority on responsible gaming, where they work face to face with player interfacing company staff, to make sure they are made aware of problem gaming issues and responsible operator conduct.

It's important that players keep their gambling activity within budget and that operators have the tools in place to encourage sensible gambling by providing opportunities for deposit limits, cooling-off and self exclusion, said Ms Rees.

"The great thing about the online gambling industry is that we have a greater ability to successfully track players and provide tools to help them keep their gambling in the realms of fun, than one would in a land based environment," said Ms Rees. "You can't effectively stop players entering a gambling establishment whereas there are a number of ways of blocking online players."

Dispute mediation

Ms Rees revealed that dispute mediation is offered to all eCOGRA sites, as well as to the EGBA. To date she has handled in excess of 4000 disputes. She highlighted the importance she placed on being given access to an operator's management to ensure that any disputes were settled in a timely fashion. Normally disputes are resolved within 72 hours.

The mediation service was started in 2004 and in the first year there were 151 requests for assistance. Last year

that had risen to 826. Ms Rees said the increase was attributed to more sites becoming eCOGRA approved and also because players were more knowledgeable about where to go for mediation.

She emphasized that eCOGRA offered a player mediation service and not an arbitration service. If an operator didn't agree with what eCOGRA felt was a reasonable resolution to a dispute, however, the matter would be taken to the eCOGRA Board where the decision could be made to suspend the eCOGRA Safe & Fair seal. "So there are teeth behind the mediation service," she said.

Ms Rees said that on average there was less than half a dispute per month per operator. "In my opinion that is a superb number when you consider how many transactions there are and how many disputes there could be." The majority of disputes received are over withdrawals, bonuses, locked accounts and fairness of the software.

She itemised various examples of correspondence received by eCOGRA from both players and operators following successful mediation on issues such as slow payment, miscommunications between players and call centre agents as well as technical errors.

Data analysis

In 2007, eCOGRA brought the data services previously performed by PwC in-house and recruited a dedicated team that would maintain the TGTR approach. They also engaged KPMG to perform an annual quality assurance review. The review covers the internal

"In order to make it safe and fair we also look at the software provider. We make sure we conduct reviews at both the operator and the software provider to protect players thoroughly."

assessment teams, operator and software supplier Work Programs and a review of the Payout Percentage and RNG methodology.

As a result of intensive data analysis carried out, eCOGRA issues over 3000 certificates annually on key performance indicators such as payout percentages and RNG (Random Number Generator) relating to casino, poker, bingo and live dealer studios.

Ms Rees explained that the method used for testing data was output based and known as the Total Gaming Transaction review. The objective of which is to show fairness by demonstrating uniformity and independence.

Compliance and Advisory Services (CAS)

The CAS team's role is to assess and assist on site with the compliance of online gaming operators, software suppliers and service providers against industry best practice and jurisdictional regulations.

The department has moved from a pure audit or assessment function to an advisory and assessment role. The objective now is to assess and assist the client comply to with the relevant standards.

Although it can take up to a year to bring an organization up to best practice levels, operators who meet the required high standards receive the Safe and Fair Seal. There are also Certified Software and Affiliate Program Trust Seals.

She stressed the importance of undertaking a continuous compliance

program. "We are looking at an operator from a holistic point of view, to ensure that they are continually compliant and always up to best practice," she said.

As well as the onsite audits and data reviews it was often dispute mediation that acted as an early warning signal of a potential problem with an operator. "Players are the first ones to tell us if there is something wrong. We need to listen to them, which is one reason why dispute mediation is so important," said Ms Rees.

She described the strict Governance Structure adopted by eCOGRA. Stressing that no seal would be granted unless the Seals Compliance Committee was absolutely sure that an operator had achieved 100% compliance with the requirements.

In summary, Ms Rees explained that eCOGRA's main objectives, contained within its eGAP (Generally Accepted Practices) document were demonstrated in three main areas; Player Protection, Fair Gaming and Responsible Conduct.

"An informed player is the best player. We will not have players coming back if their first experience is bad. We need to make sure that they have the ability to become informed players," she said.

Insurance: Not a Gamble

Philip Tompsett

Broking Director
Aon (Isle of Man) Ltd

Phil Tompsett is Head of General Insurance for Aon (Isle of Man) Ltd.

He was formerly head of Aon's operations for the North West of England and has held many senior positions across the Aon Group. His client experience encompasses complex risk and insurance programmes for domestic and international businesses across the public and private sector.

Gareth Tungatt

e-Commerce Underwriter
Barbican Syndicate at Lloyds of London

Gareth Tungatt is a specialist underwriter at Barbican focussing on e-Commerce risks.

He brings to the operation the benefit of 13 years experience of underwriting and placing technology and cyber risks in the London insurance market. He has developed substantial sector expertise, contributing to several industry publications on insurance risk management for the e-Commerce sector and working with a number of blue-chip organisations in a specialised risk consultancy role.

Their joint presentation outlined key risk issues for the sector which conventional insurance does not cover, supported by real life uninsured loss examples and highlighted the specialist cover now available for the eGaming and supporting sectors.

Mr Tompsett explained that the focus of the presentation was on some of the sector specific risks, in particular cyber risks, and said that he was delighted to have brought along Gareth Tungatt, the key sector underwriter from Lloyds of London to provide "cutting edge" information for the Summit.

Mr Tungatt said that cyber liability was prevalent in many different aspects of the eGaming industry and began by explaining exactly what cyber liability was. Unlike property, motor or house insurance, cyber liability was anything that was non-tangible, he said. "I am not talking about technology insurance or physical assets like lap tops. It could be anything you say or do, any information that is contained in a non-tangible format. It could be the way your mobile phone operates with the network."

He said there was an increasing amount of non-physical exposure emanating from the internet and computer networks and these exposures were broadly split into two main areas: first party, which was a company's own exposure and own losses as a result of having access to technology and the way the company operated.

But the wider subject, he said, was on third party or one's liability to others. "In short, what is your organisation's exposure to a third party as a result of technology?" Mr Tungatt questioned.

Cyber risk was a subject covered almost on a daily basis in the national papers, he said. Stories were commonplace of computer hacking, of people stealing data, of disks being lost in the post containing information about millions of people.

He said it was a common misconception that companies could only be exposed to cyber risk if they were a technology company. "That is completely incorrect. I can't think of any industry in the world that isn't exposed in some way in terms of cyber risk." He said the eGaming

industry was particularly vulnerable to technology and not necessarily at the front end of the operation either. The back end of the business was especially open to attack in areas such as its method of invoicing, the way it provided a white label service for clients, through its service level agreements with third parties and internet connectivity. "If your system is down or certain aspects of it, such as your payment partners operation are not operating properly, then your business grinds to a halt," he warned.

Whilst every network's functions were unique and streamlined to meet a company's own requirements, an eGaming operation was reliant on a wide range of supporting businesses and activities such as payment processing, in-game betting, real time transactions and interfacing with affiliates. Consequently the speed and complexity of the IT function made eGaming companies especially susceptible to cyber risk, said Mr Tungatt.

He said people didn't tend to think of their computer network as a business in its own right which was a mistake. "It certainly is," he countered. "In fact, many of my clients would describe their computer network as the crown jewels of their organisation."

He explained that first party exposure would involve any risk to an operator's own network. This might be loss of data, system failure, damage to both the network and the Company's reputation and any loss of business revenue or increased costs of working as a result of disruption.

He said as far as third party exposure was concerned, it was important to remember that eGaming companies,



Philip Tompsett

by virtue of having a website, had the same legal responsibility as a publisher. Indeed, he suggested that this amounted to even greater responsibility for the eGaming sector because "if you operate on the internet then you are not just subject to the legal laws in your jurisdiction – you're out there on the world wide web."

This even included defamation, libel and slander. "You are responsible for everything about your website, including intellectual property," said Mr Tungatt. Any branding or endorsement carried on the site, for instance, had to be cleared for use in the jurisdiction of operation. Particular attention needed to be paid to blogging activity. He said he had seen many examples, in North America especially, where there were more stringent privacy laws than in the UK, of uploading information which had not been cleared for use. And he warned that stricter laws could follow here in future.

In North America, he continued, if you were to obtain information such as credit card numbers or people's names and addresses, there was a duty of disclosure. It was necessary to contact all those people by letter which was costly and, depending on the State, it was also often necessary to provide credit monitoring services such as Experian to make sure any information being used wasn't compromised.

Statistically, around two billion people worldwide now used the internet and this created a huge amount of potential plaintiffs, said Mr Tungatt. Furthermore, there was currently no single regulation relating to the internet. The payment card industry had gone some way to establishing reasonably consistent card processing

laws, but every jurisdiction was different and nothing specific had been rolled out yet. "But at least the PCI is trying to make sure that everyone is singing from the same hymn sheet," he said.

So in a relatively lawless environment, the internet was "a fantastic place" to launch criminal activity. You could walk into a bank with a gun and expect to get life imprisonment but because the internet was virtually unregulated and there were generally no extradition laws, criminality abounded.

Data extortion and blackmail demands, fraud, phishing and pharming were all commonplace examples of criminal activity. "I'm sure everyone has had an email from their uncle in Nigeria at some time in their life who was going to deposit half a million into your account. We understand these type of scams have about a one per cent penetration rate," he said.

Electronic security breaches involving hacking, time or logic bombs, trojan horses and computer viruses were slightly different to criminal activity but could also be a significant nuisance. Internet hackers had to be taken seriously, citing the example of a hacker that recently infiltrated the Pentagon's computer. "That's meant to be one of the most secure places in the world. If they are at risk then a financial institution or a gaming company is certainly not beyond it," said Mr Tungatt.

He also highlighted internal sabotage, such as where a malicious insider, perhaps a disgruntled employee from an IT department, would take a system down.

“When we have these forums it’s quite interesting to speak to your technical guys who are always very tight lipped. They say nothing can ever go wrong with their network. Well we see this from an insurer’s point of view and let me tell you that you certainly do have some network security breach issues.”



And he warned against complacency. “When we have these forums it’s quite interesting to speak to your technical guys who are always very tight lipped. They say nothing can ever go wrong with their network. Well we see this from an insurer’s point of view and let me tell you that you certainly do have some network security breach issues.”

Mr Tungatt then provided a snapshot of the types of cyber risk faced by an IT network ranging from human error to system malfunction, from virus to fraud and malicious attack. “I know there are different ways of mitigating different exposures but as you can see it’s not just physical perils which you have to deal with. There is more exposure to a computer network than there is to a tangible property.”

Case studies

He then highlighted a number of cases to show potential areas of concern for the eGaming sector.

Firstly, of inside sabotage, where a computer programmer for a major online trading entity had a grievance, wrote some malicious programme which caused the outage of all ecommerce activities for 48 hours over the busiest trading period of the year.

An example of infringement of intellectual property was where a games development firm suffered a claim for damages after including clips which were available as an online download. The content hadn’t been cleared for use by the freelance content provider who went bust, whereby the games development firm found itself facing defence costs of £5m against one of the largest music companies in the business.

Breach of Privacy also featured. Rogue software was found to be installed in a company network with the aim of collecting credit/debit card numbers as they were processed. It affected 1500 individuals and three major banks issued legal proceedings against the company for £6m to recover their losses.

He also focussed on an example of external hacking where a man was charged with hacking into the protected computer of a Las Vegas hotel, resulting in a total cost of intrusion and theft of data of nearly \$6m. The defendant faced up to five years in prison.

And, finally, data extortion. On the day of a major multi-national sporting event, a leading bookmaker was the victim of a multiple distributed denial of service attack where a demand of £250,000 was made to bring the disruption to an end. It caused significant business interruption from loss of unplaced bets.

So what protection was available in the market now?

Mr Tungatt said there were gaps in traditional coverage. Currently just five per cent of companies were insured for cyber risk. The reason being that cyber liability was concerned with intangible assets and most organisations only purchased traditional coverage e.g for property. There was no trigger in those policies for hacker attack, sabotage or systems malfunction. Because there was no physical damage, most policies excluded coverage.

Aon/Barbican eRisks solution, however, now provided a one stop comprehensive cyber risk solution designed specifically for e-commerce exposures including eGaming and supporting industries.

The product was broken down into seven modules which could be bought as a package or individually, Mr Tungatt.

The seven modules comprised:

- Technology and miscellaneous errors and omissions in the rendering of professional services
- Multimedia liability from internet, marketing and advertising activities
- Security and privacy liability from breach of privacy or privacy regulations
- Data recovery and loss of business income
- Privacy and regulatory defence and penalties
- Crisis management costs
- Data Extortion

East Meets West

Bill Mummery

Executive Director

Celton Manx Limited

Bill Mummery has enjoyed an international career in both Africa and the Far East before completing a management buy-out from Granada Group in 1991 which brought him to the Isle of Man.

Part of the eGaming industry since 1998, Bill helped establish and float one of the 'first to market' entrants on AIM in 2000. As eGaming Ambassador for the Isle of Man Government from late 2004-2007, he aided with the development of the Island as one of the premier global jurisdictions in the industry.

Joining SBOBET in 2008, he established their European operation, Celton Manx Limited, on the Isle of Man. He is a strong supporter of the economic development for the Isle of Man and the contribution that the eGaming sector will continue to make.

He spoke on the reasons for eastern operators choosing the Isle of Man, the lessons learned, threats and opportunities and his view of the landscape for the Isle of Man as a jurisdiction for the next three to five years.

Initially, he explained why SBOBET had made the decision to relocate from Asia to the Isle of Man. Around five years ago there was a small cluster of highly successful, cash regenerative sports betting businesses in Asia. They faced a number of strategic issues, however. Apart from a special economic zone in the Philippines, there were considerable limitations on quality licensing and regulation in the

region and it was clear that this was not of a sufficient standard to move the business forward, said Mr Mummery.

Climatically, too, the region was prone to typhoons bringing the threat of disruption to external networks. There was also a level of political uncertainty and risk which meant business could grind to a halt.

They also faced a lack of banking facilities. It was very difficult to establish a business to consumer model when credit card processing facilities were not available. Furthermore, UIGEA legislation in the USA had also had a direct impact on SBOBET's core markets. Whereas a large number of major brands had been operating with a singular focus on product, currency and market, UIGEA meant that operators were looking for substitute revenues. Suddenly there was an awareness that there were other geographical locations in the world, including Asia, where there was the chance to provide at least a partial substitute for their lost revenues. So for the first time, operators had a rival looking to play in their back yard," he said.

"Against that backdrop, I know a number of operators allowed themselves 12 months to do their homework and perhaps carry out a little bit of a beauty parade in this part of the world and, as a result of that, this jurisdiction was able to attract two of the largest operators," said Mr Mummery.

Why the Isle of Man?

It was seen as being a premier licensing jurisdiction, of high quality with the right levels of due diligence. Legislation and regulation was of a high order and a legal system based on the English system. Its time zones fitted with what SBOBET was trying to achieve.

Crucially, the Island also had a world class telecommunications infrastructure, capable of handling significant volume processes. "On a premier league Saturday, we process anything between 300 and 500 transactions a second. That is a massive overhead on the infrastructure," said Mr Mummery.

He also revealed that during the recent football World Cup, on mobile platforms alone, SBOBET processed seven million transactions. "I am certainly not looking to denigrate Ladbrokes as a brand, but during the same period they celebrated the achievement of 100,000 transactions on mobile platforms."

The sheer scale of this activity could only work effectively if it was supported by high quality professional support services and the Isle of Man had these in abundance, he said. "When one is moving this amount in a massively cash generative business people have to work very hard at the coal face. The services available to us on the island are very important."

KPMG eGaming SUMMIT

Bill Mummery

Executive Director

Celton Manx Limited



“The future is very bright and it’s here in the Isle of Man.”

Access to the UK white list was also important, although not simply because of the access it provided to the UK market but also further afield. He said there was a perception that the Asian gaming companies who sponsored Premier League football were primarily looking to build brand awareness in European markets. “The reality is that that is a bonus,” said Mr Mummery. “There is no more effective vehicle than if a premier league soccer team carries your logo every single week.” He said that every game was transmitted to 200 countries many of which didn’t have conventional marketing mechanisms. So that by using SBOBET’s sponsorship deal with West Ham United as an example “what is very noticeable is that when those pictures arrived in Asia, the brand that was recalled was certainly not West Ham, the brand that was recalled was SBOBET. We have demonstrated that Premier league sponsorship is massively beneficial in our core market and that is something that is not necessarily understood,” said Mr Mummery.

Furthermore, the Isle of Man was well known and respected by the City of London but it wasn’t simply as a vehicle to penetrate the UK market. Five years ago, Europe had also been seen as an realisable objective. But he said subsequently there was a real danger of a situation emerging where Europe would have 27 licensing jurisdictions. He questioned other operators who had chosen to go to other jurisdictions because it would give them a passport across Europe. “In my view that is a perceived benefit much more than a deliverable one,” he said.

He said operators faced a dilemma. Did they chase licenses only to become late entrants and fringe players or was doing so a cue to future growth. “It’s also a question of whether you’re seen to be diversifying and reducing your dependency on traditional markets, particularly when your business is being scrutinised by potential investors and the investment community generally,” he said.

Mr Mummery said the Isle of Man was also an excellent base for developing a business-to-consumer platform. He said that this had not been possible across Asia despite the huge volume of business that was done in those markets because it was impossible to identify and establish the right sort of organisational connections there. However, a massive business to consumer opportunity existed in those core markets that could be leveraged from the Isle of Man “because in the Isle of Man we have been able to develop very effective and very efficient platforms for processing.”

He said it was now possible to put real time data on the LED boards around premier football grounds. He said the access to this technology, coupled with the availability of mobile platforms was lapped up by customers and now accounted for up to 65% of gross stakes placed on any football game.

But he cautioned that because the Asian handicap model was still relatively new to the European market it still needed explaining at a generic level if progress was to be made in Europe. The customer benefits and the value proposition was persuasive. He said that the Company pushed back 99% of all stakes by value and redistributed them as winnings.

“We are operating on a 1% gross margin which is pretty unique compared to the gross margins of other betting models.”

An average fixed odds operator would offer 200 football markets in a week, compared to the 1500 available through SBOBET. “So you have two very compelling arguments about value and depth of content but this still has to be communicated,” said Mr Mummery.

The generic benefits of taking the new Asian handicap business model to market was a significant responsibility and required an education process “before you start to spend any significant amounts of money on your own Brand marketing.” He said it was important to look long and hard about how a vendor site was presented, how it functioned and presented its data and it had to be sensitive to cultural differences. “I’d be the first to say we haven’t got that right yet,” Mr Mummery admitted.

SBOBET had been live in the Isle of Man for two years and had proved to be a sound move. “We believe we made the right business decision, we made the right choice and we are actually heading in the right direction.

Threats

Without question, regulation was a major obstacle, said Mr Mummery. In a number of jurisdictions it had been used as a mechanism to protect state monopolies. But he said a lot could be learned from the Isle of Man’s unique circumstances. “If those entities in Europe could all understand the quality of licensing regulation in the Isle of



Man, most especially that they are guaranteed to get their tax take, then over time I believe there may be a route forward.”

He said it might result in one-on-one agreements where it was understood that “we undertook to run our businesses at least to the standard of theirs. Why wouldn’t they allow access?”

He said the one caveat was that a number of jurisdictions in Europe still operated a turnover tax. “In my view this is simply not defensible. It will not work,” he said. “It drives very poor value out for the consumer.” But he said if jurisdictions considered a gross profits tax model and the regulatory system was in place then “as operators we would embrace that and I think it would be a win win situation.”

The UK white list had been key in the Company’s decision to locate to the Island. Without this, they couldn’t have sponsored UK football teams. He explained that everyone was now awaiting results of the white list review. If its purpose, Mr Mummery said, was to ensure the protection of the UK consumer this was “a non event” for the Isle of Man. “But my concern would be, that despite all the assurances to the contrary, sooner or later it may be part of a revenue generating measure. Hopefully not,” he said.

He said that the banks were historically extremely nervous of the gaming sector but as time had passed and operators had demonstrated that they were highly technology driven and responsible, this had fostered good relationships with the banks. This had been rather derailed in recent times, he cautioned. In particular he

criticised the domestic policies of US and the influence they brought to bear on the wider market. “They end up interfering with businesses like ours that have no exposure to the US and no intention of exposure to the US, but it is massively disruptive. I’m afraid that is probably something we are going to have to live with,” he said.

He hoped effective solutions could be found but warned, as things stood, it was not ideal to be dependent upon one bank to handle all payment processing. This was because if you were reliant on a bank that had assets scattered around the world, making acquisitions around the world, you could wake up one morning and the dynamics of their operation could have changed completely. “The safest way to have continuity of processing is to find a bank in a creditable jurisdiction, with all the controls but where they have neither international aspirations, nor international assets scattered around the world. They would be less risk averse than some of the bigger brands,” said Mr Mummery.

He also railed against the eGaming industry’s “massive promiscuity” in the way it enticed customers with ever more bonuses and free bets. This was pushing down operator profits and wasn’t good for operators or customers. “I think it is endangering the good health and stability of some of the brands,” he said.

Opportunities

He said there was very significant business to consumer growth potential from existing geographical locations and markets. They were still “almost virgin territory”, especially since broadband coverage was as low as seven per cent in some places which was both a constraint and a massive opportunity.

With the regulatory restrictions in mainland Europe, Mr Mummery said new geographical locations such as South America, Australia and parts of Africa all had their challenges but offered great potential.

He briefly touched on the recent Betfair flotation as being a business model that “is absolutely not without its risk” and questioned whether their parochial fixed odds betting model would fit into new markets. “If I was an investor today I would be asking where does your future growth come from? The risk section of the Betfair prospectus was enormous,” he said.

As for the Isle of Man, it had established itself as one of, if not THE premier jurisdictions. The Island had met and exceeded the aspirations of its licensees and was well understood in the City of London as a jurisdiction. He said there might be a partial resolution in the constraints relating to Europe which would “benefit all our existing licensees” but by focussing on the quality end of the business rather than volume was something that would stand all Isle of Man licensees in good stead.

“The future is very bright and it’s here in the Isle of Man,” he concluded.

Future Trends in Online Gaming

Warwick Bartlett

Founder and Partner
GBGC

“The question now is that after our initial advice of some two years ago, where does the online industry stand today?”

Warwick Bartlett founded Global Betting and Gaming Consultants (GBGC) in 1998. Originally from an operational background, he now has over 40 years continuous experience in the gaming industry, continuing to chair and present at numerous UK and international gambling conferences. He is regarded as one of the industry's top experts.

Mr Bartlett delivered a presentation based on the Harvard Business School “Porter” model to analyse the forces that challenge the industry and how best the eGaming sector on the Isle of Man should face up to the future and succeed in a competitive market place.

He began by explaining that he had migrated GBGC to the Isle of Man in 2007 on the back of a slowing down in the global economy and out of control spending of the UK Government.

In late 2008 and early 2009, he said he made three speeches to the industry in Gibraltar, Malta and the Isle of Man warning that “times were going to become more difficult than they had been in the past.”

But he stressed: “For me, the story to be told was one of good news for those companies that were prepared to take the necessary steps to prepare for recession.” Due to quantitative easing he reckoned that the current recession was not yet as severe as those of 1972, 1982 and 1992.

He produced figures from a number of leading eGaming businesses which showed rising turnover from 2007 but not matched by PBT. “The question now is that after our initial advice of some two years ago, where does the online industry stand today?”

For the answers, he said that GBGC had looked at a number of companies to assess their competitive edge in the market place using the Porter model from The Harvard Business School. This was based on five forces that impact on an organisation – Competition, New Entrants, Suppliers, Customers and Substitutes. “Because of the special nature of our business we have added a sixth – the Role of Government,” said Mr Bartlett.

Competition

He said more than 2,100 websites offered gambling services, most targeting European customers with English overwhelmingly the predominant language although Italian and Spanish also featured.

A handful of operators dominated each sector with a mass of smaller companies. “All sectors operate on very tight margins and have to work extremely hard to attract new customers. The business model works well in low tax environments to enable high payouts to customers,” said Mr Bartlett.

Sports books aimed for margins of 8-10% but, using figures from the operator Unibet as an example, this revealed a range from 6% to almost 12%. Increased competition meant margins would come under further pressure, said Mr Bartlett. To compensate, bwin were at the forefront of in-running betting but even their margins had fallen from 8% to 5.5%, he added.

The eGaming industry was also one of the few that felt it had to buy customers through generous sign-up bonuses and dormant account incentives. Despite this, few customers read the bonus rules which led to disputes and complaints to the regulatory authority.

“This is the soft underbelly of the businesses. If the industry does not put its own house in order I believe the authorities will,” warned Mr Bartlett, predicting that lotteries entering the European market would have easy-to-understand bonus systems which would potentially pay out faster than current operators.

He said that a recent EGR Live Yahoo survey into online gambling revealed 38% of people gave the main reason for opening an account was so they could claim a free bet, 24% because of brand trust and 18% because of the odds offered. The research showed there was little to choose between rival companies – they all had similar products and similar websites.

New Entrants

Despite competition, new entrants were still keen to come to market, said Mr Bartlett. Wealthy individuals saw eGaming as an easy way to make money with its low barrier to entry, even though there was a high barrier to success.

Suppliers

Telecom providers, payment providers, banks, software suppliers, affiliates and media suppliers were all influential to an eGaming operator. “We see the take up of broadband internet as a key driver of the internet gambling

business,” said Mr Bartlett. He said current global broadband penetration was still under 7%, forecast to grow to 8.3% by the end of 2011. But he warned that it could take a decade to fulfil broadband's potential and eGaming was at the mercy of telecoms operators who needed to improve technology and access as well as lowering consumer costs outside Western Europe.

Many offshore jurisdictions also had limited supply of data centres and telecoms providers which meant switching suppliers was often difficult.

Substitutes

Mr Bartlett said there was little long term advantage of new products because if something proved popular, other firms would simply add that game or product to their own sites. Betfair's betting exchange model was perhaps the best example of innovation. Yet that was a decade ago and it hadn't led to the demise of the traditional bookmaker “But it has certainly shaken up the bookmakers and had an effect on betting margins on horseracing and football in the UK,” he added.

Social gaming sites offered an alternative but they were different business models and didn't give customers the chance to gamble and win money.

The role of Government

With its influence over tax rates and licensing requirements, Government was arguably the greatest influence on the European eGaming market, said Mr Bartlett. Where monopolies didn't exist, the combination of gambling and



Warwick Bartlett



“So far as the Isle of Man is concerned, Government has put in place a structure that enables internet gambling to prosper – zero corporation tax, great IT and a great place to live and work.”

the internet was a nightmare to most governments. “The key issue for the next decade is – will we end up with 28 markets and 28 licences in the EU. Or maybe just one licence to serve the whole of the EU with one tax rate?” he questioned.

He argued that regardless of tax revenues collected, onshore Governments typically retreated to policies of tax and spend because it won votes. So as far as gambling was concerned it would be “those based offshore, the businesses that I call the ‘Pirates of the Caribbean’, who will raid France and Italy, regardless of law and consequences, and offer better value than those onshore.”

He said this was a possibility worth considering especially since the top five unlisted private companies were at least four times more profitable than the major five listed internet only companies.

Would those companies drain the market of liquidity? Would Italian and French customers ignore brand in favour of value and risk?

“We note that the gambler is 30% worse off betting under the new laws of France,” said Mr Bartlett. “If those

gamblers decide to walk with their mouse offshore, then it is they who will cause Government to lower tax rates and not all the reasonable pleading of responsible gambling operators.” He said that was precisely what happened in 2000 when big UK bookmakers went offshore.

Despite some deflationary forces, because of the fall in currency and quantitative easing, Mr Bartlett wagered that inflation would rise which would be positive for remote gambling. “Inflation is ideal for a business model that has high volume and low fixed costs. The reverse is true for the land based business where consumer income lags inflation but costs rise immediately with inflation.

“So far as the Isle of Man is concerned, Government has put in place a structure that enables internet gambling to prosper – zero corporation tax, great IT and a great place to live and work,” said Mr Bartlett.

But the Island still had significant challenges to face if it was to retain its status as a premier jurisdiction for eGaming. There were a finite number of worthwhile operators to attract and there was competition from three other major jurisdictions which had

differing advantages over the Island. And he stressed that a VAT rate of 20% from January 2011 would increase costs for gambling companies on the Isle of Man which they wouldn’t have to face if they were based in other jurisdictions.

Suggesting a radical solution, he ventured: “Government, therefore, needs to take account of this and I think the time is right to abolish betting tax for eGaming Companies,” Mr Bartlett urged.

He said there was an opportunity to create jobs and prosperity which should be grasped. “Rather than follow the rest of the market in catch up, the Isle of Man should now be positive and lead the market,” he concluded.

Panel Session

John Spellman – Moderator

Director
MeGA

Roger Raatgever

CEO
Microgaming

Claire Milne

Chair, GSC
Partner, Appleby

Bill Mummery

Executive Director
Celton Manx Limited

Mark Summerfield

Head of Gaming
KPMG Europe

Tex Rees

Fair Gaming Advocate
eCOGRA Limited

Warwick Bartlett

Founder and Partner
GBGC

What about product innovation in the future. Where do you think the industry is going to go from a product point of view?

Question to Roger Raatgever

“Without doubt, further product innovation would enhance our customers’ (the operators) performance,”

“At present, players are spoilt with an absolute bevy of feature rich technology” exemplified by convergence. Consumers are used to new technology and, indeed, they expect it. “So it’s no longer a product push when it comes to marketing, it’s a pull,” said Mr Raatgever. New products and technology are needed to take this into account.

Raatgever considers connectivity as a huge issue. Broadband penetration needs to be developed. Raatgever said Microgaming are developing richer products and needed to do so at an accelerated rate to achieve growth. Continuing, Raatgever referenced that the internet is now 20 years old and it wouldn’t be long before a device was available that would be able to do everything. “So we have got to start tailoring our product development to make sure it can cope with all that richness.”

Where do you think UK white listing will actually go and over what time period?

Warwick Bartlett said it was difficult to answer because the UK hadn’t been very clear on it. The Gambling Minister John Penrose had said there was unfinished business as far as the internet was concerned, but that he didn’t want to alter the 2005 Gambling Act, Mr Bartlett observed. He thought the UK Government was under a lot of pressure from the horseracing lobby. They were opposed to firms going offshore because they were not paying the horse race betting levy. “Although as a percentage of the gambling revenue it’s a very small figure, it shows how powerful the lobby is,” he said, commenting that he thought the UK would probably introduce a system where people who were offshore would take bets in the UK but there would be another form of licence in the UK.

Bill Mummery agreed that this would be a probable outcome, he said this would be acceptable as long as it was a license that recognised your primary licence or your place of residency and was largely there as a bolt-on to give permission to advertise. “But I hope it is not a smokescreen for additional revenue generation.”

Do you think that Europe will adopt the principle of white listing, e.g. extending the EEA or that the UK will merge far more to the European model?

Mark Summerfield said that the EU would keep a close eye on revenues of France and Italy and try to replicate that model across Europe.

Warwick Bartlett commented that there was a long history of gambling in the UK and the British customer had a clear understanding of odds and value. They wouldn't accept being overcharged and, if they were, would resort to betting illegally.

Roger Raatgever commented that over time there would be one set of regulations, a common standard similar to the mobile industry.

Warwick Bartlett said there was a common standard for drugs but they were all illegal! "The thing about illegal gambling is that there's no victim," he said. "It is a victimless crime with a willing buyer and a willing seller. Everyone's happy. It could take place anywhere. I could make a book here."

Bill Mummery cited the example of administrators in Hong Kong who had spent 40 fruitless years attempting to take a whole raft of illegal activities, including gambling, away from the Triads. They then came up with the idea of criminalising Hong Kong citizens for going online and betting offshore whilst at the same time offering them a monopoly Tote product. "The net effect is that they have just handed back gambling in Hong Kong to the Triads."

Claire Milne said that it was unclear exactly what the driver was behind future regulation. "We are being told from a regulatory perspective that it's about player protection. If that is the case then we absolutely welcome that," she said. She doubted whether that was actually the case, however, and it was simply a matter of waiting and seeing.

Is EU access the be all and end all to the Isle of Man's future in gambling?

Claire Milne said it was important to note that the GSC and the cross governmental Steering Committee had worked hard over the last 18 months discussing bilateral cooperation with various different jurisdictions. But whilst it was important that the Island continued to talk to European jurisdictions there were other jurisdictions to focus on as well, outside the EU.

Bill Mummery thought the pressure on operators in the Isle of Man would not be based so much on the loss of revenue if they didn't have access to those mainland territories, but because they would be heavily criticised for not being seen to have diversified sufficiently away from their core markets. That's where the pressure would come.

The issue of regulation not keeping pace with technology

Claire Milne said it was true that regulation had not kept in line with technology. "But it's not just eGaming, it's most technology businesses," she said, explaining that she had been involved with technology companies for 15 years and everyone said the same thing – that the law did not keep up with what they were doing. She said that in 2006 legislation was enacted that allowed the Government more flexibility with the Online Gaming Regulation Act by using secondary legislation under the Act. This was a major move forward. The GSC was aiming to have new primary legislation both for the online and land based industries on Island.

That would result in one consolidated piece of legislation which would provide a framework for the industry with the use of secondary legislation to flesh out the details – this would allow more flexibility. "The hope is that new legislation would be out for consultation at some point in 2011 and at that stage I think it is for the industry to participate as much as possible and to tell us their views in order for the GSC to work towards an appropriate framework."

Roger Raatgever said from a technology company perspective, initially technology drove the industry and then marketing drove the industry. Now the industry was seeing "regulatory pressures being a major force driving the industry. Raatgever said that it could mean prices coming down and a requirement to be more innovative, something which Microgaming thrives on.

"As a software company, we've already come out with peer to peer gaming. We are coming up with three or four new products in the next three to six months that will blow existing regulations right now," he said. Technology is heading in directions that hadn't previously been thought of, for instance, where do you play if you are on a ship or plane? Raatgever said Microgaming would soon be launching technology in planes and boats. Although the Isle of Man had lost licensees on peer to peer gaming in the past, he applauded the Government for moving towards secondary legislation and welcomed the opportunity for dialogue.

Where do you see the importance of self-regulation fitting in with technological development in the future?

Tex Rees said there was definitely a big role for self-regulation because it was important for the industry to lead. She said that with so many innovations and new products coming out it was vital "that we quickly get some kind of best practice requirements in place, to demonstrate to policy makers that the industry is willing to be regulated. "Sometimes legislation does lag – so the industry needs to lead through self-regulation." She said if the industry sets the bar, the rest will follow.

She also highlighted the issue of regulation across Europe where it was fragmenting. She gave the example of bwin, an EGBA member, which had separate licences in France, Italy, Gibraltar and potentially acquiring licences in Denmark, Greece and other jurisdictions as they open. "It means they are subjecting themselves to a very large number of onsite audits in a single year. They've got auditors in their office almost every day," she said. This is simply not practical. eCOGRA is looking for ways to streamline the testing process by working with jurisdictions as an approved test house. The ideal situation would be to combine the reviews into one onsite visit that would cover all the regulations. "So I believe that self-regulation still has a very big part to play."

Tex Rees explained that bodies such as the EGBA and the RGA were lobbying the European Parliament and other jurisdictions around the world to aim "for some consistency at the very least." She said some progress was being made in the form of a CEN workshop agreement which is the first step towards consistent player protection measures across Europe.

Warwick Bartlett observed that the best protection for the customer was competition. "But Governments don't see it that way. They want lots and lots of regulation."

Mark Summerfield was asked to explain his thoughts on consolidation, that buyers appeared to be few and far between and the likelihood of three super consolidated players emerging in the future.

Mark Summerfield said Warwick Bartlett had shown a slide earlier indicating the combined revenues of six leading gaming companies which were all growing nicely. But their profits were “roughly zero.” That would tell you it was a market that was ripe for consolidation, he said. He said however you looked at it, whether in terms of industry

characteristics, economic theory, or competitor behaviour, everything pointed towards consolidation. Whether it was three or five companies it didn’t matter.

Does the industry represent value at a P/E of 7 given the industry risk? Was that a realistic P/E ratio?

Roger Raatgever pointed out that Betfair had sold at much higher than that. Seven might be the average but that would change, Raatgever said. As markets began to regulate you would see margins and revenues coming down, but values would increase because “their sustainability and quality are going to be strong”. Raatgever said it was inevitable that the industry would see the P/E moving up to 13 or 14.

Warwick Bartlett surmised where an investor should put his money in the current market. He suggested it would be the software companies like Microgaming (if it was listed), Playtech and Netentertainment because these were businesses that “don’t have the same legacy or regulatory issues and they can talk to anybody and deal with anybody because they are not actually accepting the bets.”

What was the panel’s view on bringing the banks to the table and could more be done with understanding the banking position?

Tex Rees said she would like to see the banks getting together and “helping us protect players.” The same issue applies to the tobacco, alcohol and pharmaceutical industries. “Kids are going online with cards we can’t identify. I believe the banks could do a lot more in coding their cards to help us protect the underage.”

Claire Milne said from the regulator’s perspective it was important to have banking on the Isle of Man “because that is part of our regulatory jigsaw.” She said if the regulatory authority had an issue, they would “go to the banks and say ‘can we talk it through with you’ and that had worked in the past. That gives us a lot of comfort.” She referred to new legislation mentioned earlier in the Summit by GSC Director Steve Brennan the intention of which was that player funds held in IOM banks would be in effect ring fenced, so if the operator went into liquidation, the funds could be repatriated. “But that only works if we have the banking on island.

Roger Raatgever said he didn’t want banks “to love us, but to understand us.” Raatgever implored the banks to get to understand the eGaming business because as the industry heads towards regulated markets, banking is “absolutely

fundamental for this sector.” There are significant risks but also significant opportunities, pointing to the recent MasterCard acquisition of DataCash. “The banks need to understand this sector. If they don’t understand it, they are going to get left behind. They need to start making decisions now.”

Warwick Bartlett said the only real risk was the US.

Roger Raatgever said the banks should make the decision and stand by it. It was possible for the banks to identify those customers that were a risk and those that weren’t.

Bill Mummery said it was frustrating for the industry because a lot had been achieved with the banks in overcoming their sector concerns. “But to then walk away, in my view, is not reasonable.” He stressed that it was US domestic regulation that was the root cause of the issues with the banks. There needed to be more balance than the banks were currently showing.

The Isle of Man had had success in attracting some very large operators in the gaming sector but had also seen a large number of start ups. How could the Island attract more value from different sized operators?

Bill Mummery said there was definitely “a middle ground where we are currently under represented.” But he said it was important to ensure protection of all of start ups. He said that there were businesses that had started up elsewhere “where the climate in that jurisdiction is not fulfilling its role.” As a result, he thought we may well see a situation where people would transit from their first choice to the Isle of Man. “I think we are better placed to win some of those operators,” he said, citing Malta as a jurisdiction that “in my view is not able to deliver a quality product for its license holders.”

Warwick Bartlett thought it was important to encourage start ups because although the risk of failure with most of them was high, using Betfair as an example, there was a business that had started with one million pounds and ten years later was floated for £1.4bn. “You’ve got to back people and we don’t want to make it too difficult for them,” he said. “I know the application process is easy but I think, for a start up, you’ve got to lower the entrance fee and make it as easy as possible. But he stressed that the Isle of Man should be viewed as a whole package. “It’s not just about VAT and some betting tax. You need to get people over here and sell them the Island; that the schools are better than in the UK; that the hospital service works well. Because once they see what the island is like, I think they’ll take to it.”

Claire Milne said it was a difficult balance from the GSC perspective. For companies to be licensed, they had to demonstrate they had robust business plans and forecasts that were realistic. But there weren’t any set requirements because “that’s something we’ve decided isn’t appropriate.” She said that the Island would love to attract more of the large operators from other jurisdictions “but realistically moving them once they are established in a particular jurisdiction is very difficult.”

Roger Raatgever said there was “a significant amount of inertia to move a large operator.” He thought the real opportunities for expansion lay with the peripherals, such as CSPs, and marketing companies. “There are so many professional services that these gaming companies are going to need. That’s the gap, that’s the opportunity for the

Island.” He said one of the reasons Microgaming came to the Isle of Man was because of the professional services, but now “we are starved of professional services.” If more of these companies came to the Island “then large gaming companies would start to look at the Isle of Man. When companies need good lawyers and good CSPs they may end up coming to the Isle of Man because they are regularly doing business with them. Raatgever said it was unrealistic to move the big players because of the huge costs involved and there are already major operators here like Pokerstars. “The opportunities are for the peripherals.”

Claire Milne said it was not just about the license operators. There was a large cluster around the operators already and more of that type of business should be attracted here. That was why exclusion regulations were put into place so that it didn’t deter that type of company.

Roger Raatgever said that there are more patent lawyers in Microgaming than developers!

John Spellman said this was a perfect place to finish, with the emphasis being placed on service providers and CSPs. And he told delegates: “It is now up to you to develop the business on the Isle of Man.”

Russell Kelly then closed the Summit saying it had been thought provoking and very informative. He was very proud that KPMG had staged the event and thanked all the sponsors, speakers and delegates for making the day such a success.





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