A Word from the Sponsor

As the Isle of Man’s principal data storage provider, Continent 8 is delighted to sponsor this year’s report of the KPMG eGaming Summit. We believe wholeheartedly that the Isle of Man is uniquely placed as a market leader in the eGaming business, and, being home to no fewer than six Tier 3+ data centres, we feel very proud to host a prominent role in it. Indeed, a superlative telecommunications network, symbiosis between public/private sector, and a strong yet agile regulatory framework, secures the Island’s place as a leading player on the global eGaming stage. It’s no surprise that key industry providers, such as Microgaming and PokerStars, choose to establish themselves here.

Providing storage facilities for this industry is in our DNA. Our world class data centre is centrally situated on the Island, just 500 metres from the power station, and constitutes the footprint for a wealth of resources now servicing Dublin, Gibraltar, Guernsey, Malta, Milan, Montreal, Paris and Singapore. Our reputation has led us to become the most recognised brand for consummate security and reliable services in the eGaming industry.

Emerging from this year’s dynamic eGaming Summit were several key themes: we’re doing fine as a jurisdiction post-Brexit, in fact, greater opportunity for the island is on its way. There’s a growing importance in the field of player protection (especially with the upcoming NOSES scheme). New markets are opening up, most notably Asia and Africa. Regulation, with particular regard to anti-money laundering and data protection, is tightening. The explosion of innovation is driving the market forward, with some of it being home-grown, right here on the Isle of Man.

It is my great pleasure to present this year’s Summit report. As an in-depth account of all that was discussed on that September day, you’ll find it a stimulating and informative read. I look forward to seeing everyone again at next year’s eGaming Summits, which KPMG are due to host, in Gibraltar on 23rd March and on the Isle of Man on 13th September 2017.

Michael Tobin
CEO & Co-founder, Continent 8 Technologies
At the end of the 1990s, I had the privilege to be Minister of Home Affairs. I was offered the opportunity to introduce legislation in relation to gambling, which would apply to the casino up the road. During that debate, we were introduced to the concept of eGaming, which frankly none of us knew anything about, but thought it might be something worth exploring. At that time the main issue was that there was risk involved. Indeed, the presentation of the opportunity to engage in eGaming at the end of the 1990s presented the Isle of Man with a huge risk because we had built a strong reputation around financial services. So it was a big challenge for us to move into this new area, which potentially could have damaged the island’s reputation. As you know, we assessed that risk and decided to go with it. We moved the industry forward and after a few false starts, we are where we are today with a hugely successful industry.

Given my history in Government, in Treasury, Economic Development and various other areas, there was a lesson for me to learn out of that. That lesson is that in a small jurisdiction like the Isle of Man, economically it has to re-invent itself periodically, and to do that, it has to take risks. Risks that perhaps some larger countries may not be prepared to take; and we are moving into this era now with having to reinvent the economy yet again, with the changes which are taking place around us. We’ve got a new Government coming in, we’ll need to stay focused on the opportunities which will come our way, and to develop those opportunities we have to be prepared to take risks.

eGaming and the industry which has developed around it shows, that if we are bold, if we are innovative, we can deliver, and we can actually move the Isle of Man forward. This is what we’ve done thus far.

Now we struggled in the early days to get the industry going, but because of the efforts that many of you in this room have made, and the work we’ve done together in partnership, the ICT industry (which embraces eGaming) is now the largest sector of the Isle of Man economy. We have obviously been known for many years as a centre of excellence for financial services, banking and insurance in particular, but now ICT has taken over those. That’s a hugely exciting future for the Isle of Man. eGaming has evolved in a big way since it first started – it’s moving into all sorts of exciting new areas that, if the Isle of Man is bold enough, and if the new Government is bold enough, we can capitalise on, sit alongside and help to develop those new areas.

The industry itself is maturing. This means we have to be innovative, and look to stimulate new start-ups. The Government’s launch of its new £50 million scheme will help to encourage new business to come here. We’ll be able to help the eGaming industry with relocation grants, with new start-up assistance; we’ve removed the requirement for work permits to fulfil that immediate need to get the staff that you want. Government is listening to what you need for the future and working alongside you to deliver that. It’s crucial to approach this industry in a new way, and look to the future, no longer to the past. A new pioneering attitude is what is required.

Back in 2010, I referred to the economic turmoil that surrounded the Isle of Man at that point. This came off the back of the banking crisis: we had the Kaupthing, Singer & Friedlander collapse and various other issues. It was a very tumultuous period. It’s interesting, because as I was speaking the other day, it was in the midst of a similar situation: Brexit. There is uncertainty revolving around this
too, whether you agree with it or not. But we’ve endured Brexit and have to find a way forward to protect the Isle of Man and our economy in the process.

I’d like to give you some reassurance on what’s happening with something not directly linked to eGaming. The Government and myself have spent a lot of time just now consulting with cabinet ministers. I was in 10 Downing Street yesterday talking to the Prime Minister’s Head of Policy to ensure that the needs of the Isle of Man are recognised in terms of our ability to trade, and to continue the trade links we have with Europe, with the UK and further afield. We’ve emphasised that and to make our case I’ve met most of the newly-appointed ministers at Westminster. We’ve a good personal relationship with most of these people. For the first time, I can confidently stand up in front of you and say that I genuinely believe the UK Government is listening to us and is conscious of the special needs of the Isle of Man and the Crown Dependencies in future negotiations. So if that can give you some confidence, notwithstanding some of the stories you might hear, the Government here is absolutely on the ball. We have a working group which meets on the island on a regular basis and with the Cabinet Office in London once a fortnight, to keep us up to speed with what’s developing, and to make sure the Isle of Man’s interests are kept at the forefront.

The other thing of interest – again related to Brexit – is the premium of people. Now eGaming is a truly international industry, and currently we have over 70 different nationalities on the island and we have over 4,000 EU residents living here. Of course, not all of these work in eGaming. But we know there exists a serious skills shortage on the island, particularly in ICT, so it’s vitally important that whatever decisions the UK makes on the free movement of people with the EU, we have to ensure that the Isle of Man can get access to the skills base across the EU. This is what we need to keep our economy going. Our unemployment figures were released yesterday, they’ve now dropped below 1.3%, which is the lowest in nearly 10 years. The skills shortage is building up month by month so it’s essential that the Isle of Man secures a steady flow of skilled individuals to come here, to enable your businesses to grow and expand.

On external factors, I want to give you the assurance that we have strongly pressed your industry’s interests and needs to ensure they are protected in the time ahead. I do believe the Isle of Man is in the best place it could possibly be at this stage to argue the case going forward. Having said that, on our trips to London we’re meeting up with a Government that frankly hasn’t got a clue themselves where it’s going over the next few years. It’s guesswork where the UK itself may ultimately end up. The only observation I would make at this stage, having spoken to most of the players, is don’t believe a word of what you see in the papers.

Also involving me personally is the general election coming up in a couple of weeks. I’ve taken the decision now to stand down as Chief Minister, so you’ll have a new Chief Minister and a new Government. There will be a radical change I think. It’s an exodus of over 120 years’ experience leaving at the same time, the most that’s ever happened in the history of the Isle of Man. There’ll be a lot of new faces, a lot of new ideas. Most of us are aware the Isle of Man doesn’t have carbon politics: we have a series of governments over the years of independence, bringing all views together, right wing, left wing and all stops in-between. But the one thread which has stayed through almost every government, is the absolute commitment to economic growth,
political stability and to working in partnership with the business community. I’m certain that whatever shape the new government takes, in 2 or 3 weeks’ time, that central theme will be at the core of future policies. What we’ve enjoyed over the last few years in terms of cooperation between government and the public will continue, and thrive and prosper. The bedrock of our success economically over the last 30 years has been the close partnership, the friendship and the working relationship between the government in all its forms and the business community. With energy and vision, that relationship will continue and can deliver greater success to you all in the times ahead.

One of the extra good things that have come out of the last few years, particularly from events such as this, is the growing collaboration and cooperation across the industry itself. There are so many different strands of eGaming and its related ICT business here. I think that cross-fertilisation, coupled with support from government, is going to generate a very powerful future.

If I may end with a thanks to all of you for the support you’ve given me over the years to help develop this industry. It’s something personally I’m very proud of and something that I will take to my retirement with pride and joy. This industry has developed way beyond what we imagined when we set off on this journey. I’d like to thank all who’ve worked with us, those of you in government as well, with particular thanks to Steve Brennan and the Gambling Commission who have been outstanding in providing you with the support and that link between government and the business community. With that, I’d also like to thank KPMG for staging this event and for their ongoing support for the industry. With that team, Brenda, you can’t go wrong. So ladies and gentlemen, it gives me great pleasure to announce that this Summit is now open and once again, can I thank you all for your support and help and friendship over the years, and I wish you well for the future.”

[Applause]

“I was in 10 Downing Street yesterday talking to the Prime Minister’s Head of Policy to ensure that the needs of the Isle of Man are recognised in terms of our ability to trade, and to continue the trade links we have with Europe, with the UK and further afield.”

When the Chief Minister finished his opening address, he was surprised by Micky Swindale of KPMG, who presented him with an engraved wood carving in the shape of a poker chip, in recognition of his services to eGaming.
Panel Session: The Isle of Man Proposition for eGaming Post-Brexit

Moderator: Micky Swindale
KPMG

Panellists: Mark Robson
Department for Economic Development

Steve Brennan
Gambling Supervision Commission

Ashley Sandyford-Sykes
AdoptIt Publishing

Philip Vermeulen
ICT Nunnery Campus Isle of Man

Micky Swindale of KPMG in the Isle of Man opened the first panel session of the day, which was to explore the whole proposition for the Isle of Man’s eGaming sector, in the wake of Brexit. Micky disclosed: “We’re going to move away from our usual approach, which the GSC and DED describe as their ‘News at Ten’ slot, and adopt a more inclusive approach, bringing in the private sector this time. So if I could just welcome to the stage first of all Steve Brennan and Mark Robson, Philip Vermeulen, and Ashley Sandyford-Sykes.

On the gift that I just handed to the Chief Minister, the Three Legs of Man are emblazoned, so one would hope that principle: ‘whichever way you throw me I will stand’, also applies to the Isle of Man’s eGaming sector, but Steve, after the swings of fortune of the POCT and now Brexit, are we still standing?”
Mr Brennan: “Yes, definitely. Let me give you some numbers to illustrate what’s happened over 18 months, up to financial year end this April. We did see a dip in the number of new licensees, reduced by 17 licensees during the period; the number of new licenses during the same period was 7. So that marks a significant dip, especially in the context where the total number of licences was 50. Since April, we’ve not lost any further licensees and we’ve currently got 7 where the application has been approved. So we’re starting to see a recovery in terms of licence numbers.

To give some background to that, the majority lost were what we’d consider to be fairly small in terms of operation, client base and funding. A few were more significant, but the majority were quite small.”

“We see the reasons why they go basically divided into 3 categories: changes to UK legislation with the removal of the whitelist and introduction of point of consumption; smaller operators with a UK-only focus having the additional cost of UK licensing and compliance. The additional cost was just too much for them to stay here. Some licensees struggled with funding and investment: it’s a very competitive marketplace and they didn’t get the foothold they anticipated. On occasion, fledging operators have no choice but to return their licences. And finally a couple relocated, for very different reasons – one went to Malta and one went to the UK; the first wanted clear access into the EU and the second went to the UK over a POC tax issue.”

Mr Brennan explained that owing to the Isle of Man historic ‘white-list’ status, operators who establish themselves on the island have generally been UK-facing: they have invested heavily into the UK market: “But one operator, based solely in the UK, said there’s little point staying when the UK POC comes in, and paying an Isle of Man licence when they are going to be licensed and pretty much wholly regulated in the UK. Of course, many operators here have diversified into the rest of the world. Another reason we’ve seen some of our operators go is owing to mergers and acquisitions. They’ve been well reported in the press and some of those mergers and acquisitions have touched us here most notably, Paddy Power Betfair Plc.”

More positive news came in the shape of new applications. Mr Brennan again, “We did have a lull in applications post the Point of Consumption introduction but happily that’s being addressed. I do think it’s a reflection of the island’s professional advisors, identifying new businesses and markets that aren’t touched by point of consumption or impacted by other change, that we have a good number of new applications. To sum up, at the end of 2015 we saw licenses start to come back and it’s continued through 2016 as well. From a licensing perspective, we’ve seen a dip but we are starting to climb out of that.”

Ms Swindale: “Mark, at the head of that business development push to bring eGaming business to the Isle of Man and expand the business that we have here, how are things looking from your point of view?”

Mr Robson: Mr Robson concurred with Mr Brennan, that they both saw changes afoot: “And as the Chief Minister said in his opening speech, we adapted and reacted to those. We already had several financial incentives in place to help companies establish a presence on the Isle of Man: we continued to expand on those. Also, as mentioned, we made changes to work permit legislation, and we’ve launched a £50m enterprise development scheme. All of this emphasises the fact that, whilst clouds might be gathering outside, the Isle of Man is a very sunny place to establish your businesses.”
The last 9 months in particular has seen things ramp up: “We’ve got through the dip that we had with regards to changes in the UK; we also continued with double duty relief, which meant that businesses paying UK duty, wouldn’t have to pay that duty here. And whilst that did have a financial impact on the Isle of Man in terms of gaming duty, because of the diversified global footprint our operators have in the eGaming market, it wasn’t as significant as that which we’ve seen in other jurisdictions. The best news really, is that, even though there’s continuing flux in the industry, over the last 12 months we’ve also seen more jobs – there’s an increase of 12.5% in the sector. Last year, I was reporting a 9.9% jobs growth which was healthy, but we’ve even increased on that so it’s certainly a very vibrant jobs market here on the Island.”

Ms Swindale: “I was in Gibraltar the week after the Brexit vote, and as we all know, the shockwaves that radiated through government and beyond were huge. But I think that’s calmed down, as it has here, we’re all getting our heads around the idea of keeping calm and carrying on. So really, for the Isle of Man, it doesn’t change our proposition; if anything, has it strengthened our position? Mark, would you or Steve like to comment on that please?”

Mr Robson addressed the question first: “It certainly has strengthened our position, because, there are jurisdictions where operators will be severely impacted by the effect of the Brexit vote. Those operators will start considering new territories. In some respects, it’s focused their thoughts on business - what are they going to do now? We have seen an expansion of some operators looking to diversify their global footprint and perhaps have some elements of businesses in some jurisdictions, and other elements elsewhere. So we have benefitted certainly from the pragmatic approach. Businesses accept that you have to have multiple licences these days, and we’re seeing businesses relocating elements of, for example, their Asian business to the Isle of Man. Also, as a direct result of the public and private sector partnership and investments we’ve made in the infrastructure here, we’re seeing a lot of operators now hosting their disaster recovery functionalities from the Isle of Man. We benefit from that too. It’s not necessarily as a direct result of Brexit but it is a result of people focusing their efforts, and understanding the impact of Brexit on their businesses when they’re licensed elsewhere, and how the Isle of Man can help them.”

Mr Brennan was keen to differentiate between Brexit and the fallout from POC: “Brexit is obviously significant but of the two major events that’s hit the Island in recent years in the shape of, Brexit and Point of Consumption, POC was far more significant than we feel Brexit is going to be for the jurisdiction. Our analysis shows (and it’s been shared with many in the sector) that Brexit won’t really have a significant impact here and there are a number of reasons for this.”

“The obvious one being that the Isle of Man is not part of the EU. We don’t enjoy any of the benefits of EU membership. The Island never had anything to offer in this regard and therefore we’ve got nothing to lose. Even for those jurisdictions that are in the EU, the benefits in the online gambling sector in the EU are fairly limited. There’s no European directive in online gambling services and there doesn’t appear to be one coming any time soon. Divergent regulatory frameworks remain which results in little or no harmonisation. Each country largely does its own thing regulation of gambling. So if you’re looking for licensing in an EU member state, no directive and no harmonisation means each operator has to seek licences on a country by country basis, just as you have to for the UK or for the Isle of Man, or further afield.”

Mr Brennan continued, offering some detail about an EU. “The EU is unquestionably a big market; 7 million of their citizens gamble online. But it isn’t the main market for the Isle of Man: we’ve taken a much broader, more globally-focussed approach. A concerted outreach to and understanding of the Southeast Asian market has brought significant market diversification. On the topic of new applications, we’re seeing quite a few coming through from Africa now, and there’s interest from South America.

So, in Brexit terms, is it going to have much of an impact? Well in my view, no it won’t impact much on our sector, for a number of reasons, not least because we were never focussed on the EU as a target market, we have been and are still much more globally focussed.”

Ms Swindale: “As someone who travels quite a bit across the jurisdictions and has done a lot of business in the UK, I don’t think we can underestimate the impact. In a fragmented licensing world, that having a supportive government and a supportive regulator, who actually want the sector to thrive, has on business. It really has a huge impact.”

Mr Brennan: “Yes I would agree with that Micky, and if you do look at any of the European regulators, it can be really quite difficult to deal with the regulatory authorities. There are different cultures, different perspectives and different policy positions to navigate. But I think Micky you raise a very good point. In the EU you are going to have to negotiate with every single regulator understanding what their policy and licensing requirements are, before you can actually get a dialogue going. On the Isle of Man I think we operate more collaboratively to ensure the operators understand their regulatory obligations and the licensing authority understands their model and product offer.”

Ms Swindale: “Whilst on the subject of public/private partnership, Ashley, as a representative of the private sector and someone who has worked in the UK and the eGaming industry for a long time, now that you’ve established your own business, why does it suit you to stay in the Isle of Man? Mr Sandyford-Sykes expressed his delight at the question, and offered a little pitch for the Isle of Man: “Building on our discussions around here, particularly on the question of exiting the EU, why you come to the Isle of Man is not really to do with the EU at all. Fundamentally, what’s relevant to me personally is that we have a Tier One jurisdiction with a very agile infrastructure, and that allows a huge amount of opportunity. Now that’s important whether you’re in an EU or non-EU country, in fact anywhere in the world, and regardless of where the Brexit vote happens. There’s a big
difference in being a large or a small business, but for me it was very much a personal decision. What is going on in terms of big events – Brexit or POC tax – isn’t relevant! I’m more interested in what’s going on with the Chief Minister, as what’s happening here on the Isle of Man has a far greater impact on a business level, especially for smaller companies, and right now I think the government and the infrastructure of the Isle of Man presents a very receptive environment for any sort of business, very agile and responsive to building businesses and creating them.

Ms Swindale agreed with Mr Sandyford Sykes and went on to say, “If we build on that, the Chief Minister referred to the fact that the eGaming sector should very much be the bedrock for the growth of our wider eBusiness sector. ICT is such a thriving area on the Isle of Man already, but of course we have challenges when it comes to skills, as does every jurisdiction in the world. So turning now to Mr Vermeulen, you’ve been an extraordinary force in developing the ICT Centre of Excellence, which opens its halls this month to 40 new students. Let me hand over to you to tell us what it is that you’re trying to build and achieve.”

Mr Vermeulen: “Thank you Micky and good morning everyone. First thing on Brexit: I see a fantastic opportunity for the Isle of Man. Change is good, if you have the ability to move fast. In our businesses, we embrace change. It’s always been our approach, even if you see the hurdle going higher and higher, so as long as you can jump the hurdle. So I think it’s a very exciting time.”

“At the Nunnery our first task was to invest and develop the ICT campus, so we submitted planning applications for a car park and a multi-purpose building. Then we considered our wider strategy, part of which was to expand our reach into Croatia, and into South Africa. There, it’s common practice for businesses to build partnerships with universities. One example I noted on my travels was in Leiden in the Netherlands, where businesses form partnerships with the University, so a student goes from the campus straight into your business. In our case, we’d like create two partnerships, where 20% of the business belongs to the university itself to fund future education, 20% of ownership belongs to operators of that partnership, and 60% belongs to us, since we provide all funding and initiate income generating concepts. What would happen is this: a student will identify software development opportunities, then work on it, and learn how to develop a product. In the long run, that product can be more profitable to benefit the partnership. If you take Silicon Valley for example, Stanford University is a powerhouse of talent: that’s a similar model where local businesses can get very close to the talent pool and benefit from it. For us on the Isle of Man we’d like to centralise that talent pool of human capital. So we don’t need a massive migration of people leaving the Isle of Man to obtain the right qualifications. We can develop the people that we have as well attract new people. So it’s very exciting.

Although I travel a lot, I found in Croatia a country where the talent pool is fantastic, but people don’t believe in themselves. Normally it’s just a lack of opportunity or lack of investment: in the case of Yugoslavia, they had an outdated, socialist system. I recently returned from Peru where there it’s a similar case. The allocation of capital in the world is a skewed: usually asset management people will say ‘put 10% here, and 20% there’ but nobody is actually going to those countries where there’s a tremendous pool of talent. But we are going there. In the case of Croatia, a lot of students go to Ireland, on the Erasmus Scheme [a Pan-European exchange programme between universities] providing affordable funding to further their degree course.

We’re busy working with the Education Department in the Isle of Man and we have a good collaboration. We want to set up our own student sponsorship too so students who come from Croatia or South Africa, won’t have to pay to study, and if our students go there, they won’t have to pay, so we create our own Manx Erasmus Scheme. The beauty of the Isle of Man is that we have the ability to be nimble and we have a fantastic relationship with government - and that’s a huge advantage that people don’t always recognise. Our plan of action is to be brave, take risks, and stay on the track of collaboration, so we can be one of the biggest winners in this whole Brexit debate.”

Ms Swindale: “I suspect the rest of the panel support that. In light of what Philip has said, do you think there is wider support in the Isle of Man, in that you do have to be brave, and bold, and all pull together in a sort of integrated fashion?”

Mr Sandyford-Sykes: “You would find that in an island culture anywhere. I think there are a number of delegates here from a number of other islands with whom that resonates. The ability to stand on your own, to foster a stance of either hunkering down in your cave or running out and beating down the first big animal you can find - that’s the closest analogy I can get to describing it. An island mentality, it actually creates a very entrepreneurial spirit. To save me going over the same points, one of the things that differentiates the Isle of Man from other islands is the ability to actually work with everybody in the community, and of course it is a small island community, which makes it a lot more possible. It’s not just the glorious heights of Micky who can ring up Mr Bell and have a direct conversation with the Chief Minister. As a small business owner, the same benefits are afforded to me, in a relatively small environment, and that accelerates the process of change in my opinion.”

“I see a fantastic opportunity for the Isle of Man. Change is good, if you have the ability to move fast.”
“From a regulatory point of view, we’ve got a really difficult job to try to keep up with the understanding and the innovation on all the new products, and sectors of the market that are coming through.”

Ms Swindale moved on to consider the imminent future for eGaming in the Isle of Man: “Given we’re always looking to be fleet of foot, what’s next for our sector here on the Isle of Man, Mark? You’ve been pretty active, looking for new niches for us. Anything in particular we should be looking out for next year?”

Mr Robson: “Well given the nature of our industry, it does evolve very quickly. 12 months ago I was talking about Daily Fantasy Sports and eSports – they’ve very much been in the headlines. The whole flip-flopping in the US about how to regulate – well we’ve been regulating DFS for the past 3 years! We’ve had licensees specifically in eSports for the last couple of years. Now the industry in other jurisdictions are just catching up, they are appreciating what is going on and not that gambling just a recreational hobby. So yes, these products have come to the fore. We’re seeing resurgence in the Big Lottery and Lottery Re-sale market: Annexo for example run an established and very successful business here from the Isle of Man. If you consider the massive jackpots in places like California – I certainly wouldn’t ignore that sector of the market. We’re seeing a lot of very active entrepreneurs coming through. The very nature of the gambling industry, is based on risk, and people recognise the expertise that the Isle of Man has built up in this sector and look to us for thought leadership, it’s not just a place to establish their businesses. They are looking for partnership, to help grow their business, not just come here, set up business, and the government never deals with them (as you might get elsewhere) – that’s certainly not the case here. We’re seeing the private sector responding very favourably towards that. Watch this space – we will continue to grow!”

“And is it ’watch this space’ on regulatory change too Steve?” asked Ms Swindale.

Mr Brennan: “From a regulatory point of view, we’ve got a really difficult job to try to keep up with the understanding and the innovation on all the new products, and sectors of the market that are coming through. One of the benefits of making ourselves available to the sector, and as part of the economic development more broadly is that we are made aware the innovations in the sector. My job is really about understanding risk, and there is always risk in innovative and new products. The particularly difficult part for us is where a product is already up and running. We’ve got to learn very quickly about new products and how those new innovations are coming to market because our operators will then come to us and say we want to offer that product as well, and ask us to put the right framework around it. So we’re constantly looking at our policy position and our legislation and doing things as best as we can to keep abreast of innovations within the sector.”

Mr Robson: “Yes, and I would add that risk isn’t something that just appears in business, it’s in other parts of the sector. Let’s think about Philip Vermeulen here, with the ICT centre: he’s looking to address the issue of a global skills shortage in ICT skills, which is a tremendously good thing, but also a bit of a risk. We are incredibly delighted to have this facility on this Isle of Man – we will be at the epicentre of an explosion of IT skills-based training, we’re growing our own powerhouse of people, and we can’t thank Phil enough for what he’s doing.”

Mr Sandyford-Sykes: “If I can just build a bit on what Mark said, certainly in this forum it’s very tempting to just talk about licensing and licensing of products and what it means for the GSC etc., but I come here from the private sector actually not holding, needing or dealing with a license, so for me, eGaming means an awful lot more than just what the gambling supervision commission brings to it, and actually what the opportunities for business are very different as well. I want to build on Mark’s point a little bit in that the industry is changing in its own right and we’ve come on the back of 15 years of industry stalwarts holding all the verticals, and now we’ve seen is a period where niche products, innovation, a rapid turnover in terms of looking to be different, means that what we’re seeing is a maturing of the industry, so there is going to be more opportunity for small or medium sized businesses and for niche products not necessarily even needing a licenses, but just being aligned to a Tier One eGaming jurisdiction.”

Mr Vermeulen concluded the panel session with a few words about the ICT University College Isle of Man:

“I’d like to mention that, although earlier I talked about sourcing talent from other countries, we also look internally to ourselves. Together with the Manx Education Foundation, we’re encouraging young people still in school, aged 14 or so, to complete Microsoft accreditation programmes. The Manx Education Foundation is now a Microsoft accredited institution. The Nunnery Campus will be a place for everyone to come to learn, whether you are 18, or 40 or 60. We want to be in the position where the Chief Minister can go off island and feel confident when he tells people that we are one of the most computer literate nations in the world. So we are striving to make the Isle of Man a nation of students. That is our objective. It is really about developing the Island’s human capital. That in turn will attract actual physical capital, and this cycle will continue, so that in the long term the IT industry can become incredibly strong. It’s a very exciting journey – and if you think about it, a population of 85,000 people, how hard can it be to make all citizens computer literate?”

Micky thanked her panel for their contributions.
A very insightful market view of the eGaming sector was provided by Simon French, a Research Analyst with the Institutional Securities team at leading UK stockbroking firm Cenkos. He began with some background on his career and company:

“I’ve been a research analyst covering the online gaming sector since 2005 when I worked on the IPOs of 888 and 32 Red. Today I ply my trade with Cenkos and work out of our Liverpool office. Cenkos is a relative newcomer in the UK stockbroking world; set up in 2005, it’s actually named after a race horse which was owned by one of our founders - he also owned a horse called Big Bucks, which could have made for a better name for a stockbroker!”

“Like many of the companies you work for, we’ve grown pretty fast and consider ourselves leaders in our field and gaming is of particular importance to us. We’ve been advising GVC Holdings for the last 2 years and raised £150m of equity for them as part of their reverse takeover of Bwin.Party last year and we have a handful of smaller, but equally important gaming clients. What I’d like to do today is provide a bit of context as to how the public markets currently view the sector; as you all know it’s founded on some of the key things that have already been and will be discussed today.”

To cover the market view of the sector, Mr French listed 8 key topics: Market size and growth; the advancement of mobile; the changing landscape; why M&A now and the likelihood of success; different ownership structures; how the UK stock market views eGaming; what it finds attractive about the sector, and lastly regulatory and political risk.

“First just a recap of what a big industry this is. Last year’s gross gaming yield was just under $39 billion dollars and the industry has been growing at a rate of 8% compound since 2006. If you look forward to 2019, the industry is forecast to be worth $45 billion dollars but the rate of growth will slow to just over 4% per annum and that perhaps provides the first clue as to why we’re starting to see so much M&A. Even more so, when you consider that the rate of growth in regulated markets, with a typically lower margin, is forecast at 50% higher than the overall market between now and 2019.”

“It’s a market dominated by Europe, which accounts for over 40% of gross gaming yield and reflects various permissive regulatory regimes, especially in the UK, with others such as Italy and Spain catching up, whilst Germany remains a hugely lucrative market, particularly whilst the regulatory status quo continues in that place seeing firms like SkyBet looking to open up there, William Hill go back into the market plus CVC is happy to spend a billion Euro on Tipico. I’m pleased to report that Asia has grown to become a bigger market than North America and we’re actually very optimistic for the future of eGaming in Africa, given some of the payments infrastructure already established in a Mobile First culture amongst consumers.”
Mr French highlighted the fact that eGaming is also a market dominated by sports betting, accounting for 58% of the overall market (excluding state lotteries which make up about 10%). At this point, Mr French thanked Warwick Bartlett of GBGC, Global Betting & Gaming Consultants, for providing the figures, before continuing:

“Since 2006, poker’s market share has more than halved, bingo has slightly increased, while casino has remained unchanged at one quarter of the overall market. But sports betting has increased its share by 7% or 8% and one of the reasons for this has undoubtedly been the growth in mobile usage, which has been the perfect medium for in-play betting, and cash-out functionality. Indeed, if you look at mobile sportsbook staking or net gaming revenue (NGR) where staking data wasn’t available, during the recent European Football Championship, we can see that all the major quoted UK-facing bookmakers saw mobile stakes or NGR of 70% or more of the online total. And if you look back to the previous Euro Football Championship of 2012 this percentage is approximately 3 times higher than then, underlining just how far this channel has grown in the last 4 years. In fact, Gala Coral didn’t even publish any mobile KPIs for the last Euro Football Championship: I’m not sure they had a mobile platform back then.”

“Last year’s gross gaming yield was just under $39 billion dollars and the industry has been growing at a rate of 8% compound since 2006.”
For the most part, gambling advertising is viewed as a negative, despite there being no evidence of harm. What was most interesting, said Mr French, was the fact that William Hill, for so long a leader in mobile betting, now appears at the rear of the pack; no doubt a reflection of its well-publicised problems with Project Trafalgar. This emphasises how quickly the industry can change, and successes can swiftly be reversed.

“So Coral, from that standing start 4 years ago, is now the mobile market leader and will likely be even stronger post its merger with Ladbrokes, due for completion by end October. Now mobile is undoubtedly a channel where the UK is a world leader, and this really fascinates public company investment. Whilst we think nothing of interrupting the working day or a conversation in the pub, to place a bet on the 3.45 at Aintree, or the next goal scorer in a match, other markets lag significantly behind.”

“Taken from Playtech’s recent interim results presentation, this chart shows that even 3 years ago, UK mobile revenue as a proportion of overall online revenue, was way ahead of the rest of the world, which is now slowly catching up. But the staggering fact that I found is that amongst Playtech licensees, UK mobile penetration is 3.5 times that of Asia, where mobile revenue represented just 15% of software revenue, in H1 amongst Playtech licensees. Now this may not be entirely representative of industry trends, but the direction undoubtedly holds true. This provides a significant opportunity for companies facing the UK, to transfer their learnings from that market and export them further afield.”

Mr French made a light-hearted reference to an “Ocean’s Eleven” of eGaming as he revealed his next slide, then continued, “This slide is intended to show the unprecedented level of change at the very highest level of the boardroom in the eGaming industry over the past few years. I can’t recall another industry in which so many of the leading companies have changed their CEO or Chairman in such a short space of time. And whilst the industry continues to expand so rapidly, it reflects in part a maturing, and a fast changing environment for entrepreneurs such as Fitzgerald and Baazov. It also illustrates how businesses with their roots in old land-based business models have struggled to evolve. And it’s perhaps no surprise that there are 4 representatives from William Hill amongst the assembled group up there. You will notice they are all guys - with the exception of Denise Coates, I struggle to think of another female exec board member amongst the companies I know in eGaming – but in most cases those guys have simply been the victim of consolidation.”

“A more conventional way to assess the changing landscape is to look at the main European market’s participants and how 6 of them have been involved in some sort of corporate action over the last 12 months. That’s resulted in Bet365’s market leadership to start to be eroded. It now faces a well capitalised number 2 player, with strong
brands and a proprietary technology to a large extent and a presence in a number of the world’s major markets including the UK, Spain, Italy, Australia, and the US. Paddy Power Betfair also had a strong balance sheet which could be geared up to further accelerate growth. Given the different directions of travel, and changing fortunes of the companies beneath the big two, it’s perhaps been no surprise for them peering over their shoulders rather anxiously, to see the other champions’ league spots occupied by GVC and Ladbrokes Coral, rather than Amaya and William Hill, as at the end of last year.”

Moving on, Mr French addressed two classic questions: “So why has there been so much M&A? Why do companies and indeed investors, like to do deals? Taking the second question first, you can see the list on the left hand of the slide, attempts to address a number of points as to why companies generally undertake M&A. The key drivers in this industry, at this juncture, are to deliver cost synergies, accelerate earnings’ growth, and reduce risk. Similarly, on the right hand side, I’ve already talked about the slowdown in market growth, and that it’s lower-margin, better regulated markets that are growing faster. But don’t underestimate the me too element. I think it’s fair to say that Paddy Power’s merger with Betfair and GVC’s acquisition of bwin.party have been successful and that is making people sit up and dream up their own deals, because if everyone else is doing it, it must be a good thing, right, and that appears in part to have been some of the logic behind the recent proposed three-way tie-up of Rank, 888 and William Hill.”

Mr French confirmed that it was worth analysing those mergers that had worked, and those that hadn’t, and even those that had never happened or perhaps wish they hadn’t: “Slide 12 is really helped by iGaming Business, as I wrote an article about my favourite deals of the last 15 years or so and it’s perhaps some of the less obvious ones that really stand out.”

“Betfair’s acquisition of Blue Square was absolutely fundamental to the group’s explosive growth, a drop in the ocean at £5 million; seen as a masterstroke that helped Betfair acquire 120,000 customers for just over £40 each. Betfair’s Sportsbet revenue consequently increased from £24m in 2013 to just under £100m in 2015. Of course the flip side of this deal was that it crystallised a huge loss for Rank who had acquired Blue Square for almost £65m some 10 years earlier and earned them a place in the bad box.”

“Another deal which saw differing fortunes was the carve-up of Sportingbet between William Hill and GVC. At the time it was widely assumed that Hill’s had pulled off a
masterstroke finding a partner to take the bits of Sporting Bet they didn’t want or couldn’t have; however, a business based on customers placing bets on events they couldn’t see, using money they never dreamed of having, wasn’t going to be the most sustainable of foundations. At the last count, Hill’s have spent over £600m pounds trying to consolidate its position in a market which is facing numerous headwinds and increasing competition.”

“You can see on the other hand, GVC turned a loss-making business into a profit, and used it as a stepping stone to bwin.party. The Bwin/OnGame/Paradise deal was seen as transformational at the time, but had the kibosh put on it by the passing of UIGEA, in 2006. Empire Online highlighted the importance of picking the right partner! You may remember that in 2005 Empire Online was actually a skin of partypoker.com. In October of that year, a few months after Partygaming had floated, it was decided to block Empire and other skins, from accessing the Party platform. Empire then threatened to sue Partygaming; Partygaming then paid out Empire $250m to settle, and acquired the Empire poker site. Then post-UEGA, they bought the rest of Empire, for $40m: a very expensive falling-out!”

“Back to the present day. There are a few different types of structure but it really splits down into three: public ownership, private equity ownership, and private, typically family-ownership, such as 365 or BetFred. There is no right model; it very much depends on the company’s origins, its access to capital, and the views, intentions and ambitions of the founders. What I would say is that the public markets provide a very compelling route to crystallise value that has been created under private ownership, and offer the founders an opportunity to continue to run business in a similar way, without board representation from the new shareholders, or any day-to-day interference, very different from the private equity model.”

“Looking at the public markets in more detail, there are basically three centres of excellence that have emerged in eGaming: London Stock Exchange, Stockholm and Toronto – but the influence of the latter is definitely on the wane. I can name but a few has resulted in investors building up a clear picture in their own minds of their pre-determinates for investing. It’s also important to stop and reflect that those 14 companies that I mentioned have a combined market tontialisation of almost £19 billion. In October when Ladbrokes merges, and Coral and Intertain list, that combined market gap will increase by about £20 billion. That’s a very significant sector on the LSE; and to put it in context it is bigger than the listed hotels sector, and the listed pub and restaurant companies, combined.”

Turning to slide 14, Mr French spoke about each of the 7 points listed in turn: “Firstly, for a $40-billion-dollar industry, it’s unusual that there are no truly dominant global players. We estimate that Bet365’s global market share is only 5% and Paddy Power/Betfair, under 4%. For a relatively mature industry, online, these levels of market shares are low among leading operators. Investors believe there is still plenty of ‘white space’ for market leading companies to grow their shares, to become 5 times what it is today. To do that of course will require more markets to open up, given the preference for regulated markets’ exposure. However regulatory changes are as important as technological advancement in this sector.”

“Clearly mobile has played a significant part in advancing sports betting’s market share gains of the overall eGaming market, and we’re seeing it grow at 6-7% p.a. Similarly, the advent of live-dealer casino and improvements to back office functionality to propel cross-sell has seen casino grow at over 9% p.a. The expectation among investors is that technological innovation is a given, and that perhaps creates unrealistically high expectations on operators. As noted earlier, the bigger opportunities perhaps are the exports of these innovations to less developed markets, outside of Europe.”

“The key to many investors is the third point: High margins and strong cashflow conversion should lead to relatively high and progressive dividend and payout policies. So high margins, combined with increasing levels of cash conversion, for some companies targeting up to 80%, leads to high levels of cash balances to be distributed to shareholders. Most companies target 50% of net profit dividend pay-out ratio; but in the past companies such as GVC have started with 75% of clean net operating cash flow, on a quarterly basis which chimes with investors who often have their own quarterly dividend payment to make to investors in their own firms.”

“The fourth point that regulated markets warrant a premium to reflect earnings security – I don’t agree with. Mainly because taxation, when increased suddenly, can render a market unprofitable overnight. We strongly argue for
companies to pursue a policy of geographic diversity to deflect this risk and believe that a blend of higher margin grey markets and higher multiple regulated markets, provides the optimum mix for shareholders of public companies. In an ideal world, we’d like to see companies have no more than 10% earnings’ exposure to a particular geography, but we also recognise the desire of many companies to build their position in their own domestic markets.

“Consolidation we’ve talked about already and it’s reasonable to assume that all three points hold true. I would highlight that the synergies of £65m of Paddy Power/Betfair, the €110m synergies of GVC/bwin.party, and the €65m synergy of Ladbrokes/Coral deal, plus the mooted £100m of synergy from that reported 888/Rank/William Hill merger as good data points for cost saving. Similarly, we expect GVC to increase margins to 22% in 2015 to around 33% in 2018. Of the next point, about the industry crunching down to 2-3 global players with a tail of niche offerings: I’m not convinced the market will actually evolve this way, given the complexity of different products, channels, customer bases and geographic spread.”

Mr French continued: “The last point is important and links back to the regulated markets’ premium. That effective overnight closure of the US market for public companies saw share prices decline up to 60% in one day, an unprecedented event in my career. Numerous attempts since then to speed the acceleration of the market on either a state or federal level have failed, with the market still only open in New Jersey, Nevada and Delaware. Nothing is guaranteed to switch investors off more, than to start talking about the ‘opportunities’ if the US regulates.”

“Following that through to dividend payments, I’ve highlighted these in the above chart, which is what the majority of investors are interested in. Again there is a diverse range but the average dividend yield is 3% which would be in line with the market. The historical yields of 888, GVC, Ladbrokes and William Hill have been higher than the market average (and considerably higher than putting your money in the bank). Strong cash generation also paves the way to shareholder returns, through either special dividends or share buy-backs, which we have seen over the past 18 months. Many of the names on the chart are party to this, including Playtech’s most recent announcement of €150m Euros special dividend whilst William Hill is committed to an up to £200m share buy-back.”

“That effective overnight closure of the US market for public companies saw share prices decline up to 60% in one day, an unprecedented event in my career.”
Moving on to regulatory and political risk, Mr French confirmed that investors get excited about dividends, but concerned about risk. According to risk expert Dan Waugh of Regulus Partners, the industry tends to misjudge regulatory and political risk in two ways, said Mr French. The first is, it underestimates the possibility of intervention, the second, it leads risk on a discreet basis whereas in reality, bad things happen in clusters for causal reasons, not just because of climate. “From a stock market perspective, the core skill of investors is actually to accurately price risks, and discount the likelihood of various things happening that could affect a company’s ability to deliver on its business plan. Sadly, in gaming that hasn’t always been the case (with UEGA being an obvious example, where the share price fell). In my view, for regulatory and political risk, particularly for UK-facing companies, it does appear to be heightening. It’s starting at the very top, with a change in the approach of the Gambling Commission under its new leadership of Sarah Harrison. Many of you will be grappling with the Fourth AML directive, due to be introduced in the UK by the 26th of June next year. This will enforce operators to take a more risk-based approach to identify potentially fraudulent customers which will see compliance costs increase."

“Advertising is a more significant medium term issue. A recent study in Norway suggested that the negative impact of advertising is likely to be undermining the resolve of addicts to quit, while studies in Australia and the UK show that gambling advertising has a harmful impact on minors. We saw just last month that the state of Victoria in Oz was defaulting on potential restrictions to gambling services in advertising, including on public transport and near schools. We suspect that is the thin end of the wedge. The Victorian Liberal party member has campaigned for a ban on TV advertising. Sports integrity and funding is a whole other topic in itself. Regarding match fixing, there was a recent case in New South Wales, with an investigation into match fixing in Australia’s national rugby league. There have clearly been match fixing issues in European football and in cricket on a global scale. There have also been allegations of corruption in UK football – specifically inside the Premier League. On the replacement of the horse racing Levy, we have the introduction of the ABP, and 32Red replacing William Hill as the headline sponsor. Taxation of the sector is complex but it’s really quite simple: it will go up. UK POC of 15% is relatively generous compared to other European countries, with frameworks being proposed by other countries, in the Netherlands for example, of 29% GPR.

“The government has taken its first natural step to harmonise betting and gaming duty from August of next year, however there remain glaring differences between land-based and online.”
“As a summary, there are many reasons that we like eGaming as an investment: that I’ve discussed already broad geographic diversity; 80% exposure to one region does not seem optimal in my view. I’ve spoken less about proprietary technology; but we do think it’s a differentiator, not least when you look back at the margin slide earlier and perhaps more significantly in the current environment, it provides greater scope to drive synergies in consolidation. Strong balance sheets are a must as it provides flexibility to create mergers and acquisitions. Indeed, one of the reasons that investors balked at Rank/888/William Hill deal, was the 3 times leverage it would have been carrying, at least initially. eGaming is a fast changing, rather than a fast-growing industry and whilst consolidation is attractive, it is not inevitable, but it will centre around a handful of companies. Investors will be attracted regardless to the sector given the strong past generation’s characteristics, assuming full regulatory and political risk does not rise substantially from here.”

Micky Swindale of KPMG in the Isle of Man thanked Mr French for his insightful market sector review, and suggested that any questions be saved for Mr French’s panel session later in the day.
Micky Swindale of KPMG in the Isle of Man introduced the first IMGL Masterclass of the day, and provided some background as to what constitutes the Top 10 factors thought to be the greatest risks to gaming operators today:

“Regulatory changes and compliance, which have been referred to not least by our own regulator this morning, is a big issue for the sector. Cyber-crime is seen as quite a risk; in which case I am even more delighted that on the panel we have one of our own security partners from the UK joining us. Tax and VAT changes or breaches, and the point of consumption tax, have been referred to quite a bit this morning, as has Brexit. The fear of data loss and theft is there, as I’m sure no-one wants to be in the shoes of Talk Talk’s CEO! The next is lack of or insufficient disaster recovery plans/business continuity plans, and of course that’s of particular interest to the Isle of Man in light of our disaster recovery proposition. Then we have competition and growth – so looking to other competitors and what each of those competitors are doing. The fear of the loss of live odds or pricing errors can be catastrophic as far as profitability goes. Development of mobile solutions, development of technology generally and innovation, which differentiates in particular I think for the operators. Key supplier issues and failures feature on the list, and of course we’ll be looking at some of the particularly important suppliers to the sector, like Microgaming, Playtech, OpenBet – I’m not implying for a moment that any of those should fail, but of course, any issues around those key suppliers can cause massive issues for operators.”
Delegates were then asked to take part in a live poll vote on the following question:

Which of these risks is currently highest on operators’ risk registers?

- Brexit
- Competition/Growth
- Cyber Crime
- Data loss/theft
- Key supplier issues/failure
- Lack of/insufficient Disaster Recovery/Business Continuity plans
- Loss of live odds/pricing errors
- Mobile solution development/technology innovation
- Regulatory Changes/Compliance
- VAT/Tax Changes or Breaches

As voters made their selections, a clear picture emerged showing that regulatory change and compliance posed the greatest risk to operators. Cyber-crime and data loss appeared also to be significant, as did VAT and tax changes / breaches. Surprisingly, Brexit did not pose a particular risk, and finished in 6th place on the list. The top 5 results looked like this:

1. Regulatory Changes / Compliance (45%)
2. Cyber Crime (20%)
3. VAT / Tax Changes or Breaches (10%)
4. Data Loss / Theft (7%)
5. Disaster Recovery / Business Continuity Plans (5%)

The results were surprising, but not overly so. As Ms Swindale commented: “I think we’ve pretty much got a final picture there - oh no it’s changing! As we look at the screen, cyber-crime goes up and down. So we’ve finished up with a huge focus on regulatory changes and compliance, which is great news for the KPMG risk team and the workshop they’ll be running later.”
Mr Chess: Mr Chess thanked Ms Swindale for inviting him and described his panel as being “a real variety of experts” with a wealth of industry related experience. Mr Chess began, “Let’s kick off this morning with some discussion around VAT and tax changes. We’ve already heard how the Treasury have finally twigged that 15% GPT (gross profits’ tax) in the UK is quite a low rate; I suppose that might come as a shock to people who are worrying more about the 29.9% rate in Holland and the turnover tax in France. Of course, it’s the VAT and the ghoulish spectre of irrecoverable VAT particularly, that troubles the businesses as well.

Sandie, could you talk us through what you see the present risk to be in relation to operators to British VAT, particularly the use and enjoyment divisions? Also, are there tricky situations you’ve been in as a tax expert when the client suddenly realises it’s not vatable, the VAT is irrecoverable and that there may be territories where that’s a deductible expense rather than something that can be washed through? What advice are you giving to the clients about VAT proofing their business, going forward?”

Ms Skuzska: “Specifically, the issue is the announcement by the UK Government that they would be considering putting VAT at point of consumption on advertising services which would obviously affect gaming companies in a large way. The main difficulty here is in actually charging VAT at the point of consumption for advertising services, because where is the point of consumption? If you’re advertising in a global sphere, where’s the actual point of consumption? But this is the theory that they’re going to look at; some countries already do this to varying degrees and the UK Government has said that they’re looking at this because of anti-avoidance measures. Now where that fits in, I don’t know. They’re looking at charging VAT in the UK on advertising services that are consumed in the UK. That means for example, a gaming company in Gibraltar wouldn’t be able to recover the VAT because they’re not operating in the UK, and even if they were, what they are providing is exempt from VAT. The UK Government has announced that they’re thinking of it and they say there’s a consultation document that will be issued. The matter of that consultation document has been postponed, it may be issued by October, but of course since that announcement, we’ve had Brexit and it really is something that the Governments, in terms of VAT, is going to be looking at on a wider scale. What are their plans in respect of VAT if we’ve come out of Europe? Are they going to totally change the way that they apply VAT? Maybe this VAT on advertising will be put back and lumped onto a bigger issue. At the moment we just don’t know, and that’s very hard for gaming companies, because how do they budget for it? There’s no assurance that they will not incur VAT on advertising in future, and advertising is one of the major costs for gaming companies. It’s very difficult.”

Mr Chess: “So, Sandie, from my perspective – as a person generally ignorant on VAT – doesn’t that just end up as an irrecoverable cost to the business?”
Ms Skuzska: “You’re right, because gaming companies in the main will provide exempt services. Now how it’s structured at the moment, if you are a company that’s outside of Europe, and the service provided to you is outside of Europe, it’s only subject to VAT in the country where you are. Somewhere like Gibraltar, there’s no VAT applied to that. Isle of Man companies are already in the EU, so it’s not going to be an issue for them in that respect.”

Mr Chess: “Does it affect the user arrangement with the gambling operator, if the facilities for gambling are offshore but for HR and service personnel reasons, the marketing subsidiaries will then be onshore? I’m thinking of any offshore company, whether it be the Isle of Man, Malta or wherever, all of the marketing, advertising and PR will be done in London?”

Ms Skuzska: “Well, for example, if you have a UK advertising supplier, the supplier provides advertising services to an operator’s marketing department that’s in London, those services are subject to VAT. If that marketing department is then providing that service to the operator in Malta, it’s still an advertising service and whether that’s lumped into a marketing service in some way, will that still be caught by the regulations or won’t it? There’s no certainty. That’s all going to be looked at in the consultation document. It’s very important that people feed back into that.”

Mr Chess: “So, in terms of practicalities, presumably the KPMG advice is that one waits to see what pops out of the end of the pipeline with the consultation document and then you advise on whether potential cost justifies restructure.”

Ms Skuzska: “Yes, that’s something that you can certainly look at and consider. Another point to make is whether other EU jurisdictions will follow suit if the UK is successful.”

Mr Chess: “Of course we have places like Ireland and Germany, and the supply of gambling services into those territories per se. Sandie, are you able to broaden it out for us and give us a bit of a geographic profile as to where the issues are cropping up?”

Ms Skuzska: “Certainly. The major issues will be for the companies that are outside of the EU at the moment. For businesses that are already in the EU, such as Malta and Ireland who are both in the EU, there is already the obligation to account for VAT in those countries under the regulation in those countries on those services, and that’s not going to change unless they come out of the EU. So, really the issue is for businesses that are outside the EU.”

Mr Chess: “I suppose it’s quite tempting to think that Brexit might give the British authorities the ability to deal with VAT in a non-harmonised way, but at the same time, we shouldn’t hope for too much positive, because of their enormous greed for all of our money – the EU are hardly going to do us any favours are they?”

Ms Skuzska replied that Britain might well see it as an opportunity to restructure the VAT in a way that would encourage business to pay. The moderator then suggested that as they promised to reduce corporation tax, and those corporation taxes are a potential stick to beat Brussels with, why not bring in VAT too?

Ms Skuzska: “Well they still have to collect tax don’t they, but they then have the flexibility to structure it in such a way that it may be more appealing for businesses that don’t presently see the UK as a place to be, to encourage them into the jurisdiction. We can hope!”

Mr Chess: “It would be in the original spirit of the 2005 Act, which at the time said that the purpose of the Gambling Act was to make the UK flexible and appealing for business, as you say Sandie. Then of course the Treasury barged it up with the 15% tax rate.

Let’s move on with our list of top 10: If I may absorb cyber-crime with data loss and theft, I have to say George, I was a little bit surprised to see data crime and theft actually come up quite prominently on there. As a regulatory commercial lawyer, I deal all the time with the ISO audits, mandated by the Gambling Commission. I suppose I go along in a rather complacent way thinking that when you’ve submitted your annual ISO certification into the Gambling Commission and they’ve come and checked this security, you can just put that in the door and forget about it and carry on. I read in iGaming recently a shocking article...”

Mr Quigley: “I would be a little greener because I would link cyber-crime to data loss, but also link in disaster recovery and business continuity, which we call resilience, and would layer in a bit of compliance and the compliance burden into this whole area.

We should ask, why is this spiking, why are we seeing so many issues? In our team of 150 professionals in KPMG there are huge demands coming from compliance, who are suffering from problems. It’s for exactly the reasons that you highlight, in that it’s not just a simple, “We talk about cyber-crime, and cyber risk as a kind of a wicked problem”, but because it’s multi-dimensional and happens on various different levels. And it’s not just about the bugs in the software. I think one of the big things we’ve got to think about here is that cyber-crime is a great way for criminals to make money and they’re finding ways of monetising things that we’ve never seen before. That’s a risk that continually changes.

Extortion is quite a feature at the moment. So, stealing information, not making it public and then just selling it back to the organisation from whence it came, and making money. It kind of makes sense from a criminal point of view. One challenge I’ve got in my professional career is, I have to think about how things break rather than how things get built. If you consider the amount of potential consolidation in the current eGaming marketplace, especially in light of discussions this morning, everyone sees great opportunities, but I was sitting there thinking about the great opportunities that come to cybercrime! You get dislocation and dissatisfaction in companies, you get changes, say in terms of staff and operating systems, then you get an environment that’s much easier to break into. You’ve also got data rooms where data is potentially being shared, and data is sitting out with third parties and lawyers.
I think one difficulty we face is that cyber is seen as very much external. But in reality it is frequently insiders who commit the crimes. If I’m sitting inside an organisation, most security controls are really weak, so I can access sensitive data, and there’s a marketplace for it, and I can sell that on. Every time I come to a conference like this, there’ll be at least one person who comes to me and says “hey George, I heard you taking and by the way, yes, we had somebody offering to sell us data on one of our competitors and all of the gaming history from their best clients”. So we shouldn’t just think about cyber as an external issue, it’s an internal one as well. And money is the key here.”

Mr Ron: “In Tel Aviv, where I am based, there is some sort of national sport of people going outside of existing operators with disks, cd roms, even putting data onto a smart phone. The problem is a very big issue that concerns our clients. What we see is people taking data, and opening a new operation with a new licence, or other local licence. Using data taken from one organisation, to help establish a client base for a new one, is common practice over in Tel Aviv. So much so that now, many operators have a full-time surveillance employee to monitor security, along with specific systems that encrypts leads in real time (lead protectors). There is even the frequent use of polygraph tests among suspect employees.”

The Moderator moved on to the next topic which was regulation of advertising.

Mr Chess: “I have a particular hobby horse with the regulation of advertising because I think, as a regime, it is a disaster. We’re seeing more capricious decisions – apart from advertising, especially under the UK licences, there’s been a big roll out in social responsibility, timeout obligations, and all of this hitting operators quite hard. Then we’ve had the UK Commission mandating that there should be responsibility from the operators for monitoring the position of digital ads. On a wider scale, it was very interesting to hear Steve Brennan earlier talking about the dot.com focus of the Isle of Man, and the focus, in particular, on South East Asia because that throws up a huge amount of grey market considerations and the extraterritorial capability of law in some of those regimes. Generally, as a kind of back canvas to all of this, there is this idea that remote gaming is dangerous, lethal, sinful and bad. But it seems to me that all of these decisions come from that subjective appreciation, which, if you recall the gambling prevalence surveys in the UK, is not backed up by any hard evidence.

To help put this all into context, I’m now going to show you two commercials, they are videos of TV ads that were banned in the UK. Then we’ll ask Nick and David, as the regulatory experts, to give us their views on whether the ads should have been banned. Frankly I don’t think they should have been, but we’ll see what my two colleagues say and if the three of us match up. We’ll move on from there into a discussion about advertising and social responsibility, and gauge which areas in particular they see the regulatory burden as increasing.”

[Two videos were played]
Mr Chess: “Let me give a brief synopsis of the ads. Ladbrokes’ campaign concerned a couple of guys who lacked thrill in their lives. The first guy jumps into the ocean with sharks and is dressed as a seal, and the second guy parachutes out of a plane, using a crisp bag as a parachute. Both of those ads were banned by the ASA in what I thought was a ridiculous capricious decision, and Ladbrokes took out an advert in the paper the next day offering to give counselling therapy to the one person who complained because of his lack of humour.

Nick and David, in addition to these last two adverts, in the last couple of weeks, you will have seen that Ladbrokes were banned from using the Ironman cartoon character, which caused a lot of comment because of course, many products have the Hasbro mark or branding on them. How dangerous do you see these uncontrolled, un-appealable decisions of the ASA and the industry’s ability to advertise and communicate?”

Mr Schollenberger: “I would say the Advertising Standards Code makes it clear in respect of gambling advertisements that they’re not meant to glamourise the people that participate in gambling; it’s not meant to imply that participants in gambling will gain greater esteem among their colleagues by gambling, and that irresponsible and reckless activities are to be encouraged. I struggle with both of those adverts to see there is anything useful for the consumer to decide to use their product or not. It’s the message of, “I’m willing to take huge risks to impress my friends with my reckless behaviour and that includes gambling”. So I would support both of those being banned, I don’t think they communicate the right message. The question is, what message did the ASA conclude it was trying to communicate? Evidently they concluded that it was trying to communicate exactly what David said. But I’m not sure that it was. I understand why the ASA reached that conclusion, and I would have advised the client that that was a risk, but I’m disappointed by those conclusions because I think it depends on the time of the advertising. If that was aired during a football match pre-watershed, you might have greater reservations, because a child’s sophistication or their humour might be slightly more problematic. But as a general proposition, I think that kind of thing should be permissible, because we should have the ability to make our own judgements and I don’t think we need to be that paternalistic.”

Mr Nocton: “I take completely the opposite view. You’re right in that that is broadly what the regulations say, but, I have a personal angle on this as my wife works in advertising so, when I see adverts, she often points out why what I think is stupid or non-intuitive, is actually a very good advert. In this case, I’m not sure that David’s right, that it doesn’t communicate the right message. The question is, what message did the ASA conclude it was trying to communicate? Evidently they concluded that it was trying to communicate exactly what David said. But I’m not sure that it was. I understand why the ASA reached that conclusion, and I would have advised the client that that was a risk, but I’m disappointed by those conclusions because I think it depends on the time of the advertising. If that was aired during a football match pre-watershed, you might have greater reservations, because a child’s sophistication or their humour might be slightly more problematic. But as a general proposition, I think that kind of thing should be permissible, because we should have the ability to make our own judgements and I don’t think we need to be that paternalistic.”

“We’re seeing more capricious decisions – apart from advertising, especially under the UK licences, there’s been a big roll out in social responsibility, timeout obligations, and all of this hitting operators quite hard.”
Mr Chess: "Nick, you mentioned timing, you will recall that with the Ladbrokes adjudication we just had, Ladbrokes made clear the Ironman imagery was targeted only at their 18 plus age base and they had taken measures to make sure it didn’t go to the kids, but it was still banned. Are you comfortable that the ASA should make decisions with no cognisance of the context?"

Mr Nocton: "As Jason said, Ladbrokes sent Ironman branded material online and via email (it wasn’t televised) to databases of age-verified customers and to another database which they had evidence was only of people who were at least 18 years of age. That should, in my view, put to one side any questions about whether there is a risk to children, and therefore it seems to be intellectually inconsistent to say the risk inherent in this advert is that it involves Ironman and therefore it presents a risk of being attractive to children. It’s not actually going to be seen by them. Of course it might be seen over somebody’s shoulder on a bus or on a mobile but you can’t, in my view, prevent an entire advertising campaign that is clearly directed at people of the age of majority, simply on the basis, which I don’t necessarily agree with, that children are more interested in Ironman than adults. For that reason, I was very uncomfortable with the ASA’s decision. It was even more difficult to understand given that it runs counter to other decisions that the ASA made such as Bingo Friendzy!

Moderator: "David, what I say to my clients is that the Gambling Act, as you know, contains provision for the Secretary of State to make regulations in relation to advertising. What I say to my clients is that they should ask that the GSC here and the Gambling Commission in Birmingham, to regulate gambling advertising and not the ASA, because those two parties are subject to reasonableness and the constraints of public and administrative law as to how they act. Under law, they can’t act in a capricious way. As a kind of general proposition, as lawyers having to deal with this day in day out and have these fruitless adjudications and these meaningless arguments with them, do you think we as lawyers should support our clients going to the Gambling Commission and saying, please will you regulate the advertising because at least you’ve got a bit of common sense."

Mr Schollenberger: "I would certainly support that way forward in that the Gambling Commission is much more tuned to the industry, understands and works on a daily basis with operators and is sensitive to social responsibility in relation to the users and the operators. Yes, I think the GC are in a better position to regulate the area than the ASA."

Mr Nocton: "I think perhaps they could have a more central role in it, but I don’t think they’re better placed to regulate advertising, even gambling advertising, because I don’t think they understand the contextual issues as well, but you’re right, something needs to change."

Mr Schollenberger: "I think that if there isn’t change, there is going to be public demand, along the lines of the Daily Mail and their campaign that killed the casinos - it’s going to start aggressively clamping down on gambling advertising. It’s the same thing going on in the US right now with Daily Fantasy Sports. The American public is absolutely barraged with Fantasy Sports advertising and, as a double-edged sword, it’s created an appetite for legalised sports betting, but on the other...

“...I believe there needs to be a better balance between the right of operators to bring dividends to their stakeholders and at the same time be responsible to the public...”
hand, it’s led to a calling for a clampdown on advertising.”

**Mr Chess:** “Advertising is part of it but it’s not the only thing. If I may read out a little article here in iGaming. This article analyses the impact of social responsibility, the new timeout requirements and the new temporary barring requirements mandated by the Commission. It states this is in relation to William Hill:

*William Hill estimates that approximately 3,000 accounts per week have been opting to request one of the time timeouts. This is clearly higher than expected and 2016 profits are expected to be hit to the tune of £20m - £25m.*

The question is that obviously as an industry we have to accept regulation, and good regulation is the Kitemark of a responsible operator. If gambling prevalence figures show that rates of addiction are consistently low and remarkably static, which appears to be the case (according to research by Nottingham University and others) then at what point does the industry turn round and say to the public, to the Government, to the Commission and even to the newspapers, ‘This is excessive, we’re a fundamentally well run industry and you are lumping us with more and more costs and more and more social responsibility provision which is not justified by hard evidence’. Can we say that? Do we have the political clout to get up and say that? I’ll put the question first to Tal.”

**Mr Ron:** “It’s a classic question - if self-regulation can be accepted in such a highly risky industry like this. If we can take a case study, there is new regulation in a place called Vanuatu in the South Pacific. This place is a small island where citizens can receive citizenship via investment, but a new Financial Services Regulator has come in and many of the binary options and online dealers in securities are now regulated there. This is an example of an extreme case, where regulation reaches the ends of the Earth, but still has its benefits. The alternative is we can continue making things more like the UK. So I think the answer should be somewhere in-between. I do not believe that self-regulation is a solution in this industry. However, I believe there needs to be a better balance between the right of operators to bring dividends to their stakeholders and at the same time be responsible to the public, because at the end of the day, all of these industries, they have lots of people involved and stakeholders. There are countries, like Israel, the Isle of Man, Gibraltar and Malta with a big focus on eGaming. We can’t overkill the industry with regulation that would be very difficult to understand or implement.”

**Mr Chess:** “I think we need to remember that the Gambling Commission regulates because it has to, but if you look at any of the social responsibility changes brought in, and at any of the LCC provisions which are designed to support the licensing objective with regards to gambling, if you look at any of those in isolation, I don’t think you can question the common sense of them. The difficulty is in the speed and the volume of them and just being able to keep on top of them. It’s partly one of the drivers of consolidation both in the higher ranges of the industry which Simon very eloquently talked about earlier on, but also the reason why so many of the smaller operators are not really able to compete in a market like the UK. I’m actually quite “pro” social responsibility regulation. It’s a question of how it’s balanced and whether it’s commercially viable.”

**Mr Schollenberger:** “I think you need to look at the political situation of the gambling industry in general. Certainly in the UK and the US, in the view of many people they’re both considered immoral and sinful pursuits and I don’t think they have the political support in Parliament or, in the US Congress for industry lobby groups to say enough is enough, we don’t want to be regulated anymore. There has to be some level of self-regulation, the industry needs to take the lead in its social responsibility, or it will be regulated from the outside, because there’s more political clout to regulate than there is to not regulate.”
Mr Chess: “Thank you David. Sandie and George, as you are both at KPMG, what do you think about this increase in regulatory roles? As well as social responsibility and what you might call the internal regulations of the industry, which is the regulation generated by the Gambling Commission, we have additional AML requirements, additional money laundering requirements and additional European data protection requirements. So when you look at the clients, not just in terms of data protection and data security, and you look at the regulatory apparatus that the growth of regulation is putting on – what are you looking at? You’ve got the Money Laundering Officer, Compliance Officer, now you need to have a Data Protection Officer and the whole infrastructure is growing all the time. How much of a burden, particularly to small businesses and entrances to the market, is this burgeoning non-specific gambling regulation becoming?”

Mr Quigley: “It’s a real challenge. Alongside cyber-crime and cyber security, I would mention regulation because the general data protection regulation is going to cause some serious issues. What we are seeing increasingly with clients is a desire to outsource the data protection officer role, for these organisations, because the regulation is very complex. It’s very difficult, time consuming, and it is becoming a burden.

As the panel neared the end of their session, the issue of Brexit reappeared. The moderator asked each panelist what advice they’d offered their panicked clients on the morning after the Leave/Remain vote.

Ms Skuzska: “Well, to be honest, my first thought was, am I going to have a job? Because I deal with VAT, and if Brexit meant we’re coming out of Europe, I wondered how it was going to affect us in the Isle of Man, and affect the gaming industry as a whole. But the thing with VAT, it’s becoming more and more about the point of consumption. It won’t matter where you are established, it matters where your customers are. So an Isle of Man company who supplies gaming services into Europe and even wider than just Europe should be ok. Everybody else is starting to have VAT issues, in that respect, coming out of Europe, but certainly for the gaming industry, it’s not going to make that much difference in terms of VAT. In terms of the customs procedures and VAT on goods, yes, there are going to be changes. Brexit was a shock to me because I didn’t think it was going to happen, but actually when you take a step back and you look at the reality, all those different issues, it is going to change but it’s manageable.”

Mr Schollenberger: “My reaction was that the UK is going to lose its attractiveness as a place to do business for gaming companies. It was in the position of trying to claw back, attracting operators, what with the point of consumption, taxation and regulation. But now we’ll discourage companies from setting up there because of the free movement of gaming employees across borders, there won’t be access to the work that an EU-based company will have. There’ll be uncertainty about which laws will apply. Certainly the data protection law is a regulation which is directly applicable, that won’t, in theory, be applicable anymore after Brexit. Also, AML, what’s going to happen there? Are they going to continue with the same fourth directive or are they going to do something different? Is the UK going to pass protection laws that favour the industry or have laws that are incompatible with the rest of the EU? In my view, Brexit creates a huge amount of uncertainty for operators.”

There’s lots of skills, particularly in Eastern Europe, that we can harness into our industry, but if we’re not seen as being an attractive place to come to, how does that dynamic change?”
Micky Swindale of KPMG introduced the next speaker, Fiona Palmer, Head of Compliance and Social Responsibility at Sky Betting & Gaming. What followed was an enlightening talk by Ms Palmer on the development of the National Online Self-Exclusion Scheme (NOSES) for the UK. The scheme constitutes an area of particular relevance to KPMG in light of their recent appointment to run the scoping study for the RGA. For the eGaming industry, NOSES marks a turning point in the development of overall player protection; it will be crucial for operators and regulators alike to get to grips with the scheme over the course of the next 12 months.

"It’s to give the consumers the ability to self-exclude centrally from all online operators in a single day."

After thanking Micky, Ms Palmer explained her role: “It’s an honour for me to come and give you all an update on the National Online Self-Exclusion Scheme that we’re currently looking to develop in the UK. I work for Sky Betting & Gaming, and have been part of a cross industry working party focusing on the development of a national online self exclusion scheme from the absolute outset when this scheme was first voiced as an idea back in 2014. It’s been created along with the Remote Gambling Association (RGA) and Clive Hawkswood. Clive asked me to come along today and represent the RGA, so here I am. If there are any questions that I’m unable to answer, please forgive me – we can refer them to Clive at a later date.”

Before embarking on a full explanation of the scheme, Ms Palmer pointed out that NOSES is designed purely around the UK Gambling Commission and Government requirements, and will affect only online operators. Is there a need for a proposition around self-exclusion? Yes, affirmed Ms Palmer, as self-exclusion is a tool that all online operators in the UK have to offer their consumers:
I always refer to it as the panic button, the ‘I want to stop gambling’ button, I want to block myself from being able to gamble on this website. Currently, all operators have to offer this to clients. It’s an important player protection tool and the more comprehensive it is, the stronger it must be as a safe-guard. Therefore, there is a need to provide access for consumers to a self-exclude sanctuary. This is what NOSES is about, it’s a national online self-exclusion tool. It’s to give the consumers the ability to self-exclude centrally from all online operators in a single day. Currently, they have to go to the website of every single operator, and click on each. There are hundreds of operators! With NOSES, they’ll have to go to one single place and press that one button, enter their details and it will exclude them from all operators. It’s a great step forward in terms of an overall online gambling protection tool.”

Ms Palmer continued to outline how the scheme has taken shape in the last year or so: “Jurisdictions such as Denmark, Spain and France, currently all have this system in place. So in 2014, the Department for Culture, Media and Sport (DCMS) and the Gambling Commission decided that the UK should have a similar scheme. Following public consultation in the UK, the Gambling Commission introduced a new licence code to remote operators that said ‘licensees must participate in the national multi operator self-exclusion scheme’ but there was a caveat around when it would come into force. After further discussions it was announced at the RGT’s (Responsible Gambling Trust) Harm Minimisation Conference last December by the Minister that it would come into effect by the end of 2017. So by that deadline we must have a solution live.”

In fact, it was back in May 2014, that the UK GC established a working group, set up predominantly with the Remote Gambling Association, and including five operators, among them Sky Betting & Gaming. Ms Palmer again, “The aim of the group was to identify the technical, legal and operational difficulties that would need to be overcome in order to create a national self-exclusion scheme. We all had the expectation that the Gambling Commission would run the scheme, as happens in other jurisdictions in Europe. By the end of 2015, we had got as far as issuing briefing papers, and had been through quoting costs, we’d even invited companies to tender for technical support work. Then the Gambling Commission had a change of heart and announced, in early 2016, by writing to all operators, that the RGA would now take over the project, confirming expectation that the scheme will be in place by the end of 2017. The GC had realised the enormity of the task, to develop this scheme.”

“So, what is NOSES? It’s going to be a dedicated website, a central point where, through a single process, consumers can self-exclude themselves from all operators who hold a Remote Gambling Licence. I want to be very clear here that it’s for consumers, they aren’t necessarily customers of remote gambling operators. So somebody who doesn’t even have a gambling account, can go there and exclude themselves. The site will also provide information about support and counselling services and only individuals will be able to self-exclude themselves. So we, as operators, we’re not going to be able to input any data into this site – it is a tool just for consumers.”
“There will be a Gambling Commission licensing code, as I quoted before, for all licensees to be part of such a scheme; this is in addition to the existing licensing requirements whereby customers have the option of self-excluding with individual operators. So if they don’t want to take that big master step of excluding from all operators, they still can go to each individual operator or an individual operator as they wish.”

Ms Palmer explained that when the GC wrote to operators back in February, they stated that the RGA would take it on themselves to develop a self-exclusion scheme. But the RGA argued strongly then that the system would be best run by the regulator: “In other jurisdictions it is run by the regulator and it makes sense – the regulator has access to information about who is actually licensed, who needs to be signed up to the scheme. When that was no longer an option, the GC advised that the RGA had to run this scheme. So, the RGA and its members are committed to financing and building a first-class system. An RGA working group is overseeing the project which includes a number of operators, including myself as a representative of Sky Betting & Gaming.”

“We recently appointed KPMG to undertake a scoping study for the scale of this project and the new scheme that we are creating, and this is where we are at the moment. We’re in the early stages of the scoping scheme. We have a steering group and we meet regularly to go through the key areas. KPMG will then advise and support the RGA through to the implementation of the scheme, before, as I say, it needs to be live with all operators by the end of 2017.”

“We are very aware of the importance of this scheme. As such we want to draw on the knowledge of the other regulators, so the Spanish, the Danish and the French, in terms of how they have implemented their schemes. There’s no point reinventing the wheel completely when we can actually use others’ experience. In addition, there are off the shelf schemes that are already available that can be used, so we’re also speaking with those individuals and companies.”

“Ther’s no point reinventing the wheel completely when we can actually use others’ experience.”

The question now, asked Ms Palmer, is how to go about fulfilling the task in hand, and develop a national online self-exclusion scheme, with the myriad of operators who will need to be involved and be using the scheme?

Ms Palmer again, “Unfortunately, it’s too early to give details. We have just got to the stage where we’ve appointed KPMG and the scoping study is underway. It will become clear as KPMG work progresses and decisions are taken on the range of technical, legal, commercial and governance issues. Also, as I’m sure you’re all probably thinking, data protection – how on earth is that going to be dealt with? We are currently going through that area. However, it has been agreed that NOSES will be set up as a new legal entity and it will be established to operate the system. It will be a standalone company.”

On the issue of expense to consumers, Ms Palmer made it clear: “The service will be free for consumers; operators of course will have to pay to sign up and use the service. We’ll have some sort of scaling in terms of the fees of leverage paid by each operator and that will be based upon the size of the operation. The day to day operation will be outsourced. Again, it’s turning to expertise that already exists, so there’s no point reinventing the wheel where we don’t need to.”

Ms Palmer clarified the difference between current self-exclusion systems and NOSES: “When the GC amended their regulations, following the recent social responsibility changes in the licence conditions and codes of practice (LCCP), they said that operators must offer total self-exclusion, so from the entire site, that is, all products that they offer. However, there is an option, if operators wish to, they can also provide self-exclusion on an individual product basis. At Sky Betting & Gaming, we offer what we call ‘self-exclusion by product’ as well as full self-exclusion. This NOSES scheme is only going to cover full self-exclusion, it’s the big red button across the whole industry.”

In her role as one member of the working party appointed to draw up the NOSES scheme, Ms Palmer confessed how difficult a task it was: “Dealing with the whole remote gambling industry, regulated and licensed by the UK, it’s very hard to try and pull a scheme together. The closer we look at it, the more challenging it becomes. However, we have KPMG on board, we will lean on KPMG by months to come. We’re mindful that this system won’t just be for the RGA members, and how important it is to issue regular updates. Events such as this summit today also give us a platform to explain what we are doing and why.”

On the issue of cost, Ms Palmer spoke candidly: “Systems like this can be and will be expensive. The GC quoted big figures and I think that’s part of the reason why they handed it over to the industry to actually produce. Companies definitely have to recognise and they do recognise, that there’s a large cost associated, but we would be disappointed if we could not do a more cost effective solution than the GC were proposing. So that’s another factor which we’re working on. We don’t see any reason why the system cannot be in place before the end of 2017. We’ve put our minds to this, we’re moving forward at a great speed with KPMG and the steering committee. We’re totally committed to producing something that we can be proud of, which, most importantly, will help people control their gambling.”
“Lastly, I’m sure we’ve all heard the joke about why we picked ‘NOSES’? In fact, we spent a long time considering other acronyms – which are not worth repeating! It may not be the final brand but we’ll have to get used to it because, for now, that’s what we’re calling it.”

Ms Palmer concluded her talk and invited questions and feedback from the floor.

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**Question:**
Under the GC proposed solution, they issued some briefing documents and a briefing notice about how the system would actually work. Is there a proposed approach to it?

**Answer:**
Yes. Under the GC solution, large operators, as deemed by the GC, would have been able to take a complete copy of the database, having all the information, and thereby run their own checks locally. Smaller operators were going to have to poll the system directly. The GC, had visibility to all relevant information, including the different sizes of operators. We at NOSES, and being in the industry, don’t have that visibility, so the current thinking – but we are in the early stages - is it’s more likely to go down to a one-size-fits-all option. For consumers, it’s essentially the website that they’ll be going to, so it’ll be a one stop shop for consumers, and the current feeling within the working group is, it’ll be the same for all operators.

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**Question:**
Is the GC having any input on the scheme?

**Answer:**
The GC have been very supportive to the working group and to KPMG and they are trying to help, particularly where it’s difficult, where it falls outside the remit of the RGA. We are leaning towards the GC to help us with communications about the scheme to wider industry. We will be putting out updates through the RGA, communications as to our progress, and it will be an open door to come and ask as well. We’re also looking at RGA members, so the likes of myself, to engage with other operators and the relationships that we have with them. As I say it’s not a closed door, we are very, very aware that communicating with the wider industry is one of the challenges that we have to overcome and we have to make it work.

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**Question:**
Will it be voluntary for consumers or will the courts, for example, be able to use it as a tool?

**Answer:**
As with all player protection tools, it’s a self-exclude, so it will be a voluntary tool for consumers. Basically, player protection tools only work when a consumer decides that that’s what they want to do. It’s their decision whether they want to overcome a gambling addiction so it’s not intended to be used as a legal tool.
Question:
The GC has specifically requested this implementation. Have they also specifically requested that it is something that the operators need to pay for, because obviously it’s a new tax for the operators?

Answer:
The GC has stated that operators must comply with the new licence code that ‘licensees must participate in the National Operator Self-Exclusion Scheme’, - there is clearly no mention of financials. However, it is the same with most of the licence conditions & codes of practice that we as operators have to comply with: if the only option is by paying for a solution, then that’s what we’ll have to do. I guess it’s one for Clive to answer in more detail. But realistically, it can’t be free, not for operators, because there are costs associated to running such a scheme, and it needs to be funded somehow! The scheme is being developed for operators to enable them to comply with their new licence code. It is also a huge opportunity for consumers, to give them an additional player protection tool.

Question:
Could it effectively replace the schemes that the operators are running individually now, so that they could refer people to the central scheme and at least save the cost of running their own?

Answer:
No, this is not a replacement tool. The reason being is that customers use self exclusion for different reasons, for example an individual may find one site which causes them more of an issue than any other, so they may just want to self-exclude from that one site. It’s a customer choice and it’s also a consumer choice. So the licence code will still remain from the GC that all operators have to have a self-exclusion offering directly on their site. NOSES is in addition to that.
IMGL Masterclass: Data Protection and AML

Moderator: Dr Joerg Hofmann

Panellists:

Anna Soilleux-Mills
Olswang

Susan Biddle
Kemp Little

Andrew Cotton
Gordon Dadds

Richard Williams
Joelson

Opening the IMGL Masterclass about Anti Money Laundering and Data Protection, Dr Joerg Hofmann, Immediate Past President of the International Masters of Gaming Law (IMGL) and Senior Partner with Melchers Law Firm, Germany, introduced his expert panel: Anna Soilleux-Mills, a Senior Commercial and Regulatory lawyer at Olswang, specialising in gambling, data protection, consumer protection and eCommerce; Susan Biddle, Consultant with Kemp Little, a leading technology and digital media law firm, who has advised gambling operators and their suppliers on commercial contracts for over 20 years; Andrew Cotton, Director of Betting & Gaming at Gordon Dadds, and who was also in-house legal counsel with the Rank Group for over 15 years; and Richard Williams, Legal Consultant at Joelson, advising both land and remote gambling operators in the UK, ranging from start-ups to established operators.
“We live in a world where data protection is no longer just about keeping one’s email address private to avoid spam: it’s about safeguarding information...”

Setting the scene for a lively discussion, Dr Hofmann conceded that in the past, Data Protection and AML primarily evoked thoughts of crime, and invasion of privacy. Today, owing in part to the explosion of the internet, and an increase in global terrorism, people’s attitudes have changed. In the wake of shocking terrorist attacks in Paris, Brussels, Munich and even Thailand, it has become clear how the internet fuelled the connectivity of covert terrorist groups. We live in a world where data protection is no longer just about keeping one’s email address private to avoid spam: it’s about safeguarding information, on a massive scale, and preventing it from getting into the some very dangerous hands. Similarly, money laundering is something that can touch every one of us, whether it is on a low level, such as dodgy dotcoms offering cheap everyday products, or on a more sophisticated level, which results in the financing of terrorist activity. Dr Hofmann stressed that is all about protection, and rules are there to protect people. There is a new reality in force, with regard to Data Protection & AML, and the best we can do is embrace it.

Dr Hofmann: “The new Data Protection Fine Book has been adopted after four years’ work. Replacing the current directive, it will apply in all EU member states, without being implemented into national legislation: it’s been in force since 25 May 2016 but will not apply until 25 May 2018. Regarding AML, the 4th AML Directive was adopted by Parliament on 20 May 2015. It aims to strengthen the existing AML framework by clarifying and expanding upon those rules still existing in order to follow the money and crack down on money laundering and terrorist financing. It entered into force on 26 June 2015, and all member states have until 26 June 2017 to implement domestic laws and regulations. For the UK, The UK Gambling Commission issued its new AML licence conditions, with effect from 31 October this year. To appreciate the importance of new AML rules and the gravity, we need to look closer at Europe – no doubt the panel will present us with a couple of interesting cases. It may also be interesting to look across to the US. Although the directive is not applicable in the US, money laundering and anti-money laundering is a big topic there, with specific regard to terror financing.”

Dr Hofmann addressed his first question to Andrew Cotton: “What are the common operator failings that have emerged from the GC enforcements? Could you please provide some examples from recent casework?”

Mr Cotton: “Yes of course. The first case involves the Rank Group and one of the failings occurred whilst I was still employed there. The first case concerned the curious comings and goings of a Mr Deng in the Cardiff Casino. Five days after the new regulations took effect in 2007, Mr Deng signed up at the casino, and attended regularly, but was not in fact identified for a period of almost 2 years. No verification of identification was undertaken, nor any customer due diligence, nor did anyone take steps to identify the legitimacy of the funds that he was using. Basically, a whole catalogue of disasters occurred. Mr Deng came in one day with £15,000 in used Northern Irish notes, a suspicious activity report was prepared at the casino but was not sent to Head Office and so was not filed. The Commission found out about this incident from through the Northern Irish Police, and there followed a Commission investigation. But, during the closing
stages of that investigation, the Commission were contacted by a victim of a substantial criminal fraud, the victim being the offender’s employer, who on the day that the offender was arrested contacted the Commission and asked “How on earth have you let this go on for so long?” The Commission’s reply was that they knew nothing about it. The eventual penalty imposed on Rank was just shy of one million pounds: they were required to surrender the profits made from the two cases and it was to be distributed to agreed good causes.”

Mr Cotton added briefly that in the case of Rank Digital (the online mecca operating arm of Rank) it admitted it didn’t follow its own procedures, was unable to produce any records of the interactions with the customer and had, again, made no enquiries as to the source of the funds that were being used. The report was issued a year ago, on 7 September 2015. The Rank case was settled by what is known as a voluntary settlement without any formal regulatory action being initiated.

“At Paddy Power this year there were two land-based incidents. One was mainly a social responsibility issue but I will mention it now because it links to the LCCP social responsibility changes last year. A shop manager was advised by regional management at Paddy Power to encourage a customer to increase the amount of money that he spent despite the fact that the customer was discovered to have a substantial problem gambling problem. Neither the management at branch or at regional level made enquiries as to where the funds were coming from and just accepted an explanation (oddly the same explanation given by Mr Deng in Cardiff) that the gambler owned a number of restaurants and therefore could afford the money that he was gambling.”

“The second case involved fixed odd betting terminals. A shop manager became suspicious when a lady repeatedly used Scottish notes to gamble FOBTs and then withdrew the winnings by use of a debit card. The shop manager reported her concerns on four occasions to senior management, but their response was, “Well it’s legal currency so why be concerned?” The matter was eventually reported to the nominated officer but no suspicious activity report was filed. Only when the Police became involved did Paddy Power decide to undertake any form of inquiry and they were unable to validate the business that the customer said she operated.”

There was a third case that the Commission became aware of through media coverage of the conviction of an individual for the theft of over £250,000 from customers at the bank at which he worked. Paddy Power had provided the police with information confirming that the customer had spent a significant amount on its remote facilities during the same period. The level of spend triggered a need to undertake enhanced due diligence but Paddy Power made no direct enquiries about the source of funds. Paddy Power acknowledged it failed to follow its own policies and procedures for undertaking due diligence on customers. All three cases were dealt with by way of voluntary settlement, which included relinquishing the profits made from the customers and a payment in lieu of a financial penalty totalling £280,000 and £27,250 costs.

“Mr Cotton went on to describe another case involving Gala Coral: “In April, Gala were the subject of a voluntary settlement for some historical AML breaches. In this case the theft was of £800,000 from a vulnerable adult, and it was clear from the records that the volume and value of that customer’s spend, showed indications of potential source of funds concerns, which Gala had not identified, nor acted on, and had failed to conduct adequate enquiries about where the money was coming from. Gala were criticised for relying too heavily on uncorroborated information provided by the customer. They undertook some restricted open source searches which revealed that the customer lived in a modest property, worked as an electrician, and clearly could not afford the sums of money that he was gambling. In the end, they were ordered to pay £850,000 to the victim, and a sum towards the Commission’s costs. In that case, Gala had also failed to pick up that the customer was both an online customer and a retail customer until a few months before the account was closed.”

“The most recent case, where formal registered proceedings were initiated by way of a review of a licence in March this year, involved Pretfred (Gibraltar) Limited that you and I know as Betfred. Here, there were specific failures to comply with the Money Laundering Regulations 2007. BetFred had failed to put into effect adequate policies and procedures for interaction with the customer, particularly because he was a high value VIP customer. There were several specific breaches of the regulations and the matters that were of most concern for the Commission were that there was no guidance to employees on how to recognise suspicious transactions, no information provided on the requirements to identify customers and how to identify the source of funds that they were using: indeed they had no policies whatsoever that dealt with those training requirements. The case was eventually made the subject of a voluntary settlement with £443,000 being returned to the victims of the crime, and £344,500 by way a financial penalty and payment of the Commission’s costs.”

In all of the cases the operators were required to conduct third party reviews and audit of their anti-money laundering and social responsibility policies as part of the settlement.

Dr Hofmann: “Thank you, Andrew. It’s clearly a serious matter and compliance is key. Anna, operators often talk about ‘source of funds checking’: being a tricky issue, in what circumstances should operators be conducting source of funds checks?”
There’s understandably a nervousness about writing to your customers and valued VIP customers and saying, “Show us your money!”

Mrs Soilleux-Mills: “Indeed, source of funds checks is probably the trickiest AML issue that operators are grappling with now. There’s understandably a nervousness about writing to your customers and valued VIP customers and saying, “Show us your money!” the fear being that those customers leave and go to an operator whose AML procedures aren’t quite so robust.

Richard Flint, CEO of Sky Bet, has been reported as saying that when Sky Bet initially trialled source of funds checks, there was an almost overnight 5% drop in their revenues.

As Andrew has just highlighted, time and time again, this issue comes up in a voluntary settlement with the Gambling Commission, in fact, it’s probably mentioned in every single one of them that the amount that customers are spending are vastly disproportionate to their sources of income and no enquiries have been made of that customer from an AML or social responsibility perspective.

It’s certainly not the case that operators will have to write to every single customer and ask for 12 months’ worth of bank statements and their other sources of wealth. I think the industry is improving, but it needs to get better at using open source information, to corroborate what they otherwise know from their interactions with customers about their occupation, the sort of houses they live in and so on.

Ms Biddle: “It lies in with what the Commission has said about not having data silos as well and putting together all of the information that they have for whatever purpose. Again, this obviously has consequences for data protection compliance when you can only use data for the purposes for which you’ve collected it, so the two are inter-related.”

Dr Hofmann: “That’s interesting because that’s exactly the link between these two topics and I think it’s important to monitor that. Andrew, can you briefly explain, how the challenge can be met, to introduce the UK’s Gambling Commission licence conditions? Also what is the new regulation or the new condition that is imposed, and why is it provided via a licence condition regulation?”

Mr Cotton explained how in each case, the Commission only learnt of the cases, via the victims of the crime, the Police and in some cases the media. Although the licence condition on undertaking risk assessments will take effect from 31st October, the Commission confirmed that they expected licensees to have started work on the assessments during the summer following confirmation on 28th July, that the condition would be implemented on 31st October. Basically this means that licensees are going to be required to report, as a key event to the GC, any criminal investigation by a law enforcement agency anywhere in the world that involves the Licensee, and where the circumstances are such, that the Commission might reasonably be expected to question whether the Licensees measures keep crime out of gambling have failed. There is guidance as to the sort of matters that the Commission expect to be reported at the back of a response to the consultation on the crime provisions.

Mr Cotton continued, “Some elements of the second new condition are expected to be undertaken before 31 October. By that date, all licensed operators are going to have undertaken an assessment of the risks of their business being used for money laundering and terrorist financing, and that risk assessment has to be reviewed as necessary in the light of any changes in circumstances and must be reviewed at least annually. Following that risk assessment and any further reviews of it, licensed operators must ensure they have appropriate policies, procedures and controls to prevent money laundering and terrorist financing. Licensees must ensure that the policies, procedures and controls are implemented effectively. “Policies” must be kept under review and revised to ensure they remain effective, taking into account any future voluntary settlements or guidance issued by the Commission.

Lastly, there is the imposition of a general condition for remote casino operators who have equipment based overseas, to confirm that they must comply with the Money Laundering Regulations and any subsequent revision to them. This used to be imposed as an individual condition but it’s now being imposed as specific LCCP requirement.”

Dr Hofmann: “So, Richard, we learnt from Anna under which circumstances and how funds checks could be conducted by the operator, but a digital world has its own currency. The UK Gambling Commission uses digital currencies, such as Bitcoins, as cash equivalents for use in gambling transactions. Does the use of digital currencies for gambling deposits or withdrawals have the potential to undermine tighter anti-money laundering requirements?”

Mr Williams: “Yes, the source of funds issue is a difficult one for operators. In their guidance of July of this year, the GC acknowledges the difficulty of approaching your customer, perhaps a top-spender, and ask where is the money coming from? We’ve undertaken credit checks, we’ve looked at the value of your house, you just don’t appear to have the funds to be able to sustain that level of gambling! Currently, the great advantage of Bitcoin crypto currencies for some is that they are anonymous and are unregulated. But once Bitcoins are introduced into the mix it becomes even trickier because you will have to investigate the source of the funding. With effect from 31st October 2016, the GC and its new LCCP will accept that digital currencies are the equivalent of cash and acceptable for payment for gambling transactions.”
But there is some conflict in the new conditions: they say that firstly you can accept digital currencies for gambling transactions, but within section 5 of the LCCP, it says that remote betting and casino operators must use regulated payment providers, and obviously something like a Bitcoin wallet provider isn’t currently going to be regulated.

“Also, the proposals on the table from the EU and indeed the Treasury to regulate digital currencies reveal a divergence. The EU is saying that it is intending to regulate digital currency exchange merchants, so that you could cash into Bitcoins and cash out of Bitcoins. If you read about this online, it suggests that using remote casinos is a fantastic way to clean illicit funds. The UK Treasury is saying that it will regulate Bitcoin currency exchanges, but not wallets, whereas the EU says it will regulate both. So there is a diversion between the conditions, where UKGC says operators have to only accept payments from regulated payment providers. My view is that, at the moment, Bitcoins payments would be acceptable as cash equivalents.”

Mr Williams went on to say that because digital currencies are now recognised by the Commission, and elsewhere, such as in the Isle of Man and Malta, digital currencies will continue to gain traction, and provide significant benefits for both players and gambling operators.

Dr Hofmann: “It sounds like we’re talking about Next Gen! From your personal perspective, will other jurisdictions or other leading gaming authorities across Europe share your opinion, and the view of the UKGC?”

Mr Williams: “Well the UKGC is highly respected internationally and has accepted that digital currencies can be used as an appropriate method of payment. This gives cryptocurrencies legitimacy and I’m sure that that will follow in other jurisdictions. The real issue then is whether there is any take-up from players and operators to actually use Bitcoins as payment for gambling transactions. I believe the benefits of doing that are fairly significant, both for operators and players alike.”

Dr Hofmann asked Mr Williams a further question, regarding the benefits for using digital currencies in gaming transactions, in preference to other payment methods.

Mr Williams: “The main benefit for players at the moment is that digital currencies are actually anonymous, so you could register with a casino site and not provide any KYC details. You could spend Bitcoins and, in criminal terms, people could use this facility to clean funds. As things develop, it is likely that anonymity will not be one of the key elements. Speed with which transactions take place will be important. With Bitcoin, there is an instantaneous credit into an account, there’s no authorisation process via a bank, there are no transaction fees related to either player or operator and transactions are irreversible. In addition, there are other benefits to players: the lack of transaction fees, ability to pay and play across international borders and currency regions. Games are said to be more transparent and fair and lower transaction processing fees should allow operators to offer enhanced bonuses to customers. Of course it’s also very attractive to people in jurisdictions where remote gambling is currently unlawful.”

Dr Hofmann: “Turning to my other panellists, do you think it will be an attractive payment method in the near future in terms of gaming attraction, gaming transactions and players? Or is it that the large number of people using digital currencies are simply an exception? I would like to ask the question to whoever uses Bitcoins in this room.

One respondent to Dr Hofmann’s question cited a bar in Douglas in the Isle of Man that accepts Bitcoins for the sale of alcohol. Another mentioned that one land-based casino operator in the Isle of Man accepts Bitcoin payments, but it’s certainly not the norm. Essentially, delegates felt that it was all about trust: once regulation comes in, the use of Bitcoin or cryptocurrencies, will grow.

Ms Biddle: “Though with the increased regulation, there is likely to be an increased cost to the providers of these services which may whittle away a little bit one of those advantages Richard mentioned, which is the reduced costs.”

Dr Hofmann: “One final question regarding digital currencies. We know about benefits for customers. Consider the other side – are there any risks for operators?”

Mr Williams: “Yes, obviously there’s a very significant risk particularly if you are a casino operator. If a player is depositing large amounts, operators can request some sort of proof that players have enough credit in their bank account to justify and sustain their level of spend on gambling. Whereas with Bitcoin, there’s no paper trail, as it’s not regulated, it’s anonymous. A customer could claim to have £5m worth of convertible credit in Bitcoins, and there is simply no way of proving whether it’s legitimate or not. So it’s very difficult for operators. I think it does currently go against this move towards not only verifying the identity of customers but also checking the source of funds. It’s a difficult question to have to ask your players where the money is coming from, let alone to have to verify an anonymous financial payment.”

Dr Hofmann: “I gather there’s also more risk in terms of compliance with regulations. Let’s take the opportunity now to ask delegates for their questions regarding digital currency before we leave this topic. Any questions for my panel?”

“The main benefit for players at the moment is that digital currencies are actually anonymous, so you could register with a casino site and not provide any KYC details.”
Question: “My understanding of the situation is that a current operator of Bitcoin has great difficulty themselves in getting banked. For me, as an operator, if I were even to consider accepting Bitcoin, not only would my mainstream bank not agree to process it, they would simply close me down, period. So, for me, the model is broken: how can it get off the ground, given the present attitude of the conventional banking system? Ultimately, I believe the technology will have a major place and ironically it will probably be to the benefit of the bank, to the tune of $26 billion dollars per year in their cost savings. But I still don’t see how it will benefit our industry.”

Mr Williams: “I suppose Bitcoin in itself is a threat to the banks so they are not going to cooperate with payment methods which are going to cut them out of the process. Indeed, I believe there is certainly one large operator who is openly accepting Bitcoin so there must be some process of converting that credit back into cash and from what I’ve been told, it’s a large operator.”

Dr Hofmann: “Andrew earlier reported on some recent expensive cases relating to breaches of UK compliance requirements. What will likely be the GC’s approach to enforcement for anti-money laundering failings, going forward?”

Mrs Soilleux-Mills: “Under its new CEO, Sarah Harrison, the GC is generally getting tougher, so it is likely that we will see more enforcement. We’ve already started seeing a bit of a shift in the Gambling Commission’s approach. For example, looking back at the voluntary settlements since 2013, it used to be just a case of the operator putting their hands up and saying “I’m sorry and I’ll change in future” and divesting themselves of the profit they’d made from that particular AML failing. However, looking at more recent cases, in the case of Paddy Power and Betfred, not only did they have to divest themselves of their profits, they also had a sum in lieu of a financial penalty added on top. For Betfred, it was over £300,000. Scarier still, in the most recent case of Betfred, a licence review was instigated which, if it had gone to its full conclusion, could have potentially left Betfred with their licence suspended or revoked.”

The GC has publicly stated they are going get even more tough with the industry - they don’t feel like this kind of ‘softly softly’ lessons learned approach has been working. This will likely result in tougher financial penalties. In addition, I think there’ll be an increasing focus on individuals, on personal management licence holders and senior management. There’s a real drive at the GC at the moment to get senior management and the board to take more responsibility and more accountability on these issues, as you can see from the annual assurance statements, for example, and I think it’s only going to get worse if the industry doesn’t raise its standard.

Mr Cotton: “Lastly, there is a requirement for the AML risk assessment to be produced on demand. If there’s a problem producing it, or it clearly hasn’t been reviewed, the GC will likely take a very dim view of that operator.”

Dr Hofmann: “Returning to our theme of data protection and AML, how do operators strike the right balance between making appropriate customer enquiries, collecting data, monitoring procedures and processes, and tipping off and disclosing the information as required?”
Mr. Williams: “It’s a great question. Obviously there are offences for tipping someone off that they’re being investigated, if they’re the subject of an SAR or otherwise, as it would prejudice an investigation. Operators have to balance the risk of committing those offences with the regulatory obligations for customer interaction, for responsible gambling and AML purposes. The GC is quite clear on this. Their language is reasonable, and tactful enquiries of customers shouldn’t lead to tipping off. A couple of the operators have tried to use this as an argument, as to why they haven’t been making satisfactory customer interactions and the GC just dismissed them. In fact, the GC used it against them by suggesting that if enquiries about levels of spend and problem gambling were such an extraordinary event that it would cause a customer to think that they were under investigation, then the operator clearly wasn’t doing its job efficiently.”

Dr. Hofmann: “I worry that the Commission seem to be calibrating the degree of cynicism with which you have to accept the answers. So in one case, the operator got blamed for not believing the customer, and the Commission’s response was that they should have researched on the internet to see which business he ran. To what extent do you have to assume that people are liars when you ask the question, Andrew?”

Mr. Cotton: “My view is that what the GC is seeking is corroboration. In another case, they said there was uncorroborated evidence that the person had some funds. I’ve got a little bit of insight in this case obviously because I’ve spoken to one or two people about it. Apparently Mr. Deng advised the casino management that he had a chain of Chinese restaurants and apparently they didn’t even ask the name of any of the restaurants. The police were able to confirm that he did not own any restaurants as part of their investigation, so that is why there was criticism of the failure to make adequate enquiries. The second case I referred to was a similar situation involving the customer being encouraged by the regional manager to spend more when he clearly was a problem gambler. Again no enquiries were made to substantiate the claim that his family owned a chain of restaurants.

Dr. Hofmann: “Thank you, another good point taken and it shows how difficult it is to be compliant. It’s easy, in hindsight, to spot naivety, but on a daily basis in real life, the issues are more complicated.”

Mr. Cotton: “One other critical thing to mention is that it is during my time at Rank there was a change in responsibility for undertaking background checks on customers and it was delegated to unit managers. This used to be undertaken centrally with greater access to open source and background information.”

Dr. Hofmann: “Thank you. Moving on, what does the general data protection regulation mean for suppliers?”
Ms Biddle referred to a remark in an earlier panel session concerning the idea that current data protection uncertainty made the UK less attractive as a jurisdiction. Although the GDPR is a big issue in the industry, it is by no means a game changer; and there has been a definite shift in attitude since the various terrorist attacks as to the importance of data. Being compliant with data protection law is of course something that affects every corner of the sector.

Ms Biddle, “The GDPR with its direct impact does change things. For the first time it will impose obligations on data processors and a lot of the suppliers to the operators will then be caught. In the past some have said, ‘It’s not my problem, it’s nothing to do with me’, but I think now that will have to change. Those who cynically said, ‘I will comply with my legal obligations’ knowing they had no statutory obligations may now find that those contractual clauses will come back to bite them, so they want to look at those contracts and renegotiate them. It may be prudent to say upfront it’ll cost more money to provide these services so we need to be paid more for them.

“Some of the obligations to be imposed on the processors will be already familiar to them: – security of data, the 8 basic principles, helping the operators comply with subject access requests, the duty to make sure that your staff are not only trained in your money laundering processes, but also understand the customer confidentiality obligations. But there are other new obligations. One is to appoint a Data Protection Officer who is not just a contact point, in the way your current DPO may be now, but is more like a quasi-regulator within your organisation. The breadth of data regulation means consumers have more rights now and the processes of the suppliers are going to have to have systems that enable you to satisfy those rights, for example to transfer the consumer’s data to another supplier or to another operator: the right of portability; as a consumer you also have the right to be forgotten, to have all your data removed. Obviously that ties back to AML. If the operator needs to keep that data in order that it’s compliant with its money laundering procedures, you don’t actually have the right to have all your data removed. So there’s a balance between the legitimate interests of the operator and the consumer’s rights.”

“And we’ve mentioned fines quite a bit throughout this discussion; we’re seeing the same thing with data protection: the GDPR will increase the fines, potentially quite significantly. In the UK, the biggest fine for data protection which can be levied is currently half a million pounds. When the new regulation comes in, that’s going to go up to the greater of 4% of your global turnover and 20 million euros. This marks a much wider undertaking, which could be significant, to put it mildly. There is a slightly lower sanction of the greater of 2% of your global turnover and 10 million euros for what one might call administrative breaches, things like late notification of a breach.”

“One of the new duties for both data controllers is that they must notify breaches. The operator has to notify a breach if it’s going to impact somebody’s rights, and they’re expected to do it without undue delay – certainly within 72 hours if not sooner. Reverting to Andrew’s comment regarding operators not knowing about a problem where there’s crime until the Police or the victim alerts them, if that’s symptomatic of the way that breaches are unveiled, people will be facing some hefty fines under the new data protection regime.”
"For operators, the new regime can be summed up in one word, which is ‘more’. You will find that more data is going to be caught in the net, data which enables you to identify somebody, including via information you don’t actually have, but that you could get. There is a new principle of accountability, which basically means you must comply and you must also keep the records to show that you are complying. Currently, I think that almost nobody keeps records to the level of detail that will be required.”

Ms Biddle went on to underline that the appointment of new Data Protection Officers within organisations will require people to be quite experienced in data protection. “There’s a skill shortage generally in data protection experts and in those who want to fulfil that role. Both operators and suppliers will need to look again at their contracts to decide whether they comply with all of the new requirements. In future the operators are going to have to take notice of sub-contracting of the processing and consent to it; they are also going to have to look again at the consent notices in the agreements they have with consumers because they need to make clear what purposes they’re going to use the data for. You now have to say what legitimate interests you have that are going to be covered, and a vague reference to ‘usage for general business purposes’ is no longer going to be effective. Also it’s not just the substance of your notice, it’s the style, it’s got to be concise, transparent, intelligible and accessible.”

Ms Biddle, “The big elephant in the room is what does Brexit mean for the GDPR? Initial indications came when the Information Commissioner’s Office (ICO) put out a statement that was very bullish. But they backtracked a bit and have since said, ‘Well of course we don’t know how closely the UK is going to be involved’. There have been more recent indications that the UK is going to end up with something very similar to the current set-up. In the EU, you have to comply. If you want to provide services to people in the EU, you’re going to have to comply with it. If data is transferred from the EU to the UK, you have to comply, and it would seem unattractive to have two inconsistent regimes – a domestic regime and an EU-compatible regime. Consumers, despite feeling that the threat of terrorism is an important factor, want their data protected. The last indication I heard indirectly was the Department for Culture, Media and Sport saying we’ll probably go with it but wherever there’s discretion, we’re likely to exercise it in the interest of the business.”

Dr Hofmann thanked his panel for their contributions to a fascinating overview of the new Data Protection and AML regulations.
IMGL Masterclass: Continuing Consolidation, M&A Activity and Trends

Moderator: David Zeffman
Olswang

For the final IMGL Masterclass of the day, Micky Swindale of KPMG introduced David Zeffman, Partner at Olswang, as Chair of the panel on the next session, Continuing Consolidation: M&A activity and trends. Mr Zeffman greeted delegates and made some opening remarks before introducing his panel:

“You know how in today’s reality shows, after the main event, you get the follow up – so, Big Brother’s Little Brother or The Apprentice, You’re Fired, well this is the supporting act follow-up event for Simon French’s brilliant exposition this morning about the gambling market. We’re going to analyse some of the things that Simon talked about and come up with a few reasons. It’s funny because at an event like this not long ago, everyone was saying “Oh yeah, consolidation, that’s going to be the next big thing”, and it just didn’t happen, with the sole inauspicious example of the Bwin.Party merger. But actually, over the last year and a half to two years, consolidation has kicked in and we’ve had GVC/Bwin, Paddy Power/Betfair, Coral/Ladbrokes, the attempted ménage à trois recently between Rank, 888 and William Hill. And let’s not forget Intertain/Jackpot Joy, OpenBet/Sky Bet and Playtech also making a number of small acquisitions.”

To discuss all of that, said Mr Zeffman, a select group of experts had been assembled: “First up, Simon French of Cenkos, who delivered that fantastic market overview this morning. Next we have Paul Richardson, Group Director of Strategy at Rank, where he was one of the architects of the attempted threesome of Rank/888/Hills. Next to Paul is Warwick Bartlett, CEO and founder of GBGC, Global Betting and Gaming Consultants, a leading consultancy in the space. Warwick has also had a long career as a bookmaker and was also Chairman of the ABB, Association of British Bookmakers. And lastly Russell Kelly, a Manxman and partner at KPMG in charge of Deal Advisory. Russell has been very involved in a number of M&A transactions, most recently in the PaySafe/Skrill merger. But, before we move onto the discussion, we all know how Micky loves a poll! So we’ve got one – please have your phones ready.”
Delegates were asked to select one option in the following poll:

**Mr Zeffman:** “So as we ponder those poll results, I’ll put a question to Paul. Looking at what has driven consolidation over the last 18 months to 2 years, what were the factors that drove you to try to put the combination of Rank and 888, together with William Hill?”

**Mr Richardson:** “Two things really. For that combination in particular, it was for the same reasons that you see behind most of the M&A at the moment. The first thing is scale. This is an industry that has rising costs in areas such as compliance. There’s nothing less than an arms race in terms of deals at the moment, and if you haven’t got scale, the odds are that you are going to find yourself squeezed out by the 2 or 3 survivors down the road. So there is a concerted effort in the space right now for everyone to get to a critical mass. What that critical mass is, no-one really knows for certain, but Betfair/Paddy Power and GVC all seem to be heading in that direction. When Ladbrokes/Coral merge, that will create three fairly chunky businesses who will be spending hundreds of millions in marketing and will drive the business forward in their own terms. It’s that ability to compete with scale which means that you need a scale of your own. That’s my first point.”

“The second point for our group (Rank/888), is that Rank is 85% retail right now; we have a very small digital business area. But the growth area right now is digital, and another huge growth area for product is in eSports. So for us, the combination was an obvious one. We were going to get ourselves in a position where we had access to a great digital business which we can use to turbocharge our 3 million customers who we know play online, but not many of them currently play with us, and we were going to have a cutting edge eSports product and eSports brand, to which we could direct them: that was the obvious logic for us.”
“The difficulty you run into is that it’s very hard to make money in a lot of those regulated markets unless you’ve got substantial scale or are in a particular niche operation.”
Mr Zeffman: “Warwick, we’ve heard a lot this morning about the increasing crackdown from the Gambling Commission under their new CEO, greater social responsibility requirements, increased AML requirements, source of funds obligations, self-exclusion: all of these things have an increased cost and also, as we’ve seen from William Hill, an impact on revenues. To what extent do you think that has been a driver of consolidation?”

Mr Bartlett: I think that regulation and AML have been one of the primary drivers of consolidation. In fact, earlier today I was discussing this with colleagues and we reminisced how we used to sell to the customer. And if we fast forward to today, we’re talking about how to stop the customer from playing: it’s got to have an impact on revenues. In last year’s GBGC newsletter, I wrote that if we looked at the Drink Aware Campaign, it was very successful as far as the Government was concerned because it reduced the sale of alcohol over a 5-year period, by 16%, and that’s precisely what the Government’s plan is for this industry. So, the GC wanted to create its exclusion policy, have everybody sign up to it, and produce the software for it, so if you exclude on one side, you exclude on all sides. But they found that expensive and too difficult to do, and now they’ve passed it onto the RGA, which is another expense to be borne by the industry, but I haven’t seen any costings as to what it’s going to cost on revenue. There has been no impact study commissioned by the GC. I reckon it is going to be something between 10 and 15%, and a lot of companies would not be profitable if they lost 15% of their revenue.

As Simon said in his very good presentation, he expects betting tax to be increased, possibly from 15 to 20%, so if you combine those two things alone, you can see why there’s a drive towards consolidation. But when we talk about consolidation, look at Bet365: they haven’t merged or bought anybody and yet they are the market leader. I would say they’re the elephant in the room. They’re the market leader by a long way, even after Betfair/Paddy Power, and I see their position still as being unassailable.”

Mr Zeffman: “Russell, the buzz words in terms of consolidation are around innovation, mobile, and technology. Do you think when two companies come together and combine their development strategies, innovation plans and technology, it will inevitably lead to enhanced innovation? Or do you think actually sometimes it can be the opposite because you’ve got the challenges of combining existing and often incompatible technology?”

Mr Kelly: “It’s true that whenever you increase scale or you go through a transaction, you lose a little bit of innovation. I think innovation is best done in small businesses that are much more in control of their own destiny. When you do a large transaction, you inevitably have a clash of cultures somewhere along the way and that also leads to a fallout of some talent from the business and more money gets spent actually trying to push two platforms together than trying to develop the platforms independently. Successful M&A strategies do see well-established companies constantly trying to pick up small £30, £40 or £50 million pound deals that give them a niche, a technological advantage, or allow them to seek some sort of innovative growth in a jurisdiction maybe they’re not in, or a skillset they would never have entertained, and you don’t get that by putting another £2 billion-pound company merger together.”

Mr Zeffman: “Now, Simon had his good, bad and ugly boxes. If you were advising the CEOs of two merging companies and looking at precedents of good and bad, what would you be advising them to do or not to do to make sure that the merger had the best chances of success? I’ll start with you Simon.”

Mr French: “Really, just get the organisational structure sorted as quickly as possible. If you look where Bwin and Party Gaming went wrong, there was never any clear organisational structure of how they were going to merge the two businesses, you had CO-CEOs, and you were still seeing yourself as either a Bwin or Party Gaming employee. I think if you look how quickly Paddy Power/Betfair moved to get that new organisational structure in place, and lost some good people along the way, you look how quickly they moved at GVC and how quickly they’ve moved at Ladbrokes Coral, before they’ve even merged, they’ve set out the organisational top 20 position. That’s almost getting ahead of yourself but if you get that structure in place first, or as quickly as possible, then I think everything flows from there.”

Mr Richardson: “I think I’d agree with that. Integration is probably the single biggest thing people forget about when they embark on M&A. They think about doing the deal but it’s the six months or so afterwards that are probably the most important time. Other than that, what I would say is always focus on saleable value; the absolute priority in everything that we do is to make money for the people who have invested in the company. Sometimes you can chase butterflies for the sake of chasing the butterfly and it doesn’t necessarily affect the saleable value and you’ve seen that in some of the good and the bad deals.”

Mr Bartlett: “I agree with Simon and Paul. The only thing I would say is that when you acquire a business, you can change almost everything in that business – how much you spend on marketing, how many people you employ, what geography you wish to trade – the only thing you cannot change is what you’ve paid for it, and that is the key. Precisely what you have paid for the business, and if you’re in a competitive environment of buying the business, in other words, there’s other people wanting that business, the price will normally escalate, the debt increases and that is what become onerous for most of the companies after acquisition.”

Mr Kelly: “You need to ensure you’re doing the merger for the right reasons and that you actually have the confidence to stick with the rationale you initially set out for doing that transaction. Don’t be swayed by how you’ll account for something, don’t be swayed by what the market expects to see in terms of how you’ll account for it. Always keep a strong idea for where you want that business to go. A lot of the work that we do is in helping evaluate synergy opportunities, then place a value on those synergy opportunities, and the amount of time and effort that goes into that process, and the costs of doing it are really significant. Sometimes people just cast this aside and don’t really pursue the strategy to drive out those synergies and that’s when the value for the shareholders gets completely lost.”
Mr Zeffman then conducted a second delegate poll. The results were:

As the audience digested the poll results, Mr Zeffman invited questions from the floor:

**Question:** I was just wondering if the panel had any good examples or more stories of particularly good integrations and how to avoid making mistakes. Is it a question of having some really superb managers in place to deal with post-integration issues? Have you any other tips?

**Mr Kelly:** “From my experience, I would agree with what Paul said – you’ve got to do the integration and you’ve got to do it fairly brutally and quickly. The longer you leave it, the longer you let people sort of wonder internally where they’re going to sit in the structure, the harder it gets. Some of the best examples I’ve seen are actually in the financial services industry, offshore, where you’ve got multi-jurisdictions and some different cultures as well – you’ve got to be very brutal and very quick in the way you manage it.”

**Mr Zeffman:** “With the exception of the Canadian listed companies, almost all of the consolidation we’ve been talking about is quite insular, quite European. Paul, you spent time in Asia and you know that the companies out there are on a different scale. Do you think you’ll ever see a time when any of those Asian companies will get involved in consolidation in Europe?”

**Mr Richardson:** “Yes, but you have to look at the size of their markets first of all to ascertain whether or not it’s worth it. Also you have to take into account cultural differences. To bring a UK or European operating model into local markets, such as Japan, could be problematic. In Korea and Taiwan, it’s a much easier thing for them to get their heads around, those that weren’t already coming out of America, then coming over into Europe. In China, Europe is a market which fundamentally they don’t really understand in the sense that we haven’t got the same culture; online isn’t something that any of the Macau companies are comfortable going near, either for moral reasons or because they don’t want to run into trouble with the Chinese Government. It’s been very difficult for them to find a way in which they can make that step, but that’s not to say they’re not looking. There is Asian interest in America, and they keep looking over here. When we had the Hills deal announced - or basically leaked - I had two phone calls out of China saying, can we be involved, so there’s definitely interest there. It’s just a question of how do they get involved in a way that makes them feel comfortable in a market they don’t really understand.

The Genting Group are already involved through the casinos they acquired from Stanley Leisure, and they’re building a super casino resort in Las Vegas and they’re involved in New York as well.”

**Mr Zeffman:** “Warwick, your original experience was very much in the land-based market, before there was online. What are your observations on the Ladbrokes/Coral merger and I guess the future for the LBO market?”

**Mr Bartlett:** “They’ve done very well actually in only having to sell off 400 shops, and the LBO market is very tough at the moment. MGD is at 25%, there are lots of social responsibility measures that are difficult to control, sluggish growth, but still producing quite a lot of cash. So, I think the benefit of that deal is that the synergy will work better than it has with most of the other deals that we’ve seen, and there’ll be a clear policy and direction because both companies are pretty much aware of what needs to be done as they’ve been running compatible businesses for quite a long time. One would hope that it works a lot better than it did for Gala/Coral, which was not good at all. I’m quite optimistic actually, I think they’ll be ok.

I think what’s brought them together, they’re looking down the tunnel and seeing that there’s more regulatory risk coming. But the number of betting shops have been quite resilient. On several occasions, I have said I thought it would drop to about 8,000 but it’s still up there and I don’t think there’s any shortage of buyers for the 400 shops that have to be disposed of to please the CMA.”
Mr Zeffman: “Russell, another buzz phrase at the moment is Omni-channel or multi-channel, cross selling across your different channels. Do you think it’s important? More for some companies than others? Which direction is it best going?”

Mr Kelly: “It is still important to have the ability to do Omni-channel, particularly for different cultures, different demographics are interested in different channels and seek access to the market in different ways. We’ve seen fantastic growth in Sport at the moment and that is the most popular element of gaming. But sometimes you need to attract people into your sports betting environment through something a little bit different, so we’re now seeing boutique operations or small bespoke businesses who can offer access to a demographic they’ve never had before. We’re seeing some clients pick up what you might call non-core businesses, and they’re picking them up because they do allow them to access a different client base and different demographics to come into their main channel.”

Mr Zeffman: turned to delegates again, for any questions on Omni Channel.

Question: Following up on Omni channel: Simon, I’m interested in your view from a shareholders’ perspective, particularly through the lens of the fundamentally different basis. How different is that going to look for the next generation of games coming through and how likely they will be able to interact with land-based traditional shops?

Mr French: “What we know so far is that Omni channel customers are significantly more valuable than customers who either just play retail or just play online, so that’s the big reason behind the growth, and the drive for wanting to be on the channel and have customers across both retail and digital. If you look at the proportion of 18-30 year olds using betting shops today versus 2-3 years ago, it’s actually increased slightly, which suggests they do value some form of convenience. But then if you look at the way betting shops are evolving, they’re becoming more digitised anyway; it may not be long before we have the first human-less betting shop in terms of no staff. SSBTs (self-service betting terminal) are growing at a phenomenal rate, delivering a better gross win margin than just pure over-the-counter business. Also FOBTs, if you look at the last updates from companies, growth of between 5-10% year on year. Those kind of dynamics still make it a very attractive business to operate and for shareholders to invest in.”
"The whole of South America is very focused on the commodity cycle, so if you get in at the right time, you can do very well."

"The big unknown is what happens from a regulatory perspective. In the media, first the Daily Mail worked an agenda, now it seems to be The Times: every week articles appear on the dangers of gambling. Did anyone see the Times’ piece yesterday, claiming that a study by the University of Lincoln has proven for the first time that there’s a link between men who gamble and men who are violent? What that proves I don’t know, but fundamentally you are going to see more pressure on the issue of regulation. This is ironically all happening in a land-based environment, when you could argue there’s still more to be done in the online world to protect players and minors, and those who are susceptible to addiction."

Mr Zeffman: “Simon, in your presentation when you talked about the merits of geographical diversification you mentioned Africa; other territories talked about include South America and Eastern Europe. Where would each of our panellists put their emerging markets’ pounds into?”

Mr Kelly: “It’s difficult to know where to place your bets, so to speak, because there are very different views of gambling in the emerging markets. If you look across Africa, the view held in East Africa is very different from that held in South Africa – it’s sports and sports only really, in East Africa. Travel south, and it’s a bit more open to different channels of gaming. Then if you go across to South America, the infrastructure doesn’t seem to be quite as strong for getting out on mobile platforms and the connectivity of people isn’t as strong as it is in pockets of Africa. So Africa is where I would seek to invest over South America as I think it’s got longer term potential, and a better opportunity because of the level of digitisation and level of mobile that’s already prevalent in the continent.”

Mr Bartlett: “I agree with Russell about Africa: Nigeria is a very strong market. In Latin America, gambling spend is much lower than any other continent so there is plenty of catch up for gambling. However such markets are very tricky in which to trade for eGaming operators because stringent exchange controls exist, making repatriation of money difficult. In Asia, spend per capita is very high, but very few European operators have actually cracked that market. Bet365 and Mansion have. Australia is pretty saturated. Going back to Africa, stake per bet are very low. Canada is a good market but if the Government decided to enforce the 1982 Gambling Act which some say prohibits internet, but does not refer to it because the law pre dates internet then all the good work could be undone in a heartbeat as we saw with UIGEA.. So it’s a grey market, and they’ve closed down some sports books there, recently one from Costa Rica, and they could, if they wanted to, produce something very quickly to close down others. All of these markets are difficult which of course is why everybody licences and trades in the UK, it is a well regulated market, people know where they stand.

Mr Richardson: “I think country risk is something you’ve got to think carefully about. Politics can also play a role here. For example, if you’re in Africa, you could wake up tomorrow and not own what you went to bed with. Whereas across all of South America this is not the case – just perhaps, in pockets. My buck would be going into some of the slightly more developed countries of South America. Argentina has got one of the biggest casinos in the world. There’s a big mobile network so you can go straight to online there quickly and easily. PokerStars have done very well down there, so I’ve heard. The whole of South America is very focused on the commodity cycle, so if you get in at the right time, you can do very well. As Warwick said, the challenge in Latin America was that you could make money but you couldn’t take it home. That’s changed in Argentina since the new President has come in. Mexico is a phenomenal gambling market but really hard to get your money out. You’ve got to understand your payments more than anything else before you enter any of these markets nowadays. That’s what kills you: the appetite, product, sophistication and mobile networks are all there, but payments are what it’s all about.”

Mr French: “Firstly, just to echo what Paul said on payments, it’s a differentiator really between a lot of companies out there. Some seem much more astute and able to get money out of countries than others. I think going back to what I said in my presentation, having identified Africa as an interesting continent, it would be wrong to stray away from that. We’ve seen some very interesting stuff out of Kenya, very low stake but high volume, high frequency, almost sports lottery type products, which looks good. Closer to home, in some of the Eastern European countries, I think the growth of mobile betting in some of those markets is incredible. There’s a huge amount of white space to grow in. If I had a pound of my own money, I’d probably go and put it in Africa at the moment.”

Mr Bartlett: “I should mention David that once you leave the Isle of Man and Great Britain and you start to stray to some of these countries, the corruption is very high. Companies somehow have to work around that, and it’s very difficult because you’re bound by the Bribery Act and other stuff. It’s very difficult to do business in these places.”
Mr Zeffman: “A final question for each of you: you’re an investment banker and - ignoring the fees that you’re going to get out of the deal - you put together your dream combination of operators. Let’s start with Russell please.”

Mr Kelly: “Based on the success that they’ve proven so far, I’d like to see GVC bid for another European listed operator, along the lines of going after something like William Hill or 888, purely because I think their approach is more of a financial investor than a pure market participant investor. Taking that approach will reap some benefits; I think that would be quite a valuable deal.”

Mr Bartlett: “Difficult. I think I’d probably go William Hill/888 – I could see that working but I doubt it will ever happen.”

Mr Richardson: “Without rehearsing my own particular favourite, I actually think Sky Bet and 888 would make a phenomenal combination.”

Mr French: “I think if the Ladbrokes/Coral deal is successful, and you look at Fortuna’s model, which is land-based and online, I’d really like to see that taking place.”

Mr Zeffman concluded the session by thanking his panellists and hosts KPMG.
Presentation:
Augmented Reality versus Virtual Reality

Errol Larson & Mike Guelpa

Errol Larson and Mike Guelpa of Derivco Isle of Man hosted the session “Augmented Reality vs. Virtual Reality.” Derivco is a technical support and services company that works with Microgaming, both of which have their headquarters in Douglas, Isle of Man. Derivco has been involved in both Augmented Reality and Virtual Reality technologies for several years.

In 2012, Derivco relocated its staff (around 50 families in total) from South Africa to the Isle of Man. Since then, the company has hired nearly 50 new employees and is currently looking to hire 15 more, indicating a rapid growth rate for the booming industry in such a small jurisdiction.

Mr. Larson described his workforce as “incredibly technical people, who do complex problem-solving on a daily basis.” This provides his staff with the opportunity to be immersed in the latest and greatest technologies.

Offering an example of Augmented Reality (AR), Mr. Larson showed delegates a video clip of inner-city Taipei in Taiwan, where a huge number of people were rushing in one direction. Of course, they were playing Pokémon Go on their phones, and a rare character had been spotted at the end of one street. The game caused total chaos that day, even the police were called in, but it also defined a new power: Augmented Reality is finding a very definite place in the market, and in people’s minds.
Taking a quick look at user take-up in the room, Mr Larson conducted his first poll, and asked delegates to vote on whether they had or hadn’t downloaded Pokémon Go. Around 66% of voters replied Yes, they had the application on their phone. Mr Larson identified 3 main reasons why this version of Augmented Reality had been taken up:

1. **Social aspect** - Unlike most current applications, Pokémon Go is not intuitive. Users have no idea how to play it when they first open it up. They are often forced to ask another user. Many forums have opened up, with some users creating whole websites for the purpose, where they post tips and tricks. Another element of social, which make this game very popular, is the behavioural identity of its users: you can tell straightaway if a person is playing Pokémon Go on their phone. Again, this can lead to social interaction, as you pass a fellow user on the street, outside of the supermarket, for example. You can start a conversation with a fellow gamer.

2. **Novelty aspect** - Pokémon Go is the first Augmented Reality game to go mainstream. As such, you play it in a totally different way. Normal video games allow you to build up endorphins in your head, from the comfort of your sofa – as soon as you level up in a game, you get the feel-good factor. With Pokémon Go you are on the go, you have to move to play, so you are creating endorphins through exercise, and through play, which effectively gives you double the feel-good factor.

3. **Accessibility aspect** - The application is also free – making it wholly accessible to anyone with a smartphone. You go onto your favourite app store, download it, walk away, and you can start to play.

Mr Larson moved on to consider the different uses for an AR type of application: “All over the globe, Pokémon Go has been disruptive. It has the ability to massively change the way people interact with the real world. We saw that in the Taipei video clip. Effectively, AR creates an additional layer on top of one’s real world. You can put whatever you want into that layer – the possibilities are endless. If you link those choices to people’s particular likes and dislikes, and map it to big data, the result is some real commercialisation opportunities. In terms of hardware, VR at the moment requires you to carry around a piece of equipment in order to immerse yourself in that world. AR is available on your smartphone, which means for the operator, you have an instant market of 2 billion people.”

Mr Larson offered some examples of how Augmented Reality is becoming mainstream:

- **Advertising opportunity**: You produce an app for people to access this on their phone, then via a quick scan or marker, people will see your product.

- **Commercial opportunity**: In avionics, for example. Pilots receive information about their airplane as they fly – it has various sensors on it which relay information via a live video feed, such as tilt, wind speed etc.

- **Gaming opportunity**: As discussed, the possibilities are endless.

Mr Larson continued, “Microgaming, as just one company, has invested huge amounts in AR technology. We showcased this also at last year’s KPMG summit, with packs of cards on each table featuring online slot game characters. Once you downloaded the Microgaming AR app, you hovered your phone over one card and a little character would pop up. When 2 cards were placed together, they recognised each other, allowing for animated fight scenes and interaction. The cards are one small example, and certainly add value by enhancing the gaming experience for all players.”

Adopting AR Markers in the more traditional games sector is also becoming a trend, added Mr Guelpa. For example, in the Dungeons & Dragons franchise, they have begun producing free cards with 3D pop-up characters. It is an additional element to entice gamers onto the app. Once you’ve acquired your user, the rest of the Dungeons & Dragons world opens up too.

“The advertising potential for this is considerable: you can be fed certain marketing information into your visual conscious as you go.”

There is evidence of AR being embraced in other industries, such as beverage distribution. Coca-Cola recently ran a campaign to facilitate the fitting of their “ice fridges” into stores: a shopkeeper can download a very simple AR app, puts a marker on the floor, hovers his phone over it, and can visualise what the fridge will look like in a particular corner of their shop. The correct size, and look of the fridge, even whether the door opens to the left or right, can be ascertained immediately. This has resulted in a reduction in the number of fridges being returned etc.; it also enables higher margins. This is a very practical way of utilising the technology from a sales perspective.

Mike Guelpa outlined how retailers are waking up to the uses of AR too: “Say, you fancy a particular red toaster from John Lewis, soon you’ll be able to take home a marker, put it on your counter, place your phone over and hey presto! You can see how well that toaster sits in your kitchen.”

Mr Larson moved on to describe how a new device is breaking barriers: “The most disruptive part of AR for me is going to be the way that you view media. If you haven’t seen it already, I’d urge you to look at the Microsoft HoloLens. This was developed by Microsoft in response to the way that they perceived people to watch Netflix or TV. People often multi-task while watching a TV programme. In effect the HoloLens throws up visual screens onto different walls. Because it is a wearable device, you take the screen with you, and walk along as you do other things. The advertising potential for this is considerable: you can be fed certain marketing information into your visual conscious as you go. Take that into the gaming space, and you’ll be throwing up your slots onto the one wall, whilst you can be busy with other things too.” Actually, Microsoft label their HoloLens ‘mixed reality’, as it combines elements of both AR and VR technology.
Mr Larson offered some statistics on Pokémon Go:

- 100 million downloads to date of the app
- 20 million users are active at any one time
- An average of 26 minutes gameplay per day

At Pokémon HQ, when the Pokémon Go app first appeared, there were capacity issues with the company's servers. It sometimes took several attempts to register and sign-in because of the overwhelming demand. Despite occasional system hiccups, reflecting on the statistic of user take-up, Mr Larson said it was "no wonder that people are starting to really invest in this technology."

The construction industry can benefit from Augmented Reality too. Mr Larson made reference to a new Microgaming headquarters building going up right next to their current offices, which has been under construction for over a year and is due to be completed first half 2017.

"Bentley is a new company that takes construction blueprints and overlays them in the actual space of the building. So all your construction managers and workers can look at this empty space and see the designs of it overlaid, rather than grappling with massive paper drawings. When they get it right, this will considerably cut down construction time. You’ve effectively got the blueprints in the right space – you can just start to build and it will go up very quickly."

Indeed, Bentley has an impressive list of works, including a mapping project for the Singapore Land Authority in which they created and maintained a high-resolution 3D map of the whole of the country. The purpose of this is to simplify the planning of future building projects whilst being sympathetic to existing infrastructure.

Having explained how a couple of different industries are taking up Augmented Reality technology, and its practical application, Mr Larson went on to consider the benefits of AR for eGaming. For example, imagine you were a spectator at a live football game, and you took your tablet or mobile device and placed it over the pitch, the AR app could pick out individual players, and pull up some statistics on them. Equally, you could pull up some in-play betting during the match. The difference between AR and a straight QR code is you can interact with what you pull up. For example, for an in-play bet, you just click one button to say, Yes, I’ll take that bet. So AR in this context can be entirely interactive, which could be massive news from a Sportsbook perspective.

Moving on to look at Virtual Reality (VR), Mr Larson stressed the immersive quality of this technology. “This morning in our workshop during the demos, we had to ask people to sit down. When you stand up, you may fall over because you feel completely out of the current world. The headsets are both audio and visual and you are no longer aware of your existing surroundings. It is a complete escape from the real world.” Mr Guelpa described VR as a “replacement” for the existing world, rather than an enhancement. This too, however, marks its limitations. With Augmented Reality you are still connected to the real world, and for this reason, it is likely to attract a bigger take up.” Mark Zuckerberg purchased Oculus Rift in 2014, paying $2 billion, and gave away $23 million in shares. So there are lots of big players investing in VR at the moment. Zuckerberg himself has
stated that he believes the day will come when this kind of immersive technology will become a daily part of the lives of billions of people.” It’s a fact that Facebook make the bulk of their profits via advertising. The same opportunities are there for VR and AR technologies. Mr Guelpa said that Facebook will gain a lot of advertising space when they move from 2 to 3 Dimensions.

In-house, Derivco has developed a Virtual Reality version of roulette for its customer Microgaming. Mr Guelpa expanded on the game and its development: “The setting is outer-space, so you’re immersed into a world with meteors whizzing past you. You can interact with the dealer and react as if you were at a normal roulette table. The visual was key: being able to look around and have a complete 360° view was essential for the feel of the game. We used a Leap Motion 3D Controller, which projects your hand movements in front of you, mapping them into the virtual space. It gives you a beautiful end result of being able to move your hands to place your chips on the table. The stereoscopic 3D gives you that depth of rich experience which you just don’t get with standard 2D games.”

It is not as complicated to produce as it may sound, assured Mr Larson, as the hardware vendors, combined with the software developers, have simplified the process. The time to market is relatively short as a result, added Mr Guelpa. Derivco utilised Unity to build the programme, which is the same engine used to build Pokémon Go. The hardware used was an Oculus Rift. “We added to it a Unity license and then we just started creating. If you plan to develop games in this way, in a very short space of time, developers can be approaching the Apple, Google or Microsoft app stores and publishing their product. Some new partnerships have been cropping up as a result of this leap forward in Virtual Reality: HTC have partnered with Steam, a digital distribution company, to produce the HTC Vive headset. Steam advertise, via their platforms, the content that works perfectly with the HTC Vive headset. Independent game developers are also emerging, and using the tools such as Oculus and Unity, bringing out new games that they have confidence can be sold via Steam.”

At the moment, the use of VR headsets is primarily for gaming. Other uses for VR could be: medical, especially for surgical training, or collaborative examinations of patients. It’s already being used to treat post-traumatic stress disorders, and some phobias, such as fear of heights.

Mr Larson discussed how the future of VR lies mainly in the hardware: “In 2016 VR looks set to be a $1 billion industry, of which 70% of that is hardware sales. The purchasers of this hardware are mostly hard-core gamers: it’s still really a niche gaming device. A decent headset on average costs £600 - £700, and it has to link up to your computer: that’s a substantial financial commitment. But it is still a growing industry and the indications are that lots of big companies are investing, such as Google, Samsung, Microsoft, HTC and Facebook. From a development perspective, 95% of it is happening across multiple platforms. Different brands of headsets have unique features, so developers are looking to make VR games that function across all devices.”

There is also some development in VR non-gaming products, such as art. “Google has recently launched ‘Tilt..."
Brush’ to be used on a HTC Vive headset. You hold the controller and paint in 3D. Then you can print off your creation. You’re basically painting in the virtual world, then able to hold the printed result in the real world,” explained Mr Guelpa. Once the hardware devices become mainstream, VR will move out of the gaming space and into other areas. Fitness, for example, explained Mr Larson: “You could go for a 5k run, on the same route every day, and change the scenery completely, every time.”

In terms of the commercialisation of all these new technologies, it is important keep in sight the bottom line, stressed Mr Larson: “Pokémon Go has answered the question of whether or not Augmented Reality, for one, will be adopted, and whether it can or can’t, be commercialised. They are making roughly $10 million per day on the app. Most consumers don’t even think that it is augmented reality powering their experience, they just want to play the game.” In fact, even a big coffee house chain has got in on the game. “As you approach a Starbucks store, you hover your phone over the store emblem, choose your coffee, and by the time you reach the till inside the store, it will be ready. That’s one example of how Augmented Reality can save time.” This ability to interact with a retailer without actually being in the store, is a feature of Augmented Reality that can really boost its commercialisation, added Mr Guelpa. Having Augmented Reality on your smartphone will allow you to engage, wherever you happen to be.

“Add to that Augmented Reality layer, location services, and the data gathered by Google and other search engines, on individuals’ specific likes and dislikes - this will change the face of advertising boards. Each person could see a different, uniquely-tailored advertisement. This technology will really push forward the levels of personalisation that companies can use,” confirmed Mr Larson.

In contrast to the mobile aspect of Augmented Reality technology, Virtual Reality is limited as the user has to stay in one place, whether it’s at home or the office. For this reason, VR is really still just suited to gaming. It may just be a question of shrinking the hardware, and making it mobile, suggested Mr Guelpa. “After all, if you told people 50 years ago that we’d all be using mobile phones in 2016, they’d never have believed you.” However, both Augmented Reality and Virtual Reality, are here to stay. Mr Larson said the figures speak for themselves, as the market worth prediction of both technologies is set to hit $150 billion by 2020.

Mr Larson and Mr Guelpa conducted their final poll of the day, asking delegates to select which technology they thought would be the most disruptive in future: Augmented Reality or Virtual Reality? Perhaps unsurprisingly, Augmented Reality got the highest number of votes. Mr Larson summed up the merits of each: “With Virtual Reality, you are more confined to the home, so it is less disruptive. Augmented Reality has no hardware limitations. So it’s really a matter of speed – how quickly the developers can work on ideas and get into production. This will determine how well the technology gets picked up by the markets. Virtual Reality has had massive investment already in its hardware so it can only get better. As soon as the software becomes more portable, the boundaries will surely move away.”
Moderator Russell Kelly of KPMG in the Isle of Man welcomed delegates to the final session of the day, and introduced his panel, which featured three distinguished local operators and one from the UK, all within the egaming sector. Mr Kelly then invited his guests to highlight the single biggest issue facing each of their businesses, beginning with Mr Hollreiser of PokerStars:

Mr Hollreiser: “Clearly the move to regulation is the dominant factor in all of our businesses. With that come various factors and risks, including taxation. For us in the poker industry, it’s about liquidity of markets, and making sure that we have the greatest access to the greatest number of players available. We are a peer-to-peer game: part of its value is to ensure players have access to deep pools of other players. As governments move to regulation, we need to do a thorough job of educating and informing them around the mechanics of the business, and not just around the safety and usual regulatory obligations of a jurisdiction. Together, we need to create a market that is dynamic, well-regulated, and serves all the needs of a jurisdiction; indeed, has all you need for a competitive marketplace, to bring those consumers from a grey or an illegal market, into a regulated market.”

Mr Kelly: “I suppose the depth and size of the player pool for poker is particularly important compared to other online gaming offerings. Is that a key challenge for you in some of the markets that have regulated over recent years?”
Mr Hollreiser: “Yes, it is, and as eGamers we have a complex business model to start with. When you’re required to explain the specifics of how a game works, how we make our money, how players make their money, and how money changes hands; you quickly see legislators’ eyes just glaze over. But it’s such an important factor in the success or failure of our business, and in the success of the business that’s created after regulation.”

Mr Kelly: “Liz, what are the main challenges facing your business?”

Ms Aitken “I think working with well-understood regulation is fantastic. But what happens, as you get increasing amounts of regulation, is that sometimes people implement it in an inconsistent fashion. That can be very frustrating, because we’re working with a number of jurisdictions. So you may have CSPs that are trying to over-achieve on common reporting standards, for example, in BVI, where legislation is due to come into effect only at the end of December. It can be very irritating to have this lack of consistency in the regulation.”

Mr Mummery: “I think the main challenges are inevitably tax, and regulation. Within that, being able to have an intelligent dialogue with your regulator in the jurisdictions that are your major markets, and to work together, as we are clearly able to do on the Isle of Man, is essential. But there is some tension where, even within the different components of regulation, there’s now evidence of friction. To give an example outside of the Isle of Man, but also a substantial jurisdiction, where the gambling regulator is saying to its operators, if you choose to submit a suspicious transaction report (SARS), we, as your gambling regulator, expect you to terminate your relationship with your player. For me, if it’s yellow and it quacks, it’s a duck, and that’s there is a real danger you can be guilty of tipping off. So on the one hand you have clear obligations in relation to financial crime and how you process that, and then you have a gambling regulator that’s forcing you – in my opinion – to come very close to committing a criminal offence in the act of tipping off.”

Mr Kelly: “And I suppose it’s deciding which regulatory approach you follow. You’ll have your home regulator, your home criminal system effectively, and you’ll have the overseas regulator taking a different view. This must be quite a conflict and quite a challenge. I’ll assume that you Paul, from the multi-national aspect of Rank, you’re seeing quite a lot of that as well?”

Mr Richardson: “Well I think it’s less obvious how it evolves as you move into different markets. We’ve just seen Belgium unilaterally introduce a 21% VAT on top of local gambling duty online, which has pretty much murdered the industry overnight. There are various incidences of similar sorts of behaviour out there too. So rational behaviour from regulators is something we’d all cherish, and something which nobody takes for granted nowadays. It would also help if a lot of them had worked in or around the industry, to understand the consequences of their actions. Belgium unfortunately needed the tax money, so they’ve gone after a short grab. Based on conversations I’ve had lately, Belgium is likely to see that digital market go very quickly, which means they’ll have even less tax money. So there’s an element of being careful what you wish for and thinking before you act, which at the moment I just don’t think we’re seeing coming out of the regulatory environment.”

Mr Kelly: “Thanks Paul. That ties in with the results from some of our earlier polls – that regulation and related issues are at the forefront of people’s minds. Getting the tax position right is something we’ve talked about at previous summits – where is that tipping point to achieve profitability? Earlier today Warwick Bartlett of GBGC highlighted how in some markets profitability decreases as taxation increases. Is the UK market getting close to unprofitability, as we see the POC tax go up, or not?”

Mr Richardson: “There is a long way to go before the UK market becomes unprofitable, even with POC tax. I think the single biggest burden in the UK market is currently marketing and bonuses. It’s like an arms race out there when you’ve got Paddy Power/Betfair spending £72 million a quarter and basically forcing other people out of the space. That is going to be the biggest burden on the smaller operators: to carry on or try to maintain growth in the face of enormous giveaways.”

Mr Kelly: “Bill, you’re principally focussed on Sports, and soccer in particular. There’s a lot of marketing spend going into the Sports arena at the moment, and you probably have to engage in advertising quite significantly. How are you finding that challenge?”

Mr Mummery: “It’s true that over a 5-year period we were a significant presence in the Premier League. It’s interesting now if you look at the Premier League from the Gaming perspective, as I think the tendency towards sponsoring clubs via the kits, or the hoardings – people are pulling back from that and the realization that advertising through only one club is not necessarily the best exposure. I sense that the focus is moving to the Digi boards around the pitch. Although their appeal may be finite, am I perhaps better spending my budget on that, on as many Digi boards as I can across the league? The gross revenue that they generate for the clubs is about £10-15 million per weekend. The clubs do have to be mindful though if it gets to a point where they are possibly turning away other major brands because our industry is so dominant. But for me, that’s where the value is, for the operator, coupled obviously with the global television footprint.”

Mr Kelly: “Thank you. We’ll come back to the Sport and Gaming question later. Liz, may I ask you now about ‘totalisator betting’ – what’s the impact that regulation is having on that, as you look around the markets that you participate in?”

“There is a long way to go before the UK market becomes unprofitable, even with POC tax”
Ms Aitken: “One of our big issues is not necessarily to do with totalisators. It’s actually in banking, which is getting more difficult for all of the Gaming providers. Increased regulation doesn’t necessarily protect your sector: a classic example of that is HSBC. They were supposed to meet the needs of the increased controls around money-laundering and they failed to meet them, resulting in a massive fine, $5 billion, in the US. Yet it is a correspondent bank, used by many of the banks in the gaming sector. If HSBC were suddenly to pull out of the sector, it would have a dramatic effect. The increased regulation, which was supposed to make us Whitelisted partners, and bring greater certainty, in the end didn’t help because of HSBC’s inability to implement the new controls, in fact made it worse.”

Mr Kelly: “That’s also found here in the Isle of Man in other sectors. You can have the regulation enforced by the regulator – whether it be a gaming or financial regulator – but the banks really do call the tune on a lot of the regulation as to what they will accept, and in the end it comes to the highest standard that they have to comply with, be that the UK or the US or wherever.”

Ms Aitken: “Particularly HSBC – they are back in the newspapers just now, this time over a currency rigging issue.”

Mr Kelly: “Yes, getting the banking right is challenging and it has driven a lot of the issues in this sector over recent years. Eric, PokerStars clearly has a presence now in the US markets. How has that panned out over a regulatory perspective? Does their approach differ in some ways?”

Mr Hollreiser: “Yes. The US is evolving now on a state-by-state basis. Perhaps not the most efficient way, especially if you are just opening a market, but we’ve seen some progress. It is unfortunate, given the federal government can’t agree on the colour of the sky: to expect them to look at a topic like online gaming is probably unreasonable in the short term. We see some of that same issue in the state-by-state review: I don’t think the market has grown as quickly as most people expected or wanted. That is the result of a number of factors. We’ve seen progress this year in a more states than in previous years. We’ve seen legislation going through a process like states in California, where we had a disappointing end-of-year but the legislation made it further in that section than it ever had. So for us it’s about continuing momentum, and educating and informing legislators. In a state like California, where the legislators have to leave office after a few years, it’s a constant re-education process, which is great for the lobbying industry, not so great for the gaming industry. But we are seeing states like Pennsylvania, New York, and Michigan getting very close. It’s really about garnering that critical mass and reaching that tipping point where there’s enough pressure and acceptance. Millions of people play online every day and that represents lost opportunity for revenue, and for protecting consumers, so we need to raise awareness here too.”

Mr Kelly: “Of course we’re on the cusp of an election here in the Isle of Man, as they are in the US: a major event coming up in both countries. This could allow some significant re-education opportunities to arise in the US, depending on which way the US presidency goes.”
“There’s always an ongoing issue in many markets, especially as you move from unregulated to regulated.”

Mr Hollreiser: “There’s always an ongoing issue in many markets, especially as you move from unregulated to regulated. For a variety of reasons, we entered the market later than others, so our experience was perhaps better. We were able to come in and dominate the New Jersey market based on quality and name recognition. Fortunately for us, we also benefitted from the fact that a lot of those initial issues had been mainly fixed. The issues of payment processing and banking are always going to be around, particularly in the US where the business is built on a state-by-state basis. It’s frankly hard to get the attention of major banks when the market is still relatively small and there is still so much uncertainty at the federal level and at many state levels.”

Moving on to other aspects, Mr Kelly raised the issue of Sports betting. “If we look specifically at Daily Fantasy Sports, Bill, to what extent do you see those businesses competing with what you do?”

Mr Mummery: “The short answer would be none whatsoever, as my major markets geographically are in Asia. The Asian Sports bettor, perhaps unlike his UK counterpart, is not looking for a life-changing experience by spending £2 on a lottery ticket. He is far more informed and educated; in many ways, he is much more an arbitrage trader than a gambler because he is looking for that 2-3% return on his investment. People who approach Sports betting in that way are not going to have much traction with the DFS content that you mention.”

Mr Richardson: “I agree. You’re looking at a market over here which is well provided for in terms of betting opportunities, whether they be the exchange end, the big ticket Asian end, or just the retail end with the BetFred accumulator. So I can’t see any reason why anyone would get excited about DFS when they can do it for real and make it more fun, by putting some money at risk. In the same way you see the same thing with the social casino, which is blowing the doors off in the American market right now, it hasn’t touched it all over here.”

Mr Kelly: “Do you think it’s more a phenomenon that there’s been such a restriction on gaming generally in the US that any outlet is viewed as a potential opportunity?”

Mr Richardson: “Yes, this industry is a creature of regulation, we do what we’re told! In the US, if you can only gamble on Sports by playing DFS, that’s what you’ll do, unless you go under the table.”

Mr Mummery: “Can I just add that quite apart from the depth and breadth of content, in Sports betting, the ability now to participate in in-play betting, and the scope of the markets that are available in-play are substantial - why would you go for anything virtual?”

Mr Hollreiser: “We’re looking at DFS as a market opportunity in the US; it’s a huge marketplace for Sports betting. It’s interesting because when you look at who’s invested in the DFS companies in the US, it presents a potential sea change in the way that Sports betting is viewed. It is to do with the fact that the teams in the leagues are heavily invested in DFS in the US, as are the media companies that get value from this. The primary reason is they see DFS as deepening the relationship between fans, and athletes and teams. They know that there’s a lot of value in that. So, as a commercial venture, the result is that punters are getting more excited about Sports and engaged with their teams through betting. Then you get a growing acceptance that this is good for the game, rather than keeping it in the shadows. From that perspective I think that DFS is doing a lot of good in the US. By the same token, there are some really innovative companies coming through, such as Draft Kings and Fan Duel. We have our own company based in the US doing some very innovative work, BetStars, and we’re looking at using their new software to bring more features to Sports betting around the world.”

Ms Aitken: “The growth of DFS has been extraordinary. Do you think it will continue?”

Mr Hollreiser: “Because of the forces in the US that have a stake in it, I think it won’t suffer the same fate as say, online poker did in America. That said, it does have a rough road to travel, and it’s been showing a much smoother path than poker has. So I do think that DFS has a future in the US. I don’t know whether it will be the tip of the spear to Sports betting in the US on a mass scale, but it certainly leads us down that path, so I think the entrenched interests and the newer interests of leagues, teams and media mean that DFS will continue in the US in some form.”

Mr Kelly: “Moving on to social aspects, we had some comments earlier regarding the pressure and focus on land-based operators in the UK, particularly the FOBTs. As online gaming becomes more mainstream, and there is greater penetration into daily life, do you think there will be increased pressure on online gaming from social factors, like there is on things like FOBTs on the land-based side, Liz?”

Ms Aitken: “I did a bit of research on this – it always seems to be presented in the media in an incredibly negative way. The actual number of problem gamblers is quite low compared to the number of people who participate in gambling. But nonetheless there are certain forms of gambling that appear to be much more addictive than others. In Australia for example, the poker machines hold appeal: 75% of problem gamblers there play on poker machines. In England it’s the FOBTs which have the greatest lure. So do gaming providers have an obligation to consider that? I think so. Is gambling an overwhelming social evil? No. It’s a fun and recreational sport for many people.”

Mr Kelly: “Bill and Paul, in the UK environment, do you see the NOSES scheme as being beneficial to the industry?”
Mr Mummery: “I think the remote industry is doing a good job. It’s aided in part because it has a much better base in terms of using technology. There is a distinction in the UK market in the sense that this industry quite rightly is highly regulated, from the very basics into some very considerable detail. I’m concerned that when one talks about FOBTs, how is it, that in the UK, a 16-year-old can buy a scratch card? Some research that I’ve seen would conceptually put scratch cards in the same group as FOBTs for the simple reason that they both provide instant gratification. I don’t think it helps the social argument if one has that sort of fairly major discrepancy. I’m not comfortable with what is being asked of us, as I think we do it quite well and we continue to improve, but it’s like our performance in things like forensic data, when you’re putting through an SAR report or you’re being asked for data, we’re always told as an industry, we can do it so much better than our colleagues in the banking sector, because we have much better technologies and it works very well. And that technology advantage for me, does cross a number of industries including how we respond to the social issue, in the same way how we respond to issues of crime.”

Mr Richardson: “This industry, and the industries of alcohol and tobacco are the industries of sin and they will always be singled out by media campaigners. We all live with that and understand it. They’re adept at seeking out and publicising stories of personal tragedy apparently inflicted by a ‘great bad gambling hand’, but negative media is a fact of life if you work in this sector. The NOSES scheme is a good thing for the industry. The digital industry has the luxury of knowing who all of your customers are, or at least who they bank with, from the second they sign up and make their first deposit. We don’t have that in the retail business, so knowing our customer is much harder from a 360° perspective than it is in the digital sector. I think the NOSES scheme is a fantastic opportunity to really take it to the next level and make sure that harm minimisation is an important part of this industry. Let’s remember this industry is about entertainment, not about promoting gambling for nefarious reasons or to help people wash their money. So anything we can do, and be seen to do to minimise harm and to promote the social responsibility aspect can only be a good thing. Before the summer, our entire executive board at Rank went to visit the Gordon Moody centre in Birmingham, which is the only place in the UK that treats problem gambling as an addiction. They operate on an intensive residency basis and are funded solely by the industry. It is salutary to all of us – I would highly recommend a visit there to everyone here – as none of us in the business want to create that level of harm. I think anything that can be done to help individuals is exactly the right thing to do. Of course we have to bear in mind the social cost in this, in the same way there is in the alcohol industry.”

Mr Hollreiser: “There is a reality that online gaming is far more able to identify problem gamblers ahead of time, not through self-identification but because of the use of big data. We have the analytic capability to see the trends and red flags that give us greater insights, and we use those. The other side of technology is it gives us the ability to stop the problem gambler, particularly a self-professed one, who decides to opt out, to never return to the site again, and we enforce that rigorously. That is something that is just not possible in the land-based world. We take it all very seriously and have an entire team that is devoted to looking for, serving and helping problem gamblers and their families.”
“There is a responsibility on the industry and individual brands as to how we go about our sponsorship and the inherent relationships.”

People sometimes call us who have serious concerns about their brother, father or husband who’s gambling away the rent. We’ll reach out to that person and see if we can identify and resolve the problem. On the one hand, we love to talk about this, on the other hand it’s not a story that people always accept fully. Look at the data in a mature market like the UK, where we’ve had widespread online gaming for over a decade and in-depth studies: the truth is, there isn’t any higher incidence in problem gambling today than there was 10 or 15 years ago. There will always be problem gamblers. We must do everything we can to try to serve their needs and protect the most vulnerable. At the same time, online gaming is not creating any more addiction and I think it’s a fine line between highly addictive and highly popular. We see many people who are problem gamblers, spending more time with the same types of innovative gaming varieties as we do more responsible gamblers.”

Ms Aitken: “Eric raises a very good point about being able to detect problem patterns of behaviour in the online account. I was reading about someone in the self-declared system where they said it was just a total failure. They said they had been totally banned from all high street betting shops, but they were allowed to go in and place bets in betting shops, but they were totally banned from all high street failure. They said they had been somewhere they said it was just a total some one in the self-declared system online account. I was reading about problem patterns of behaviour in the point about being able to detect Ms Aitken: “I think it depends on what level of sport we’re talking about – whether it is junior league or Premier League. If you’re advertising or sponsoring youth teams, is that community outreach, or are you cultivating your next generation of customers? It depends on how cynical you want to be. I think certainly it can be viewed as a public health risk, as per some academic studies.”

Mr Kelly: “I think some people are always going to take a view on whether sponsorship is positive or negative for any sport, I would imagine. Bill, your views, please.”

Mr Mummery: “There is a responsibility on the industry and individual brands as to how we go about our sponsorship and the inherent relationships. Picking up on a point that Liz just made, in everything that we do in youth and community on the Isle of Man, we are selling nothing. We do not use the trade brand SBOBET; everything we do is branded Celton. So there is a clear distinction there. Certainly when it comes to youth football and other games, Celton is used specifically to avoid any accusation that may be implied. More broadly for premiere league and horse racing and so on, I think it is mutually beneficial. It’s been hugely beneficial to some sports, a life-saver even. If there is a consequence at all, it’s due to supply and demand. Prices have actually risen over the last 5 years, there is no social implication there. I don’t see sponsorship as a negative issue.”

Mr Richardson: “It does depend on what sport you are talking about. There is a need in the betting industry in particular, to have as many markets as possible, so football and racing lend themselves very strongly to that and there is naturally a relationship between markets where people want to bet, and the sports that they want to watch. That’s inevitable. But if you take a step out of the premiership, or a step into rugby for example, you just don’t see it. It’s a very narrow reliance, and not massively dependent – most football clubs are owned and funded by billionaires in any case.”

Mr Kelly: “My final question is, what attracted you as operators to the island, and what keeps you here? Paul, you’re not based here, but how do you perceive the jurisdiction in very broad terms?”

Mr Mummery: “In the formative years of our industry, around 2000-2005, there were two perceived ‘impediments’ that we had as a jurisdiction: one, we weren’t a member state of the EU, [and the passporting opportunities that went with it] and two, that we were part of a VAT sharing arrangement. Why the Isle of Man has been particularly successful in attracting some of the large Asian-facing businesses is because, even back then, both of those ‘impediments’ were irrelevant. 90% or more of your revenues were coming from outside the EU and you didn’t have aspirations across Europe. In any case the EU argument fell flat when it became apparent that member states were going to do their own thing.”
“The other part of the mix was a very high standard of legal framework and infrastructure. Also 16 years ago, once you’d had your ‘beauty parade’, you had to land somewhere, and at that time, we believed the Isle of Man was right for us. There is nothing at all, up to and including today, to persuade us that we made the wrong decision – it was very much the right one. As far as one can project forward, over the next 5 years, there is nothing at all which would change the situation for us. Lastly may I say that there is a perception outside our industry of, well ok, so it’s 22% of your GDP right now, but the industry can leave very quickly. We know that is nonsensical. There has to be more faith that as a sector we are here to stay.”

Ms Aitken: “Arriving in 2012, Newfield is a relative newcomer to the Isle of Man, but so far it’s been a pleasure to live and work here. It’s not perfect – although we do enjoy the fabulous weather! – but it’s true we work within a strong regulatory framework, and because of the small business community, when you hire new staff, you don’t suddenly have to explain who you are or what the industry is about. It is already a known and supported sector. You also get comfort from the fact that the government is not going to make abrupt legislative changes. To echo what Bill said, it would be nice if the government had a little more faith that we are going to stay. In just 4 years, Newfield has already more than doubled its growth: we have now 110 staff. We may have one of the higher Manx versus overseas worker ratios, yet as Bill highlighted there exists still an uncertainty about the permanency of the sector. We at Newfield know our local staff would be very unhappy if we pulled up sticks tomorrow, and we invest hugely in each staff member, so we’re here to stay. It would be nice if the government was less cynical, and more supportive and trusting about what we’ve done.”

Mr Mummery: “Can I clarify that when I made my comments, I didn’t have government at all in mind. I meant that we should be seen as much more as a cohesive part of the business community and the community at large.”

Mr Kelly: “Yes that’s true, it’s a core offering here in the Isle of Man and a core part of our community.”

Ms Aitken: posed a question about the value of the gaming sector in 2012-2013, and whether it was owing to the sector that the island did not slip into recession at that time.

Mr Kelly: “It’s a view from our side, as advisors to the sector, that in 2009-2010, the financial services were contracting, and the expansion by some of the larger gaming operators did absorb a lot of the potential job losses that were coming out of banking in particular.”

Mr Holleiser: “We arrived in the Isle of Man 11 years ago with 5 people. We came for several reasons. The first is the regulatory regime, which was high quality and very defensible, unlike some on offer in other jurisdictions, and which we could promote around the world. The second reason was the technical infrastructure, the ability to meet our needs with data centre and access to a broadband of a high quality. The third was tax efficiency. All of those 3 factors still hold true today. From a government perspective, in addition to having the foresight to have a strong regulatory environment, there is a flexibility to adapt to the changing world around us. Especially as we see regulation promulgating across the globe, that can be very concerning to a small jurisdiction. On the other hand, I’ve seen the island do a tremendous job of working with those other jurisdictions and allowing the flexibility and changes needed so that we can expand into more regulated markets and still have our base here. Going forward, that is going to continue to be the case. We’re finding ways to partner with newly regulated markets. From a poker perspective, as we see more markets emerge, be they licensed or un-licensed, it’s going to be imperative for the Isle of Man to play a leadership role there and to be involved. That willingness is there and will be huge for our future.”

Mr Kelly thanked his panel for their very open and candid answers and their participation.
One of the first thank-you’s I’d like to make is to KPMG as the organisers of this event. It was also a fantastic presentation you made earlier to our Chief Minister, Allan Bell, as he’s retiring from this administration shortly. Allan has given 30 years’ political service to the Isle of Man, and one of the great many things he will be remembered for, is as the Grandfather and the political originator for this industry here on the Isle of Man. It was his political foresight and innovation that we now have an ethos within Government, I’m delighted to say. I would like to see that ethos continue and I hope the new administration will grasp it and take it forward.

The Isle of Man Government is trying to do its bit to actually support this industry as it does other industries. In particular, we must listen to its people, which we’ve tried to do these last few years. There have been a number of obstacles for growth in this industry, one of them has been the work permit issue. When we went to Tynwald, we got a resounding support to remove that and I hope that has been of benefit to your skills shortage in the short-term. For the longer term, as a Government, we must take a holistic view, and that’s the reason we sold the Nunnery. A prestigious building here in the heart of the Isle of Man that’s going to become an educational campus of the future. Not just to stem the current skills shortage, but also to encourage start-ups, and to build a dynamic, home-grown workforce for the future of this industry.

The other commitment which we’ve just recently made and is now open for business, is the pledge of £50 million pounds of taxpayers’ money into a scheme called the Enterprise Development Scheme. The purpose of that is to encourage new business to grow here on the Isle of Man. We welcome business, in particular, we welcome physical business right here, because that’s about real jobs and therefore delivers a real benefit. So we’re trying to do our bit to support industry and we hope that this scheme will aide you going forward.

eGaming undoubtedly is the backbone of our eBusiness industry now. It represents 25% of our GDP and is growing faster than ever. We wrote a strategy document, which many of you contributed to, called “The Vision 2020.” In that document, the growth predictions for this industry are being out-won already! That’s why next week, as some of you will be there, we’re preparing to update that strategy so that as a Government we can align our priorities with the growth that’s needed in your sector and your part of the economy. “Vision 2020 and Beyond” starts next week and I hope the input to that will actually help with the new administration coming in.

Another item we are focussing on now, is how to accelerate our overall economic growth. We’ve got a host of consultations out regarding that and we hope that locally, you will contribute towards that.

Back to the thank-you’s. It’s really important, indeed it’s something that we excel at here on the Isle of Man: how we come together as a community. Events such as this are about the business sector, and that sector in turn has really supported this event. So I want to thank each and every one of you for that. We have Continent 8 Technologies, Manx Telecom, Derivco Isle of Man, Nedbank Private Wealth, Feature Space, IMGL and we also have the Best Western Palace Hotel & Casino. I want to say a big thank-you to them all for everything they’ve done in supporting this event.

The second item I’d like to highlight is our media partners. They play a very important role in promoting the Isle of Man and promoting the business of this economic sector here on the island. Thank you to iGaming Business, the World Casino Directory and Gambling Insider.

So with that, I will draw this event to a close. Last but not least, I would like to thank KPMG and the team, Russell Kelly and Micky Swindale, and everyone involved there, for putting this event on and I wish you every success for the future.

Well done, and cair vie!
Hon. Laurence Skelly
Minister for Economic Development,
Isle of Man Government
Closing Words