

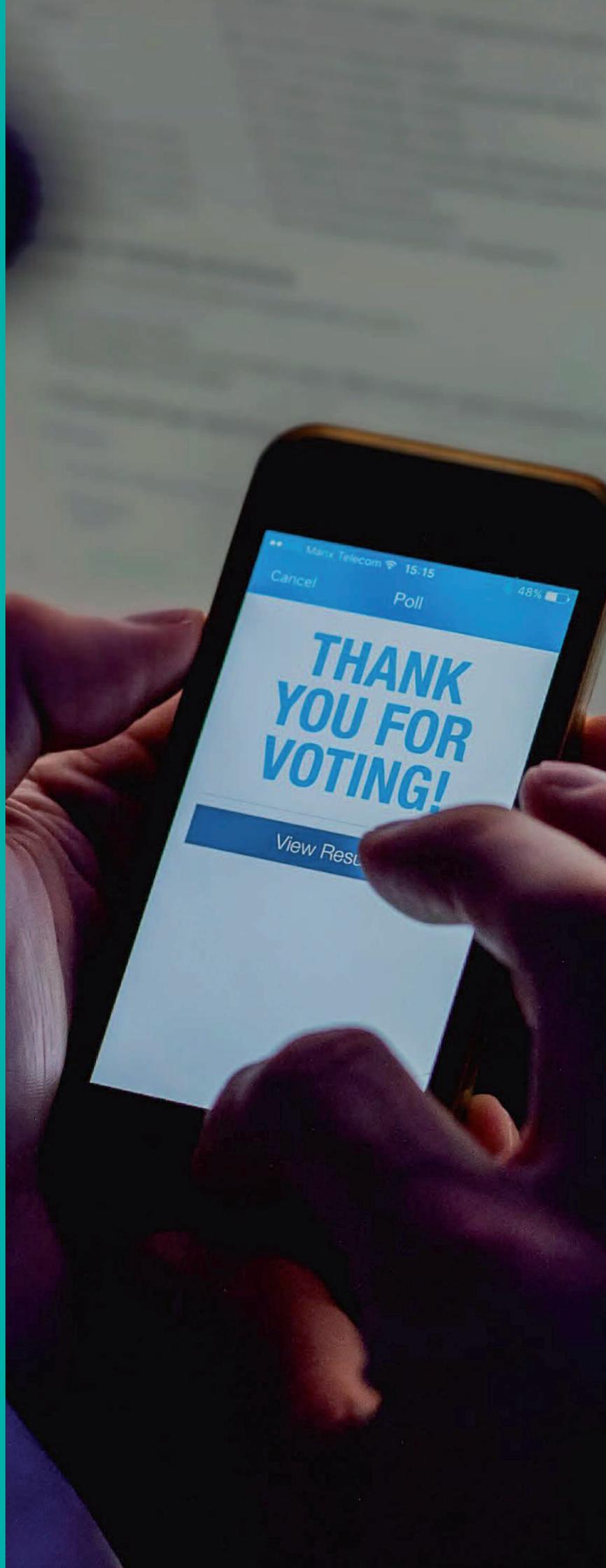


# KPMG eGaming Summit

**Isle of Man**

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September 2017



# KPMG



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# A Word from the Sponsor

**Once again, we are delighted to be the sponsors of this year's KPMG Isle of Man eGaming Summit report. The annual summit goes from strength to strength and this year was characterised by an industry call for social responsibility, diversity, and innovation. A hearty embrace of these three key areas is visible across several sectors of the Island's business community, and undeniably prevalent in eGaming. Indeed, the presence of industry leaders such as Microgaming and The Stars Group plays testament to our values.**

We at Continent 8 are committed to enhancing the Isle of Man's position as a pivotal hub on the eGaming world stage, and are proud to call it our home. An unrivalled telecommunications network, empathic public/private sector bond, and growing community of experts, continues to add to our reputation as a premiere eGaming location. We are uniquely placed as the market leader in player fund protection, and in being home to no fewer than six Tier 3+ data centres.

Centrally situated in the Island, our world-class data centre constitutes the footprint for a wealth of resources servicing Dublin, Gibraltar, Guernsey, Malta, Milan, Montreal, Paris and Singapore. Continent 8 is proud to have become the most recognised brand for consummate security and reliable services in the eGaming industry.

The resilient nature of eGaming means challenges can be met with flex: 2018 promises to be a busy year for the sector. We hope you enjoy this year's report and look forward to welcoming everyone again at the next summit which KPMG is due to host in Gibraltar on 26 April 2018.

Michael Tobin

CEO & Co-founder, Continent 8 Technologies

# Panel Session: 6 September

# Evolution of Regulation

## Moderator: Dr Joerg Hofmann

Melchers

## Panellists:

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### Steve Brennan

CEO, Gambling Supervision Commission,  
Isle of Man

### Ben Haden

Programme Director, Gambling Commission,  
UK

### Dr Joseph Borg

Senior Advisor, WH Partners, Malta

**In a world where the online gambling sector is often demonised by the media, and where technology and innovation are moving at an incredible pace, the challenge facing gambling regulators today is unprecedented. Corporate social responsibility is at the heart of this and was highlighted in the recent court case regarding the lack of consumer protection at operator 888.com, with its ensuing record fine of £7.8 million. At KPMG in the Isle of Man's eGaming Summit, the panel session featuring contributors from three key jurisdictions – the UK, Malta and the Isle of Man – gave rise to many such topics. Led by Dr Joerg Hofmann of Melchers law firm, Germany, the panel consisted of Steve Brennan, CEO of the Gambling Supervision Commission, Isle of Man; Ben Haden, Programme Director at the Gambling Commission in the UK; and Dr Joseph Borg, Senior Advisor at WH Partners in Malta.**

Pointing to recent research and the relatively static numbers surrounding problem gambling, Mr Haden of the UK Gambling Commission avowed this could be disheartening for operators and regulators as they try to build a positive image for the industry. Indeed, rhetoric emerging from the Commission is largely concerned with consumer protection. Mr Haden, "Within the Commission we're having to change the way we think about consumers, and about the framework within which we regulate.

We expect our operators to be doing the same. There are green shoots of activity: we see operators putting the safeguarding of players at the game design phase rather than as an add-on at the end, whether it's around improving player analytics, or putting in place a national self-exclusion scheme. For us at the Commission this is key, because if the consumer is at the heart of your business you must understand how that consumer thinks, and that should help govern your business responsibly."



Dr Hofmann put the question of whether the UK Commission felt the need to improve standards. "I'm referring to the 888.com fine of £7.8 million. What is the measuring tool to set up these fines? Is it to create new standards? How do you step forward to the next level of enforcement?" In response, Mr Haden explained, "There is a minimum level of compliance with the licence that we expect from our operators. In the case of 888.com, that level of compliance wasn't met and so we acted accordingly. In terms of raising standards itself, we're advising that the base level shouldn't be the level to which people aspire to attain. We expect a front foot industry. Achieving a license is only the start of the process and if an industry wishes to retain its capacity to operate, then it needs to demonstrate how it's looking to push the boundaries and raise standards, such that consumers are safeguarded in a way in which consumers would expect, as well as ourselves."

Steve Brennan of the Isle of Man Gambling Commission spoke about how consumer protection is at the top of his agenda, too. "Obtaining a license is merely the start. Thereafter, the compliance requirements of that licence mean we expect our licence holders to meet those standards, and to be able to push beyond them. Another big challenge facing the regulator in our jurisdiction is the speed of innovation and change. As appointed regulators, it's hard to keep up but innovation must be embraced. If we do keep up, we can understand what those protections that will be needed are going to look like in the emerging technology. It's about understanding, to ensure we get the right levels of consumer protection to accommodate various types of innovations within the sector."

Joseph Borg spoke about the important of consumer choice: "In order to protect the consumer, he needs choice

and enough information. Our type of regulation is very specific and requires effective player protection mechanisms. Furthermore, we need to look at the new technologies and embrace them, because if we don't, operators may go to other offshore jurisdictions where regulation is more lax, and offer anonymous gaming to players, where anyone with Ether or Bitcoin can play on the site without even registering. Do we want that? No. We need to show these operators that they are welcome in our jurisdictions. Of course, they must align to our regulatory structure, which we can make more appealing. Let's not make the mistake that many member states of the EU did in 2005, when regulators issued a declaration decrying the 'evil of eGaming'! Ten years down the line, they all started regulating it. Let's be ahead of the game, and start looking at block chain technology and how we can set proper parameters to protect consumers."

Dr Hofmann concurred with the idea of embracing innovation: "The challenges for regulators in the very near future include blockchain, and crypto-currencies. The problem with technology, with modern technology, is that the legislation is always behind technology. The regulator is somewhere in-between but he must apply the law and if the law does not serve it's an issue. How do we solve this? Some regulators are waiting to see how it's adopted in other sectors. But it's here, now and must be regulated. In your jurisdictions are you all happy to regulate this or not?"

Mr Brennan alluded to Mr Borg's point about prohibition of online gambling in the past, and continued "I read somewhere that by 2020 the skin-betting industry will be worth \$7.4 billion dollars. Isn't it better if it was \$7.4 billion regulated dollars? Joe makes the point, if we don't put the frameworks in place, and embrace the technology, the



activity will still happen regardless, but in other jurisdictions with looser frameworks.”

Ideally, one would expect to see operators harnessing the same innovation and tools that they use to determine customer profitability, to meet said challenges. As Mr Haden outlined, “We’ve all made the point that technology changes, but consumer trends will change too. Our framework is likely to stay the same in terms of its aims, such as knowing who you’re dealing with. How can we ensure that those aims are maintained? I’d like to see the sector react positively to these challenges.

Mr Hofmann raised the issue of how best to keep unlicensed operators away from the market. “Regulation is regarded as successful if the conversion rate is high, and many whitelisted or licensed operators are on the market with just a tiny number of unlicensed operators. This occurs in jurisdictions where you have very advanced and experienced regulators or systems. Is the ‘Pirates of the Caribbean market’ still an issue in the UK?” Mr Haden confirmed that at the UK GC, complacency is not an issue, “You can’t be unconcerned about any of the regulatory challenges that you face, for the reasons that we’ve been talking about. Yes, we hope our framework will provide an environment where people don’t feel the need to go to those markets but I would never be complacent about it.”

Still on the topic of black markets, Dr Hofmann asked: “How easy is it to impose a fine on a licence holder in your jurisdiction? Can you also enforce it against distant operators?” Dr Borg responded: “Realistically, it’s not easy; it’s a nightmare. So, operators prefer working from the Isle of Man, or Malta, or Gibraltar, or from the UK, rather than from within the Caribbean (especially certain jurisdictions

where regulatory structures are very lax). Ultimately if we provide them with an adequate regulatory framework, it’s the best enforcement we can do: they will automatically come to our jurisdictions.”

Dr Hofmann suggested that changes were on the horizon in Germany: For us, the problem is that there are no licensed operators at present. Later this year, that may change significantly, when there are some new governments or coalitions in some of the German states. If this happens, the applicability of European Union law and many further things may change in Germany faster than expected. What happens if another major dot com country is removed from the map and regulated?”

Mr Brennan replied: “It’s not unknown to us. We always advise our licence holders to make sure that where you’re operating you are legally entitled to do so and where not, to abstain from commercial activity. I wouldn’t see the German situation being any different to the one we’ve just experienced in the UK.”

Looking at from a Maltese perspective, Dr Borg said, “I believe that the Isle of Man and Malta are very interesting for operators because there exists an ecosystem in these jurisdictions, all the ancillary services are there. Whether operators will keep on using the Maltese licence for Germany or Sweden or other EU countries is not important. Well, it will affect the taxation collected by our jurisdictions but it’s not a major issue. It comes natural for them to say okay I’m going to set myself up in the Isle of Man, or Malta, or Gibraltar. It’s more important right now to pursue this, than worry about having them use our licence to operate in specific jurisdictions.”

In essence, it’s the values surrounding a licence, those independent from the actual licence, which bring extraneous benefits to an operator in any given jurisdiction. Dr Borg again, “The ancillary service providers are extremely important within this industry. One very interesting fact with Malta is in the new Maltese regulatory framework, still at proposal stage, B2Bs are being given a licence and they don’t require a tax. That move is seen from the industry as in favour of B2Bs and by bringing more B2Bs within your jurisdiction you will keep the ecosystem working well.”

Mr Brennan confirmed the news. “It is one of the attractions of the Island for any licensee that goes there, the infrastructure around it will support that business as it starts and develops. In the Isle of Man, the issue of taxation is different from Malta. As I understand taxation is set by the MGA. In the Isle of Man we support our receptive Treasury in their work on taxation.”

Malta has become purely a point of consumption taxation, Dr Borg pointed out. “Under new tax proposals, tax will only be levied for gaming taken from persons located in Malta. This will affect from a licence point of view because that is based on their GGI but from a tax perspective it is not even an issue.”

Moving on, Dr Hofmann asked Mr Haden about affiliates: “A UK regulatory environment requires B2B licences. License holders must prove that they do not violate in

licensing jurisdictions at least across the European Union or the regulator assistance compliant with law in jurisdictions. This affiliate business sector is very actively promoting its business. This used to be under the radar but now we see regulators in different jurisdictions going after software and platform providers but also affiliates. Sometimes it's classed as advertising but there's a wind of change here too. What's the situation in the UK?"

**"We see operators putting the safeguarding of players at the game design phase rather than as an add-on at the end, whether it's around improving player analytics, or putting in place a national self-exclusion scheme. For us at the Commission this is key, because if the consumer is at the heart of your business you must understand how that consumer thinks, and that should help govern your business responsibly."**

"What's interesting," said Mr Haden, "is you have a part of the online industry in affiliate marketing which has grown exponentially and suddenly people are noticing and understanding what's occurring in that new young part of the market. In the UK, people are using affiliates widely, that's ok but as the operator, you're responsible and must ensure your consumers are not seeing misleading information. There may be a risk with some affiliates, but it's for operators to control, or disassociate. The issue is partly with the affiliate, but also with the operator because they are ultimately liable. The difficulty may occur when an operator claims to have no control or influence. It clearly is a part of their business model for which they should have responsibility."

A few years ago, the discussion surrounding the activities of affiliates was mostly about how best to secure the operation of a software licence. Has this changed, asked Dr Hoffman? Mr observed, "There's a general progression that we're starting to see as we crack down on affiliates. A lot of sanctions compliance is going on in the UK and enquiries appearing now into bonuses including free bets and the confusion of bonus terms and conditions. It's all an indication of the growing maturity of the sector, and brings clarity. As this sector grows, those on the periphery grow too – really quickly – and they're growing fairly unchecked. There's money to be made in the affiliates market, but as mentioned, an affiliate is part of the business model of the operator. If they go unchecked, issues arise, not least around the use of personal data. How data is acquired is an important issue, and can't be allowed to go on unchecked in a maturing market. It may eventually need to become some kind of regulated activity to attach to the operator."

Would any sort of regulation of affiliates lead to some operators terminating their contracts with affiliates? Dr Hofmann put the question to his panel. Mr Brennan acknowledged the need for "a recognition that it could endanger their business model, so part of the duty of the

operator would be to work out how best to harness the value from the affiliates. There will be some dancing around until they get that balance right. Some will just automatically pull all their affiliates. Others might start imposing more stringent regimes; for example, Ladbrokes who haven't pulled affiliates but have certainly brought one or two into line. In my view, it's just another levelling exercise which we've seen previously in online gambling, and we'll likely

see it again in another innovative area that crops up to support the industry as we go forward."

Dr Hofmann asked his panel whether this would inevitably lead to a need for affiliates to apply for a B2B licence. Not according to Dr Borg: "I believe that affiliates are just marketing but they are offering a service to the gaming operator just like an IT outsource. I agree with the UK's stance on this: we have the same situation in the Isle of Man and Malta where I think overall responsibility lies on the operator. The operator has the licence so the operator must ensure that whichever agreement he enters into is in line with the regulatory framework within which he is operating."

Mr Haden agreed that there was no immediate need in that area, to license affiliates. Moreover, pointed out Dr Borg, "If regulators start licensing affiliates then the operator will start putting the blame on affiliates and the affiliates will put the blame on the operator and it will be a never ending story! There ought to be one who is responsible: ultimately that is the operator. Also in some jurisdictions, for regulators it's just easy money: they give licences to affiliates just to get 5000 Euros of licence fee. If we have to regulate we must do something about it."

Returning to a previous theme, Dr Hofmann asked the panel to consider the value of licenses, in terms of enabling operators to serve customers in various jurisdictions, and their merits in terms of infrastructure. Post-Brexit, was there likely to be a change in the impact with reference to the value of the Isle of Man licences? Mr Brennan confirmed that the same question was raised last year, in anticipation of Brexit, but as the Isle of Man has never been part of the European Union, their position remained the same: "I've not seen anything change, or heard that anything drastic will come into effect for us, following Brexit."

What would be the likely changes for Malta, following Brexit? Dr Hofmann asked Dr Borg, who replied, "Frankly,

many operators that remain in Gibraltar are now basing themselves either also in Malta or actually moving out of Gibraltar but now the most common trend is to actually see them set a base in Malta in parallel to Gibraltar, in the short term. In this sense, Brexit might actually benefit Malta. In the longer term, Brexit is bad news for us, not just from a gaming point of view but more globally, as the UK was Malta's closest friend in the EU. We share many ideas, especially of the common market and we lost that friend. It's quite worrying for us as a country, as a member state not just as a gaming jurisdiction."

Taking stock of his panel, Dr Hofmann observed: "Here we have representatives from three different jurisdictions with long-standing experience in gaming and online gaming regulations. What can other jurisdictions, Germany for instance, learn from UK regulation?"

Mr Haden responded: "A tough question! The trite answer would be to make sure that you learn from others. We do a lot of reaching out, and talking to as many different people as we can, because bluntly most of the great ideas are always ideas that someone else has had already. In addition, make sure that you try and improve the evidence base upon which you are basing your regulation. We've done this more and more in the last few years, and it's been incredibly helpful in our decision-making process."

Dr Hoffman agreed. "In my experience, the opposite is a total disaster: if regulators don't enter into a dialogue with the industry, their experience is of trying to reinvent the wheel with no reflection from the outside. What can we learn from Malta, Joe?"

"I hope we all learn from each other," replied Dr Borg. "Malta has learned a lot from the UK over many years. Their regulatory framework is quite good, and even today it is quite modern the way it is structured. Malta's one philosophy about gaming, is to say, I'd rather regulate something than ban it. So it's true that now everyone is regulating gaming, but we need to expand this to embrace new technology, and new business models so we can fit them within our regulatory frameworks, and still protect the consumer."

As Steve Brennan remarked, "My take on it is slightly different. We can all learn from the past and from experience but in my view, the best way to share knowledge is through personal relationships that we've built up as regulators and by attending the regulators conferences. Now those relationships are formed over time: I've known Joe Borg since he was a regulator and before he moved into private practice, and I met Ben a couple of years ago. We're able to host jurisdictions when they come over to us and we've debated many topics, such as testing standards, AML, licence policy development, legal frameworks, combined standards, compliance techniques. Delegations have come from Jersey, Denmark, the Seychelles, Belgium. All this reaching out has allowed us to build relationships, more effectively than via the MOUs or those formal meetings."

"In my last job at the Malta Gaming Authority," said Dr Borg, "my CEO had the idea to actually exchange employees for a set time period. Imagine how much it would benefit an employee from the Maltese regulator going to the Isle of Man or to Germany, or to the UK and vice versa. Imagine how much we could learn!"

Dr Hoffman opened the floor to delegates' questions.

**Question:** What does the panel make of the announcement by Google that they'll allow real money gaming apps to be distributed on their platform? How do regulators see Google? Is it a stakeholder or a potential operator? How are they going to relate to their activity?

**Steve Brennan:** I'm not overly familiar with the situation but if you step back and look at the principle behind it, Google is a platform on which somebody who is launching an app for people to play a game, is just a very basic level starting point.

**Question:** I wondered if Steve and Ben have got any comment on the Labour announcement today, regarding the banning of football sponsorship by gaming companies?

**Ben Haden:** The simple answer from me would be that it's a matter for government. Of course, if and when they get there!

**Question:** In the past, the common market was pretty unsuccessful in terms of the common gambling market across Europe. Could Brexit offer new opportunities between regulators in the same way as we have passport-ing in financial services where people could work in one jurisdiction or another? Could it bring more opportunities for those outside the EU to work together more?

**Steve Brennan:** I'm the only one outside the EU, but I know there's an EU expert group working together now looking at online gambling. There is the opportunity for non-EU jurisdictions to attend this working group and the Isle of Man had meetings in Brussels to see if they could take up one of the positions observer positions, but sadly after many meetings the answer was 'No'. So, I don't really see much changing because of Brexit. Whether the UK has any leverage in those sorts of environments that would cause a sort of rethink, and which may ultimately benefit the Isle of Man, remains to be seen. The current fractious relationship between the UK and the EU may change, post the UK leaving.

**Joe Borg:** If we didn't manage to work well together before, within the EU, with the many structures that there are to discuss, I think it will not happen outside! Remember, the reason why other jurisdictions want to regulate is to get the taxes, let's be frank.

**Question:** Just going back to the fine on 888.com. How are the fines calculated? Is there a metric or do you just pluck it out of thin air?

**Ben Haden:** Each case is different. It's worth looking at that particular fine in terms of the fact that roughly half of it was insuring that 888 wasn't benefiting from the mistakes made and the other half of it was what you might more traditionally call a fine. These things get refined over time as more case work becomes available. It's absolutely not a number plucked out of thin air, but, there isn't an algorithm that I can point to and say, it will be this much, or this is what will happen the next time there is a transgression.

**Question:** So the next case coming up, they couldn't calculate the amount of fines to be expected?

**Ben Haden:** Its context is as important as the case itself. Each context is different, as well as each case.



# KPMG eGaming Summit

## Welcome Address

### The Hon. Howard Quayle MHC

Chief Minister for the Isle of Man

**It's my pleasure to welcome you all to the start of what promises to be an exciting summit. The eGaming Summit series has been running for seven years now – a strong indication of its popularity and success. I congratulate KPMG for providing this forum, which the industry finds so useful and relevant and also to thank the eGaming sector as a whole for the very significant contribution you make to the Isle of Man.**

Years ago, I was the political head of eGaming and I really enjoyed that role. Having become a major component in the Island's economic success, eGaming now accounts for nearly a fifth of our national income; indeed, the sector is an outstanding example of the innovation and diversification that has sustained our economy into a remarkable fourth decade of unbroken growth, and a core ingredient in fuelling that growth. Supporting the economy is a fundamental priority for the Isle of Man Government. Our programme for development, outlined in the first three months of my administration, has the unanimous backing of Tynwald, the Island's parliament. It includes a clear commitment to economic growth and to government's role in creating the right environment for business to succeed.

One of the programme's three strategic objectives is to be an island of enterprise and opportunity. This is a business friendly and business focused government. We understand that the community cannot flourish without a thriving private sector. We recognise the importance of having the services and infrastructure in place to support business growth. This includes providing an education system which matches our skills requirements, now and in the future. Our continuing economic success must be underpinned by appropriate transport links, a responsive planning system and support of utilities including the telecoms and internet infrastructure. Above all, our priority is to grow the island's economically active population. This is vital to supply labour and skills for expanding businesses and to counteract the pressures of a naturally ageing population. Government has several initiatives to increase the working population and I'm pleased to report good news on this front. Our latest economic estimates for the second quarter of this year indicate that the rate of inward

migration to the island has increased to around 500 a year: many are taking up attractive opportunities in the eGaming sector.

The Isle of Man is renowned on the global stage as a well-regulated, forward-thinking and innovative eGaming jurisdiction, and I'm very encouraged that our core licenced operators, and their surrounding ecosystem, continue to show vacancies and add further roles. We're working hard to promote the island as a special place to live and work (which is also the title of the programme for government). This reflects the Isle of Man's unique status as the only jurisdiction in the world to have gained UNESCO biosphere recognition, as a special place for people living in harmony with the environment.

The island is special too because of the partnership that exists between government and the business community. As Chief Minister I am committed to closer collaboration between the private and public sectors. We need feedback from the people at the coalface of business to ensure that we're steering the right course for the future. That's why the DED is being restructured to allow greater input from sector representatives, and to allow an increased focus on creating the right environment, so that all of our sectors that see growth, are able to realise it.

The Isle of Man remains home to some of the top global brands in this space. It has been first in the world on several fronts, including of course being the first recognised jurisdiction to embrace a high regulatory standard focused on player fund protection. That innovation continues today and we've recently seen the first operator, using wholly blockchain based technology, successfully licenced, and the first skin-betting operator obtain a licence. Global commerce continues to be disrupted by technology with, for example, digital currencies increasingly being seen as mainstream. In response, we remain committed to being flexible, responsible and responsive, embracing such changes and technologies and always looking to our future.

In closing, we look forward to working with you all to secure the future of the Isle of Man as an island of enterprise and opportunity, a special environment for business success and one that actively supports and relishes the innovation which is at the heart of your industry. Thank you and have a good day.

# Jurisdictions Update Panel

## Moderator: Chris Hall

EGSAB

## Panellists:

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### Russell Kelly

KPMG in the Isle of Man

### John Tricker

KPMG in Gibraltar

### Will Hawkley

KPMG in the UK

### Russell Mifsud

KPMG in Malta

**Providing an update on four key jurisdictions in eGaming – the Isle of Man, Gibraltar, Malta, and the UK – the first panel of the summit was moderated by Chris Hall of the eGaming Strategic Advisory Board (EGSAB). EGSAB is a joint private/public sector body advising the Isle of Man’s Government on strategic developments to grow the sector. On the panel were four experts who live and work in each of their respective jurisdictions: Russell Kelly, Managing Director of KPMG in the Isle of Man; Jon Tricker, Managing Director, KPMG in Gibraltar; Will Hawkley, Head of Leisure, KPMG in the UK; and Russell Mifsud, Associate Director, KPMG in Malta. The panel’s primary objective was to offer an overview of the current status, challenges and the future directions of eGaming. Setting the context, Mr Hall asked each panellist to assess the previous year’s performance of the sector in their respective territories.**

**Russell Kelly** gave a positive picture of eGaming in the Isle of Man: “I’m pleased to say that over the last twelve months we’ve seen continued growth both in terms of scale of our existing operators and in the overall scale of the industry on the Isle of Man. We currently have 37 licenced entities, 2 approved and waiting issuance, and 5 more in the application pipeline, so good strong new business flows coming in to the Isle of Man. On top of that we have very strong growth from some of our larger established operators here, such as Microgaming, and The Stars Group. In addition, some of the Asian sports book operators are actively bringing people and resources to the Isle of Man,

providing further growth. The GDP being driven from the sector is approaching 20% of the Isle of Man economy. This is helped by the strong regulatory environment we have, in particular, a progressive and pragmatic regulator who is keen on fostering and encouraging innovative ideas and works very well with the industry. People have that access and certainty that what they are doing will be looked at and regulated in a very robust way.

Speaking for Gibraltar, **Jon Tricker** outlined a slightly different perspective: “Twelve months ago was just two months after the Brexit vote, and of course we voted Remain (96% of the population voted to stay in the EU)



because being within the EU is a huge part of Gibraltar's economy. So this time last year, there was some anxiety for us. Despite this, the sector has performed extremely well with the number of jobs increasing by around 10%. In addition, a strong pipeline of licencees are still looking to come to Gibraltar. Surprising perhaps, but understandable because Gibraltar retains the advantages that it has always had. Yes, there is uncertainty around Brexit but it's likely to take time for everything to play out. There are also options for operators in Gibraltar to mitigate the Brexit risk, so in summary, in terms of how Gibraltar has performed, it has performed well."

Assessing the UK market, **Will Hawkley** gave some positive stats: "Data published by The UK Gambling Commission this year revealed that the total market in the UK grew by 8% in 2016 to circa £14 billion pounds, which is a huge! In terms of eGaming or online gaming, that is £4.5 billion in total. In terms of commercial gaming it's 45% of total gaming (excluding the National Lottery) which is good growth. Morgan Stanley predicted 12% online growth this year and 9% next year so that is slowing very marginally. I think we have some interesting times ahead, as discussed yesterday. Overall, the outlook is mixed and we'll wait on that triennial review. In terms of stock market performance, gambling stocks have underperformed the market according to data by Cenkos published this week. Gambling stocks have grown at 0.5% but the overall stock market has grown by 5% so it's lagging in the market a bit."

The last 12 months of eGaming in Malta has been eventful, as **Russell Mifsud** outlined: "Malta recognises just how significant the industry is, contributing 12% to our GDP. Following our elections earlier this year, the digital portfolio now sits directly under the Prime Minister, as recognition of the importance of the sector. This year Malta pushed

through its controlled skill legislation, targeting DFS operators, with the aim of being a pioneer, much like Malta was when it became the first EU state to regulate gambling. We currently have 268 operators on the island and in the past year, 17 new DFS license applications have gone in. The regulator is proactive but also recognises the threats to the industry. In addition, Malta has its new legislation underway, with a White Paper, and a national blockchain strategy too. 'Gaming Malta' – which is the MGA's marketing arm – has begun to take an active interest in the video games market and noticed that much of the innovation and immersive game play stems from the video games industry. As such, they are starting to cradle them, to hone in on the current skill gap of developers that exists in Malta.

"So, a consistent message emerging from the panel, with eGaming growth being cited as a significant part of the overall economy," said **Chris Hall**. "How many of us would have forecast, if you think back to the inaugural act of 2001, that we'd be here today with such massive GDP contributions? My next question for the panel regards development. What's coming up that is going to impact upon your jurisdictions?"

**Russell Kelly** admitted, "Brexit will clearly lead to some change and upheaval. But the Isle of Man is probably the best insulated of these jurisdictions in that regard, because we are tied to what the UK do. It is not as direct as it is to Malta and Gibraltar, certainly. Regulation from, and the approach of regulators in other jurisdictions, will continue to be a sharp area of focus for all our operators and key suppliers here on the Isle of Man. Particularly as the UK gambling regulator has taken a much higher profile approach to regulation in the last 12 months. This flows into other jurisdictions as well. Ensuring that we ourselves have

## “Data published by The UK Gambling Commission this year revealed that the total market in the UK grew by 8% in 2016 to circa £14 billion pounds.”

a robust regulatory process that stands up to scrutiny, is key. We certainly have that. We also like to make sure that everything we do is in compliance with the UK GC’s direction. I know that in their ongoing regulatory work, the GSC are very keen to work with other regulators and keep everyone at the forefront of their process. We’re looking closely at regulation around block-chain technology and the number of advances in that recently, in addition to licencing DFS operators, which is an emerging trend in the sector.”

For Gibraltar, one recent development is likely to heavily impact the jurisdiction, as **Jon Tricker** explained: “One aspect of growth for the sector in Gibraltar is the regulator. Last year at the Gibraltar eSummit, Phill Brear the Gambling Commissioner was voted by participants as one of the main reasons for Gibraltar’s success. With his retirement imminent, choosing his successor is an extremely important decision. Other changes in terms of the regulatory regime, have been put on hold for 18 months or so, pending that decision (and Brexit). These include changes to the Gambling Act and a new licencing regime for B2B operators and other support businesses, as well as a new regime around deposits that need to be held for client funds. If I look at past challenges: POCT, the Point of Consumption Tax, was seen as a large threat to the industry, and the local association challenged the decision which meant that the UK government was able to levy Point of Consumption Tax on Gibraltar operators. Their challenge failed, but the fact is it didn’t prove to be as big a threat to the economy as was feared and the sector continued to grow. With regards to VAT, there’s the consultation paper issued by HMRC on whether

gaming operators in Gibraltar should continue to be allowed favourable VAT status – the paper is on hold, indefinitely pending the Brexit finalisation. That’s one way the UK government could support Gibraltar.”

Looking to the UK market, **Will Hawkey** spoke about upcoming developments: “The Triennial Review in October will give certainty, particularly around the FOBT stake. Recent speculation puts this between £2 and £20, but with bad press coverage, the pressure is on Government to get it down to the £2 level. There may be more restrictions on advertising. The GC just announced other areas of focus too. Problem gambling statistics, which overall don’t seem too bad – just 0.8% of the population – but, when considering specific categories such as online and FOBTs, the rates go up to 12%, 13%. That brings us to self-exclusion, and the 888.com fine. Moving forward, where do we go? Could the Commission potentially suspend or even revoke licences of operators who are being investigated? There have been advertisement failings, with BGO being fined £300K. Even the CMA is getting involved around bonuses and free bets and the marketing of those in terms of consumer protection. There’s been a review of the affiliates sector, and announcements this week by some large operators, such as Skybet, who will effectively close their whole affiliates program in a year’s time. There’ll be more focus on skins betting within video games in-play or apps. We need to be well regulated and on the front foot, but until these issues are solved, particularly the triennial review, there’s going to be uncertainty. Also, opposition parties in the UK are taking an even more proactive approach in this area than the Conservatives.”

Was there a release date for the Triennial Review, asked Mr Hall? Mr Hawkey replied that, despite delays and uncertainty surrounding Brexit, the October date looked fairly set.

Malta is still beset by a skills gap, voiced **Russell Mifsud**: “It’s a key issue for us. Inevitably there’s an element of dilution taking place primarily around developers. Operators have to source their work force from Spain, Eastern Europe, and the Ukraine. There should be mechanisms which are put into play to encourage new developers to come to Malta.

Then of course operators are concerned about people poaching other people’s staff, so it’s a balancing act. And, as other countries begin to regulate, it’ll mitigate the power of the licence itself, which is why we must build initiatives to safeguard our competitive edge and keep the value of the MGA licence. There are such initiatives coming; another challenge on the BEPS and CCCTB (Common Consolidated Corporate Tax Base) side is the requirement for substance. On the one hand, it can be scary for operators, on the other, it works for Malta because every operator would have to increase their presence whether it’s through bank accounts, or employees or through actual premises.”

“Within all these developments, there are lots of challenges. For each jurisdiction, what are the big-ticket issues you’ll need to tackle? How can you mitigate the risks and move forward?” **Chris Hall** put the question to Mr Mifsud first.

“As someone who sits on the Malta Remote Gaming Council,” said **Russell Mifsud**, “I’ve seen it go through the proposed legislation for new licensees. Malta must grasp new ideas to keep itself attractive. Fortunately, the MGA is open to listening, and good at making sure it continues to keep its head above the water. eSports is another exciting area that we’re looking at. Other elements of technology, such as virtual reality and immersive game play are coming up and are really exciting. This stuff will start to strike up innovation in the gambling sphere soon, so Malta needs to take steps to ensure it keeps up with other markets, like the UK. We’re keeping a keen perspective, in finding out what we need to do to remain ahead of the game.”

## “Brexit will clearly lead to some change and upheaval. But the Isle of Man is probably the best insulated of these jurisdictions in that regard, because we are tied to what the UK do.”

**Will Hawkey** “In the UK, there are several challenges facing the sector, and just now government sentiment is a big issue. Under Cameron and Osbourne, Government seemed to be relatively pro-gaming, based on the tax take and jobs that the industry delivers. That has changed under Theresa May, where the stance towards gaming is perceived to be negative. There were rumours that HMRC and the Treasury were more pro-gaming than the DCMS, but last week a statement was issued, that said they’re more aligned so again, that impacts on future policy. In addition, you’ve got negative press coverage of the sector in major newspapers such as The Times and The Guardian. Just watching the BBC news, you see negative sentiment towards the sector. I worked in the brewing industry 20+ years ago: it feels like gaming is like the new alcohol in terms of the negative press attention! And Brexit doesn’t help – quite apart from the fact that in negotiations we aren’t getting anywhere – because for gaming, it’s around access to labour. That’s a key point: who will work in the shops and the industry, how will we get technology specialists to come to the UK? We’re already seeing a drop-off in EU nationals, immigration to the UK is falling. If it’s a less attractive market place, how do we attract high quality people in the industry? Another important issue in the UK – less so in other territories – concerns inter-sector differences. In the UK we have bookmakers, online, arcades, casinos, and bingo halls, all lobbying for different things. There isn’t one coherent message going to government. This makes us weak because Government can just pick everybody off.”

**Chris Hall** agreed, “Yes, the public and media sentiment is a massive issue and actually has a knock-on effect for all the offshore jurisdictions because they watch the UK news and read the press. Do you think the industry is doing enough to try and manage its image?”

“Individual operators are doing some things,” said **Will Hawkey**. “In terms of 888.com, they admitted the problem, paid the fine, acknowledged they did wrong and they’re putting it right. It’s what we need to do, to be on the front foot. We must be properly regulated and do it right; hopefully then we can move forward. The Triennial and new legislation will bring certainty. As an industry, it would be good to do things right, and even exceed expectations.”

“For Gibraltar, the biggest challenge is clearly Brexit,” said **Jon Tricker**, “and there are a couple of important specifics. Firstly, when the EU published their list of 22 negotiating principles and it mentioned Gibraltar, there was dismay as it gave Spain the right to veto the way in which any future trading arrangement would apply to Gibraltar. The ability to passport out of Gibraltar is critical for financial services. We’re hoping for a soft Brexit. The second point is that a big portion of the 3,500 gaming workers in Gibraltar cross the land border with Spain every single day. Now Gibraltar is small – less than 2 square miles – and housing is limited. If there were problems at the border, and difficulties getting those workers over every day, we can’t accommodate them. If Brexit changes the border position – it becomes an EU external border and the police go back to old ways with long queues – this could significantly hamper the growth of our economy. I doubt this will happen, as many Gibraltarians live in Spain and contribute to its economy: it’s a symbiotic relationship. Whilst publicly, Spain is keen to recover Gibraltar, I doubt a democratic government would hurt its own people by causing border issues. In terms of how



Brexit impacts operators: operators in Gibraltar are licenced in Gibraltar so if they’re operating in a country with its own licencing regime they need the relevant licence. There’s no reason to believe they couldn’t continue to do so following Brexit. If some operators need the Gibraltar licence because it’s an EU licence and aids in a defence in an unlicensed regime such as Germany for example, this can be mitigated, by Malta, perhaps, as a jurisdiction within the EU which has a gaming sector and where operators could establish a presence if needed.

**Russell Kelly** took up the helm next on challenges facing the sector in the Isle of Man: “Just picking up on comments from other jurisdictions: one of our big challenges has been the resource head count and the skills gap. The government has worked hard on that under pressure and lobbying from industry and certain relaxations over the last 12-18 months on the work permit position have been very positive and allowed a lot of inward migration. Earlier the Chief Minister mentioned the unemployment statistic for this year of about 1.6% of the work force, but there still exists significant vacancies in the sector over here. We have great infrastructure, a great regulator and great professional services. Maintaining that strong cluster, by giving it greater access to the skills set it needs, is very important. It’s a wider issue than just work permits, it’s the social infrastructure that we have, and even the flight links that we’ve alluded to. They are some of our bigger challenges.”

In the face of political uncertainty, and many other challenges, was there any way to predict the future 12 months for the sector? **Chris Hall** put this question to his panel. “One year from now, will your jurisdiction have stayed static, or will it have grown? Is there a risk it may slightly decline?”

Speaking on Malta, **Russell Mifsud**: “There was speculation whether we’d start to see a decrease in

licence applications but it's carried on growing despite all the M&A activity. Learning from the uncertainty around Gibraltar, I'm aware of some contingency plans that have been rolled out in Malta. I'd expect to see an increase primarily on the DFS side of things. With new legislation coming in on B2B and a B2C licences, B2B operators are going to be excluded from gaming tax so Malta's strategy is to build up more of a foundation for these operators. Accordingly, more developers will come to the island and we could see an increase which should have a knock-on effect on many different start-ups within the same kind of sphere. This in turn could impact on other operators. They'll say 'Okay, let's go out to Malta because they have everything over there!' Plus, from a B2B basis it's always easier to do business once you're on local soil. My guess is we'll carry on seeing growth."

In the UK, certainty is key, as **Will Hawkey** explained, "Once we get that certainty, everyone has got their models ready to go. Whether it's a £2 stake, a £10 stake, the business will still be profitable. There will be M&A which will drive growth. Also, what happens with the US and sports betting is exciting – there were some big developments recently in terms of other states coming

on board with that New Jersey court action. If the US regulates sports betting we could see some of those big US operators coming here to buy the online skills to take back over there. That would be hugely profitable for our sector."

"In Gibraltar, the gaming sector is inextricably linked to Brexit," confirmed **Jon Tricker**. "As such, it's difficult to predict how the sector will look in a year's time. I'd need to know what's going to happen with the Brexit negotiations! Thus far, negotiations haven't shown huge progress, so in a year's time it looks unlikely that there will be much change. Our sector is likely to remain as is – the status quo."

Finally, **Russell Kelly** offered his outlook for the Isle of Man: "When we reconvene at this summit next year, we'll have seen continued GDP growth in our sector in the Isle of Man. That's based on the confidence I have on businesses I see with solid plans to bring additional resource and functionality here. The relaxation on work permits has been really positive for this sector in particular. So, we'll be sat here with more jobs, higher GDP and even higher profile operators than we currently have."





# Continuing Consolidation – Mergers & Acquisitions Activity and Trends

**Moderator: Kristian King**

KPMG

**Panellists:**

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**Susan Breen**

Mishcon deReya

**Hilary Stewart-Jones**

DLA Piper

**Tom Bowry**

Paddy Power Betfair

**Nam Quach**

DC Advisory

**Rob Willis**

CMS

“On an industry wide level, the 2015 mergers appear to have been highly successful, there are significant revenue and cost synergies achieved by all the combined groups.”



**In the third session of the summit, Kristan King and his panel examined the principal deals in the mergers & acquisitions eGaming sphere, what operators could learn from those deals, and upcoming trends for future activity. Introducing his panel of industry experts, Mr King gave a summary of each member's respective experience in the sector: "Susan Breen is a Partner at Mishcon de Reya and has over 15 years of experience working with regulators, operators and governments on the larger transactions. Hilary Stewart-Jones is a consultant with DLA Piper and was until 2015 Deputy Chairman at Playtech. Prior to that she was Head of Ladbrokes' in-house gambling division for 5 years, and has worked on many large transactions over the last 15 years. Tom Bowry is Head of Corporate Development at Paddy Power Betfair, prior to which he was with Global Leisure Partners. Robert Willis is a Partner at CMS and works on public and private transactions in the gaming sector. His clients have included Rank Group PLC, Gamesys, and he assisted 32 Red PLC with their acquisition by Kindred. Nam Quach is from DC Advisory, a London based corporate finance house. He advises private equity and corporate clients with capital raising and transactions."**

**Mr King** asked his panel to cast their minds back to 2015, and consider the "mega deals" in the UK at that time. What could be deduced from them? Did those mergers set the context for the ensuing 18 months? If so, what could the sector expect to see in the coming 12 -18 months? "I'll ask Tom first for your insights into the Paddy Power Betfair integration. What has it meant for the business and how it positions you as you go forward?"

"On an industry wide level, the 2015 mergers appear to have been highly successful," confirmed **Tom Bowry**. "There are significant revenue and cost synergies achieved by all the combined groups. Ladbrokes Coral are generating £150 million in synergies to the benefit of their shareholders for their shareholders, which is huge. At Paddy Power Betfair, we're almost fully integrated. There's continuing technological integration but each business unit in the group – Paddy Power, the Betfair brands, the TVG brand in the US, and Sportsbet in Australia – will be much stronger than they would have been stand-alone as a result of a merger. For example, Betfair's sports betting product is benefiting from Paddy Power's proprietary risk and the trading models that they've built up over the last 15 years. This in turn helps us to enhance the number of markets we offer and the customer proposition such as reducing in-play suspensions on football matches.. From the Paddy Power perspective, they get access to the best-in-class technology team that Betfair has, and direct access to the exchange, so both businesses are able to enhance their customer proposition as a result of the merger, in a way that they wouldn't have been able to do stand-alone. From a corporate perspective, Paddy Power now has exposure to one of the largest regulated online gaming companies in the US through TVG. Betfair has a similar benefit in Australia from Sportsbet, which was a Paddy Power investment."

Outlining the softer benefits of being part of a larger group, **Mr Bowry** continued: "Ahead of the Mayweather/McGregor fight last week, three of our businesses received separate endorsements by Floyd Mayweather. Our small DFS business in the US (DRAFT, acquired in May) was the first to get an agreement, and arising from that came a series of

## “Specifically, there’s particular pressure in the gambling industry when you hold multiple licences in multiple jurisdictions, all with an increasing cost of compliance.”

tweets by Floyd Mayweather about Sportsbet and the wearing of Paddy Power’s Lucky Pants at the weigh-in. That Paddy Power had paid out early on Mayweather generated huge amounts of press: that’s one benefit that the merger bestowed on the individual business units. Yes, there are short term headwinds: we’re still undertaking the technology integration, which means that more than half of our developers are working on the re-platforming rather than releasing product, which has resulted in less product release than we would have liked (and possibly less than may have been achieved on a stand-alone basis) but once completed, as a group, we’ll be in a far stronger position to compete across each of our businesses going forward.”

As well as providing stability and synergy opportunities for the companies involved, what do these larger transactions mean for the market? **Kristan King** put the question to his panel.

**Hilary Stewart-Jones** responded first: “Largely it shows it’s the only way for some of these businesses to survive, because in terms of the head winds, there are two major issues. The first is, many of these companies floated in the heady days of the early 2000’s. They have a consistent obligation to shareholders to show share price growth; that’s a lot of scrutiny to withstand. Initially, some of those companies were very successful, but now they’ve come under huge pressure, and the reality is that the cost of doing business in regulated markets is very tight. To leverage up markets, you need a good blend of regulated and unregulated income. The PLC corporate governance costs are set to increase, and we must factor in particular pressures, either specifically relevant to the industry, or across the board, such as the introduction of the Fourth Anti-Money Laundering Directive. Additional regulatory headwinds next year come with compliance on data protection; many compliance audits are currently being undertaken. Specifically, there’s particular pressure in the gambling industry when you hold multiple licences in multiple jurisdictions, all with an increasing cost of compliance. In terms of the 888.com case and the Gambling Commission: that was an expensive realisation of what compliance can actually mean by way of a fine for not getting it right. We’re always subject to vagaries in tax, and the current discussion around the FOBTs is focused on stake but, a couple of years ago there was a sudden tax hike which could happen again. It makes sense that rather than going it alone, companies are going to look to pull together and benefit from synergy costs.”

**Ms Stewart-Jones** also spoke about the benefits of lateral thinking, “It helps the share price for a period. Of course, you have transaction costs and the bedding down of business but over time you realise just how competitive some of these businesses are going to have to be: they must either produce new content or enhanced services in some way. These companies all have masses of technology and data at their fingertips. They may become the next Amazon.com! There are many ways in which businesses can grow but I see this current of wave of consolidation

continuing for now. Ten years from now, it will be product differentiation, and B2B businesses which aren’t just gambling businesses.”

“We’ve watched these large deals draw the attention the of global M&A market to gaming,” observed **Kristan King**. “Now, advisors and private equity sources suddenly have their gaze on the gaming sector. What does this mean for us over the next 18 months? Are we likely to see a swell of PE funding or will corporates continue to drive activity?”

“You’ve raised a good point,” said **Nam Quach**. “I think private equity could be a massive driver of local M&A right now. There’s a huge amount of ‘dry powder’ – estimated \$1.5 trillion dollars sitting within the private equity community raised through pension funds, and they need to deploy this capital in the next few years. In my experience of conducting recent M&A transactions, I’ve noticed that private equity looks at gaming in a binary context. Some have had success, and want to do more. Many can’t touch the space because of who their investors are and the restrictions on investing in things like alcohol or gambling. But when you look at the characteristics of the gambling industry: high growth, strong cash generation, ability to consolidate the space, it has the traits that private equity houses want. If we look at the UK with its issues around the Triennial Review and the uncertainty there, this is deterring private equity from investing right now. On the flip side, as we’ve discussed, the regulatory headwinds and higher costs are probably more a driver for intra-industry consolidation within the groups. For private equity to compete, and outweigh the synergies that trade combinations can achieve, is tough. It makes it uncompetitive for private equity to be able to pay a decent price. In recent deals, 4% to 6% of revenue is the cost synergy number that companies can get to, which equates to up to 20-25% in profit terms. So for a new entrant to outbid an incumbent is very difficult.”

“It’s a slightly different picture on my side of the fence,” explained **Rob Willis**. “In discussing consolidation, our panel has focused on the larger deals. Let’s not forget the vast amount of M&A going on below the headline mergers: I just pulled some data from Merger Market and you see pages of transactions. Firstly, the majority are relatively small so they don’t feature in the newspapers and aren’t on the public radar; and secondly, private equity is pretty much entirely absent. From our perspective, the M&A we see is more often bilateral, rather than auction-style. And, unlike almost every other sector that we see as a law firm, private equity is not involved, not even considering it right now. I do echo Nam’s comment about LPs; investment mandates are quite clear in terms of what they can and can’t invest in. But who’s to say how the next generation of LPs and key debt financiers to these transactions will view them? With maturity and increased regulation in the sector, the next generation of PE may well be more interested. Setting aside the reputational issues, and points about synergy, fundamentally, the dynamics for investment are all there.”

Adding to Mr Willis' comments, **Nam Quach**: "There's a concern on the part of PE houses around the B2C elements of gaming, which has so far deterred them from involvement in the sector. But one way they can gain access to the sector's growth is through the B2B side – we've seen this happen with the likes of EQT investing in Sportradar. It's a case of finding indirect ways that private equity can get exposure to the growth."

"Yes, that does reflect my own conversations with private equity clients, looking at the technology behind the sector and the opportunities there," avowed **Kristan King**. "Moving on to jurisdictions, are there specific regions that will be of focus in the next year or so?"

**Susan Breen** gave her thoughts on potential jurisdictions for growth: "Obviously, we see the US, South America, Asia, and India being of interest, but mostly, the listed entities are focusing on the large markets of UK and Europe. Much of the activity around growth strategies of mid- to large- businesses has been Europe, UK and Nordic based. Our panel has already discussed how future growth will depend upon the size and the scale of the business, and how business withstands some of the pressures. An analysis of objectives and risks identified by some larger operators and software developers, shows a number of common themes. Unsurprisingly, these are around growth, regulatory, tax, the delivery of their core strategy and reputation management. If that strategy includes M&A and expansion, it can dictate what business will do in terms of regulated versus yet to be regulated markets. Paddy Power Betfair has said it won't shift its strategy to diversify geographically, which leads me to think such expansion may well be under close review by the other large operators. Some operators will consider that they have enough resilience within their own core business and don't necessarily want to look at a territorial land grab. Others are keen to look at yet to be regulated markets to combat the rising regulatory and tax uncertainty in home jurisdictions. Operators, software suppliers and the financial consolidators will no doubt go back to the drawing board – to assess the benefit the cost benefit analysis of , organic growth, M&A, new territories and new products. However, with the weaker businesses there is a temptation not to focus strongly on compliance, social responsibility and corporate governance and you have many operators now in the eye of the storm. The CMA, UK Gambling Commission and the regulators in general, are looking at the industry very closely."

"In truth, some regulators are beginning to view the licence conditions as a minimum standard. Whether you agree with that or not, if operators don't do more to be transparent and responsible, it just feeds into the current climate of public opinion, that says gambling companies are not focused strongly enough on consumer protection. Regulatory challenges can't be underestimated – whether it's GDPR, AML, or consumer terms and conditions – if you can't engage daily with your customer across platforms, you can't do business with them. The implementation of GDPR in May 2018 is one example which will severely restrict operators' ability to maintain margins. So operators need to swiftly get ahead of the game in terms of their strategic and compliance focus."

How, then, does an operator balance the various priorities? **Kristan King** put this question to **Tom Bowry**: "Can you use M&A to help you achieve some of those requirements, Tom?"



"It's an interesting conversation," replied **Tom Bowry**, "and corporates engage in M&A for many reasons to help achieve the strategic goals of the business. With new geographies, an organic or inorganic approach may be best, as each market is slightly different. In Australia for example, the largest corporate bookmakers; Sportsbet, William Hill Australia, and Ladbrokes have all been built up from acquisitions of local operators. The one UK bookmaker there who has entered organically is bet365 and they've struggled to create the same traction as the other three. Often in new geographies is the most efficient way of achieving growth."

New products also help maximise growth, as **Mr Bowry** continued, "We entered the DFS market recently in the US. Our business TVG is there, but it didn't have the right product set to get into DFS efficiently; therefore, we took an inorganic route into that market because it felt like the right way to enter. As my fellow panellists have said, we're in a world of increasing regulatory and fiscal pressures on operators with narrowing margins and rising costs. I agree with Hilary's view that the operator's need to scale is becoming essential in certain markets. Overnight another Australian state announced they're introducing a POC Tax. That's already a market with many product fees and if a national POC tax were introduced tomorrow it's unlikely that any of the corporate bookmakers apart from our business would be profitable. We look at M&A as a way of achieving strategic goals not in isolation or instead of organic growth but as a complement to it. Sometimes it's the easiest but not the right way: you must balance it all out. Of course, constraints still exist, so it's best to take an opportunistic approach and be flexible – you have to look at things which perhaps weren't on the radar at your last board meeting."

**Kristan King** returned to the topic of corporate finance: "How do you see the supply side as a corporate financier? I'm thinking not just on the scale front but also on diversification of services. What sort of opportunities are coming to market, or on their way, Nam?"

**Nam Quach:** “Our current mandates are clearly confidential so I can’t divulge those, but I agree with Rob’s view about the gaming sector being one where you see very few public auctions. It’s mostly about bilateral discussions and deals behind closed doors. This limited transparency, and a lack of private equity investments in the space makes the future pipeline murky. Generally, private equity-owned assets need to exit within three to five years, so you have good forward transparency. The key trend we’re seeing now in M&A is very much driven by diversification. The regulatory stand points, as discussed, are a major head wind. The biggest and most regulated markets, being the UK and Australia – these are the blue-chip markets for investors and operators. But they’re also markets with the highest regulatory compliance hurdles right now. That will drive people to look at other blue-chip markets to penetrate; maybe they’ll take a bit more risk as well.”

The recent acquisition of ACM by Playtech suggests a slight diversification towards financial products and/or services. “Hilary, help us to understand the rationale behind this, from an operator’s view, please?” asked **Kristan King**.

“I wasn’t specifically involved in the deal,” confirmed **Hilary Stewart-Jones**, “but Playtech is a super-smart

facilitate traffic to online gaming sites. There’s a huge level of interest in those more sophisticated players. You see operators with the usual in-house marketing expertise but without the ‘wizardry’ of putting out an SEO strategy that will drive more refined traffic to their websites. This was already happening; but only now is the affiliate sector being attacked in the media. It should get a bit of a spotlight, as it’s a very wide sector with people literally in their bedrooms running websites through to more sophisticated players. My view is there’s always been a desire to acquire assets in this space from regulated operators. The challenge is for that sector to seek consolidation within itself. Look at companies like XLMedia, Catena Media who are now listed players: Catena has completed six deals this year. What’s happening in that space will be a flight to scale and a flight to quality within the affiliates core base. Operators should be poised to pick some of the bigger players out of that sector to effectively in-house that resource. The other advantage of that is you’re also not stuck with lifetime revenue share deals that you may acquire. The challenge we lawyers are finding is matching unregulated and immature with regulated and maturing: the delta is vast. You may be dealing with a compliant market-listed operator who knows its LCCP inside out, and to that you’re adding an affiliate.

**“In truth, some regulators are beginning to view the licence conditions as a minimum standard. Whether you agree with that or not, if operators don’t do more to be transparent and responsible, it just feeds into the current climate of public opinion, that says gambling companies are not focused strongly enough on consumer protection.”**

company and they’re looking at product diversification. The acquisition of ACM Group Ltd. was made via an intermediary brokerage house for financial trading purposes. Playtech has since rebranded its financial division, ‘TradeTech Group’. It does point to the direction the company is taking in looking at being a B2B provider within the financial trading sector. From a B2C perspective we’ll see increasing regulation around Forex trading and, as we look to protect the consumer in particular, there will be more regulations around the retail customer. In financial trading, a lot of money is made around ‘latency arbitrage’, which is effectively that split second where someone sees a drop in the price of a trade, and are able to get their trade in before the home computer buff with slower WiFi. There will be more regulation around that, and more around how leveraged you can be in trading as well. Just now those businesses are doing phenomenally well. Again, a B2B supply is a more attractive investment opportunity because you’re one step removed from a) the more heavyweight regulation; and b) consumer protection and scrutiny. It’s the way to go.”

**Rob Willis** added to the debate on diversification: “One recent development I’ve noticed is operators of all sizes trying to increase their digital percentage of overall revenue by looking the affiliate sector at large.

I mean businesses which aren’t themselves gambling operators – and therefore not regulated – but those that

Enabling those two industries to sit side by side brings its challenges. There will be a significant level of activity in those combinations going forward.”

“So, there’s a real range of drivers for M&A activity,” summarised **Kristan King**. “Will my panel offer their concluding thoughts in terms of what might be a key facet of the M&A market over the next 12 to 18 months, please?”

**Susan Breen:** “Selecting just one is difficult, but I think diversification into another asset, such as eSports, DFS, or financial trading, is probably key. Certainly, diversification is something that many businesses are looking at, whether it’s within their main territorial reach or via new markets, in the US for example. Also, whether it’s within their same core product line or outside of it.”

“I agree with Susan, it’s all about content,” concurred **Hilary Stewart-Jones**. “Yesterday we discussed whether affiliates should be regulated or not. The obligation is on the operator, to ensure ethical practises within their affiliates are adhered to. For this reason, I think the affiliate’s day is over. People are beginning to grasp how there is so much data in the ether about them and their consumer habits. This will become more regulated and the consumer will have greater visibility and rights in relation to how their personal data is being used to market certain products to them. In Australia, customers are very loyal compared to the UK, where people have multiple accounts and switch between them. I think there’ll be more room now for tried and trusted brands. But ultimately the key trend will be product diversification. It’s

# Continuing Consolidation - M&A Activity & Trends

## Moderator:

Kristan King (KPMG)

## Panellists:

Tom Bowry (Paddy Power Betfair),

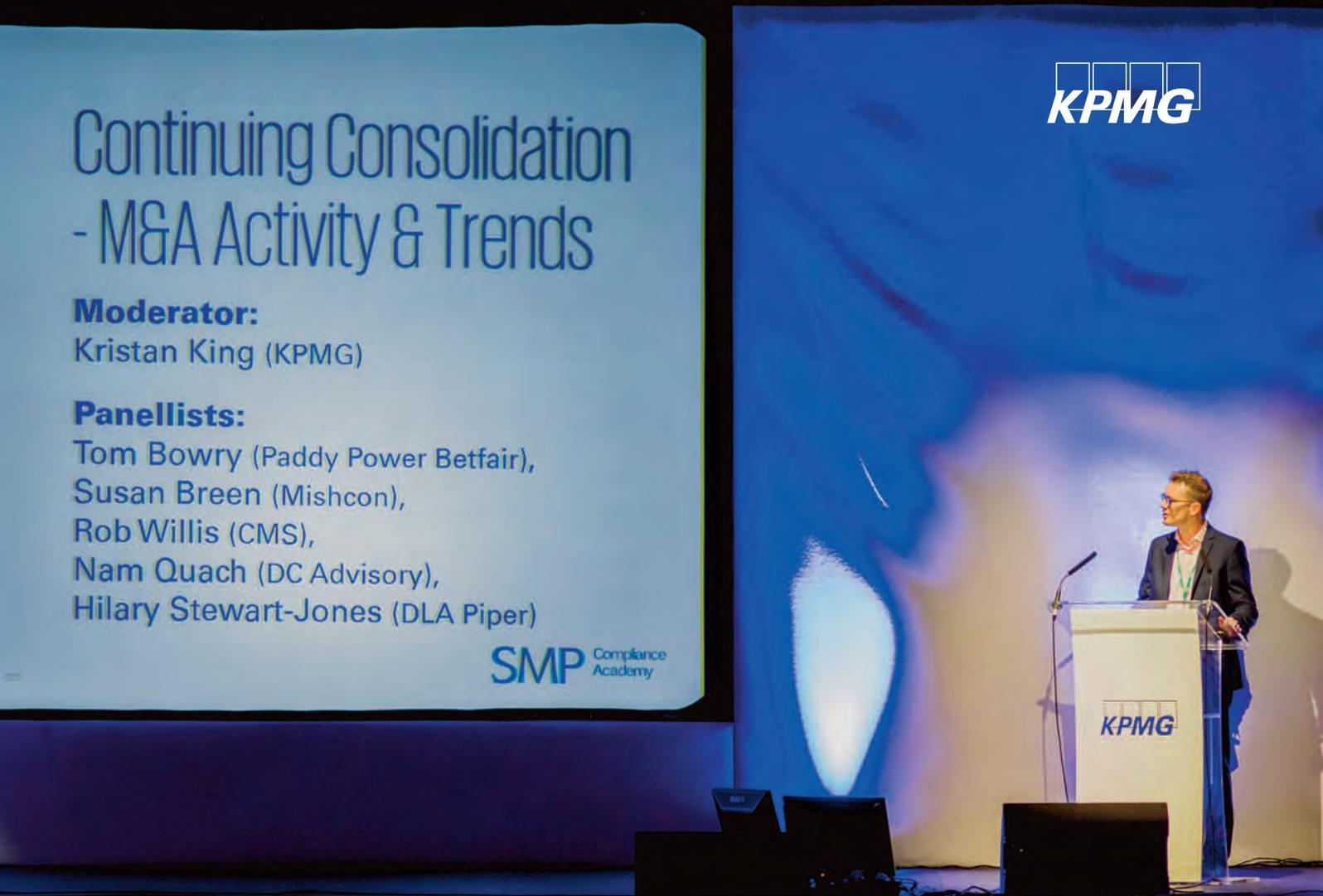
Susan Breen (Mishcon),

Rob Willis (CMS),

Nam Quach (DC Advisory),

Hilary Stewart-Jones (DLA Piper)

SMP Compliance Academy



about understanding what appeals in certain markets. Most operators have been lazy for a long time because, with a tiny difference in signage, they're offering identical products across the board, rather than creating loyalty around the slight differentiation in product offering."

"Hilary is completely right," said **Tom Bowry**. "Certainly, historically operators were quite lazy. Betfair was unique though and came up with a completely different product. Most sports bet led operators had moved to casino products and the similar open bet sports book. Product diversification may happen through acquiring proprietary content, such as when we bought a games development studio in 2011. It gives us access to our best performing casino content and all without revenue shares. Product differentiation is important, but so too is regulation. The triennial review is on the horizon but we don't know what it will mean for the affected operators. The Supreme Court is looking at sports betting and if that judgement turns in favour, it will be a positive bit of news. Other large markets, like Brazil are looking at regulating, which could start to attract more operators' focus. Regulation in a number of guises, and across jurisdictions, will be a key driver for M&A."

**Rob Willis** added, "In the next year or so, I foresee a couple of big M&A deals. There's a handful of big names who are still listed as being independent: they're the odd ones out. We've talked about international diversification, and coming across my desk is an appetite for new markets. The US is very interesting – depending on what happens in that Supreme Court case – but much of the activity in unregulated territory was initially driven by a desire to get a

licence in Nevada or New Jersey. If it's accepted that more challenging or unregulated markets are of relevance, there will be interest. Africa is fascinating, and looking at the easier markets, such as Kenya, Nigeria, and South Africa, you'll see several players wanting involvement there. Whether it's the right strategy or not, I don't know. My view is to let local operators do it, then the consolidation wave will hit once it's become more developed. Clearly, it's a nuanced market with a very different product, and different participation and payment mechanisms. But I feel the appetite and drivers of people in the M&A sphere might well stimulate activity. Perhaps joint ventures initially, then M&A thereafter. I think watch this space, there's a potential new continent!"

"I agree with Rob on Africa," commented **Nam Quach**. "We may see some Asian players come into Europe, even the listing of Asian players into UK markets as they try to increase their international profile. But one of my fears is linked to the triennial review and FOBTs. If the stakes are set at low limits, the Chancellor could lose up to £400 million a year of tax. He must balance his books too. As an industry, be it offline or online, we're hearing messages about a wider risk around potential tax increases. With that would come a further drive for M&A."

**"The key trend we're seeing now in M&A is very much driven by diversification."**

# Fairness & The Consumer

## Presentation by Jason Chess

Partner at Wiggin LLP

Delivering the first presentation of the eGaming Summit, Jason Chess, Partner and Co-Head of the Betting & Gaming Group at Wiggin, offered a fascinating exploration of Fairness and the Consumer in gaming. The concept of fairness in relation to the consumer is a hotly debated topic in eGaming circles today, and the outcome of the recent Competition and Markets Authority (CMA) investigation has only added to the controversy. Is fairness purely based on the terms and conditions upon which operators contract with punters comply with the various consumer regulations? Or is there more to it?

Mr Chess began his presentation with an explanation of 'fairness' in respect to the consumer, as publicly defined by the Gambling Commission. In essence, the GC offer two statements, "Which are to an extent contradictory, or at least differ. In her first statement, Sarah Harrison sets out a new philosophy that consumers should be put at the heart of everything that the operators do, and how the government has 'put a focus on issues of consumer

welfare and social justice'. In citing the remarks of the Prime Minister, the GC is making a highly political statement. We're being presented as an industry with a political reality; as lawyers, we would expect the political reality to be translated into law and regulation via parliament, and not as a direct implementation off its own bat by a regulator."





"The second statement from the Commission is very much within its remit and addresses the need to improve standards of compliance and accelerate the pace of improvements in various areas. Unlike the first iteration of the Commission's position, this focuses on what you'd identify as the licencing objectives and hence it is congruent with the Commission's statutory responsibilities under the Act. But in relation to fairness and what's expected from us, there are two tensions: Are we being asked to improve our compliance? Are we being asked to live up to the licencing objectives in Section 1 of the Act? or is there a more amorphous political reality, which is non-statutory, and therefore non-legal, that we're being asked to go along with?"

Mr Chess explained that the background to the pronouncements by the GC has been provoked by "The hurricane of appalling publicity, you could even say defamation, that the industry is receiving in the press. *The Times* refers to us all as 'parasites' and make the point that gambling companies are a 'replacement' for drug dealers in some neighbourhoods. The *Mail Online* featured an article of a carpenter who committed suicide after incurring massive debts from online gambling; the same article was framed by advertising from gambling websites!"

One myth perpetuated about the industry is that it deliberately targets people with advertising who have self-excluded or are known addicts. Mr Chess: "If anybody does that, it's a mistake. We all know it's illegal and have just observed the hammering of 888.com. In another feature, *The Times* describes the gambling industry using the

terminology of pathological medical conditions and drug addiction. Even more galling, *The Guardian* infers our industry targets poor people and ex-gamblers, for when under-privileged people exercise independent leisure choices, it's up to the liberal intellectual elite to tell them what to do."

Several organisations are leading the current charge against the industry, as Mr Chess elaborated: "One is *The Campaign for Fairer Gambling*, run by Matthew Zarb-Cousins, an ex-addict. Every compliance department and operator ought to hear his story, because he's a nice individual who did reach a dark place, and has come back from it with considerable personal courage. However, his website is a mass of hysterics and misrepresentations and particularly focused on FOBTs. Very few of his assertions are based in fact, but one thing to glean from the industry's current pickle is that this isn't an evidence-based situation. It's a political maelstrom and fairness and unfairness are subjective political terms with no basis in evidence."

On UK television too, the gambling sector has received highly negative coverage, in the form of a 30-minute Panorama documentary which explored the damaging effect of gambling on the brain. [Mr Chess played a 20-second video clip to delegates.]

Mr Chess continued, "So, in terms of public perception, this is where we are. Really, we should step back and ask ourselves objectively, as an industry, how much of a problem do we think we have? Let's do a quick poll. How much regulatory trouble is the industry in? Is it enormous, serious, significant, material or negligible?"

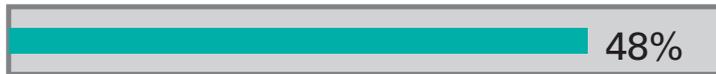
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## How much regulatory trouble is the industry in?

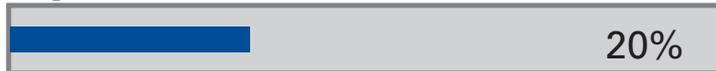
Enormous



Serious



Significant



Material



Negligible



“Interesting. The results reveal that 61% of you think it’s enormous or serious, with significant at 20%. We largely think we’re all in a bad place! Let’s look at some actual statistics.”

“Taken from the latest NatCen report, those numbers are consistent, not only with the 2012 figures but also with the two or three previous surveys that were done under a different methodology. Equally, the figures are consistent with research on prevalence, conducted by Professor Griffiths at the Nottingham University. If you set these fairly level stats against the widespread availability of gambling product on fast broadband, you can plot a graph, which reveals a couple of things. The line showing the availability of broadband since the unbundling of the local loop will rise at a massive angle. But if you plot gambling prevalence the line is entirely flat. This delta represents to some extent the way that the number of problem gamblers has not tracked the parallel availability of the product.”

“The second statement from the Commission is very much within its remit and addresses the need to improve standards of compliance and accelerate the pace of improvements in various areas.”

### NatCen Stats

Category/Year	2012 (65%)	2015 (63%)
LOW RISK	3.2%	2.8%
MODERATE RISK	1.0%	1.1%
PROBLEM	0.9%*	0.8%

\*According to either the DSM-IV or PGSI, problem gambling prevalence among past year gamblers for England and Scotland combined was 0.9% (NatCen, 2012, p. 8)

### Products – Problem Rates 2012 - 2015

Product	2012	2015
Lottery	(52%) 0.9%	(46%) 1.3%
Scratchcards	(19%) 1.7%	(23%) 2.4%
Poker in Pubs & Clubs	13.2%	15.9%
Online gaming (inc. bingo)	(3%) 6.3	(4%) 10.6%
Betting Exchange	10.6%	16.2%
Spread Bets	20.9%	20.1%
Machines in Shops	7.2%	11.5%

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Considering the products themselves, the topography becomes a little more varied, and when you focus on the numbers, it becomes more problematic. Reading the news headlines, you'd think that it was FOBTs in betting shops which are the biggest problem; statistically they are not. The big problems are with spread bets and betting exchanges and poker in pubs and clubs. The FOBTs come in at 11.5%, admittedly a large number, but overall, they come fourth in the table. Media coverage doesn't mention spread bets or anything similar."

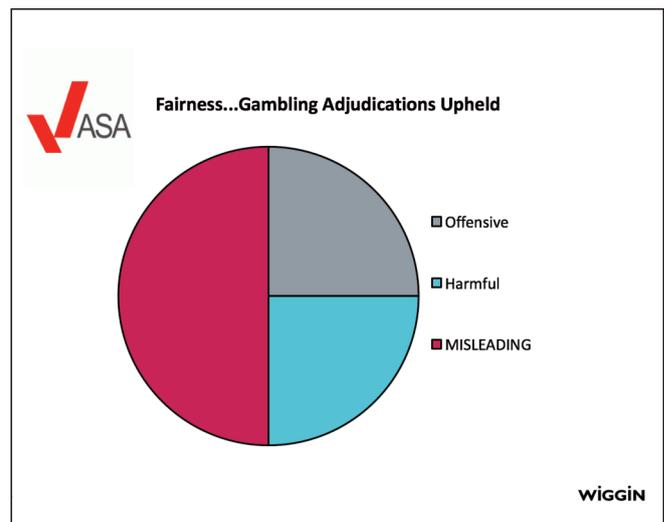
### Where are the problems?

Product	Low Risk	Moderate Risk	Problem
Spread Betting	20.2%	8.6%	20.1%
Betting Exchange	14.0%	10.2%	16.2%
Poker in Pubs & Clubs	10.4%	9.6%	15.9%
Other events (not online)	14.1%	10.9%	15.5%
Machines in Bookmakers	23.6%	8.2%	11.5%
Sports Events (offline)	18.2%	6.3%	6.4%
Online Gaming (inc Bingo)	21.6%	13.4%	10.6%

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"If we expand that window and look at low and moderate risk gambling, that's the topography there. I've merely taken a snapshot of NatCen's significant report findings: as you can see low risk and moderate risk differs hugely. When you cut through the media hysteria, you find it's only the low risk category on the left-hand column where the FOBTs and the bookmakers are pre-eminently problematic. I should point out, that the relevant diagnostic test for problem gambling has nine or ten questions in it: you need answer only one to be in the low risk category, so to my mind that column is a very sensitive indicator."

The executive conclusions reached by NatCen themselves stated that overall, rates were similar to those published in 2010. Mr Chess again, "The lowest rates were Camelot, the highest rates were spread bets, betting exchange, poker in pubs or clubs, betting on non-online events and player machines and bookmakers. NatCen's most telling phrase was, 'Whilst we are uncertain of the link between these activities and problem gambling, they are a good place to start.' Individual tragedies concerning problem gamblers are of course just terrible, but I cite these numbers purely to add a sense of proportion to the hysterics in the media. An evidence-based perspective reveals us not to be a



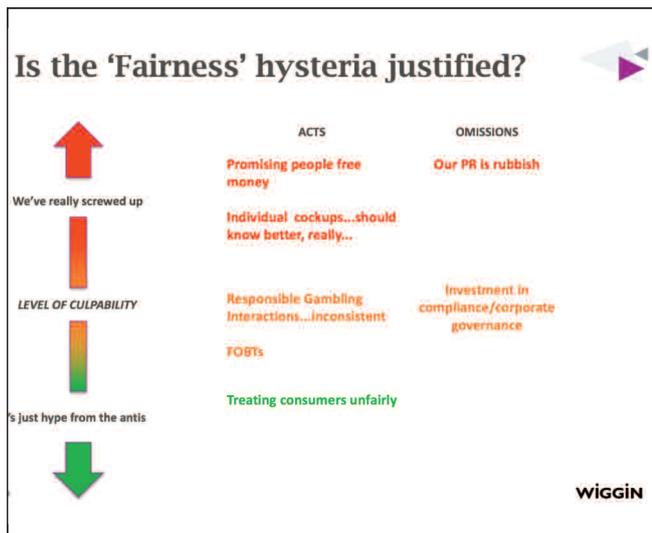
negligent industry, and I think we need to have the confidence to tell that story."

Of course, there are areas needing improvement, avowed Mr Chess. "The pie graph represents a breakdown of the ASA adjudications, and 3.5% of the overall ASA adjudications were concerned with gambling; of that 3.5%, a full 50% were concerned with fairness. I think there are internal failings of corporate governance in the industry which contribute here, and we've not done very well on our promos or on our free bets."

Mr Chess moved on to look at the current CMA investigation, launched in October 2016, with a view to determining whether online gambling companies treat their customers fairly. Is the outcome of this a foregone conclusion, asked Mr Chess? "The CMA's remark about gambling being a con, and remarks by the Commission that many terms and conditions appear to bamboozle: if this were true, you'd expect the regulator to be pulling up companies, and fixing it independently of a CMA investigation. The entire way that we relate to the punters is under the microscope, especially sign-up promotions, bookmakers' rules regarding palpable error, the reservation of wider discretions to determine whether a consumer is in breach of contract, and handling consumer complaints. The CMA particularly dislikes restrictions on cash-outs. To balance that picture, the Consumer Rights Act of 2015 already applies to operators, and the Remote Gambling and Software Technical Standards (RTS) contain requirements stipulating the information that must be given to punters –

they must be notified of material changes. There's another solution for customers: if you don't like it, you go free of charge, to an alternative dispute resolution facility. We must balance out the concerns of the CMA and the Commission with the apparatus that already exists."

Again, in the interests of balance, Mr Chess admitted to obvious industry failings: "There are failures by people who frankly should know better – the 888.com is a case in point – and it doesn't help the industry because it reinforces the perception amongst regulatory authorities that, whereas we're happy to invest loads of money into products, research and marketing, we're not happy to invest similar amounts into corporate governance and regulation."



"Here is a thermometer which is deliberately contentious, to stimulate some debate and a bit of questioning. It's 2017, we are under a lot of pressure. What are we doing right and where are we going wrong? Where have we screwed up? You can see the various acts and the omissions. On the promotions side, we are weak and public relations has been poor. I have noticed in handling a lot of social responsibility and AML complaints for my clients, that across the swathe, the responsible gambling and problem gambling interaction triggers vary in terms of sensitivity and quality from client to client. That could be much more consistent. There is more of a focus on marketing and making money than on compliance and corporate governance; Sarah Harrison of the GC is quite right when she says that we can and must do more. The FOBTs appear near the bottom of my thermometer because this fits with the NatGen figures regarding treating consumers unfairly. The terms and conditions may appear horrid, but they exist mainly to protect operators from being taken advantage of by the consumer, as well as the other way around."

Declaring the industry to be at a crossroads in terms of consumer fairness, Mr Chess put forward some suggestions for action: "My suggestions are based on the issues that I've had to pursue with the Gambling Commission on behalf of my clients. A big issue is the source of funds, and the GC's expectation that an operator should know exactly where every player gets their money from. There have been occasions where players have gambled with a lot of money, yet don't have the income

to support this; it then transpires they have stolen funds from their employer. The customer interaction triggers for AML and KYC are often much the same as the interaction triggers for social responsibility and problem gambling. Some of my clients have very sensitive systems which filter out abnormal behaviours very early on. We see, from the 888 ruling, there are still big operators out there who will allow you to play without raising adequate enquiries. This must change."

"Another criticism to make – at the risk of making myself unpopular – is that marketing departments possess too much power. Time and again, us lawyers advise clients, 'You shouldn't publish that, it's not in conformity with the rules,' and the Head of Marketing responds thus: 'You're trying to shut our business down, you're ruining my copy, we cannot fit all that legal text on the ad,' and then they run the ad, as it is. In return, I advise them to be aware that the Commission and the CMA are rapidly running out of patience with this. In terms of corporate governance, the



board and the regulatory PMLs need to get their marketing departments under tighter control."

"This was a snap poll on what people thought the client should be doing; where we should be raising our game. It's good to see people agreeing with me on the marketing because that accords with my practical experience and the customer interaction triggers. It's very interesting. Really, if you had to put your finger on where the problems came from, it has largely been down to the PR handling of the FOBT issue and the continued ASA adjudications around free bonuses and promos."

Concluding his presentation with a comment on how to move forward with regulation, Mr Chess confided, "In the UK, we're in danger of entering into a slightly unhealthy relationship with the regulator. Those earlier statements by the regulator show them to be taking a very tough line. Much of that is justified – I wouldn't criticise any regulator for seeking to bring those whom it regulates up to the highest standard – but, regulators are bound by public and administrative constraints. In the UK that takes the form of the regulators code."




**Gambling Act 2005**

- ▶ Pursue licensing objectives
- ▶ Permit Gambling

**Regulator's Code**

- ▶ 'Regulators should...support or enable economic growth'
- ▶ Regulators should engage with business before changing policy
- ▶ Businesses should...feel able to seek advice without fear of triggering enforcement action.

**wigin**

"In black and white, this code states that the regulators should support or enable economic growth. Now, some regulators may say, 'Well we're not an economic regulator, or here to push businesses forward. We are a conduct regulator, we're here to protect the punters and stop you guys from harming the punters.' But in fact, the code does say that the regulator is there to support economic growth. As lawyers here know, that chimes with the gambling legislation because, the UK gambling legislation is a facilitating Act, not a prohibitory Act. The intention of parliament in that Act was also to facilitate gambling."

In addition, continued Mr Chess, if one refers to the Commission's reliance on political or governmental

statements, part of the regulatory code stipulates that regulators should engage with the business before changing policy. "I think it's very important that the regulator doesn't throw the baby out with the bathwater and make people so terrified of punitive action that businesses are frightened to come forward, or to 'fess up' and to acknowledge their shortcomings. This is particularly the case when businesses do come forward, having rectified their mistakes and sorted out the consequences. If you've spotted the error, fixed it and admitted it to the regulator, you should get credit. In fairness, to that end, Sarah Harrison at the GC has been very clear that that will happen. From my view, I sincerely hope that the new more punitive approach doesn't override that."

Making a final point on public relations, Mr Chess admitted, "As an industry, our lobbying has been poor. Increasingly over the last six or twelve months, my clients have been asking, 'What can we do about this? How can we back up the RGA and do more?' My advice is to encourage everyone to get off the back foot and not be afraid to tell the story. This is not a clear, monochrome picture. Every day, I see people expending a huge amount of effort and trouble on compliance, and on treating the customers well. That story simply isn't getting told. So, I'd appeal to everyone to tell that story as much as they can: there is quite a lot in the record to be proud of."

# The Economics of Consumer Behaviour and the Gambling Sector

## Presentation by Adam Rivers

KPMG

**As an Associate Director in the Economics Team at KPMG's London office, Adam Rivers is a specialist in the application of competition economics. As well as working closely with clients during CMA investigations, Mr Rivers leads on economic strategy projects for betting and gaming companies.**

**Mr Rivers opened his presentation by describing the CMA investigation, and promised summit attendees insights into the CMA as a regulator, as well as a greater understanding of consumer behaviour within the gambling sector: "When we assess markets, we use a set of economic principles. The gambling sector is particularly fascinating because gamblers, as a type of consumer, exhibit quite a few different consumer traits compared to the general population."**

Providing some background information on the Competition & Markets Authority (CMA), Mr Rivers began: "The CMA was set up in 2014, following the merger of the Office of Fair Trading and the Competition Commission. It has three main remits. The first is enforcement, which includes consumer protection and investigating markets where there could be breaches against UK/EU competition law (such as cartels or abuse of dominance). The second is to investigate mergers (where Mr Rivers took a role when seconded to the CMA). It also investigates mergers in and outside of the gaming sector, which have the potential to cause anti-competitive harm, and can put remedies in place where potential harm is found (for example, with Ladbrokes Coral where we saw the divestment of stores in some local areas). Lastly, its markets remit allows the CMA to assess potential issues with either competition or consumers. In these investigations, should an 'adverse effect on competition' be found, then the CMA may put remedies in place. These vary from behavioural remedies through to more severe structural remedies, for example divesting parts of businesses.

The investigation into gambling, which started in October 2016, is under the consumer protection focus of the CMA,

and is being conducted in tandem with the UK Gambling Commission. The initial issues of the investigation concerned sign-up promotions, the cancellation or the alteration of odds after the fact, and concerns on restrictions around how consumers can challenge outcomes, e.g. if they believe the gambling operators had got the outcome of a bet wrong.

The CMA released an update at the end of June, continued Mr Rivers: "The update announced it was taking enforcement action on certain operators, without disclosing who they were. The investigation's focus was further renewed on three specific areas: sign up promotions, the ability to withdraw post-play, and the charges or removal of funds from dormant accounts, known as dormancy fees. In December, we'll get the next update, which ties in roughly with the Triennial Review."

What will the CMA investigation bring, in terms of a more lasting impact? Rather than being reactionary, and enforcing action against operators that have erred (such as revoking a license) instead the CMA may issue a guidance note that tells operators, 'this is how you should be conducting your business, going forward.' That's not to say additional enforcement action may not also occur.



**Mr Rivers referred to the two statements released by the GC and the CMA:**

**“I continue to have concerns that many of these [terms and conditions] appear to bamboozle rather than help the customer make informed choices.” – GC**

**“Gambling inevitably involves taking a risk but it shouldn’t be a con.” – CMA**

“This is rather interesting tonal language. These points on bamboozling customers, that gambling shouldn’t be a con, that the odds are stacked against them: it really doesn’t suggest the best of starts for the industry. I know that certain operators are worried there’s a foregone conclusion before the investigation has even begun.”

Mr Rivers understands that the investigation is receiving input from all sides of the organisation, not just the CMA’s legal team. A huge amount of data has been supplied to the CMA, by suppliers and operators, in terms of how promotions and activities work. In his view, Economists are likely to have been brought in to help the lawyers interpret the data, with the ultimate aim to understand whether there are consumer protection issues that need addressing.

“Micro-economists are interested in how consumers interact with firms and how firms interact with each other. Moving away from this specific investigation, I’d like to walk you through some thoughts I have on consumers in the gambling sector more broadly, and how I think about them as an economist.”

“For context, we assume that there are two main agents operating in most economic markets: firms and consumers. The firms make their profits by selling goods and services to the consumers, and profit maximisation is important to them. Considering the consumer, we think through what they choose to spend their disposable income on. To do so, we often discuss something called utility. This is akin to the satisfaction you receive as a consumer from picking a good or service to buy. Some of the utility we

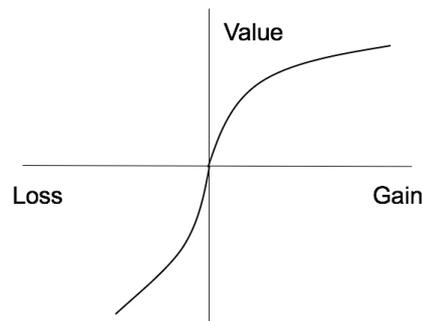
derive as consumers is fundamental: paying a mortgage, food, basic clothing and so on. Other parts come down to personal preference: cheap or expensive clothing? Live music gigs or radio? Consumers have a choice. In classical economics, one assumes that a consumer makes choices in a rational way: ‘It’s the best way that I think of to spend my money and how I want to spend it.’ But, in reality, when we study markets in more depth we see another picture.”

“Firstly, behavioural economics tells us that consumers do not make optimal choices all of the time: you can sometimes be wholly irrational in your choices, and your preferences don’t always align precisely with each other. A key finding, however, when we think about regulating markets or about competition policy, is that these biases are often systematic, and not just random. I believe a number of these behaviours can be viewed in the context of the gambling sector.”

“Academics have discovered these biases through experimental studies. The following graph provides an example of one finding that has come out of such a study.”

## Consumers are typically “loss averse”

- In reality, the environment (or framing) has an important impact on individuals’ decision making, namely when people/ households are faced with risk and uncertainty
- Behavioural economics relies on experiments to understand the decision making process in different contexts and to address policy issues (e.g. how to encourage households to pay their bills on time)
- Through experimental evidence [Kahneman & Tversky \(1979\)](#) found that typically for individuals it is more painful to lose a given amount than to gain the same exact amount.
- This is central to our understanding of loss aversion (purchasing insurance for high value items).



“The above graph was one part of a volume of research that culminated in awarding the Nobel Prize to Daniel Kahnemann in 2002. It illustrates the concept of “loss aversion.” This concept tells us that consumers’ feelings towards losses and gains are asymmetric. For the same amount of money, consumers “feel” worse when losing it (e.g. when losing £10) than gaining it (e.g. when gaining £10). This difference in feeling can change as the amount being discussed changes. Looking at the top right the curve, the incremental utility

obtained, from incremental money in this case, is reduced.

Most consumers are loss averse, and a typical consumer, when faced with risk and uncertainty, for example when offered a gamble, *should* therefore tend not to like it. This is in part why, as an economist, the continued existence of and participation in certain gambling products are so interesting to study. What is it that drives consumers to participate in games that in the long term result in financial loss?”

## Most consumers are also *risk* averse

- People differ in their preferences not only with respect to the type of food and clothes they like to buy but also in terms of how much they tend to **seek or avoid risk** in the context of their daily lives
- For your typical consumer, participating in gambling is not sensible – it goes against their risk averse nature
- On the other hand, individuals with a greater appetite for risk are likely to both gain utility from simply enjoying the game itself (like playing monopoly with fake money) and also on top of this, will gain satisfaction from the risk element of playing a game where they can win/ lose money (the rush of playing the game)

	Option 1	Option 2
Game 1	50% £11, 50% £0	£5 for sure
Game 2	50% £10, 50% £0	£5 for sure
Game 3	50% £9, 50% £0	£5 for sure

- Interestingly, newer gambling products allows consumers to move from risk loving to risk averse behaviour – similar to the “disposition effect”

Providing a simple table of some game betting odds, Mr Rivers continued: "If I offered most people in this room the first game of 50/50 for £11 or zero or just a five-pound note in your hand, there's a strong chance you'd choose Option 1. Many of you could calculate that in the long run you'll be 50 pence better off. However, if we scaled up those amounts a thousand times as much, we'd find that a significant proportion of those of you in this room would pick Option 2, partly because you value certainty."

In Game 3, the expected value of our gain is reduced to £4.50 (50p less than the certain £5.) Now, when you put this in an experimental setting you will get a proportion of the population that still pick option 1. We can explain this demand through some consumers having different preferences when it comes to risk than others, and therefore deriving a different level of utility, despite in monetary terms the game being loss making in the long run."

Newer products now emerging in the gambling sector actually take on board some of these concepts in their design, which is very exciting, continued Mr Rivers. "In behavioural finance, we have what's called the 'disposition effect'. It concerns how people buy stocks and shares and has found that the choice of whether to continue to hold or to sell shares can vary depending on the performance of those shares over time. If share value increases, there is the tendency to trade out, realising the gains that you've made on the share. Conversely if the share performs badly and starts to dip, there is a systematic tendency to hold onto it."

The effect of this fore-shortening on market prices, however, is studied by financial economists. "Does it mean that shares which are going up over time are actually undervalued because there is a continual supply of people trading out of those positions that pushes down the market price compared to the true price? The research suggests that doesn't happen, perhaps because of financial markets being able to quickly revert to optimal prices" explained Mr Rivers.

Gambling, however, is different. "We are not in that world of having an openly traded market, like stocks and shares. Now picture yourself in my position as the economist sitting at home on a Saturday afternoon with my £10 accumulator on four matches to draw at 100/1. It gets to half time and all four are drawing, and I have a cash-out option for £300. I have now moved around the curve discussed above. If I keep the bet open, and all of the matches end in a draw I've got a potential incremental gain of £700 compared to the cash-out value for the bet. However, in order to reach that outcome, I am now risking the certain £300 available if I press the cash-out button. I am now on a different part of the curve to when I staked my £10 – which is really what fulfils the consumer's tendency to want to cash out. No operator has actually given me its data, but as an economist I would expect that you see people cashing out a lot more when bets are winning as opposed to when they are losing, exhibiting the 'disposition effect' and banking gains. For the operator, the upside of this is that you can charge a premium for the cash-out option, just like an insurance policy. I think it is an area that is particularly interesting and could benefit from further research."

So, what does this mean when it comes to regulation? There is an impact here, advised Mr Rivers. "Gamblers are not your typical consumer; they think and act differently, they have a

heightened appetite for risk. They possess different behavioural tendencies to your average consumer. They may also exhibit other traits differently to the general population (e.g. the ability to compute odds more easily). For an economist at the CMA working on consumer protection work such as this, this may be an area not previously considered, and it's important that operators are able to engage with the CMA on why some of these behavioural traits may be relevant in the investigation."

"A rapidly growing literature on behavioural economics shows that some errors made by consumers are persistent and predictable... behavioural economics enables regulators to intervene in markets more effectively, and in new ways, to counter such business models and secure better outcomes for consumers... this involves some change from the existing practice of most conduct regulators, with one of the biggest changes relating to greater focus on understanding consumer behaviour." (Martin Wheatley, FCA)

The above quotation by Martin Wheatley of the FCA, underlines its chief role as a conduct regulator. "In order to do its job effectively and regulate firms, The FCA must understand if there are behavioural biases in-built within consumers that can affect the way they actually interact with operators."

Mr Rivers then revealed the results of the survey he conducted among delegates at the start of his presentation, concerning the hypothetical choice of various treatments to save lives:

"On your cards, I presented you all with the same proposition, but just phrased it differently across two different "frames". If you had Frame \$ and opted for Treatment A, you'd "save" a hundred lives, or you could pick Treatment B and gamble to save them all. If you had Frame £ and opted for Treatment C, you'd "kill" two hundred people, whereas Treatment D provides a gamble to kill no-one. In our small survey, most of you went for the Treatment A in Frame \$, but gambled with Treatment D in Frame £. This plays out in wider experimental settings: people tend to go for the first option in Frame \$, with its more optimistic phrasing, because they prefer the idea of 'saving' a few people instead of 'killing' them. This is one example of the framing bias. It helps to illustrate that, when you go out to market, just a slight tweak in the wording of something can have a dramatic impact on consumers."

After this high level explanation of how economists think about consumer behaviour, and why he finds gambling consumers of such interest, Mr Rivers proceeded to explain how a handful of economic biases may pertain to the current CMA investigation.

The first bias discussed by Mr Rivers was the "cognitive limitations" of consumers. "This simple calculation – 10% of £500 – comes from an earlier, separate CMA study into retail banking. It involved multiple surveys across a large section of banking customers which allowed the CMA to spot systematic differences within the population." Working on this investigation, the proportion of people that struggled to compute a sum which most would consider a straightforward calculation was surprising to Mr Rivers. "Probing further, the results suggested certain groups were more likely to get the

## Pricing, promotions and behavioural economics

### Legally clear vs. economically clear (cognitive limitations)

- Consumers struggle to compute basic sums – e.g. taking 10% of £500.
- What is the true economic value of a promotion?

18+. New customers only. The welcome bonus is split in 5 deposit bonuses to a max. of £1200 and 20 free spins on Starburst every day for the first 10 days. All deposit bonus amounts must be wagered 25 times before withdrawal, and winnings on any free spins must be wagered 30 times. Refer to Bonus Terms Link for further info.

wrong answer than others – for example un-arranged overdraft users. In addition, the CMA found these groups customers were less likely to shop around and compare accounts, despite having the most to gain from switching providers.” As a result, continued Mr Rivers, when the CMA came to design its behavioural remedies, its advice was to enforce new requirements for un-arranged overdraft users, to make it easier for them to compare accounts and switch. In recognising particular behavioural patterns among consumers, one clear benefit is that the regulator can eventually incorporate these into policy.

The 10% of £500 figure is an example of the “cognitive limitations” consumers have. These limitations are seen even with quite a simple calculation. Referring to slide 17, Mr Rivers pointed to the promotion selected from Odds Checker: “Insofar as cognitive limitation goes, this promotion is actually very complicated – I’d have to build quite a fiddly model to figure it out! In addition to cognitive limitations, this builds on a separate behaviour, where you overload a consumer with so much information, they can completely switch off.”

Unlike complexity in terms and conditions, which is *firm conduct* that can affect outcomes, other promotions can appear benign but trigger *consumer conduct*. “Take, for example, the over-confidence effect. This is a phenomenon where consumers’ subjective estimations are greater than the objective accuracy of the estimation. That is, people are generally more confident than they should be. A specific form of this, called the *planning fallacy*, could be observable in deposit bonus schemes that are prevalent in the sector. Imagine you survey a group of

players, prior to them depositing on a site. You ask them how much they think they will deposit, given the deposit bonus available and terms associated with it, on the understanding that they would like to “release” the bonus. The planning fallacy would suggest that consumers are likely to exhibit overconfidence in their ability to play through and meet their requirements. Even if you have a clearly displayed five-times-wager requirement, it is likely that some consumers will overestimate their ability to fulfil that type of obligation. This brings us to a debate of, well, what can the operator really do about it?”

Moving on in his exploration of pricing, promotions and behavioural economics, Mr Rivers considered free bets. “I think that the industry would agree that when operators advertised free bets not as free bets but just as free £50s, that was a ‘bad thing’. It gave the impression consumers literally got £50 for free. From an economist’s perspective, ‘free’ is a fascinating concept. As consumers we very frequently overvalue things that are described as ‘free’. A host of experimental evidence demonstrates this. For example, if in the first stage of an experiment, you ask a consumer, what’s your value of A and your value of B? They may value A five times more than B. Then you put them into a second phase and say, you can have A for 50% off, or you get B for free. They often pick B, because it’s free, despite the saving vs. their valuation being higher for the discounted product A.” Free bets are one way to entice new customers, but, warned Mr Rivers, “Be aware, some customers think it means more than it does.”

Mr Rivers concluded his talk by advising operators to firmly grasp the fact that gamblers are not the average consumer, to build a better

understanding of their customer base, and consider discussing these points with the regulator whenever they are engaged. “Any economists at the CMA looking at this will want to understand the differences in this specific set of gambling consumers compared to the general population. To do so, one needs to use a slightly different lens. Conducting tests and building experimental evidence is exactly what they’d be interested in doing. My second concluding point is that using this lens isn’t just confined to the gambling industry in this particular investigation, and it’s here to stay. The OECD, specifically in the context of consumer protection, has studied behavioural economics. In recent market studies, the CMA has been promoting the use of behavioural economics in its decision making. The Financial Conduct Authority has an entire unit devoted to behavioural economics, running proactive trials with banks. In turn, banks themselves now have behavioural economics teams: a friend of mine is the head of such a team at a major international bank, and the work the bank is conducting is fascinating.”

In his final point, Mr Rivers stressed that these ways of thinking about consumers can be used very effectively in a commercial setting: “The insights gained from behavioural trials and broader economic analysis can also feed through to product development, which is an area we’ve been working on at KPMG. Learning how consumers demand your products and how small changes can trigger reactions has many benefits. From addressing concerns on problem gambling through to enhancing commercial gains, using economic tools to evaluate consumer behaviour will help the sector.”

# GAMSTOP: Creating a National Online Self-Exclusion Database for the UK

## Presentation by Fiona Palmer

RGA

Fiona Palmer, Director of Social Responsibility at the Remote Gambling Association, delivered a clear and concise presentation on the development and implementation of the upcoming National Online Self-Exclusion Scheme. To be launched by Spring 2018 by the RGA, the Scheme has been branded GAMSTOP and will enable any individual resident within the UK to exclude themselves from all online gambling offered by remote licensed operators in Britain, via a single interface. The scheme is the first of its kind and has been three years in development. Ms Palmer: "Self-exclusion is an important harm minimisation tool for those who wish to exercise greater control over their gambling, by enabling them to block themselves from accessing specific gambling activities. Currently if a person in the UK wishes to self-exclude from gambling online they must do so separately with each operator. GAMSTOP will speed this process, by the creation of a single registration website."

"There's a world of difference between a national scheme being operated by a regulator such as the Gambling Commission (as is the case in Spain and Denmark) and a private sector body such as the RGA. Whilst some technical issues are similar, many issues, such as legal, funding and governance, are not."



Providing a brief history of the Scheme to date, Ms Palmer described the crunch point as being in February 2016 when the Commission wrote to all its remote gambling operator licensees, informing them that many stated a preference for the GC to manage the scheme. However, the conclusion reached was that the industry was best placed to lead the final scheme: "The RGA were then asked to set up the scheme on behalf of the industry. There's a world of difference between a national scheme being operated by a regulator such as the Gambling Commission (as is the case in Spain and Denmark) and a private sector body such as the RGA. Whilst some technical issues are similar, many issues, such as legal, funding and governance, are not."

KPMG were appointed to undertake a scoping study; a steering group was formed comprising of RGA members; the group decided a new corporate entity was needed to run the scheme, which led to the incorporation of NOSES Limited: "After 3 months the Steering Group approved the proposed corporate structure and accompanying business case. Phase 2 ensued with the selection of a key technology vendor. NOSES also needed its own meaningful identity; a brand to resonate with consumers and operators alike and be easily recognisable. In June, GAMSTOP was launched as the trading name for the scheme. The proposed structure for the solution was put out to tender with prospective technology vendor providers. A vendor panel was then set up."

After an initial blip with another tech provider, Transform UK were appointed in August. Ms Palmer continued, "They showed a good understanding of the project requirements

from the outset. A technical working group has been formed comprising of technical experts from the Steering Group member operators and testing of the proposed solution is currently underway."

Moving on to outline the mechanics of the Scheme, Ms Palmer: "Firstly, consumers will register with GAMSTOP on its website; their identity is verified, then they select a minimum duration of six months, one year, or five years to be excluded from all British licensed online gambling sites. They won't be able to remove their self-exclusion whilst the minimum duration period is active. Once this period has elapsed the exclusion will remain in place until the consumer either returns to GAMSTOP to request for it to be removed or the data retention period is exhausted. Relevant licensed operators will be required to integrate with the scheme via

**"The Gambling Commission are communicating to all operators to advise them that GAMSTOP is providing a national online self-exclusion scheme that will help them to comply with the new licence requirement."**

an API and must perform real time checks to make sure their customers are not registered with GAMSTOP. Checks will need to be performed upon each customer login as well as on new customer registrations. GAMSTOP will return one of three responses to the operator advising that the individual is either registered on the database with an active self-exclusion, registered on the database with an expired self-exclusion that has been successfully removed by the individual, or has never been registered on the database.”

**“Making a push to ensure that individuals who might benefit from GAMSTOP are aware of its existence. This includes all operators signposting GAMSTOP in the same way on their sites, outreach to treatment providers such as GAMCARE, and positive media coverage.”**

Regarding costs, Ms Palmer estimated the price of building the scheme to be a multi million pound project: “With technology, costs can change as we go through testing – more may be needed to support it. We anticipate operating costs to run close to £3 million per year and operators will be required to pay a fee in advance, proportionate to the size of their operation. The fee structure will be based on annual revenue bands.”

Addressing some potential areas of misunderstanding, Ms Palmer moved to dispel a few myths surrounding the project. “The Scheme won’t replace existing operator self-exclusion schemes. Operators must still comply with the Gambling Commission LCCP SR Code 3.5.3. It’s a tool that enhances the choice for consumers and it’ll sit above the other schemes. It is for all GC remote licence holders, not just RGA members. When a customer self-excludes, operators won’t be required to pass that information to GAMSTOP. If a customer decides to self-exclude via GAMSTOP, they are entering into a direct contract with GAMSTOP and it will be a completely new self-exclusion. Consumers won’t choose which product to self-exclude from, it will exclude them from all licensed online gambling sites – whereas some operators offer self-exclusion by product

– so you can, for example, self-exclude from poker but still keep betting with the same operator. GAMSTOP is there for consumers to self-exclude from all online gambling. Consumers also can’t choose which operators to self-exclude from; when a self-exclusion is applied via GAMSTOP it’s across the entire British licensed operator base.”

The focus now, assured Ms Palmer, was on getting the solution live. “Data protection is a key priority: it has and continues to be at the forefront of

project discussions. The project is designed to ensure privacy is built in from the outset. GAMSTOP customers will need access to different levels of support, and in addition to information on the website, they’ll be able to submit queries to a GAMSTOP contact centre. This centre will have the ability to transfer consumers to the National Gambling Helpline.” Ms Palmer mentioned the setting up of a separate help-desk to provide support for operators, and an operator portal containing any relevant information from operators, which they can access themselves.

With the launch date looming, the RGA would be “Making a push to ensure that individuals who might benefit from GAMSTOP are aware of its existence. This includes all operators signposting GAMSTOP in the same way on their sites, outreach to treatment providers such as GAMCARE, and positive media coverage. To raise awareness amongst operators, we will host two separate webinars on GAMSTOP. It will focus

**“Producing something we can all be proud of and which most importantly helps people to control their gambling.”**

attention on what operators need to do, the technical integration required and the support mechanisms available to them. It will include details of the on-boarding process.”

In closing, Ms Palmer cited the RGA’s commitment to: “Producing something we can all be proud of and which most importantly helps people to control their gambling.”

A question arose from the floor, on whether GAMSTOP was mandatory for operators. Ms Palmer referred to the GC’s licensing condition, which is the LCCP Social Responsibility Code 3.5.5, which requires all relevant remote licenced operators to partake in a national online self-exclusion scheme. GAMSTOP is being created as a response to this, to enable operators to comply with their licence requirement. “The Gambling Commission are communicating to all operators to advise them that GAMSTOP is providing a national online self-exclusion scheme that will help them to comply with the new licence requirement.”

A second question from the floor related to the recent case of the operator 888.com and their subsequent fine. What might happen, if, via a glitch of technology, someone who had self-excluded through GAMSTOP, was suddenly allowed to play on a platform? Ms Palmer responded, “We are simply providing the mechanism. The terms and conditions will be clear to consumers when they register with GAMSTOP: it’s as much about a partnership between the consumer and GAMSTOP. If a consumer wants self-exclusion to work, they must help themselves as well. In terms of taking on the role of compliance, GAMSTOP is not taking on the role of compliance away from operators. Operators still are required to run their own self-exclusion schemes and be compliant. When they know that an individual is self-excluded they need to follow the processes and practices to ensure that the tools they have in place work correctly.”

# Responsible Gambling Week, 12-18 October 2017

## Presentation by John Hagan (Harris Hagan)

@RGWeek2017 [www.ResponsibleGamblingWeek.co.uk](http://www.ResponsibleGamblingWeek.co.uk)

**An inaugural event in the UK gambling sector, The Responsible Gambling Week is slated to take place 12-18 October 2017. Providing a synopsis of what was in store was John Hagan, Partner at London law firm Harris Hagan, and Chair of the IGRG (Industry Group for Responsible Gambling). The IGRG comprises five trade associations (ABB, Bacta, Bingo, NCF, RGA), representing all sectors of the gambling industry, and its members comprise some 640 gambling operators and 8,500 licensed premises. Its mission is to provide a structure to better promote socially responsible gambling across all sectors of the industry.**

Mr Hagan: "Responsible Gambling Week is a national, cross-industry awareness campaign being launched for the first time this year from 12th to 18th October, to promote responsible gambling. It's about uniting as an industry and our theme will be 'Let's Talk About Responsible Gambling.' By coming together as one voice, we want to raise awareness across the whole country and start more conversations between operators and customers, customers and their families, in social and in print media. This is very much a positive message; it's about raising awareness of the tools available to help people gamble responsibly. We'll share information on how to access help for those who need it. We need your full support because having the whole industry behind us is essential."

Absolutely key to the week's success is its promotion across the sector. The IGRG are encouraging the entire industry and participating partners to display responsible gambling week marketing artwork and collateral at their premises, on their websites and on their social media

channels. The industry is currently working with GAMCARE and its partners to establish dedicated information points – with experienced staff – for the public, across the UK, so there's no need to enter gambling premises, or go on a website. The IGRG will work with local media, local authorities and operators to ensure these info points are well promoted. Staff at gambling venues and online sites will continue to be the points of contact for their customers on how to gamble responsibly. But operators must be aware of the backdrop if asked by your customers about responsible gambling – you should be set up to answer their questions. Another feature will be online chatrooms, and interactive Q&A sessions on social media via dedicated Twitter and Facebook accounts to help engage discussions. GambleAware and GAMCARE will be raising awareness through their websites and communication channels. But let's be clear, this isn't just about trade associations and our partners. It's about the whole industry participating, which will make the week impactful and worthwhile."



In addition, an event will be held at Parliament on 17 October to brief politicians on what it means to gamble responsibly and what they can do to share the message.

Mr Hagan explained that the overall purpose of the week raise awareness of responsible gambling and spark conversations about what it means to gamble responsibly: “The industry donates to gambling charities to fund treatment, research and education programmes, providing support and information, all year long. But having a specific week, where the industry comes together to be vocal about social responsibility, coordinating and sharing the same messages to secure maximum impact, will be a real achievement. Especially at the present time, with the triennial review looming, as it’s difficult to get all five sectors to agree on anything. This week will reflect the importance of responsible gambling to all five sectors. This new initiative isn’t simply a response to pressure from the regulator or government: we are doing this for our customers and the wider public, and because it is our view that a responsible gambling week and that national conversation is unequivocally a good thing for the industry to be doing.”

The initiative is being supported by GAMCARE and GambleAware, as public engagement is a priority action

in their overall strategies. It’s designed to send a positive message that gives a more accurate picture of the industry and its ongoing work around social responsibility at a time when there is so much negativity around. Mr Hagan: “Afterwards the week will be rigorously and independently evaluated, and we hope to learn from it to make it even better in future years. Hopefully it’ll become a regular feature. On a more practical level we’re encouraging operators to undertake complimentary initiatives during the week. Trade associations are liaising with their members and acting as the point of contact for all operators in their respective sector. We need to ensure a consistency of message and coordinate sector requirements and issues.”

As many operators have already expressed their support, and are working with their internal teams,

**“Responsible Gambling Week is a national, cross-industry awareness campaign being launched for the first time this year from 12th to 18th October, to promote responsible gambling. It’s about uniting as an industry and our theme will be ‘Let’s Talk About Responsible Gambling.’**

Mr Hagan expressed his wish for lawyers, bankers, accountants and other industry advisors to the industry to join the conversation: “The campaign Twitter page is live and we ask that you all follow [@RGWeek2017](#) now. Tweets will start one month in advance of the week, to build an audience. The Facebook page is also live.”

The long-term vision of the IGRG is to have more conversations across all media, and in the retail and online environment about what it means to gamble responsibly. As Mr Hagan concluded: “We want as an industry, to learn from our customers, what they think responsible gambling is, what it means to them, and to learn from the experience of consumers and their families all with a view to informing future policy and initiatives.”

# Next Steps for Harm Minimisation in an Online World

## Presentation by Iain Corby

GambleAware

**Iain Corby, Deputy Chief Executive of GambleAware, delivered an in-depth presentation on the work of the charity and its next steps for harm-minimisation in the online world. GambleAware is the main charity in Britain responsible for research, education and treatment across the whole field of gambling-related harm.**

**Beginning his talk with an audience poll regarding the extent to which operators are taking steps to prevent gambling-related harm amongst their customers, Mr Corby listed three options. Were operators were doing enough already, could they do more, or could they do significantly more? Delegates cast their vote via the Bizzabo app, with the result showing that most felt more could be done by operators to protect consumers.**

Referring to some recently published figures on the prevalence of problem gambling within the online sector, Mr Corby cited that 1.5 million people are currently at risk of problem gambling. "Within those figures, we know we have 430,000 problem gamblers that we need to deal with in Britain, an increase from a few years ago, when it was 250,000. Statistically this isn't significant, but when the figures were released, the national press promoted the idea that the level of problem gambling had significantly gone up. For us in the field, we need a number to work with and it's 430,000. And it's a growing number. The industry needs to raise its game and not be complacent, taking comfort that the level of problem gambling is statistically stable. In fact, we need to be seeing it coming down."

Mr Corby stated that research by GambleAware can really help in this. "It matters not just because it's the right thing to do but I truly believe in its appeal to investors and non-exec directors. If I may point to the impact on the value of a company when you get it wrong, as it did with the recent very large voluntary settlement by 888.com: we saw the share price drop 10% on the news of an investigation by the Gambling Commission. They didn't lose their licence, which allowed the share price to recover a little, but the case shows how volatile company value can be, when an issue of gambling harm enters the picture." The Commission has issued a statement that these voluntary settlements do still exist but that they are being considered alongside more draconian results such as suspension of licences, confirmed Mr Corby.

Is responsible gambling good for long-term value? Yes, said Mr Corby: "There's an upside to this as well. A customer who spends a modest amount of money, but can do so regularly, and for the rest of their lives – this perpetuity concept creates an enormous value to the company. Tombola is a good example of this, where bets are fairly limited, as operators are seeking to build a faithful long-term customer base. Customers also want to feel safe, and if people believe they're being looked after, they're more likely to get involved in gambling. Customer satisfaction and staff retention can save you a lot of money. People want to work for companies that care for their customers and are generally perceived to be good. There are a lot of good commercial reasons for responsible gambling."

Within the business plan of the Gambling Commission, it is clear that their next focus will be on the online sector:

**"GambleAware has been working on another report, in partnership with the industry through IGRG and their facilitated workshops. The project objective was to find good practice, and develop new ideas that can promote behaviour change and adoption of responsible gambling behaviours amongst mainstream players."**

Mr Corby elaborated on the research by GambleAware: "We completed a piece of work, available on our website, which demonstrates that it's possible based on existing data held by remote operators to identify most problem gamblers. Clearly, online gamblers are harder to spot: in a casino it's easier, when somebody kicks a machine or in a bingo club when somebody cries. From our work, we were able to spot

nearly 80% of problem gamblers online with a very high degree of accuracy. We did group and segmented analyses, and found demographics, clues in terms of people's play over a period of time, average amount bet, which days people bet on, and 'in the moment' clues – reactions to a big win or a big loss. You then blend these ways of identifying problem gamblers into usable algorithms."

## GB Gambling Commission business plan makes the regulator's focus clear:

### Raise standards across all gambling sectors

- Seeking to raise standards in the industry is not simply about ensuring that operators comply with their regulatory obligations. It's also about encouraging a culture in the industry of going the extra mile to treat consumers fairly, tackle gambling-related harm and maintain public confidence in the integrity of gambling.
- We will use our full range of powers more effectively through a revised enforcement policy, recognising that rigorous enforcement can also help drive up standards.
- We will continue to focus on emerging markets and products where they create risk for consumers.

### Planned gambling commission actions

- Carry out a review of how the industry identifies, and intervenes to assist, players that are at risk of being harmed by gambling
- Examine data, market trends (both current and future), consumer participation and action by operators on social responsibility and crime in the remote market
- Review the arrangements for Research, Education and Treatment, considering ways to make these arrangements more robust to meet future challenges.

#### Board of Commissioners



### Published findings

1. Operators can detect problem gamblers using their existing data with 61 multi-variate markers	3. Segmenting gamblers improves the ability to identify problem gamblers but is not 100% accurate	5. Daily triggers can identify problem gambling behaviour in response to wins/ losses	7. A tailored approach to intervention based on different risk thresholds provides a practical approach
2. Multi-site usage drives a level of misclassification of problem/non-problem gamblers in segments 5-9	4. Problem gambling risk can be calculated with as little as 1 week of transactional data	6. There is some evidence that demographic markers could be used to filter at account creation	8. Due to conclusion 2 recommend a cross operator risk model to consistently and accurately detect risk

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Moving on to discuss items such as self-exclusion, Mr Corby declared that these tools often kick in too late, when things have gone awry and players are looking at how to stop gambling altogether. “We need interventions to happen sooner, to bring down those total numbers. You can’t just rely on casino staff consulting their checklist of 8 or 10 signs of a problem gambler. They ought to be asking players about their gaming that day; have you thought about setting a limit, what time are you planning to leave: more gentle interventions happening earlier will work. This work was completed with a view to implementing it in an online world as well.”

The challenge now facing the industry is to take action following these findings. Mr Corby continued: “The time has come now to demonstrate how that data can be used effectively to intervene. We hope that various suppliers in the industry will step up, use the learnings from this research and start to deploy better algorithms to spot customers at risk, which go beyond the basic approach that most people take now.”

GambleAware has been working on another report, in partnership with the industry through IGRG and their facilitated workshops. The project objective was to find good practice, and develop new ideas that can promote behaviour change and adoption of responsible gambling behaviours amongst mainstream players.

Mr Corby said this work was undertaken “To allow us to seek out best practice across the industry and to share our findings. We looked at product information, play information and social messaging, associated with the risks of gambling. We requested that examples of best practice be sent in, and received 250 of these. We spotted gaps and completed some work to develop material that you could use to fill those gaps. It was a huge exercise. We also visited many venues to talk to staff and to players. As an outreach exercise this was invaluable and helped us in developing the principles for our vision. It was empowering so that both staff and players feel they know what to do. Specific operators were instrumental in this:”

### Operators were central to the process – contributing much of the content, helping to shape and prioritise ideas

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### All four workstreams followed a similar methodology → working group discussion, followed by evidence gathering & analysis

Step 1: Reviewing current practice and knowledge	Step 2: Identify gaps and remaining challenges	Step 3: Develop & test new ideas
<p>Working Group 1 Creating a shared vision</p> <p>Research team gathering and analysing examples of existing practice &amp; reviewing evidence</p>	<p>Working Group 2 Identifying gaps &amp; challenges</p> <p>Research team conducting site visits + new primary research players and staff across all sectors</p>	<p>Working Group 3 Identifying gaps &amp; challenges</p> <p>Research team developing ideas generated within the WGs &amp; testing them with staff and players</p>

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In responsible gambling, there are three basic pillars: enabling informed choice, improving self-awareness and creating supportive environments. Taking each pillar in turn, Mr Corby defined them and elaborated work funded by GambleAware. A research team is looking at “How to deliver these messages in a way that they’d actually get through. In enabling informed choice, we looked for customer touch points. When’s the right time to speak to your customers? Messages can be obtuse - the report includes many quotes from customers revealing how people find it hard to understand what they’re being told. Information isn’t clear, and in some cases, there’s misinformation, which can reinforce false beliefs, for example, when staff in an arcade tell you that a particular machine is lucky. What also emerged was that verbal recommendations add extra weight, than if it’s simply written on a poster.” In summary, in terms of enabling informed choice, it’s about ensuring that staff are confident in having those conversations, advised Mr Corby, particularly customer service staff who are dealing with incoming telephone calls.

The next stage is to find simpler language and graphic presentations and to push for its adoption across the industry. “We have the full support of

the Gambling Commission in this,” said Mr Corby. “They’re looking at how to give us derogations to the current, extremely detailed and complex requirements of what you must tell players when you give them information. One example of a potential ‘quick win’ is the icon telling you where to go to get that sort of information – this needs standardising. It’s in the interest of you as operators, for us to take a long look at what we can do to really catch the attention of players. We’re all on the same page

with this – enabling players to make better choices.”

The second pillar regards self-awareness. “It isn’t just about setting a limit,” continued Mr Corby, “but players often say they failed to set a limit or went far beyond what they wanted to spend. Integrating tools to set limits at the design stage, rather than having responsible gambling as an afterthought, is the best way to help people manage their gambling. Gambling environments are very busy and messages don’t stand out, so we

### Key actions for the industry

- Ensure that information within gambling environments are not working to reinforce false beliefs
- Encourage engagement with cost, risk and play experience information
- Use plain English; avoid industry jargon
- Implement more visual and easy-to-understand presentations of key facts/vital statistics (prioritising meaning over technical accuracy where necessary)
- Ensure staff are confident in explain the key features and different return rates for games
- Implement available and compelling tools to help players (and staff) understand and apply gambling concepts that they find challenging
- Introducing more standardised and compelling signposting to key information about the games

need to change this. New phrases that we might use as a pre-cursor: 'Ask yourself have you set a time you want to leave today'? Or 'Know the signs, do you feel angry when you're gambling'? Things that will tip you off. There were many key findings to emerge from our research. One significant finding is that most people associate problem gambling with other people's problems. This is called "othering," but if we change the language and change who it's perceived to be aimed at, and who it comes from, people will take notice. These are subtle changes, and we need to work carefully to make sure we get it right. How do we cut through when players are in the throes of gambling? What one player refers to as 'tilt juice' – the adrenaline rush and excitement of play. How do we deal with the fact that our primeval urges can destroy our ability to come to logical, sensible decisions about risk?"

Ensuring that the message comes from GAMCARE and GambleAware, is important, said Mr Corby. "There's less credibility if it comes from the operator, and we need to nurture peer-to-peer conversations where people believe more of what they're being told. Another key point is making it clear to people exactly how much they've spent, or, in advance, what the cost of play is likely to be and using reminders. Bookies' machines have regular reminders and time-outs: we could extend these into other walks of gambling. With staff, we discovered that most people cite their compliance

training / needs, when asked about their RG training. But responsible gambling must go beyond compliance, it's about looking for those who may be at the very start of a gambling problem, and intervening early. It's about seizing opportunities to talk with your customer, and building this into your general customer service, to nudge them away from difficulties."

you think they have a problem – but just gently asking about how they stay in control. Our researchers concluded that responsible gambling is patchy at best. It also emerged from the research working groups that one big concern internally is the silos within which people work. This relates to marketing teams in particular, but also pertains to all aspects of the business,

### Key actions for the industry

- Training strategies that ensure RG activities are easy to apply and remember for staff
- Positively reinforce and incentivise the promotion of RG
- Ensure RG is not in conflict with other business priorities
- Ensure support is provided for staff who may experience gambling related problems
- Providing effective support for issues outside of operators remits

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Examples of creating supportive environments, as part of responsible gambling practice, include setting up RG awards within organisations. Mr Corby: "Also, when a customer rings in, make asking about gambling a normal part of the call – not because

as they are expected to put responsible gambling at the centre of what they do."

Moving forward with their research project, GambleAware are seeking operators to volunteer to help with pilots and trial new ideas. This will be done in partnership with members of the IGRG, including the RGA.

There's still one further stage to come on the original Remote Research Project, however, regarding interventions. Mr Corby: "We want to see what interventions might look like. We'd like to conduct randomised control trials on a very large scale, to get an idea of which messages have more impact than others. We might then see, over a long period, a change in gambling behaviour with people who've had one message, who perhaps didn't get another message. We'll also be working on best practice in terms of site design: where exactly should you place responsible gambling messages? According to recent eye tracking work, we noted that whilst people look very closely at where they

### Key actions for the industry

- More engaging and practically focussed RG communication campaigns (see, think & do)
- Provision of tools & strategies for mainstream players to 'stay in control'
- Implementing appropriate player monitoring systems and setting clear thresholds for 'intervention'
- Integrating behaviour change tools into games
- Developing behavioural training for staff to approach and support players
- Development of physical/digital receipts/statements for players

GambleAware®



are winning or losing, they also spend time looking at their remaining balance. Perhaps, if three seconds in every thirty, the balance is replaced by a responsible gambling message, you have more chance of people actually seeing it."

Working on a response to the government's concerns about gambling advertising is also a priority for GambleAware, who are working with the RGA on this. "And with the Labour party suggesting that companies like Ladbrokes should not be allowed to put their logos on shirts for people playing football, the temperature in the advertising world is going to continue to rise. Of course, our research showed no connection between advertising and problem gambling, so it's controversial to be talking about further policy change when there's no clear evidence to suggest it's needed. Certainly, young people are being more exposed to gaming advertising on television. The BBC and ITV both allow it during matches. So, we're looking at what we can develop as a sensible response to the government's concerns around policy on advertising," explained Mr Corby.

Mr Corby concluded his presentation with a last mention regarding Motiv8, the organisation who operate GAMCARE in the Isle of Man: "Treatment used to be funded through local government but as this no longer happens, Motiv8 rely on donations from operators. From a reputational

perspective it's important that treatment for problem gamblers on the Isle of Man itself is properly funded. Given the island's relatively small gaming population, if every operator gave five to ten thousand pounds, this would sufficiently fund the anti-problem gambling work that Motiv8 do. I want to specifically thank SMP, who I know have worked together to pull in other operators and to support Motiv8 in their work. Thank you all for listening."

**“There were many key findings to emerge from our research. One significant finding is that most people associate problem gambling with other people's problems. This is called “othering”, but if we change the language and change who it’s perceived to be aimed at, and who it comes from, people will take notice.”**

# IMGL Masterclass: The Regulatory & Political Climate for Gaming in the UK

## Moderator: Jason Chess

Wiggin

## Panellists:

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### John Hagan

Harris Hagan

### Fiona Palmer

RGA

### Iain Corby

GambleAware

### Adam Rivers

KPMG

### Allan Christian

KPMG

This panel session of the summit centred around regulation and the current political climate for eGaming in the UK today. Moderated by Jason Chess, Partner at London law firm Wiggin, the panel featured five top sector experts who deal every day with gaming regulatory issues for their clients. Among the topics discussed, the panel focussed on the CMA investigation, public perceptions of gambling, the openness of the UK market, the GC's role as advisory to Government, and social welfare. Mr Chess opened with a question to his panel on the current political temperature of the gaming industry.



**Iain Corby:** Firstly, may I say that it's not one industry but five sectors, all of which compete with one another, and one way they compete is through regulation. In the process of lobbying for certain changes in regulation, a real noise has been created around gambling, and let's remember that the great British public does not distinguish between one form of gambling and another. Stirring a negative spin around gambling in general impacts on every sector. It seemed ironic to me, when the Treasury was floating ideas around there being a change in the maximum stake, that we might then expect DCMS to make up the difference with tax revenue from somewhere else, casinos, perhaps, or taxing FOBT's?

**John Hagan:** In my view, the UK has a very sophisticated gambling regulatory environment, and not every jurisdiction can offer that. When clients come to me and ask whether they can do something, the answer is almost always yes, they can do it if they have the right license. We have a very liberal, open gambling market, operating one of the biggest markets in the world, offering all kinds of products. It's a natural conversation to be having, about increasing the expectations of operators. I do expect this conversation to follow in many jurisdictions, and sooner rather than later.

**Jason Chess:** In the wake of the 888.com fine, the GC announced a potential need to overhaul their licensing process altogether. That operator lost nearly 10% of its share price. Should we be bringing in volatility structure into licensing? Allan or Adam?

**Adam Rivers:** My experience surrounding the regulatory climate for gaming suggests that operators tend to be very reactionary to events. In my experience of other markets, companies are well trained not only in dealing with many investigations at one time, but also being much more proactive. In more mature industries, companies tend

not to always be on the back foot, they're on the front foot all the time. If I was an operator, I'd try to see this CMA investigation as an opportunity: how do I position my business, not just to deal with this now, but in future. It opens a dialogue with the regulator which enables businesses to build workable policies. Going forward, you can help set the regulatory tone for your business.

**Allan Christian:** My point is really about the maturation of the industry. Gaming in particular has an appetite for compliance risk, which isn't something you'd ever find in Financial Services, for example, unless you were prepared to deliver something at an inordinate cost. I think there's more of an opportunity for the gaming industry to treat that topic more realistically, and say that yes, we do have an appetite for compliance risk. I'm not suggesting that in gaming, you guys cut corners. It's just that, having come from a financial services background, I've noticed that in eGaming, they are learning and still maturing.

**John Hagan:** I'd agree with both those points. Most people, just generally if you ask your friends, have negative views on gambling. Until recently, gambling in Britain took place in fairly confined environments, which most folk avoided. Technology has liberated gambling in a sense, it's now out in a much wider domain and people express their views freely. In response, gaming itself needs to 'raise its game' and challenge people: don't be afraid to have that conversation! The industry must continue to do the right thing by its customers, but currently we're doing it on the back foot, in reaction to the latest story. We need to get ahead of that debate and do it on our terms like the alcohol industry has done before us.

**Jason Chess:** Let's discuss the statements released by the Commission, one about the industry needing to raise its game and quickly, and the other from when Sarah Harrison

advised us to listen to the Prime Minister's comments about social justice and social welfare? So, John, as a lawyer, and Fiona at the RGA, at what point do we say to our clients, that it is fair justifiable regulation designed to raise standards, and we must raise our game precisely to put ourselves in the right position? Conversely, when do we say no, that it's all political, there's nothing in the Gambling Act that indicates the consumer must have the best deal or the best odds; it's unacceptable, as an industry we can't do that. Do you see that coming?

**John:** Let's be clear – it's Government's job to pass legislation and tell the gambling industry what it can and cannot do. With regard to fixed odds, betting terminals and TV advertising, these are all legal activities enshrined in legislation: things that the gambling industry are able to do. But the practical reality is that the GC advises the government on all matters related to gambling; therefore, it would be foolish to think that the Commission's opinion didn't matter significantly when it comes to government policy. To focus on doing the right thing by the customer, you need to take the regulator out of the picture. The Commission should get involved where there are breaches of legislation (hopefully they're exceptions) – that's when it comes in and does its job. Politics then becomes influenced by industry doing the right thing by the customer, and not by what the Commission has to say.

**Iain Corby:** I'd like to briefly point to the RGSB's annual review of its progress against its strategy. Two of the red flags emerging from the review are against the industry trying out new things, and against their evaluation. To stay one step ahead of the regulator you need to come up with your own ideas for interventions and harm minimisation, and testing and evaluating those, rather than having the Commission decide. In my view it's clearly better if you are in control of your own destiny.

**Fiona Palmer:** I agree with John and Iain. The industry needs to be promoting the good work that it is doing, in the testing and trialling of new ways; we should also be sharing the ways we approach things more. Through the RGA we facilitate some of this, for example, we have a player analytics working group where we're looking at forming a minimum standards toolkit. It takes time however to test and then evaluate new approaches, and evaluation output isn't instant. We learn from many information sources, such as the recent research published by GambleAware around potential markers for harm. This is one aspect, and could potentially help better identify individuals at risk of gambling related harm, but then what do you do with the output of it? We need to gain a better understanding of the best type of interactions and interventions; and this will be done through ongoing evaluation as well as further research..

**Jason Chess:** If, as John says, the industry is being rather dragged to the table, kicking and screaming, what's a likely prediction for us, when the CMA finishes its investigation? Will there be enforcement against a couple of operators, or will some issues which they began to investigate but then appeared to drop, transmogrify into guidance from the Commission? May I have your thoughts please Adam?

**Adam Rivers:** I would be surprised if we don't see the CMA opening up enforcement cases. The focus of its study has changed in some areas and this must be for a reason. But,

**“GAMSTOP, the national online self-exclusion scheme, will demonstrate to the industry, and particularly with the online operators coming together, how best to deliver a solution for those who need help.”**

I doubt there's a 'done deal', and that it will completely remove things such as certain types of promotion, or impose caps on these tools which are, if offered transparently, positive for the consumer; sign-up bonuses and promotions are there to stimulate competition. One of the CMA's remits is to make sure competition is there and working well: it would be a disservice to the industry if these tools disappeared completely. But I predict there will be enforcement and further guidance. We'll likely see the CMA calling for more transparency, perhaps pointing to other industries as an example. Financial Services has some parallels to gambling in terms of the complexity of products, if we look at a current account with its myriad of features, different rates, and foreign exchange prices. It's difficult for a consumer to understand that type of complex product, and it's similar with gaming promotions. Banks work hard to make things as transparent as possible, which is also a good thing for their public image. I doubt there'll be an outright ban on, for example, matched deposit bonuses, but I can imagine there will be calls for substantial simplification. For larger operators, this might not be a wholly bad thing, because, if the CMA take away the tools that have historically allowed for entry by new entrants, your market position is easier to maintain.

**Jason Chess:** Returning to the theme of extent of advertising, where do we think that will go? The government's department for Digital, Culture, Media and Sport (DCMS) has said it doesn't have plans to ban betting advertising around sporting fixtures ahead of the watershed. Where might we end up, in a year's time, not only with the CMA outputs but also with what the DCMS may be forced to do about advertising?

**John Hagan:** I'd be astonished if gambling advertising is severely impacted on television, because, having met with broadcasters, they're more vocal about our right to advertise than the gambling operators themselves. Some operators wouldn't mind a slight reduction in television advertising as the bigger operators are investing significant sums in advertising to hold on to the customers they have, whereas the newer, smaller operators are investing their money in advertising to win new custom. You won't get agreement within the online industry itself, but broadcasters need to retain that £400 million worth of advertising every year, and if it's not gambling, it'll be alcohol. Their revenues are on the line here and they carry weight with government.

**Iain Corby:** Obviously policy must have some evidential base, otherwise it's subject to review. But if you can't point to strong evidence that gambling advertising is causing serious problems, it would be hard to bring in draconian changes. There is some evidence around the smaller things



within an ad that demonstrates the danger, such as a time limited offer or urging people to 'Bet now! Bet now!' Hence, we may see changes in terms of the style and the tone. We've also been pushing for a counterbalance to what's out there, adverts that inform people about the risks of gambling, with tips on how to do so safely and signpost them to treatment and support. One benefit to emerge could be a higher awareness of support for those who need it and a greater investment in preventative messaging.

**Jason Chess:** So, Iain, do you think the IGRG code and requirements for the strap-line go far enough? Should the voluntary element of that be compulsory? Would you like those caveats and warnings beefed up, or are you talking about separate social responsibility ads?

**Iain Corby:** In essence, both. The news that *GambleAware.co.uk* is moving to become *BeGambleAware.org* – this message gets rather lost at the end of ads, and needs to be a stand-alone. But a wider campaign, aimed at those with the highest prevalence of gambling problems, would need to be fully integrated across different channels, because young people simply don't watch TV much anymore. I'd like to see an adjustment of tone, a counter-balancing campaign and improving the visibility of signposting to help on gambling ads.

**Jason Chess:** I wonder what the RGA would respond to this idea that we, as an industry, are prepared to take the IGRG code and beef it up and make a load of the voluntary items compulsory? Fiona, can you speculate on what Clive Hawkswood might say about that?

**Fiona Palmer:** It's difficult as I'm not Clive!. Clive has been working closely with DCMS, IGRG, and GambleAware. Conversations have centred around the code and comments have been fed back. What I imagine he'd say is that whatever the outcome of the review, we'll work constructively to the make necessary improvements.

**John Hagan:** I don't expect big changes to the IGRG code,

because it doesn't deal with the volume of advertising, nor tone or content – these are dealt with by BCAP and the ASA. I'd echo Iain's comments regarding social responsibility advertising, as I'm a father of young boys who recognise every betting company there is from TV advertising. As parents we have conversations with our children about sex, drugs, and alcohol but we don't tend to talk about gambling. To have messaging up there that would act as a prompt for a conversation between parents and their children would address a lot of concerns.

**Iain Corby:** We did a survey amongst 15 to 24-year-olds in the north of England with regards to the success of some of our own advertising. At the same time, we asked that same group if anybody in their family had a serious gambling problem and the answer we got was one-in-five. Clearly, this was a non-clinical judgement about their close family, but that one-in-five figure is scary when you compare it to a half a percent national prevalence.

**Jason Chess:** You're right Iain, that's scary. Whenever you're seeking to redress the balance and put things into perspective, you're in danger of appearing glib or dismissive about what are basically individual human catastrophes, and you must tread that line very carefully. If we fast forward twelve months to the point where we've had the CMA outcome and toned-down advertising, can we get the political heat away from the industry? For example, one of the big accusations thrown at the sector is that we deliberately target the self-excluded. That's a particularly damaging accusation, not made better by cases like 888.com. Will NOSES help us to knock it on the head, Fiona?

**Fiona Palmer:** GAMSTOP, the national online self-exclusion scheme, will demonstrate to the industry, and particularly with the online operators coming together, how best to deliver a solution for those who need help. What we must do, and it is extremely apparent to me, is make sure that we get the message out there that it exists, what it does and

how it can help people, how to access it. We need to make sure that we promote it as a good news story. We are coming together and will demonstrate that by working together, this is what we can deliver.

**Jason Chess:** Thank you. Let's move on to discuss affiliates, which is relevant to advertising self-exclusion. I was taken aback to see Sky withdraw, and 888 drastically prune their affiliate programmes. Why might they have done that and why particularly now?

**Fiona Palmer:** From my experience, it won't just be reactionary measures being taken now. I'm sure discussions will have been taking place for a long time prior to the decisions being announced. Following changes to the LCCP, there are requirements on operators to ensure they are responsible for any third party including their affiliates: the GC sees that third party as the operator. If it was my business, and I couldn't control various elements, for example due to the way the affiliates work with sub affiliates etc., why would I take a risk there?

**Adam Rivers:** I agree. Firstly, there's a commercial reason. If the affiliates are on revenue share agreements, and your marketing team has become well developed, they could be a cost you don't need. Secondly, as an operator, there's an interesting dialogue with an affiliate that could create risk. In economics, we have a concept called the 'principal agent problem', which describes a scenario where incentives are misaligned. For affiliates working under revenue share, there is an incentive to get people through the door to get the money; and given the responsibilities regarding the LCCP are all on the operator, the incentive for the affiliate to make sure customers are signed up in the right way isn't as strong. Certainly there's room for large affiliate networks that act with integrity, but I can see if you're a risk-averse publicly listed company, why it makes sense to review your affiliates and potentially give them a cull.

**Iain Corby:** And apart from pure regulatory risk, there's also reputational risk. We receive many complaints from people about advertising, when they've spotted something pretty outrageous, and they've gone to the operator to question it, who just says it wasn't us, it was an affiliate; we don't know anything about it at all. So, when I look at my risk register (as I hope you all do) I understand why affiliates have been appearing higher on that list. At some point the only way to deal with the risk will be to eliminate it altogether.

**Jason Chess:** Would you actively point at them and say the system is out of control, Iain? Imagine the Commission were to say, 'We're going to make operators and licensees vicariously liable, for the acts and omissions of affiliates, and treat them as identical, from a prevention and social responsibility viewpoint?' What would be your response?

**Iain Corby:** That's really a regulatory matter, so I would limit my comments to the fact that we should be protecting people who are trying to manage their gambling, from gambling advertising and you've got a chance of doing that with the operators themselves. You've not got any chance of doing that with this huge number of affiliates.

**Jason Chess:** And, when we say to the Commission look, the operators have limited control over these affiliates – in our experience that doesn't cut much ice with the Commission. Please share your thoughts about how much or how little control over an affiliate the Commission is going to demand in future, in order to avoid you having to switch them off?

**John Hagan:** It's pretty plain: either affiliates are going to be licenced – which nobody wants – or you hold the operators responsible for them. We heard yesterday that of three regulators, none had any appetite for licencing and regulating affiliates. If you hold operators responsible for what affiliates are doing in their name, and you ensure it is part of their business to supervise them and have controls in place, it should work fine. It's as much for the operators' own protection and own risk register, as well as their own licence.

**Iain Corby:** Touching briefly on the 888.com case – say it was an affiliate problem for 888 and they got sued for GBP £8 million: it doesn't matter how good your contract is with your affiliate, you can't recover that £8 million from a tiny little affiliate operating out of a garage. You can't deal with it in indemnities or anything.

**John Hagan:** Since the Commission started regulating on affiliates, this has always been the case: at the very least you had to be able to terminate their contract on notice immediately if they misbehaved. Presently, they're just ratcheting it up.

**Adam Rivers:** Notwithstanding my previous comments, we need to remember that affiliates can add quite significant value to both the consumer. Look at a website like Odds Checker for example, which makes money by referring people out to the different sportsbooks, but reduces search costs for consumers. In my poker playing days, there was a site called Rake the Rake where you could find 'rake back' deals for every single website out there, giving consumers greater choice in one place. You compared the deals and got the best outcome for you; I think there is a positive place for affiliates. I do echo Iain's point, though, about small businesses in garages who are trying to entice punters by tweeting out bogus tips. That should be a concern and focus.

**John Hagan:** Absolutely. Affiliates are great and have done a wonderful job for the gambling industry but it needs to be done right. Operators can't turn a blind eye to what affiliates are doing to generate business for them.

**Allan Christian:** Just adding to that perfect storm are other influences: we've got the GDPR coming soon, and the idea that a data controller is also the operator has a couple of layers in front of it acquiring data, perhaps not lawfully, in bulk and perhaps for use and misuse. It's an idea that wouldn't feature in most discussions about pruning down the affiliates if not terminating them entirely, but I think that must be a feature.

**"The UK has a very sophisticated gambling regulatory environment."**

# #WeAllWantToPlay: Diversity in Gaming

## Presentation by Micky Swindale

KPMG

Micky Swindale, Director of Advisory at KPMG in the Isle of Man, delivered a fascinating presentation on the topic of gender diversity in the eGaming workplace. KPMG has done much research in this area, in conjunction with leadership consulting firms, and continues to advise clients extensively on the commercial benefits of gender diversity. The issue is currently being hotly debated within the UK media, following new legislation in April regarding gender pay reporting. "Of course, you can understand how people might steer clear from a conversation about diversity, having recently observed the sacking of a Google engineer who dared speak out on the subject. But in reality, there's a strong customer and business case for the inclusion of women on boards and in senior executive roles, which I'll be making today."

On the current climate for diversity in the UK, Ms Swindale highlighted the impact of the April legislation on larger companies, once the first of them published their year-end statistics at 30 June. "There followed a plethora of public reports on gender pay, which brought the topic of gender diversity to the fore. Some organisations, such as the BBC, became a focus, and *The Times* columnist Sathnam Sanghera stated how the business case for diversity, both in terms of employment and marketing, was simply overwhelming."

KPMG has done much research in the area of gender diversity in the eGaming workplace, in conjunction with leadership consulting firms, and continues to advise clients extensively on the commercial benefits of gender diversity.



## Gender Pay Gap Reporting from April 2017

- For all UK employers with >250 staff
- Published annually on own & government website
  - Gender pay gap (mean and median averages)
  - Gender bonus gap (mean and median averages)
  - Proportion of men and women receiving bonuses
  - Proportion of men and women in each quartile of the organisation's pay structure



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"This is how it looked when our research began in 2014. It's only when you get to four or more levels below Exec Co that you get to anything approaching parity. The 30% figure comes from the collaborative initiative the 30% Club, set up with the aim of having 30% women on boards of representation by the end of 2015. This was great in theory, but the progress in the two years since that first report was, effectively, glacial."

"At board level there was absolutely no change and based on that progress, the conclusion of that report stated, 'At Executive Committee level, we cannot confidently predict a timescale for women to ever reach a 30%

"Cracking the Code is our report from March 2014; in early 2016 we looked at View From The Top to get the views of executives. In April 2016, with the Think Future Study project, we talked to millennials and graduates about their views on gender diversity and its potential impact on their careers. In July 2016 we revisited those people we'd originally consulted on Cracking the Code to observe any changes to the gender pipeline, for the executive committees over the course of those two years."

## Pipeline of Female Talent

# 30%

**EXECUTIVE COMMITTEE (EXCO)**

82% 18%

**ONE LEVEL BELOW EXCO**

77% 23%

**TWO LEVELS BELOW EXCO**

72% 28%

**THREE LEVELS BELOW EXCO**

71% 29%

**FOUR OR MORE LEVELS BELOW EXCO**

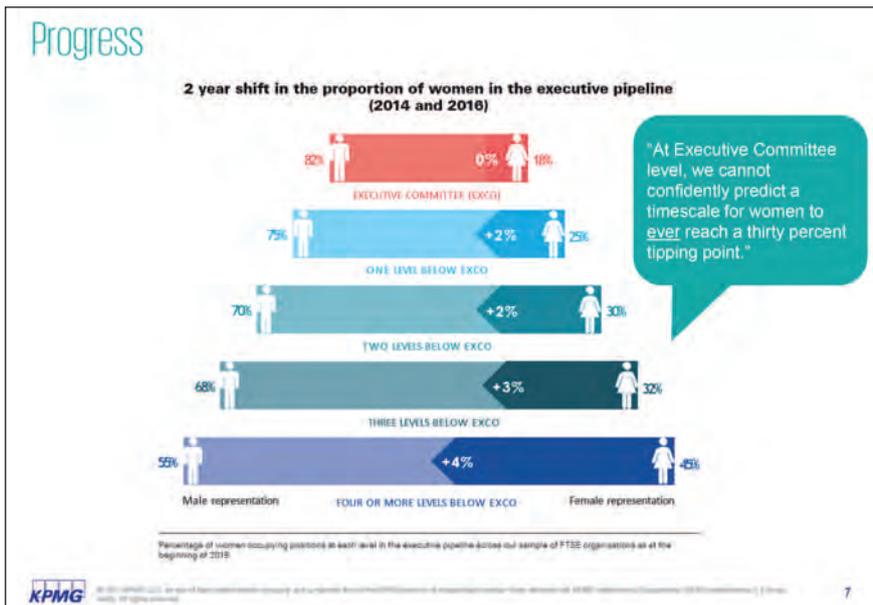
59% 41%

Male representation (on left) Female representation (on right)



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tipping point.' There's clear inequality when it comes to gender and it's an area where progress has been very slow indeed. Business leaders should be concerned about diversity in all its spheres, not just in gender, and I'd like to firstly present the talent business case on this."

unprecedented change, what's worked in the past is not likely to work in the future, and there's no single answer. Therefore, the need for businesses to equip themselves with different perspectives, and adopt a new approach to looking at issues, including different leadership styles, is crucial."

company has managed to get above 15% as the female contingent of their total tech team. There's one tech team with 25% women, but only 7% of these women have made it into leadership roles."

"Regarding the customer business case, unless you're selling a product or service which only applies to one gender, there's an indisputable 50/50 split in your potential customer base. If your actual gender split is different to that, you've got an opportunity, but research shows that women make the majority of consumer decisions in British households, and are turned off by companies with a poor reputation in gender equality. Yet, the market opportunity for companies who can appeal to women is potentially great. Financial services have focussed on women in their advertising for several years now, but can't always back this up with female CEOs or board members. That failure to practice what you preach is one that the public are increasingly aware of, thanks mainly to social, and other, media."

Making the moral business case for gender diversity is a strong driver for Ms Swindale: "As a woman myself I clearly have a vested interest, but I feel more comfortable campaigning on gender diversity since becoming a partner at KPMG – there aren't any further promotions to be gained! The simple truth is it isn't fair for a woman to need to be three times more educated than her male counterparts in order to sit on a FTSE 100 board, as noted by Greenpark recently, in their research. The former Head of the Equality and Human Rights Commission in the UK, Trevor Philips, says a lack of diversity is increasingly viewed as a commercial own goal. In a post Brexit world, as we look for trade relationships with non-European companies, Britain's record on diversity will present its corporate leaders as dated and backward looking. In their FTSE 100 leadership diversity index, Greenpark states, 'Both political and business leaders are being confronted with a steady fall in public trust for a variety of reasons; not least for the fact that neither business nor politics fully represents the population at large. For many the absence of diversity in business leadership is a clear signal that our wealth creators just don't get it.' I would argue it's a bigger issue for the gaming sector."

## The Talent Business Case

- Areas of improved performance by diverse boards:
  - 42% performed better in terms of sales;
  - 66% performed better in terms of return on capital invested, and;
  - 53% performed better in terms of a return on equity (McKinsey)

*"This is where the women agenda comes into play, not as a gender issue, but a different way of looking at things and a different working style. Women challenge the status quo in a different way and bring a different perspective to boards."*

(Isabelle Allen, KPMG)

- Accessing new talent:
  - 60% of graduates are female

Citing a wealth of research in the past five to ten years, which demonstrated that companies with diverse boards in terms of race, social mobility and gender perform better, Ms Swindale continued: "McKinsey's research has some compelling statistics and, as KPMG's Head of Global Relationships, Isabelle Allen, points out, this is likely to become more important, not less. As businesses go through a period of

As Ms Swindale pointed out, 60% of university graduates are female, so it's all about winning the talent in the first place. "The Think Future survey showed that when women make career choices they steer well clear of sectors that are perceived to be male dominated, such as tech. We sourced some statistics on female involvement in key tech teams here on the Isle of Man, and suffice to say, only one

Returning to business case, Ms Swindale spoke of "A well founded perception that whilst the gambling and betting sector has a good track record in social diversity and social mobility – plenty of shop floor to CEO stories particularly in the land based sector – it's seen as poor when it comes to gender diversity. At our Gibraltar summit, we polled our audience on this very issue."

of those polled reported 10% or less women on the executive team of their gaming company. Let's see if that figure has changed." Ms Swindale then ran a delegate poll via the Bizzabo app, on what percentage of the executive team, at companies where delegates worked, was female. The results revealed were similar, that 65% of those polled reported 10% or less women on the executive team of

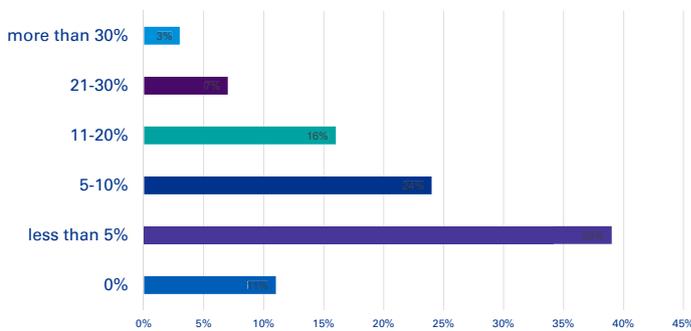
opportunity, with the exception of bingo. "Despite gambling prevalence surveys, and the NatCen report recently released by the UKGC on gambling behaviour in the UK, whose statistics show similar levels of interest in gambling by women and men, only 5% of women gamble online compared with 15% of men. In many verticals, there's underperformance on participation by women. Yet in online gaming, as opposed to gambling, 52% of gamers are women. And in gambling, who can blame women when the advertising approach adopted by most operators strongly implies they're only interested in attracting male customers? In recent years, it's notable that bingo advertising has moved away from that pink, gender-specific advertising to something more inclusive. Bingo has had increasing participation by men, up to 30%, so there's a commercially pleasing result in appealing to both genders."

Running an audience poll on customer base, delegates were asked, what percentage of the customer base was female, at the gaming operator where they worked or knew best. The result revealed more than 50% of the operators have a lower than 25% female customer base but 4% of operators have more than 50%. "Perhaps the industry is learning this lesson more quickly than previously thought," commented Ms Swindale.

Stating the moral business case for gender diversity in gaming is more complex, because the gaming industry needs friends and plaudits in the current political climate. "The sector's reputation for fairness and social responsibility appears to be at an all-time low in the UK, with media, government and the regulator commenting in unfavourable terms about the way that operators conduct themselves and their businesses. Of course, there are many areas on which the industry understands it'll get much greater benefit by acting together, rather than just addressing these issues as individual operators, such as responsible gambling, fairness to customers, and corporate social responsibility. But I would strongly recommend taking a lead on gender diversity particularly, because other industries are being seen to fail here, and you could be the exception."

### At the gaming operator where you work, what percentage of the executive team are female?

#### Response from the audience at our Gibraltar Summit:



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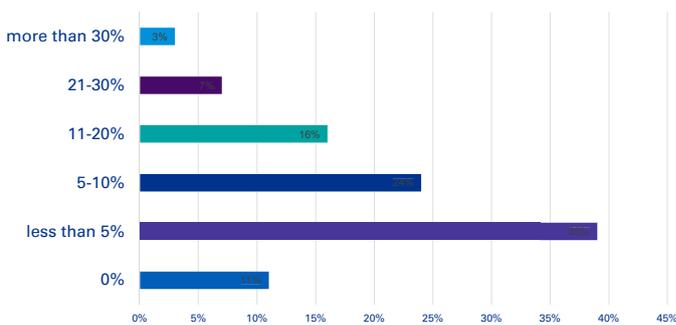
"One of our summit speakers, Simon French of Cenkos, who's a key sector analyst and knows many companies, commented "with the exception of Denise Coates, I struggle to think of another female exec board member amongst the companies I know in eGaming" Looking at the poll, 75%

their gaming company. "It's a common picture that's building up," concluded Ms Swindale.

Returning to the customer business case for gender diversity gaming, Ms Swindale explained that the gambling industry doesn't appear to have recognised this market

### At the gaming operator where you work, what percentage of the executive team are female?

#### Response from the audience at our Gibraltar Summit:



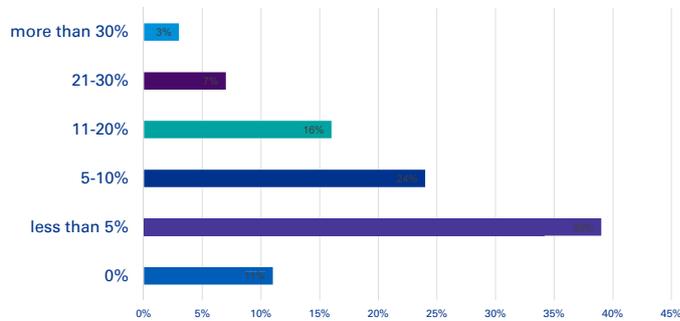
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## At the gaming operator where you work, what percentage of the executive team are female?

Response from the audience at our Gibraltar Summit:



Looking to debunk some of the common wisdom about gender equality, and the progress of women, Ms Swindale spelled out the realities: "One common wisdom is that men and women advance equally at first, then women hit a glass ceiling. The reality is that even with similar qualifications, women lag behind from the very first job. The gaps are not caused by women's choices, behaviours or credentials but instead by the opportunities that they receive. We aren't advocating fixing women or blaming men but we do need to come up with a system that works fairly for both genders. Women are 'leaning in', to use Cheryl Sandberg's phrase. They work, and succeed, often whilst managing family responsibilities and working very long hours. It's time for companies to lean in, and address that reality."

On the importance of working together, Ms Swindale pointed to a survey carried out by Cambridge University. "Murray Edwards, a women-only college, surveyed its entire living alumni to see what impediments to career progress they'd faced. A whopping 38% of alumni said that workplace culture was the biggest impediment to career progress. Much lower on the list was the balancing family/work issue, at just 22%. The cultural issues in the workplace included bullying, feeling under-valued, and that they had to over-perform simply because they were female. Furthermore, there are six principal biases facing women, revealed from many years of research performed by many different providers:"

## Issues based on the research



### PERSONALITY & ROLE CONGRUENCE BIAS

Men benefit from association between stereotypical male values and leadership

Catalyst (2005) / Eagly and Karau (2002) / Williams & Dempsey (2014) / Eagly and Carli (2007)



### ABILITY BIAS

Men tend to be promoted based on potential whereas women are promoted based on experience

McKinsey (2015) / Kay and Shipman (2014) / Sandberg (2013)



### BENEVOLENT SEXISM

Well motivated men make decisions for women that may 'kill careers with kindness'

Glick and Fiske (1997) / Becker and Wright (2011)



### PERFORMANCE EVALUATION BIAS

Double standards in the way men and women's performance & potential is assessed

Rudman & Glick (1999) / Biernat, Tocci, Williams (2012) / Foschi (1996) / Rutherford (2001)



### LANGUAGE BIAS

Men talk over or don't hear what women say

McKinsey (2015) / Kay and Shipman (2014) / Sandberg (2013)



### NETWORKING BIAS

Men's networks sideline women

Williams & Dempsey (2014) / Simpson & Lewis (2007) / Tannen (1994) / Catalyst (2009)

"The effect of these biases is that women are less likely to be recruited into stereotypically male fields, given high profile assignments, or promoted into leadership roles. Whereas they are much more likely to be side-lined into roles that are not client facing or critical to the profit and loss of the organisation, to be negatively judged in performance reviews, and to either end up leaving the organisation or staying but only in mid-level roles. Importantly, the report doesn't suggest that anyone is setting out to deliberately exclude women; some of these biases are linked to socialised male behaviour and others just to unconscious bias."

Concluding her presentation with a poll, Ms Swindale asked delegates, 'At the gaming operator that you work for or know best, do you believe that the current workplace inhibits

"Research found that women are clear sighted about their abilities and careful not to oversell themselves."

opportunities for women?' The poll produced some encouraging results, with 34% reporting no cultural inhibitors for women, confirmed Ms Swindale. "It seems that the Isle of Man is inaptly named – it's pleasing to see that many of you here feel your workplace does not inhibit opportunities for women. This was certainly true last year, as we had no problems at all engaging women in senior leadership to attend our round table event. Perhaps the Isle of Man has something to teach the wider industry about this? KPMG has launched the #WeAllWantToPlay initiative and we fully grasp the importance of working together. Hopefully I've convinced you to make a change, and our initiative aims to support the industry in making that change. If you would like to get involved, please get in touch."

[#WeAllWantToPlay](#)

# Technology Innovation Initiatives

## Presentation by Lydia Barbara

Microgaming

**Technology is overwhelmingly an integral part of eGaming, and its very evolution is essential in keeping gaming products fresh. Microgaming, a leading firm in software creation for the eGaming sector, is proving that innovation and regeneration are at the very heart of what they do. A lively and interactive presentation on this topic was given by Lydia Barbara, Head of Innovation Strategy at Microgaming in the Isle of Man.**

"Today, I'll be talking about tools and systems. I heard the phrase, 'we shape our tools and thereafter our tools shape us' several years ago, and it has since guided much of the work that I do. The truth of this statement is most evident these days in machine learning. Briefly, 'machine learning' is a term describing a self-learning algorithm. It learns and evolves, in theory becoming more like a human as it collates and interprets data. Machine learning algorithms are invisibly shaping our behaviour in several ways, most obviously in things like purchasing decisions and internet search results, and most controversially in voting decisions. We have multiple interactions every day with machine learning algorithms, often unknowingly."

These algorithms can function in unexpected ways too: "Some universities have started using algorithms to filter out the first tranche of applications before human eyes see them. In the US, they're used in several states in sentencing decisions, helping judges decide when people go to jail, and for how long. They're

impacting on many people's lives, and as such it is hugely problematic when these machine learning algorithms turn out to be racist or sexist."

Citing several examples, Ms Barbara explained how unconscious bias or lack of diversity can affect a machine learning algorithm: "Google Photos uses an image recognition algorithm to identify the content of a photo. There was an incident in 2015 in which it identified a group of dark-skinned people as 'gorillas', most likely as a result of a lack of dark-skinned people in the algorithm's training set. Additionally, last year Microsoft conducted an experiment and released a chat bot called 'Tay' into Twitter. The intention was for Tay to evolve and become human-like in its interactions with people. You tweet to Tay, then Tay responds, either repeating what you say, or responding more potentially as a human would. But in less than 24 hours, Tay evolved into a racist, Donald Trump-loving Holocaust-denier!"



On a more serious level, Ms Barbara discussed the use of algorithms in prison sentences: "In the US, algorithms are in place across 24 states, to guide decisions on the length of a sentence. Once a person is booked, he/she completes several questionnaires, and the results of those plus a number of demographic data estimate the recidivism rate (how likely a person is to re-offend upon release). An independent study of the Northpointe system found it was wrong 24% of the time when it reported a white person would re-offend. However, when applied to a black person, it was wrong 45% of the time. A judge using this algorithm for sentencing is at risk of unknowingly introducing racial bias into his/her sentence, with sometimes devastating consequences for the person sentenced and an echo effect for others living in that person's community. The longer you spend in jail, the harder it is to find a job afterwards, among other knock-on effects.

A fourth example of racism in the output of a machine learning algorithm was recently found with FaceApp, a photo filtering app with a "Hotness" filter that lightened the complexions of darker-toned faces. FaceApp responded to this case with "It's an unfortunate side effect of the underlying neural network caused by the training set bias." Ms Barbara, "The training set bias is interesting here, as that is the information that trained the algorithm to output this result. The FaceApp CEO is essentially saying that the algorithm isn't racist, but the information available for it to be trained on is. Here's another example of a training set bias impacting an algorithm's output from Google Translate. In English, we have two gendered pronouns to describe people: *he* and *she*. In Turkish there's a third gender-neutral pronoun which is *o*. To translate *o bir doktor*, Google Translate gives you *he is a doctor*. But try *o bir hemsire* and it gives you *she is a nurse*. The nouns *doctor* and *hemsire* are gender neutral; what has happened here is that the algorithm learned from information on the internet that men are doctors and women are nurses."

Is this just a reflection of our culture and our biases? Ms Barbara thinks so, but that it is nonetheless problematic: "Two problems at least arise from this; the first is that bias is amplified because we're talking at scale, it's not just one person but a system affecting many millions of people. The second, more important issue relates to why we build these systems. The power and potential of machine learning is that it can, in theory at least, guide behaviour and solve problems with better than human capability. It's supposed to be more efficient, smarter and better than us. Yet in some cases these algorithms aren't better than us, and they're shaping tomorrow with today's biases."

Conducting an audience poll, Ms Barbara asked delegates to vote on whether they saw the future of machine learning and artificial intelligence as fantastic, fine or terrifying. Most people saw it as terrifying. Ms Barbara continued, "You may think this is the stuff of dystopian science fiction; however, there are 116 robotics experts including Elon Musk and senior Google employees who are petitioning the UN to put 'killer robots' on the list of banned weaponry for wars around the world. This isn't stuff of the future; it's happening right now."

With the future of our children at stake, Ms Barbara asked simply, what was the best solution? "When we build systems like these, they need to be better humans than we are. To my mind, one of the best tools to fix this is diversity. When you have people building systems who can bring new perspectives and share different life experiences, you can build systems to shape a better tomorrow for

**"A machine learning algorithm is a bit like a child, which you send out into the world to learn things."**

everyone. Look at Google's diversity numbers: only 1% of their technical staff in the US is black. If more people with darker skin tone had inputted photos to Google Photo's training set before releasing it to the public, we probably wouldn't have the situation where a black person can be wrongly identified as being a gorilla."

"A machine learning algorithm is a bit like a child," continued Ms Barbara, "which you send out into the world to learn things. With a child, you choose his school, speak with his teachers, see the curriculum, oversee his homework: you're curating his education. Alternatively, you can take the child, put him in a locked room, log him into Reddit and 4Chan and say 'Go for it!' Ultimately, you'll get two different people. Because so much of what is on the internet is reflective of our current biases and/or a bit toxic, algorithms using this information need more oversight and feedback loops to ensure their output does not exacerbate the problem."

"But," continued Ms Barbara, "machine learning has the potential to be better than humans and replace a lot of human activities. Harm minimisation for problem gambling is one of those areas. Better methods to identify problem gamblers at an early stage would be fantastic, and a better way to tackle the problem than harming the game suppliers or the industry through nonsensical restrictions on game development. Reducing the entertainment aspect of your games in order to protect a small subset of the community seems like the wrong way to tackle that problem when other, smarter methods are available."

Ms Barbara moved on to present the innovation initiative, the Idea Factory, begun by her Microgaming team in early 2016. "We take ideas from conception through a prototyping and trial phase to a yes/no build decision from the directors of the company, then we put them on roadmaps to be built. It's been an outstanding experiment for us and a great project to work on." Conducting a short second poll, Ms Barbara asked delegates whether they'd worked with an innovation initiative in their own organisations. The majority of respondents said they hadn't, but the few who had had enjoyed the process.

Explaining the principles, process and rewards behind the Idea Factory, Ms Barbara elaborated, "One intentional output was to gain great revenue-generating ideas. You may have heard of *EmotiCoins*, a slot game released recently. The idea for *EmotiCoins* was conceived between two of our employees, one in PR and one in our IT department. They worked together, and with a little help from one of our data scientists and a designer, prototyped it, then got exec approval before sending it to the games studio. The trends indicate that *EmotiCoins* is going to be a highly popular game for years to come – it was exactly the right product at the right time. We're extraordinarily proud of everyone involved."

"The other intentional output gained from the initiative is further engagement from the staff," continued Ms Barbara. "We are certainly getting that, which is gratifying. The staff become passionate about fixing problems outside of their own departments, and this contest offers them that possibility."

"A third output which we've realised – unintentionally – is that with this contest we have built a platform that allows for constant regeneration. If I use the metaphor of a house, you

## “Explaining the principles, process and rewards behind the Idea Factory, Ms Barbara elaborated, “One intentional output was to gain great revenue-generating ideas.”

live in it, and everything functions well – that's your perception as the owner of the house. But it's not the perception of your electrician, for example, who may see frayed wires or decay coming in at the edges. It's similar with an organisation. Your engineers see and understand the need for constant regeneration of your systems and processes; they just don't always have the autonomy to do something about it. A significant reason for that is perception: rebuilding is seen as a mark that the system failed to live forever. We need to adjust our thinking to see that rebuilding is an opportunity to absorb all the new things you've learned since. I see regeneration as a wonderful process, to be celebrated.

"I'm convinced that about 90% of your company's problems can be solved by your existing staff, even problems that you don't know you have. If you aren't running some sort of innovation initiative within your organisation, I encourage you to do some research and start one."

Five key lessons were learned while running the Idea Factory, as summarised by Ms Barbara: "The first lesson is to keep the initial submissions anonymous. There are a couple of reasons for this. The first is that when there are mysterious systems in place, there will always be the perception of bias (and also real bias, as demonstrated earlier). I'm a big believer in transparency. Also, allowing for anonymous entries gives your people space to be stupid! You want to encourage them to submit ideas and not know if it's brilliant or ridiculous, you want to risk that so you get the broadest, boldest spectrum of ideas. The second lesson is, never underestimate the ingenuity of your staff. As organisations, we seek to hire the smartest, most creative and dedicated people out there, but then often we put them on a production line. Give them the space in which to flex their brains and their ingenuity, because they have it and they'll amaze you."

The third lesson, continued Ms Barbara, is to engage other people early and often. "The more you involve people from other places and other industries, the more you increase the diversity of ideas coming in, the stronger your output will be. Next, provide constant feedback and support. It's about expectation – people should always know what's expected of them today, tomorrow and the next day. Not knowing what's expected of you is disheartening – avoid that. Feedback going the other way is important too. One of the problems with the Northpointe recidivism algorithm is the apparent lack of a feedback loop. How do they know if the system is working equitably and meeting their goals if they are not analysing the output regularly? All systems should be designed with proper feedback loops in place. It's the only way we grow and the best way to evolve."

**“We shape our tools and thereafter our tools shape us. It's a statement that shows its truth in what we're gaining from the Idea Factory. We're taking the learnings and the people of today to help us craft the sort of business that we're going to be tomorrow; we are stronger as a result of this initiative.”**

The final lesson learnt, confided Ms Barbara, is to treat ideas as if they are infants. “No matter your personal opinion on babies, you always compliment them, and understand that the mother cares about her infant deeply. In the same vein, you'd never go up to someone and say they have a stupid idea.”

“It took me a long time to connect the dots between machine learning and the Idea Factory. Perhaps they're tenuous dots but they're systems and tools which we put information in, and we have an expected output. Fortunately, at Microgaming we had the freedom in which to explore the different levers to allow the Idea Factory to be successful. For anyone thinking of starting an innovation initiative, do experiment first, and make sure you have a feedback loop so you can ensure you are meeting your goals.”

A final audience poll revealed that most people felt inspired following Ms Barbara's talk, and would go on to start an innovation initiative, or suggest it to another team member.

Concluding her presentation, Ms Barbara resumed her opening theme: “We shape our tools and thereafter our tools shape us. It's a statement that shows its truth in what we're gaining from the Idea Factory. We're taking the learnings and the people of today to help us craft the sort of business that we're going to be tomorrow; we are stronger as a result of this initiative. On a personal note I feel I'm a better person: having exposure to many people's ideas, passions and insecurities has made me more open to other ways of thinking and doing. The architects of a system are impacted by the system as well as the people who you would ordinarily expect to be impacted.”





# Panel Session: The Industry View

## Moderator: Russell Kelly

KPMG

## Panellists:

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### Roger Raatgever

Microgaming

### Joe Johnson

Tabcorp

### Guy Templer

The Stars Group

### Jeffrey Haas

Draftkings

The Industry View session focussed on the Isle of Man and offered delegates a chance to hear from two very senior figures in the local industry, and from business leaders with strong connections to it. Led by Russell Kelly of KPMG in the Isle of Man, the panel discussed a variety of topics such as the costs of regulation and its value, new growth and markets, innovation, local infrastructure and its vital role for business and staff retention, and drivers for future M&A. Mr Kelly introduced his panel before launching the debate: "Firstly we have Roger Raatgever of Microgaming, Chief Executive Officer and the longest serving CEO in our sector since Microgaming's inception in the Isle of Man in 2001. Then we have Jeffrey Haas, Chief International Officer of DraftKings in the US. Next up is Joe Johnson, Head of Legal and Regulatory at Tabcorp in the UK, and our fourth panellist is Guy Templer, Chief Operating Officer of The Stars Group. Across all verticals, what are the key trends and issues in the wider industry in the Isle of Man?"



**Roger Raatgever:** “You can track the trends of our industry and its development over time, which I’d separate into three phases of dominant forces. The first was technology. In the late 1990s, it was the barrier which stopped people getting online with charges from 25% to 40%. The next phase concerned affiliates and search engines; the ability to drive traffic became most important, and the charges were between 30% and 50%. We’re currently in the third dominant force which is regulation and governments. Regulation is having a big impact on our industry. We’ve heard today how regulation can be onerous, or painful. But with regulation comes the fact that it has made our industry mainstream. It has also increased its value and by 2020, statistics indicate that 60% of this industry’s revenue will be coming from regulated markets. Regulation is inexorable: there’s no point being bemused by it. What we must do as an industry is work with it. As a software provider watching all the verticals, we’d love to see a kind of harmonisation between supplier, operator and regulator. The next trend in this industry is going to be innovation. Speaking frankly, I think the industry is particularly weak at innovation; the online gaming market hasn’t really had to innovate yet, as we are still in a high growth phase.”

**Russell Kelly:** “Guy, you have been involved in launches into new markets and have come up against regulation. What is your current view on what we are seeing?”

**Guy Templer:** “We’re seeing across the board a move towards heavier, more widespread regulation. It’s inexorable as Roger said, and we need to work with it. I’d like to point to a link however between innovation and regulation. As operators, those of us who work with regulators, we must constantly learn. Let’s go back to regulations, and learn from what we’re doing. From my current perspective, I see a danger in many regulatory regimes because innovation becomes stifled. Why? Because we aren’t necessarily competing with each other, or even with other gambling products. Increasingly our customers

are spending their leisure time in social games, playing eSports, in pseudo gambling products, none of which are regulated, and all of which can move faster than we can in gaming, because of the regulatory environment we work in. We need to figure out how we can continue to evolve our products within a regulated environment. For The Stars Group, we’re currently licensed in seventeen different jurisdictions so we have a wealth of experience with regulators. We’re fully supportive of good strong regulatory regimes being introduced that protect the vulnerable and enable the creation of a healthy vibrant industry that delivers tax to the state. But it is beholden on all of us to work together and continue to improve our ability to innovate as an industry otherwise there is a real possibility that we’ll be completely stifled and unable to compete against the next wave of leisure and entertainment.”

**Russell Kelly:** “Joe, as Head of Legal and Regulatory affairs at Tabcorp in the UK and a recent licensee in the UK environment, are you seeing a similar sort of experience in your interactions?”

**Joe Johnson:** I think regulation and the regulatory climate is challenging. We’ve talked about various aspects of it today, including a type of sensationalism which arises from the media attention that our industry gets. In reality, there’s a rapidly changing approach to the ways in which regulation is viewed, and the focus that it’s getting at government level. It’s critical that we have a credible, strong and well-regulated set of markets in which we operate, and which build a successful environment for the future. One observation, as someone who left the industry and then returned, is, we could do better in how we manage our relationships with regulators and in how we communicate. There are many diverse strands to our sector. We don’t all have aligned interests but the world sees us as one sector, and if we can find a way to harness that, it could be powerful in helping to shape our future.

**Russell Kelly:** Jeffrey, as someone in a relatively new element of the online gaming sector at DraftKings, when you look to a new sector you are possibly looking for regulation as a way to develop the industry. What trends are there in your developing business, that coincide with regulation?

**Jeffrey Haas:** DraftKings had a slightly bumpy start in North America, followed by an aggressive marketing campaign and then a small existential crisis! So, we reached out to legislators and regulators to educate them about our category (DFS), about who we are and how we operate as a business, how we're regulated and pay tax. A socially responsible operator will always seek to contribute back to the environment they operate in. In the last sixteen months, fifteen states passed legislation to formally regulate DFS inside the US. This trend is likely to continue. Internationally, we speak with regulators around the world about what our category looks like to help them understand how it works, and why existing regulations may not be appropriate for what we do. The education is a constant process, but it allows us to get ahead of the curve on issues that some other sectors of the online gambling industry have had in the past. This means we can bring in strong regulatory options which are distinct from existing categories. For example, with the Malta regulator, we put in place a controlled skill games regulation. As a result, twenty licence applications have gone in, so a lot of economic activity around Malta; the Isle of Man has put out their first DFS licence and so we see the sector grow. In my experience, I've seen the mistakes that other verticals have made by not engaging early with the regulators and legislators. It's about being vocal. Another concern that struck me this morning was in respect to public relations. We're effective at public policy and speaking to legislators but from a PR perspective we tend to focus on our own brands and innovations and not talk about what we're doing from a process perspective that ensures we create a safe, fun and responsible gaming environment.

**Russell Kelly:** From an audience poll this morning, the consensus was that the industry is in a serious position with regards to regulation, and the focus my panel today is giving to regulation clearly demonstrates how seriously it is being taken by all the major operators. Let's move on to look at growth. Guy, having gone from being a pure poker business a few years ago to launching casino and now sports, do you see the growth coming from verticals or from new markets and territories?

**“From an audience poll this morning, the consensus was that the industry is in a serious position with regards to regulation, and the focus my panel today is giving to regulation clearly demonstrates how seriously it is being taken by all the major operators.”**

**Guy Templer:** Broadly speaking, we see our growth across three areas. The first is geographically. At Stars, we are primarily a poker business, and we're still seeing plenty of growth here. There is a swell of interest in Asia and in the top 10 list of Poker sites today there are three Asian sites. Alongside Asia, Latin America is growing, and even in Europe – where rumours of the death of poker have been much exaggerated – we continue to see growth. Over the past year, growth at PokerStars has derived from the newer verticals such as casino and sports book, but our poker business continues steadily in our mature markets. To consider sources of new growth, we must return to innovation and to product. We don't necessarily see our competitors as being other casinos, or sports books. Among our core demographic, we see competition coming from eSports and casual games and social games, so a source of growth for us is going to be innovation. This week we launch a new type of poker, “PokerStars Power Up” which takes elements from games like Hearthstone and Clash Royale, and incorporates them into real money poker. We've spent two years working on this complex product and it will take a few iterations to get it right. Basically, we've sought to create that convergence between traditional gaming products and what people are actually doing today; how they spend their time. This is absolutely where we need to be as an industry and that's where we see a key source of growth. We want to continue to work closely with regulators to make sure we stay compliant as an industry and deliver a set of products at the cutting edge. The third source of growth for us is ultimately about making these categories exciting again. Poker has been around for 150 years but we need to make sure we keep reinventing it through innovative marketing campaigns as well.

**Russell Kelly:** Roger, Microgaming is a key supplier of content to a lot of people. Where are you seeing growth coming from right now? Is the picture similar or different?

**Roger Raatgever:** It's a similar picture to Stars. We look at it quite simply: at product, customers and markets. With product, we are still seeing fantastic growth from our existing range. If we took seven companies, including some of our competitors that are publically listed, their growth over the last three years (2014-16) has been anything between 8% and 28%, with an average of about 17%. Now in any business around the world you would grab that! There is phenomenal activity in this sector driving profit, whether it be via mergers and acquisitions, or other ways. The industry is still weak on innovation, but it is to come: I think innovation is going to be the next dominant force. Markets are exciting. We're seeing growth coming out of South America, and Asia, and out of markets which we've never even considered before, whether it be Georgia, or Portugal, Spain, or Italy. We've barely scratched the surface when it comes to markets. Unfortunately, Australia is a large market, but licensing just isn't working out yet which is frustrating. Now look at customers. Last year, on our Quickfire platform alone we signed 47 new customers which brings us up to 250 customers across all platforms in total. We have over 850 games and an extensive roadmap of new games coming out later this year and next. We have our home-grown game in EmotiCoins as well. We're doing so much, that even when standing still this industry grows at a phenomenal rate. One of our customers grew 65% quarter on quarter! Growth is coming from product and markets.

**Russell Kelly:** Great news, and hopefully the Isle of Man can share in that growth going forward. Jeffrey, as a newer element of ongoing gaming, do you see an expansion in the audience of people involved in gaming online, and therefore potentially growing other markets?

**Jeffrey Haas:** Absolutely. In Europe, there are more than 10 million season-long fantasy football players. 100,000 of them have registered on DraftKings so we're just getting started with 1% of the addressable market being reached so far. In the US, we've just passed 8.3 million registered customers in the lead up to week one of the NFL (National Football League). Clearly, we have a strong start in the US, and the rest of the world represents a colossal opportunity for us. As we seek to expand and attract customers it is important to continue innovating because we have a very competitive landscape in America. While we are focused on product innovation, geographic diversification is also key. We're seeing DFS explode in popularity in India, South America, and in Australia. It's interesting to see not only our opportunities to expand there but, as some companies pull out with existing product verticals, they may seek to re-enter and exploit their databases with products like ours.

**Russell Kelly:** So, looking at the Isle of Man, particularly Roger and Guy your companies and you personally have made your home here. What are the key reasons for being based on the Isle of Man, the key benefits you see for being here on the Isle of Man? And then we will come on later to talk about our wish list, what we want to see on the Isle of Man to further develop those businesses and attract other people maybe like fantasy sports businesses here in the future. So Roger, do you want to start with your key thoughts on why you are here and what really keeps you here and benefits?

**Roger Raatgever:** "It was probably sheer coincidence that we arrived here. We would visit the Island for legal advice and we got to know the place well. At the same time, the Island promulgated its Online Gaming Regulation. From this, we felt this would be a great place to be based! It is the professional service, the infrastructure, and access to government. I mean the government has been fantastic for us. They have listened, they are available; almost five years ago we helped to bring fifty families over to create Derivco Isle of Man. Almost 90% of those families have stayed on the Island with Derivco, and the government made that possible. As for island life, I am a huge ambassador for the Island. I cycle or run to work – there's very little traffic. The work/life balance is so achievable here, and because we are global, you can be local too. Island life works very well for us. We are very happy here, so much so that we have recently moved into our new HQ, Sixty Two, creating a campus for staff. The Isle of Man is our home."

**Russell Kelly:** That's great to hear. Guy, is it a similar story at Stars?

**Guy Templer:** Yes. We arrived in 2005 on the island with ten employees. We are now obviously a significant employer on the island, and will continue as such. There were other choices, but in the early days, it was very much about the regulatory regime, the openness and the accessibility of the GSC and to government which has been important to us over the years. I wholeheartedly agree with Roger,

there is a quality of life here which can be very appealing particularly for young families which is hard to find elsewhere. We have a high retention rate on the island and it's that sense of community that is created on the island which is great for us. It must be slightly harder for a smaller employer to bring people onto the island but for us as a larger company of 400, we bring people into a community. Also, there is so much to do outside of the office which plays a really important role. Fostering a sense of community is probably the biggest consideration in terms of helping staff retention. As local businesses, we can support this social and community side – Roger and Microgaming have been fantastic at that. We also do our part, supporting various local events. The other consideration is recruiting people and bringing them onto the island in the first place: with more senior staff this can be more of a challenge. Frankly, it can be very challenging getting people to move from a certain lifestyle in London or Paris, to uproot themselves and their families to come here. We must ensure collectively that we have got the right kind of facilities here to really attract them, because when moving people in executive roles, they have many considerations besides the career opportunity itself. It is so important that we continue to look at what we can offer not just as a group of operators but as an island to help bring in people.

**Russell Kelly:** We will come back to those specific challenges. Moving on, Joe, as someone who neither operates nor resides here, what do you perceive from an outsider's perspective the Isle of Man to be? And Jeffrey, if you consider other jurisdictions, why, or what, would make you want to come here?

**Joe Johnson:** Firstly, it's a very beautiful place and who wouldn't want to cycle or run to work every day with some fresh air? But it has a well-respected regulatory regime. Certainly, the interactions that I have had with the GSC to date have been positive and have been collaborative. It's an island but it is very accessible to the outside world. It has infrastructure. I can't comment on the quality of private education here, but it certainly seems to tick a lot of boxes on a personal level. It also ticks the boxes from an operator's perspective and when you are looking at attracting employees into the workplace, things like work-life balance shouldn't be underestimated.

**Jeffrey Haas:** I have been visiting the Isle of Man for about 12 years. Initially for job interviews, and since I began working with Guy seven years ago, I've probably visited over 100 times. I enjoy the island and have some good friends here, I'm very positive about it. The biggest negative for us when considering jurisdictions to base ourselves on for European expansion was the clear applicability today and in future inside the European Union and with the Brexit question, the Isle of Man is not a contender for us today. Once we know where things lie, we will consider it. In the event we wanted to base ourselves in Europe in an English-speaking market the options really were Ireland and Malta. Malta has a very forward-looking regulator which proactively looked into our sector, and solicited feedback on regulation that they were considering at the time. We had the chance to properly engage them in a dialogue and that went in a very positive direction. One other concern I have about Isle of Man is

just the lack of direct flights to various jurisdictions that we would want to travel to on a very regular basis. Connecting through the UK or Ireland adds about four hours of travel each way.

**Russell Kelly:** Some of those softer issues are very important, the flights and accessibility, the education and facilities. Guy and Roger, what would you want to see changed? What needs to be better here to really bring people over?

**Guy Templer:** If I may begin with a harder issue: Jeffrey touched on an important point about regulation. As Roger said, the Isle of Man is no longer competing with the other islands around the UK; it's competing with the regulators within Europe, such as Malta, France, Spain, Italy. We must find out how to create USPs, and to continue to create USPs for the regulatory regime here that will make the Island attractive, as more regulators spring-up within Europe. For us, it's vitally important that the Isle of Man works closely with their regulatory colleagues in Europe and around the world to create an environment in which companies like Stars can continue to operate between jurisdictions. In the last four years, there's been an increasing emergence of local country regulation which is calling for all server infrastructure to be based within the EU, for example. Now that's something which becomes problematic for companies who have their infrastructure based within the Isle of Man. These issues will continue to arise, and for us as local operators working with the GSC and with government, we need to continue to try and build collaboration between regulators to create the best of both worlds of being able to successfully operate these large multi-national operations but across multiple regimes inside and outside of the EU.

**Roger Raatgever:** "All of us here – The Stars Group, Microgaming, Continent 8 – we compete on an international level and we must attract staff at that level. For example, when designing our new HQ, we knew we'd have to put in place a state of the art office, because we are now competing on a global basis. Back when the Isle of Man was more financially focused, the competition was the Channel Islands, but now, eGaming and the digital space contributes more than ever before. There's a lot of real competition out there: it's Malta, Gibraltar, Singapore, Hong Kong. We do recruit from London so we're competing with a world-class city. Travel links can be very frustrating. We spent a significant amount of money trying to bed down some travel links, to get the government to understand that the open skies policy is a real issue. Any given week we have tens of people travelling out of Ronaldsway. This week eighteen people flew in from around the world for our HR function and it wound up being incredibly difficult to land them. With regards to schooling, we have one independent school and it is generally shunned by the local population. They don't understand why it is necessary. Also, hospitals, hotels: I think there just isn't the acceptance that these softer issues are so important. The harder issue is the support of what we have. Look at what The Stars Group are doing, at Continent 8 or Microgaming, invest in what we have here and the rest follows. There is a lot of government pressure to go find what's new and exciting, but if we focus on what

we already have, new business will come naturally, and we have seen that time and again – that's very important."

**Russell Kelly:** True, always look after what you have got and it will be much more rewarding than looking for something new. You mentioned the importance of the clustering effect back in the early 2000s with the arrival of Microgaming, Continent 8, Neteller, Domicilium's hosting centre, Manx Telecom investing in infrastructure. Many major suppliers to the industry brought people like The Stars Group over. Moving on to M&A in the sector: is there now a cost-based focus on it, or is it more growth-orientated?

**Roger Raatgever:** "The heady days of huge growth for some of the large land-based organisations has been difficult to maintain, with regulation and with the costs involved, so yes, costs synergy does seem to be driving many of the mergers and acquisitions. I feel it stunts innovation because it is a distraction in the market place: management time goes into bedding down those acquisitions. In fact, one of our team mentioned a theory "diseconomies of scale", which means when you expand too quickly, you spend too much time trying to work out what you've actually got. Yet certain other organisations just appear to get on with it. We fall more into the latter camp in terms of M&A. We've made significant investments in several game studios around the world but they don't necessarily make the news. There's a lot happening but the driver is not so much to do with innovation as with having the depth and breadth of content developed locally in certain jurisdictions to target specific markets."

**Guy Templer:** Another driver I see is the tiny player who needs a hand. We see these mega mergers in the UK for businesses that are primarily UK-facing, but we should be talking about regulation. It is really hard for a small operator to meet the regulatory requirements in the regimes that are popping up. Even for The Stars Group, acquiring those 17 licences has been hugely expensive and time-consuming. In every market we enter, we see smaller operators unable to cope, and as the markets open, small companies simply sell their databases, close and move on. That's another key driver for consolidation: around market entry to make it easier for businesses to expand and get some economies of scale before they hit the diseconomies of scale that Roger mentioned. For us as a business we are driven in a different way. Many of you know we activated our new verticals of casino and sports in the last 2 years and

**"The heady days of huge growth for some of the large land-based organisations has been difficult to maintain, with regulation and with the costs involved, so yes, costs synergy does seem to be driving many of the mergers and acquisitions."**



increasingly we have moved from being a purely poker-focused business to being a business that focuses on creating tight customer relationships that we can deliver value to through great poker, casino and sports products, as well as other future products. For us what is increasingly important is how to manage that relationship and build that relationship with customers. When it comes to the new breed of products, I see some good strategic acquisitions happening to bring on board expertise and new verticals for the gaming industry, and for operators like us. We have been very public about our interest in the sports book space as that is our newest vertical. We can grow our own sports book, and if we find the right opportunity to accelerate our growth, we'll do it, but adding slowly and strategically to build around that core customer relationship.

**Russell Kelly:** Joe, any thoughts particularly talking on the cost of regulation?

**Joe Johnson:** Certainly, regulation and compliance is an expensive exercise, and people intensive. Around 10% of our UK work force is either in compliance or in legal and regulatory affairs which is a huge cost for any business. My personal view on consolidation is, it will be a mix of the need for synergies which will be driven by whichever part of the sector that you're operating in; some of those pressures will be regulatory. Other M&A will be driven by the need to acquire expertise and that might include rapidly emerging markets becoming regulated quickly. If you look at the US

for example we can see that regulates then some foreign operators may well be attractive to existing US businesses.

**Russell Kelly:** How do you think M&A growth will impact your sector, Jeffrey?

**Jeffrey:** It already has: Paddy Power Betfair announced the recent purchase of Draft, a DFS operator for US \$48 million. It's their opportunity to get into the competitive DFS business in the US and possibly use that product in other markets. But the principle aim in purchase is something else entirely. The state of New Jersey is appealing a former court decision, which bans sports betting, and has taken its appeal to the Supreme Court. In the event that the Supreme Court find in favour, there will be a huge rush of activity around people looking for a position in that market. Thus far, we've seen much consolidation between Australian or British bookmakers, looking for cost efficiencies and slight growth geographically, or just through players in existing markets. But people looking towards America – it won't be as per the consolidation in Europe and Australia, rather it will be consolidation from the large American "brick and mortar" companies looking for massive acquisitions where they can come in and plug and play with technology and full infrastructure end to end. It'll be interesting. I think people are already knocking on doors and having discreet conversations in anticipation of a watershed moment."

Mr Kelly thanked his panel for their contributions.



# Closing Words

## The Hon. Laurence Skelly MHK

Minister for Economic Development

**It's my honour and my pleasure to close today's summit. Firstly, may I congratulate Russell, Micky and the whole KPMG team for yet another highly successful event. Their continued investment in emerging sectors is to be applauded, as eGaming and eBusiness represents nearly 25% of our GDP. It's our fastest growing sector, and has become a global magnet for companies wishing to relocate here, attracting talent, skills and investments. As a government it's vitally important to have a manifesto which supports the economy. One of the highest priorities for this government is to promote us as an Island of Enterprise and Opportunity. To this end we must embrace our responsibility to provide the economic ecosystem for new business to grow and to flourish. We recognised, a couple of years ago, an issue of funding, so we put forward £50 million of taxpayers' money for an Enterprise Development Scheme, that is now in full flow. Deals are being made, bringing real business here, real jobs and real benefits, from which business growth will follow. We recognised the skills gap, and so we introduced an exemption for work permits.**

Much is going on behind the scenes and next month I'll introduce wider reforms for the economy in general. We've taken a holistic view on the skills gap, and worked with our colleagues in education to ensure that we build an education system that will be married to our economy. This includes the recent launch of Cyber Security academic degrees at our college here in the Isle of Man. We've allocated a budget so you can properly relocate staff here, and provide financial incentives to make it easier for you to grow your businesses.

One key theme for this sector is innovation. In this we have a very strong pedigree and it's essential that we introduce legislation to support you and your industry. Our pragmatic view has led to the Alternative Banking Regime legislation,

for which we've already received applications, and a licence in this area for the first time in over 25 years will likely be issued soon. It's critical to equip our department for this modern, dynamic economy, so we've had a root and branch review with the purpose of restructuring. One initiative to emerge from this refocus is the introduction of an Executive Agency for the Island's digital community. This will create a true public/private partnership, where you, the industry will have input on product development, research, promotion and policy, and we in government can concentrate on strategy, policy and the legislation to support you. We're here to enable you to grow your business, by creating the right environment for growth and innovation.

Today I've been especially pleased to note the sector's focus on two key areas: firstly, on diversity, and secondly, on social responsibility. This ties neatly into our equality bill, a generational piece of social legislation that will be important for the island's integrity and reputation. And social responsibility can connect itself to the skills gap, as the more millennials we employ, the greater the need to focus on social responsibility, because they value it very highly. In government and in industry, we must all take this on board.

Lastly let me congratulate KPMG once more on a hugely successful event and mention the many sponsors behind it. Thank you, Continent 8, SMP, Manx Telecom, Wiggin, Newfield, Feature Space, Muchbetter.com, GBG, Capital International, and the IMGL Masterclass. Thank you also to my own department and the staff there for their help today.

Finally, when you think of the Isle of Man and doing business, whether it be in eGaming, eBusiness or digital, I want you to think of an island of innovation, an island of integrity and an island of excellence. To those who are travelling I wish you cair vie, and aigh vie, that is safe home and good luck.



360°  
reality  
centre tour



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