



KPMG eGaming SUMMIT

KPMG eGaming Summit Isle of Man

November 2015

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A Word from the Sponsor



We at Continent 8 are proud to call the Isle of Man our home. With an unrivalled telecommunications network, sympathetic public/private sector bond, and an expanding community of top industry professionals, the Isle of Man's place as a premiere location in the world of eGaming grows ever stronger. It is uniquely placed as a market leader in player fund protection and in being home to multiple Tier 3+ data centres.

Our world-class data centre is centrally situated in the Island, just 500 metres from the power station, and constitutes the footprint for a wealth of resources now servicing London, Dublin, Paris, Gibraltar, Guernsey, Malta, Lisbon, Singapore, New Jersey and Montreal. Here at Continent 8 we feel proud to have become the most recognised brand for consummate security and reliable services to the eGaming industry.

We are committed to enhancing the Island's position as a pivotal eGaming hub on the world stage. This year's KPMG Isle of Man summit was characterised by industry cooperation, a desire to adopt new technologies, and a resolve to embrace the challenges ahead in 2016. With that in mind, we're delighted to be the sponsors for this year's report, and look forward to seeing everyone again at next year's summit.

Richard Ebbut

Continent 8 Technologies

Introduction

The introduction of sector specific legislation back in 2001 cemented the Isle of Man's position as a leading eGaming jurisdiction. Since then, it has become home to some of the industry's most celebrated brands, including PokerStars and Microgaming. Weathering the changes to its white list status – after the UK's move to a point of consumption framework – the Island has continued to build its reputation by adhering to a series of core principles which put public & private sector cooperation, consumer protection and responsible innovation at its heart. Where better, then, for KPMG to hold the 11th in its celebrated eGaming summit series?

On 10th November 2015, KPMG welcomed a host of industry experts and 200+ delegates to the Island for the 6th Isle of Man event of its KPMG eGaming Summit series. Returning this year were the acclaimed International Masters of Gaming Law, to present three stimulating Masterclasses, sponsored by SMP Partners. A new and exciting addition for this summit was the live polling feature, where delegates voted on a range of topics using their mobile phones and the Bizzabo app.

Following a breakfast kindly provided by sponsors Manx Telecom, delegates listened to the welcome address delivered by the Minister for the Department of Economic Development, Laurence Skelly, MHK. Minister Skelly provided a brief overview of the Isle of Man's position as a world leading jurisdiction in the eGaming sector. Comprising already one fifth of the Island's economy, eGaming continues to grow year on year owing to a trio of USPs: effective regulation, a comprehensive suite of ancillary services, and a government policy which promotes diversification and innovation.

There followed a summit staple, the local sector update, presented jointly by Mark Rutherford of the Gambling Supervision Commission and Mark Robson, Head of eGaming at IOM Government. Whilst acknowledging some of the difficulties of the past 12 months, the DED & GSC outlined their current positive situation and ongoing plans and initiatives for the

next year, including news of the proposed ICT university set to open. Delegates then made a choice: to stay in the main room for a panel session, or to move into the cinema for the IMGL Masterclass.

In the main room, panellists Helen Walton, Andrew Tottenham and Stephen Trimble focussed on technology developments in the sector, including the emerging significance of mobile first and increased data storage needs, and were moderated by Archie Watt, KPMG Isle of Man. The first of the IMGL Masterclasses studied the International Legal Viewpoint, with moderator Dr. Wulf Hambach and panellists Justin Franssen, Dr. Joerg Hofmann and Stephen Ketteley tackling issues of cross-border legislation.

Delegates then reconvened to enjoy a fascinating presentation by eminent industry researcher, Dr. Jonathan Parke of Sophro, on 'Psychosocial Need Satisfaction in Gambling', which examined the links between gambling, leisure and pleasure. Susan Breen of Mishcon de Reya chaired the second Masterclass on Financing the Consolidation Boom. With her panellists Linda Main, Dan Macadam, Chris Treneman and David Shapton, Ms. Breen analysed the wave of recent M&A activity in eGaming and its contributing drivers.

A delicious lunch, sponsored by PokerStars, was followed by a captivating talk on The Multi-Jurisdictional Licensing Process, expertly presented by Jennifer Houghton of Annexio. Moderating the day's second panel session, Micky Swindale of KPMG Isle of Man navigated the tricky waters of corporate social responsibility together with industry leaders Sue Hammett, Janine Woodford Dale, Dr. Jonathan Parke, Mark Reynolds and David Schollenberger. Exploring the impact of international direct & indirect taxes in various eGaming territories was the topic for the third IMGL Masterclass, moderated by Sandra Skuszka of KPMG Isle of Man, and featuring Andrew Cotton, Quirino Mancini, Dr. Joerg Hofmann and Tom Lobb on its panel. Our

penultimate presentation of the day introduced Bernard Marantelli of Colossus Bets, who delivered a hugely entertaining talk on Innovation and Incubation, and paid particular attention to the sector trends therein.

Lastly, providing an upbeat view of the year ahead, the panel session 'Looking to 2016' was moderated by Russell Kelly of KPMG Isle of Man, and included Bill Mummery, Stephen Ketteley, James Agnew and Paul Novellie on its panel. With many challenges ahead, including increased regulation, greater consolidation, a global skills shortage and a fiercer competitive landscape, the panel sought to highlight the opportunities for existing operators, with emerging markets (in regulated and non-regulated territories), new technologies and products, and fresh sources of funding. As Russell Kelly remarked, "the industry is still thriving, in some ways it is still very young... the Isle of Man is extremely well placed to offer a home for prospective eGaming companies... everyone stands to benefit from the accrual of expertise that is coming in, combined with initiatives, and the financial and regulatory framework that is already in place."

This report seeks to augment and build upon the day's lively debates, and on the imperative for all stakeholders to work together and share information at a critical phase in the industry's maturation. KPMG would like to take this opportunity to once again thank the Summit's sponsors, speakers and attendees who together demonstrated that the Island's strength lies in its spirit of openness and cooperation. We would also like to offer special thanks to representatives of the International Masters of Gaming Law for contributing to a truly international and seminal instalment in the eGaming Summit series. We look forward to seeing you all next year.

KPMG employs a number of eGaming industry specialists in the Isle of Man and provides expert guidance at every step, and in every aspect of this constantly evolving industry.



Welcome address

The Hon Laurence David Skelly, MHK

Minister for Economic Development
Isle of Man Government

The Hon Laurence David Skelly MHK is Minister for Economic Development in the Isle of Man Government and is a Member of the House of Keys (MHK) for the constituency of Rushen. Prior to being elected to the Island's Parliament, Tynwald, in 2011, Mr. Skelly was Director of Manx Inspirations, a leading local wholesaler, and Destination Isle of Man, an event management company. Previous to that he lived in California for 15 years, where he owned and operated a chain of travel agencies and also represented Isle of Man tourism. Maintaining his Manx roots, he joined the North American Manx Association and served as President between 2006 and 2008.

"Moghrey mie, vraane as gheiney seyrey! Failt roish Ellan Vannin.

Good morning ladies and gentlemen, and a special welcome to those visiting the Isle of Man. May I first of all thank Micky Swindale and the KPMG team for this sixth summit," said Minister Skelly as he opened the day's presentations.

"This event has really grown in prestige, and it's very important that this industry continues to grow. The Isle of Man is entering its 30th year, that's three decades of continuous economic growth. We're extremely proud of this, but I will tell you it has not happened by chance, because the Isle of Man government has a very strong policy of promoting diversification and innovation. Very clearly, eGaming and eBusiness is a major part of that success."

"This next year, this industry will comprise a fifth of our economy, and it continues to grow at a very rapid rate. That has happened because we have well respected and effective regulation. Our Gambling Supervision Commission has adopted a very pragmatic approach. Importantly they are protecting the consumer,

something we all must take on board. But it is effective because it allows businesses to flourish."

Minister Skelly continued by citing the difficulties for the market over the past year, most notably the changes in UK legislation, and its impact. "This last year has been a challenging year, a difficult year. The challenges will continue, especially as we mature as an industry. But what we do here on the Isle of Man is that we work very closely as a government, and as an industry, to overcome those challenges, and present new opportunities, and we are keen to continue to do that. Of course we've endured a situation, which resulted in fewer start-ups and fewer licenses here. What we're trying to do is concentrate on quality, over quantity. But what we are focussing on, when I say quality, is looking for business that has real presence here on the Isle of Man. From a government perspective, that results in real jobs, real taxes and a real benefit."

"That's what we will be focussing on in the future. 2016 promises to be an exciting year, I think, a new dynamic year, there are new hot topics: eSports, Fantasy Sports, codes of

conduct are being developed, and new licensing. So we will be working with you, the industry, to see how the Isle of Man can continue to flourish, and can continue to grow in this area."

"What are we doing as a government? There are two areas in particular we're really focussed in on. One of them is the skills shortage, a global problem we recognise. We have now entered into a partnership with a private entity for an ICT educational facility here on the Isle of Man. And we are working towards the first intake to be September of next year. That will provide an accredited, academic qualification in this industry, but, very importantly, it will be an earn-while-

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you-learn programme, and create employment opportunities, not just for our young people, and for people wishing to make changes in career, but for people who want to come here, be educated, and be employed on the Isle of Man."

"The other point is, funding. We recognise how difficult this can be, especially for start-ups. Just this last month, the government has supported a new enterprise development scheme, and put 50 million pounds, money in our mouths, and your mouths, and to promote jobs and real

growth opportunities for the Isle of Man. But when we talk about small business start-ups, we are encouraging our young people to get involved with innovation, to become entrepreneurs."

Minister Skelly then outlined the details of this exciting new government initiative for young people wishing to create start-ups:

"We now give them the opportunity to have R&D funding, up to £25,000, and £5,000 living expenses for a 16 year-old. That's what we want to promote: entrepreneurship, at the youngest

possible age, because those will be the business leaders of the future."

"So sadly both myself and Alf Cannon, who is responsible for eBusinesses, have to leave as we have a House of Keys sitting this morning. We are leaving you in the very safe hands of our team: Elissa, Mark and our newly appointed eBusiness Director, Jonathan Mills. Jonathan has over 30 years of eGaming experience and we are expecting great things. With that I wish you a very successful summit.

Gura mie eu "



Session 1. Sector Update – IOM Specific

Mark Rutherford

Deputy Chief Executive, Policy and Legislation, Isle of Man Gambling Supervision Commission

Mark Robson

Head of eGaming, Department of Economic Development, Isle of Man Government

“Well, hopefully the ‘two Marks’ won’t turn into the Isle of Man’s equivalent of the two Ronnies,” So began Mark Rutherford as he opened his IOM sector update, presented jointly with Mark Robson. A staple of the KPMG eGaming summit series, this region specific update provides an overview of the previous 12 months’ activity from a regulatory and a developmental perspective. It also serves to unveil the key issues which will concern both the DED at the IOM government and the IOM Gambling Supervision Commission over the coming year. The ‘two Marks’ were on a mission to deliver the news regarding what they have been doing, what they are currently doing, and what they are going to do in the future.

Referring to a visible slide, Mark Robson provided a snapshot of recent activity in the island’s eGaming sector. Owing to a simple graph, delegates could see the steep increase in actual GDP compared with what was forecast. In the financial year 2013-2014 growth topped £168m, which equates to an increase of 32% compared with the

previous 12 months. This means eGaming now accounts for 16.7% of the Manx economy (an increase of 3.2%), making it the single largest business sector, and outstripping individual areas of financial services. With such dynamic growth, the GSC and the DED have been kept busy over the past year; as Mr. Robson said, “These results, I’m sure you’ll agree, are pretty impressive! And they show no sign of abating.”

Mr Robson proceeded to inform delegates of the sector’s key performance indicators in the 12-month period October 2014 – September 2015. Of the KPI relating to jobs, the growth figure cited of +2.6% was down from +10.1% the previous year. However, Mr. Robson had just received news, on the morning of the summit, that the figure is actually 9.9% when taking into account the 180+ jobs that are currently advertised in the IOM eBusiness. This encompasses opportunities in eGaming too. Mr. Robson acknowledged, “There is an issue with regard to jobs and it’s not just on the Isle of Man. We are facing a global skills shortage. We’re creating partnerships with the

private and public sector to ensure that for any roles that are advertised, which the companies are having difficulty fulfilling, we’ll do what we can to assist them to find the right people to fulfil those positions. In addition, planning is in place for our very own ICT university here in IOM: we have the infrastructure and the financing. When complete, the college and its subsequent graduates will help to address those skills shortages in the industry.”

Moving on to license fees a decrease of -8.2% was reported. In 2014 the sector saw de-licensing in the UK which meant that any licensees in the IOM, which were targeting the UK now needed a UK licence. Coming against a growth figure of +6.3% for the previous 12 months the dip in license fees was unfortunate, “But we’re not too fazed by that. The decrease was expected. If the UK was the [licensees’] focus market, then that’s where they needed to be in terms of licensing. That decrease also emphasises what Minister Skelly was saying in regard to quality, not quantity,” assured Mr. Robson.



Progressing to gaming duty, the figure of +10.8% demonstrated a significant increase. Of this increase, Mr. Robson enthused, "I think that's the most telling barometer of the strength of the sector at the moment. Yes, we saw a decrease in license fees. We implemented double duty relief to try and help out the operators and licensees. We also added this concession for other countries throughout the world. So they're staying here in the IOM, but in spite of implementing double duty relief, and in spite of a reduction in license fees, gaming duty increased. And as I say, I think that is testimony to the strength of the sector we have."

The area which saw continued change in the last year was licensing. In the Isle of Man a total of 14 licenses left the jurisdiction, while 9 new applications came in. The reasons for leaving are varied: Mr. Robson alluded to the White List in the UK as being one, whilst Mr. Rutherford suggested that some go to other jurisdictions, others react to legislative change and in some cases operators simply cease trading. When the White List reform was announced, the DED did an impact assessment. Subsequently, after the White List was actually

reformed, the DED commissioned a new strategy review to find out where they should go next. Mr. Rutherford again, "If we're looking at the hot topics that we're exercising at the regulators it's the tail end of Social Gaming, and a call for regulation in that area. I think it's fair to say that it's yet to be sure for anyone at all. In terms of binaries, the UK was announcing its position as it was going into continuation licensing, it looks like it's going to be a financial product in the UK at some stage. As I said, it's firmly a gambling product in the Isle of Man. So if you're a binary operator, you'll require a license from us."

Mr. Rutherford touched upon the topic of cryptocurrencies – a hot topic from the previous year – simply to say that the policies of the GSC and DED remain unchanged, and that there was scope for the use of virtual currency within the gambling sector, subject to discussions with the GSC on various technical elements.

In terms of legislation there were some very minor changes, which mostly focussed on the terrestrial sector in the island. This included change to accommodate gaming machines as, traditionally, these

machines are moved on and off vans to replace and provide fresh products. The new law allows them to be serviced from remote servers, and to refresh content, without requiring them to be physically transported anywhere. The law was also modified to increase the jackpot in said machines, and this is primarily to allow operators in the Isle of Man to acquire machinery from the UK without having to alter it.

In addition, an attempt was made to increase jackpots for fixed odds betting terminals in licensed betting offices. This move was withdrawn from Tynwald to allow for more information to be supplied in respect of the change.

Mr. Rutherford moved on to a very newsworthy issue: "In terms of initiatives, the GSC was heavily involved in something which is quite topical at the moment: the integrity of sports betting. We've signed a number of memoranda of agreements with organisations such as EWS who look after FIFA's integrity, and with the International Olympic Committee and their integrity programme which was a very successful body of work for us.

I'm glad to report there is a steady stream of enquiries coming into the GSC all the time regarding matches, potential match fixing etc. etc. So we are starting to play an increasingly important part in the international stage with integrity issues."

Mr. Rutherford spoke of his heavy schedule comprising the Isle of Man's National Risk Assessment for Money Laundering / Terrorist Financing, which has kept him extremely busy this year, but was delighted to report that the project was nearing completion. Another large exercise for the GSC and DED was looking at the issue of player fund protection. Was it possible to find more cost effective ways to ensure that operators can continue to protect player funds? Many consultations with lawyers had clarified the position for the GSC in terms of fund protection mechanisms and, together with the DED, they were now in a position to recommence work on a number of initiatives that arose during this past year.

For the final part of his 12-month update, Mr. Rutherford spoke about inter-regulatory cooperation, "We have memoranda of understanding and information sharing agreements with jurisdictions like Denmark, Estonia, the UK etc., and we were delighted to add Jersey and Alderney to that list last year. We also received visits from a number of regulators from around the world, seeking both the benefit of our experience and to share and cooperate on areas of mutual interest. We had a call for assistance from a counterpart in the Indian Ocean, who then came to see us for a few weeks. They'd been given the task of setting up regulation within a year flat! So we were able to assist them to understand the basic building blocks of how to make a regulatory regime, from law and regulations, through to supervision and licensing."

Mr. Robson then took up the helm with an update on activity within DED. One important issue for the department last year was to protect customer base. As the UK was in the process of implementing its own licensing regime, the DED in the IOM worked on double duty relief, and were able to develop and implement a sleeker structure. In conjunction with the UK Gambling Commission, and the IOM GSC, the DED were able to secure an agreement to state that any

Isle of Man licensees wouldn't need physical representation in the UK. This is extremely beneficial, and helps IOM licensees in terms of cost of ownership, and in terms of doing business in the UK. It also displayed the high level of trust and solid working relationship between the DED and the GSC.

Disclosing more upbeat news, Mr. Robson continued, "We also worked with a number of private sector companies as well as internal government departments with regards to the building of new corporate offices for numerous companies as well as data centres. So we were doing what we could, essentially, to ensure our existing base is still here. As to a growing base, we have a number of initiatives going through. We still have

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these at the moment: one of them of particular interest to new businesses is the initiative that we offer grants of up to 40% for businesses wishing to locate here. So that certainly is very attractive for companies wanting to move here and we are contingent with that. Last year we also started working on work permit regulations. I mentioned earlier with regard to skills shortages, we needed to do whatever we could to expedite the importation of skills where required. We are also working with software development houses. Now that's not traditionally a licensed-type business, but there a number of companies out in Asia, for example, that want to move closer to their client base in Europe, so we were working very closely with a number of

software development houses in that area. As I say it's unlicensed business, but it's still business that we like to have on the Isle of Man, so we were working with them to bring them here."

With regard to new businesses, Mr. Robson alluded to the Crypto Valley Summit that was held last year. Since that time more than 20 companies have established themselves on the Isle of Man in relation to cryptocurrency and block chain solutions. This is proof indeed that start-ups are relocating to the island to avail themselves of the many advantages offered here.

Moving on to a couple of 'hot topics', Mr. Robson discussed how, in the IOM, they are ahead of the game with Daily Fantasy Sports (DFS) and eSports. It was only recently that the US decided to make DFS a gambling product that needed to be licensed. But in the IOM, these companies were already being licensed last year.

Providing a snapshot of the licensing in the IOM, Mr. Rutherford of the GSC confirmed the strong current position of 46 online licenses, 9 of which are not yet active. There were also indications that two licenses will leave in the short term.

Mr. Rutherford went on to examine the actions undertaken as part of the National Risk Assessment, "Under the financial action task force recommendations that were published back in February 2012, every country has got to make an assessment of its industries and its capacity for money launderers and terrorists to abuse the financial infrastructure in that country. So the government undertook that work, starting last year. While it is still underway, the bulk of the work has been done. We were assisted by a model which the World Bank gave to us and helped us to use. That model produced a number of recommendations both for jurisdictions and for various sectors and regulators, and we were no exception. Some of the actions that came out of that national risk assessment affect us directly." Mr. Rutherford added with mock indignation that the model had actually indicated that the GSC's supervision could be improved but went to add that the model had indeed identified deficiencies which were now being corrected.

“For 2012 onwards the recommendations require that risk be at the heart of everything we do, to make sure that we use limited resources as effectively as possible to combat crime.”

“For those of you who have got interaction with licensees in the Isle of Man, you’ll know that we’ve just conducted an exercise over the summer, to confirm the figures that we’ve put into the NRA. One of the other actions that came out was the requirement for us to have a slightly more proportional tool kit. Now we’re very lucky in the Isle of Man to have licensees who are only too eager to be compliant, but as far as The Financial Task Force is concerned, the regulator in any given regulated sector should have a suite of soft and hard powers, including the ability to fine or bar people from the industry, to require action from operators in order to fix problems as well as to name and shame persistent or wilfully intransigent licensees. So that’s another action that we’re currently contemplating, but we do recognise that this is an extremely sensitive area, notwithstanding the fact that it’s an international obligation that we now need to meet. The NRA also highlighted to us that there are still issues, although less serious now, on the filing of suspicious activity or transaction reports for the Financial Crime Unit. So we’re working closely with the FCU at the moment as well as with our licensees to regularise and explain what it is that the FCU is looking for and what it’s not looking for. As part of that work we are revising our AML/CFT guidance so there will be a version of that coming out in a week or two’s time.”

Referring to the slide on display, he continued to explain the current workload, saying, “The next one on there is MONEYVAL, for those of you who don’t know, MONEYVAL is what’s known as an FSRB (Financial Style Regional Body). MONEYVAL is ours. A number of countries belong to MONEYVAL. They are going to come and visit us in April 2016. Their job will be to assess the Isle of Man, to look at its risk assessment, and look at its controls, the strength of its commitment to anti-money laundering and international obligations. MONEYVAL have indicated

to us that they’d like to speak not only to us but also representatives of the sector. So some of our online licensees, and terrestrial licensees might get a visit from the assessors to talk about money laundering affairs. Another money-laundering hot topic for us is the adoption of a risk-based approach. For 2012 onwards the recommendations require that risk be at the heart of everything we do, to make sure that we use limited resources as effectively as possible to combat crime. The GSC has traditionally had a rolling programme of compliance checking but we’re now in the process of re-engineering and moving to a risk-based approach.”

Tackling the final hot topic Mr. Rutherford explained that several licensees had been keen to get involved in digital currency. The GSC’s policy on cryptocurrency remained open-minded and unchanged from the previous year (specifically that crypto as a payment channel utilising a cryptocurrency exchange as a middle man was unproblematic but that there were challenges to be addressed in other models such as directly accepting cryptocurrency for gambling). On a positive note, GSC had identified some legislative tweaks, which would be necessary in order to make crypto work here from a fund-protection and security perspective. The predominant model that the industry was seeking to use (cryptocurrency coming in to an exchange, and Fiat currency being forwarded on behalf of the player), actually works fine for IOM at the moment.

There are several ongoing matters for eGaming in the IOM in terms of legislation. A large miscellaneous provisions bill is lined up for drafting, likely to be worked and developed by GSC over the course of 2016. In addition to legislative change there will be a consultation on the sanctions project that is necessary to meet FATF expectations.

Looking now to major initiatives for gambling in the IOM, the GSC has ongoing work with sporting integrity. They are continuing to focus on and establish their AML/CFT (anti-money laundering and combatting the financing of terrorism regime).

In terms of inter-regulatory cooperation, Mr. Rutherford revealed three exciting developments:

“The reason that I’m here and Steve Brennan (Chief Executive of the GSC) is not, is that Steve is currently in Malta meeting with the board members of GREF. Steve Brennan will actually assume the chairmanship of The Gambling Regulators of Europe Forum next year and there are tremendous gains to be made from that. I’ve also been appointed to head up the International Association of Gambling Regulators Information Sharing Group on Money Laundering and Terrorist Financing. On that theme, and another demonstration that we are recognising how important AML/CFT work is for us, we’ve appointed a dedicated AML resource in the commission. The deputy head of AML now is Helen Ault, who joins us from the Financial Supervision Commission. We couldn’t be more delighted to have her.”

Returning to look at activity within the DED, Mr. Robson presented a flexible side to the department: “Working with the local industry, continuing to do what we’ve been doing, as we’ve been very successful for so far. We will of course, adjust, amend and update anything that is required, because sometimes you need to be slightly disruptive to change. We’ll keep on with the grants, we’ll keep on with the initiatives, we’ll keep on supporting business in the way we’ve always done. The work permit changes went in on the 1st of October, so from now on the issues that we’ve experienced with regards to skills shortages will be eased, certainly from a work permit perspective.”

As previously mentioned, the DED has begun to work with emerging verticals: Daily Fantasy Sports (DFS) and eSports. For over a year there has been close collaboration with a number of key players within the sector to come up with some sort of code of conduct.

As Mr. Robson elaborated, “The inevitable consequence of the popularity of eSports is that people will try to make money from it. The more traditional side of gambling is very mature now, in terms of sports betting, casino, bingo and poker. So eSports is coming to the forefront, in terms of appeal to both players from a gambling perspective and for operators from a vertical perspective. What I was keen to do, and what obviously a number of key players in the market are keen to do, is to ensure that issues do not arise in their vertical which have plagued others. For example, in poker, the less scrupulous software providers basically put God mode into their software and players were defrauded as a result. Sadly, if there’s an opportunity for somebody to make money by influencing the outcome of an event, they will try to exploit that. So what I’m attempting, by working with a number of players in the market, is to implement some sort of code of conduct to ensure best practises are adopted. This would encompass both licensed and unlicensed territories [where people who organise land-based tournaments are not necessarily licensed]. It’s key to ensure that players who enter those tournaments are treated fairly.”

On the topic of emerging verticals, the DED are focussing on expanding their profile. Opting not for the traditional propagation of messages, i.e. through marketing and media, their approach is to work it via viral-based marketing. eSports has grown hugely as a result of viral appeal: in forums, and in chat rooms, people are using more current and vital ways of getting the message out. Thankfully by their association with these organisations, the message of the IOM DED is spreading across many markets and different sectors. This produces a wide range of potential clients, both to the IOM based operators and to the customers of

licensees. They’re beginning to understand the crucial message: that the Isle of Man crest is one to be trusted and one to be relied upon.

Referring to the continued optimisation of public and private sector partnerships, Mr. Robson mentioned EGSAB (eGaming Strategic Advisory Board). This is just one of a number of gaming groups which exist on the Isle of Man but one which is going through a process of reinvention. The DED are instrumental to this change, as they are considering the people who sit on that board and looking at changing the way business is carried out on that board. This is, defined Mr. Robson, “Just one example of how we’re continuing to work with the private sector here, to help develop it and to improve the overall environment on the Isle of Man as a place to do business.”

Looking to the future, Mr. Rutherford considered the regulatory aspect of embracing emerging technologies. Relatively new verticals, such as eSports and Daily Fantasy, will all carry a mixture of known issues and potentially unknown issues for regulators: the key is to exercise caution. With eSports betting in particular the GSC have become aware that there is a thriving market in virtual goods and that there are models out there which may not expressly encourage underage betting, but where underage gambling is occurring nonetheless. This is always going to be a primary concern for a regulator. Drawing a distinction between the games themselves and the gambling that occurs on the gaming, he reported that happily, both eSports betting and DFS fall very comfortably under licensing in the Isle of Man, so all of the safeguards that one would expect to protect consumers can be attached to those operations. Owing to eSports and DFS being hot topics for the Isle of Man, they are being closely considered by the GSC in conjunction with existing regulators, to see what can be learnt.

Mr. Rutherford again, “And with my new AML hat on, of course, I’m always looking at these things to see if they can be abused by money launderers or terrorist finances and putting the appropriate safeguards

in position. In terms of legislative change, so I mentioned earlier, that in understanding cryptocurrency better, we’d identified a couple of elements in our regulations which hadn’t anticipated the development of digital. So there is potentially a couple of tweaks that we need to put into position this year, to allow the full gamut of digital currency to be used in Isle of Man gaming licensees. One of those is a technical change to do with our registration of accounts. Regulations currently require that players deposit money into accounts and the Isle of Man characterises the currency as property, so we need to square that off. And the other one is of course, to wrap around crypto the same standards of protection for player

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value as we have for cash.”

Returning to the matter of legislation, Mr. Rutherford spoke of the Miscellaneous Provisions Bill once more. As a hefty bill it will combine a mixture of terrestrial and online changes as well as a number of corrections of items picked up in the last 5 or 6 years, and a sanctions regime too. There is a tentative drafting slot for this large piece of work in 2016. Also keeping the GSC busy is their preparation for the MONEYVAL visit next year. Mr. Rutherford: “As we prepare, we find that the 2012 recommendations come with a lot of detail, detail that not all of our older laws had anticipated. So there is almost certain to be an exercise to make

Considering key challenges for the next year or so, Mr. Rutherford said, "There is no doubt that mergers and acquisitions are continuing to occur. The commercial side of that doesn't give a regulator anything to worry about but more broadly of course, if we have M&A, particularly with mergers, there is always the question of where that business is going to be, if it's going to change its footprint, and what the regulatory implications of that are. We are always interested in exploring cost effective fund protection. It remains one of the key defenders of our reputation in the Isle of Man: that a player's funds are protected. It's certainly not as commonplace or comprehensive in other gambling jurisdictions. As I mentioned earlier, it took a large piece of work to clarify what we could and couldn't do in terms of fund protection. That work has now led on to a second project which is to re-open dialogue with the providers that wanted to operate alternative models, indeed we've just recently concluded an exercise that lets us use insurance as a player protection mechanism. And obviously, as Mark has mentioned, and the Minister has mentioned, in respect of skills and staff - this has touched us for a while as a regulator, because we're having difficulty retaining some of our own staff, who, once trained can migrate into private sector positions where these skill shortages exist. Clearly we're happy enough that they stay on-Island, but obviously it gives us a constant recruiting overhead."

Recapping, Mr. Rutherford commented on the AML theme and identified the biggest challenge, not just for the gambling regulator or for the industry,

but for the Isle of Man, as the MONEYVAL visit in April 2016.

Mr Robson moved on to consider a critical USP for the Isle of Man: player fund protection. Praising Mr. Rutherford's team, Mr. Robson described them as "Unique. They are the only regulator that hasn't had any issues with player funds. That is the number one USP that we have. Anywhere else, Google player protection, other jurisdictions, unfortunately they've had hiccups. Thankfully they are becoming fewer and fewer, however unique to the Isle of Man, we haven't had that issue. And it's thanks to Mark Rutherford and his hardworking team that we are in that situation."

He continued, "It reinforces the process that licensees go through in order to get approved for a license, on the Isle of Man. There are strict procedures in place and they are there for a reason. The Isle of Man crest on a website, it stands for something. As regards other potential USP's, there are some. There are some jurisdictions that struggle to keep their power on. We've got four power stations on the Isle of Man, and, I don't know if many of you know, but we actually export power to the UK as well. I'd say that was pretty unique in the offshore jurisdictions. We have six Tier 3 or higher data centres. One of those is also carbon neutral, something that the other jurisdictions cannot claim to have. We have five diverse off-island telecoms links, some of those are used to create 2 self-healing rings, again, something our competitors can't offer. So are there any USP's? Absolutely there are. Coming from a Gaming background, moving into the government, I certainly know what the Gaming companies are looking for, I know what players are looking for, and

yes we have a number of USPs. We will keep doing what we can to not only re-inforce our position as the Number One jurisdiction, we will do what we can to carve out more USPs for ourselves."

Mr. Robson then touched upon MIFID 2 (a directive from the EU regarding financial instruments) and it's specific impact on binary options, which are currently defined as a gambling product. MIFID 2, is looking to classify binary as a financial vehicle, "So we'll need to keep a close eye on what's going on there. That could potentially have an impact on Isle of Man licensees, and how we handle that, moving forward. My next point is player protection mechanisms, as Mark mentioned earlier, so we'll see what we can do to ensure that player funds are protected, but also give our licensees the ability to have a more flexible approach potentially to how they handle and what they do to protect the funds. Briefly, I'd like to mention the sustained emphasis of our position at the forefront of the industry. Unfortunately, being at the forefront of something there is only one way you can go if you take your foot off the pedal... We've got no intention of taking our foot off the pedal, we know what we do right, we know what we need to do to keep being where we are, and we're going to keep doing it."

We will keep doing what we can to not only re-inforce our position as the Number One jurisdiction, we will do what we can to carve out more USPs for ourselves."

Panel Session: Technology Developments in the eGaming sector

Moderator: Archie Watt

Head of eGaming, KPMG Isle of Man & Gibraltar

Moderator: "I'm delighted to be chairing this session on technology developments in the sector. Let me introduce my panel: Helen Walton of Gamevy, Andrew Tottenham of Tottenham & Co., and Stephen Trimble from Continent 8."

To open, I think the best way to approach a session on technology is from the perspective of a summit delegate. What do we want to know, and hear about? Firstly, let's talk about cloud computing. Do you think that cloud computing is becoming more acceptable in a regulated gaming environment? Stephen, as a hosting provider, moving more and more into services, what is your take on it?"

To first provide context for the cloud and its role in the gaming sector, Mr. Trimble explained its evolution: "What we need to do is separate it out into cloud, as a technology, and cloud for use for gaming providers. As a technology three or four years ago, it was absolutely acceptable for test and development, but people still have reservations on its use for production systems, and production infrastructure. That's moved on. The cloud is mainstream, everyone uses it, the whole of the LSE [London Stock Exchange] is built on the cloud platform. Banks use it in production. The cloud is here and everyone uses it. So as a technology, it is there and is acceptable."

The real concerns about cloud use in the gaming sector arise when one considers it from a regulatory point of view. Mr Trimble continued, "The challenges that everyone faces are the stipulations from the regulator as to what needs to be in that jurisdiction, and the challenge is not understanding what that is. It's really about understanding where the limits are and what to do in a grey area. There is a portion of that which is very clear, for example Random Number Generator, player data, and transactional data,

absolutely has to stay within the jurisdiction. That portion can sit on a private cloud, within a data centre within that jurisdiction. Regulators may differ slightly in their views here, but generally, that's the view. So cloud technology is in use today for that."

The difficulty, explained Mr. Trimble, comes when data gets moved to the 'public cloud'. This essentially is where a service provider makes resources, such as applications and storage, available to the general public over the Internet. These services are free or offered on a pay-per-usage model. Using the public cloud is attractive to eGaming operators, because at the moment there's a big drive to be closer to your players and hence closer to your users. In gaming it's the milliseconds that count, after all. In addition, adopting cloud computing can eliminate capital investment in hardware and facilities as well as reduce operations labour.

"So what people are moving out into public cloud is pure web content, for example, downloads, images, static web pages etc. However, there is a big grey area in the middle, as to app logic, game play, things that are not necessarily sensitive, but would give regulators cause to worry." Generally speaking, assured Mr. Trimble, operators are comfortable with transferring into public cloud game mechanics and app logic, etc. Although it appears that currently different regulators are taking different stances on this 'grey area', but it is becoming more mainstream, explained Mr. Trimble.

Panellists:

Helen Walton, Gamevy.

Gamevy is a start-up gambling company, which brings TV game show style games online, offering a new genre of gambling.

Andrew Tottenham, Tottenham & Co.

Tottenham & Co. are a business consulting firm based out of London with a global client base. Since 1996, Tottenham & Co have been involved in internet gambling space, with experience in specific aspects, e.g. data management.

Stephen Trimble, Continent 8.

Stephen is Head of Product Management for Continent 8 Technologies. Continent 8 is a data centre and management services company, based in IOM, with 10 global data centres in various locations around the world. Stephen has over 15 years' experience in telecommunications.

Moderator: "Picking up on that statement, so I'm clear and everyone else is clear too, the difference between public and private: public is the Amazon-type, Google clouds, that sort of stuff, hosted in locations such as the US? And private clouds are ones you create yourself, or your hosting provider creates?"

Stephen Trimble: "The public cloud used to be the wild-west type of thing. Yes, public cloud would be Amazon-type web services; it would be any cloud infrastructure that is potentially shared with somebody else. For example, an ISP [information service provider] based in any offshore jurisdiction could have a public cloud offering, but the fact is, it will be shared with someone else. The key differentiator now is that there is sufficient separation between tenants of that public cloud such that it can tick a lot of security boxes. People are running PCI [payment card industry] compliant platforms on public clouds so these things are addressed. But that's the difference: private cloud, is in the main your own infrastructure, in a data centre that you can go and touch, and not shared with someone else."

Moderator: "Andrew, you appear to agree with Stephen's remarks. You are dealing with a number of operators on compliance matters. What are they seeing on cloud? Are they agreeing with what Stephen is saying?"

Mr. Tottenham pointed to a general lack of understanding in the industry, as to what the cloud is. The common perception is that data is stored literally in "the clouds" and not on Earth. Adopting a simpler view is key: clients need to understand that the cloud does consist of discrete boxes and discrete cables. "There is a fear among operators that if I put something in a place where I can't go and touch it, there is a risk that it will be taken from me. So when I talk about player data, yes there is a regulatory requirement that player data has to

be in a certain place, but actually there is no reason why player data can't be in Box A, for example, as opposed to that Box B, provided that the security infrastructure around it is similar."

Most operators are happy to have their data analysed by CRM software, but happier when it is done so on their boxes, in their data centre. They are unaware that boxes sitting in the CRM providers, or the data analytic providers, could be just as secure. Andrew Tottenham again, "So I think there is a reluctance on the part of operators but there is also a reluctance on the part of the regulators to allow these things to get out from under their control. We are seeing people use AML and KYC services, and CRM, more. And there is a move towards employing external suppliers, and somebody else's cloud, if you like, but there is still a reluctance."

Moderator: "Helen, as somebody who operates and provides games, is this what you are seeing? Are you feeling welcomed to use cloud?"

Helen Walton: "We find it incredibly frustrating that we are still being asked to point to a physical box. This requirement that you can go and pull the plug on a box, we find extraordinarily outdated frankly. It makes it far more expensive and it adds a great deal of complexity into your infrastructure. That may not be so painful when you are a multi-million pound sports book company, but when you are a start-up, it significantly raises the barriers to entry in a way that is unnecessary. The robustness, the security of the existing tech, as you were saying, Stephen, does not, we think, support the requirement that exists within the regulators for having this kind of obsession with physical boxes in different places and different jurisdictions. So all I can say is that we find it one of the big barriers to entry, very difficult, and we find it outdated."

Moderator: Archie Watt continued on the theme of the security side of cloud, and made reference to the recent case of the company Talk Talk's loss of 150,000 customers' records. "With greater security in the cyber world being desirable for all, what, if any, are the new concepts to market? Has anything changed recently?" Archie directed the questions to Stephen Trimble.

Stephen Trimble: "Yes, I think we are hearing more about it. The Talk Talk one is interesting because we're in an industry, in gaming, where security tends to be built in from the ground up, so applications are built completely with security in mind etc. What actually happened with Talk Talk is, it was a very simple website vulnerability. Literally, some teenagers ran a piece of code through Google, and it spat back a list of vulnerable websites, and Talk Talk was one of them. So not only was their website vulnerable, but when the boys tried to attack it, they found that the database was not encrypted. The point is, that all of these things you would not tend to find in online gaming, but there will be exceptions. Talk Talk was particularly unfortunate, and does fall on to the hacking side of security. What happens a lot more in the gaming sectors is the denial of service attacks, the big ones being Distributed Denial of Service (DDoS) attacks. They have always plagued the online gaming industry and continue to do so. We foresee attacks getting bigger, and more complex. It is an ongoing trend. We've now moved from a situation where DDoS protection was

"Hackers are using ever-increasingly sophisticated attacks. Yet with increasing complexity, you increase risk."

an option, to almost being a requirement. So everyone takes it, as everyone needs it."

Moderator: "Andrew, you're dealing with not just gaming companies, so what sort of things are you seeing in the wider industry?"

Mr. Tottenham pondered the relative lack of sophistication in the early days of the internet. He continued, "Now, as you increase your security, whether through the operating system, or through the physical security of the systems that you use, the people on the other side are trying to find holes in that. It is basically a war. Hackers are using ever-increasingly sophisticated attacks. Yet with increasing complexity, you increase risk. By which I mean, companies like Continent 8 are building systems from the ground up so security is built in; what's happening now is there is much more data sitting in concentrated places. Data is valuable from two perspectives: one, the data itself can be very valuable in monetary terms, and two, the reputational risk that a company faces, like Talk Talk, when that data or the security is compromised."

"But I always like to think that the biggest risk, is us. Consider the internal stuff as well, that your employees, or your people in offices, suppliers, people who come in and provide services, they have access to sensitive information. It doesn't matter what systems or processes you put in place, because ultimately we become lazy, and don't follow those processes. Then somebody gets access to our system: whether they can compromise it to the extent that renders us inoperable or whether they can compromise it to the extent that they can steal data. But it's us guys in this room. We're as big a risk as the guys outside doing the DDoS."

Helen Walton: "I agree absolutely. Systems are only ever as good as the people operating them. And as the rules that you feed into them. I would add that the key point about Talk Talk is that the CEO is on record as having said that he didn't think that customer data needed to be encrypted. That's not a technical problem: that's a people problem, a decision making or a strategy problem. But actually the technical solutions all exist."

Ms. Walton then referred to ISO

27001, and how it risks becoming purely a box-ticking exercise. (ISO 27001 is an information security management system first introduced in 2002, with the latest update being available in 2013. As a formal specification, it enables its adopters to be formally audited and certified compliant). An organisation will embrace 27001 in the hopes that it renders them fully compliant; but merely bolting on a few certificates does not guarantee protection, "Because if that's all you ever do, rather than it being baked in to the way you run your code, to the way you make your decisions, to the way you review things, a change review board in itself does not protect you. A process management system does not protect you. It might offer you the chance to go and look back and see what happened and what went wrong, but all too often that comes too late. It's not just gambling companies, it's not just ordinary data companies, as we know from Edward Snowden. It can happen to the government as well, where they had security systems in place that were simply not applied, but were completely bypassed by one of their own employees who should never have had the access that he was able to have. So it really is all of us being aware of the way we do our work every day: that is security, not a series of pieces of software or hardware or protocols. It really isn't," stressed Ms. Walton.

Moderator: "That's an interesting point you raise about 27001, because as everyone here who is an operator understands, to get the UK Gambling Commission license you need to carry out an annual security audit to the level of 27001. And of course we carried out a number of those for our clients over the past 9 months also. Are we hearing then that perhaps 27001 is not the appropriate standard? Is it no longer reflecting how people use IT, or implement IT systems?"

Helen Walton: "Some elements of it, I think, risk becoming box-ticking. People say to themselves, well, either I only need to do the minimum, or I just need to do enough to tick that box and then I never need to think about it again. In fact, all of those standards are written in a way that requires interpretation. And it's the interpretation that matters, the way you think about your own security,



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“The critical aspect here is to ensure that there is a culture of security in your company, that you aren’t complacent. The biggest risk we all face is complacency.”

your own product design from the software, to how your customers interact with it. It’s the thinking part, the interpretation part that matters. And I’m personally not convinced that any standard really assists you in doing that.”

Stephen Trimble agreed with Ms. Walton and pointed out that ISO 27001 is really just the minimum management standard that deals with security, not an entire policy. Consequently, as a risk assessment based process, the 27001 certificate may appease regulators but won’t provide total peace of mind. Offering an example, Mr. Trimble cited the case of Talk Talk, which was 27001 compliant, “and those operators that have been asked to do adopt 27001, they will also have been asked to

comply with PCI, with Sarbanes Oxley. The list is huge. So, you know, it’s interesting that a regulator specifies that as a standard.”

Moderator: “Overall I tend to agree with that message. However, we are supposed to apply a standard, and make sure that everyone meets a certain minimum threshold. It does almost require a checklist to be completed. I have a great deal of sympathy with start-ups, such as Helen and Gamevy. But equally, from a practitioner’s point of view, I send my guys out to do these audits and I expect them to come back completed. And I expect them also to ensure that they have carried them out to a certain standard. So do we have a solution? Andrew, you seem keen to talk on this.”

Andrew Tottenham warned of the dangers of relying on a standard, and pointed out how the onus is then on the CE or the CFO as the signatory of that standard. Yet the real question is, how much can they realistically understand? Effectively the company is still at risk, “The critical aspect here is to ensure that there is a culture of security in your company, that you aren’t complacent. The biggest risk we all face is complacency. You think to yourself, yes, I’ve ticked this box, I’m fine, and then you open up the newspaper and find you’ve been hacked. It’s about instilling a culture of security.”

“ It’s not uncommon to have a presence in at least 6 or 7 jurisdictions. People are replicating data across private networks, between those data centres.”

part of the way of doing business?”

Helen Walton: “Yes. That is one of the problems, when you have a particular role for it, because then it very easily becomes that person’s responsibility only. Personally I think it is one of the dangers of a compliance officer. So, does that mean that the rest of us don’t have to think about compliance? It’s his job to spot when I’m doing dubious things, but it’s my job to try and get away with them! Is that how it works? Because that’s really not how it should be. But that is occasionally what we risk, I think, when we over-specialise and when we create narrow responsibility in our very organisational structures.”

Moderator: “You are talking about a silo structure?”

Helen Walton: “I think it’s massively dangerous, yes.”

Moderator: “Thank you. Stephen, hosting providers are on the front line of developments and the delivery of content to customers. You are the ones that are providing the infrastructure. So what are you seeing? What are the trends? What is coming up next?”

Stephen Trimble: “One of the biggest trends we are seeing at the moment is a move to what we call a distributed architecture. I’ll explain that: 3-4 years ago it was very common for operators to have one primary data centre with another one for Dr. And that was as much as you got. What we are seeing more now is the infrastructure platforms being spread out. And there are a few key drivers for that. One is M&A activity, it would be very rare for you

to merge or acquire a company who is sat in the rack next to you in the same data centre, in the same jurisdiction. Another one is the drive to be closer to your users. People are putting web content in jurisdictions to be very close, particularly with mobile, you know milliseconds do count! And that can be the difference between you and your competitor. But the main driver really for these distributed platforms is regulation. As we said earlier, there are stipulations that say a certain amount of technology has to be here. The other jurisdictions are the same. It does vary slightly as to what has to be in the jurisdiction. But for operators who are licensing in a number of jurisdictions, it’s not uncommon to have at least half a dozen live data centres. Of course the upshot of that is, it’s making it far more complex for the CIOs, and CTOs to manage. It introduces security challenges, data management, data replication challenges. It really is the biggest thing that we are seeing at the moment, and it’s not going to stop.”

Moderator: “So are we talking about operators who are trading in Gibraltar, Malta, potentially in the Far East and in North America? Who are in the position of having data centres across the globe? It is about replicating data across those territories?”

Stephen Trimble: “Absolutely yes. It’s not uncommon to have a presence in at least 6 or 7 jurisdictions. People are replicating data across private networks, between those data centres. Over and above that, we have operators who have internal

metrics that say they are driving to be no more than X milliseconds away from their clients. Even the half dozen data centres are not sufficient for that, so they are pushing content out into content delivery networks, which have 80, 90, 100 nodes around the world to get them closer to their users.”

Moderator: “Right. From a technology perspective that sounds great, but from an operator’s perspective that must be phenomenally expensive to try to create.”

Helen Walton: “Yes, it is phenomenally expensive and very difficult as well. It goes back to the first point when we were talking about the need for a physical box. The regulation and the architecture drives the technology choice, rather than what’s the best technology choice, as being what you are focussed on. That’s extraordinarily difficult and frustrating.”

Moderator: “But on the technology side, when you are developing games, does that mean that you have to split things up or pull things together?”

Helen Walton: “Well, we are going via an operator, so we are a supplier to particular operators. But that often means that we need to have kit in their particular jurisdictions. So that remains a massive upfront cost.”

Moderator: “So having everything in the cloud would be a great benefit for you?”

Helen Walton: “It certainly would, yes.”

In competitive industries, regulation is

widely used not just because it is common practise, but to inspire trust and acceptability in a company's business model. This is especially the case in eGaming, as Andrew Tottenham outlined: "Initially a lot of people say 'I don't want to be regulated,' and then regulation comes in, and suddenly the regulated discover that, actually, this is no bad thing. One, there is the reputational side, but two, you increase the cost of entry so that start-ups find it very difficult to get hold. If we look at the land-based industry as an analogy, the cost of getting into land-based license in North America is huge. Why is it huge? Because the dominant operators don't want small, snappy little start-ups coming along and biting their heels. They don't want it! So whether it's the suppliers, or the operators, they are happy with a very high cost of entry. Sadly, regulation drives up your entry cost."

Moderator: "So disruptive technology, while it is great in theory, is a threat to incumbent businesses?"

Helen Walton: "I would say so. One of the key points about disruption: when we talk about technology disrupting established industries, we tend to talk about it occurring most effectively, in places where there either isn't regulation, or where the regulation is something the company is prepared to take on and challenge, and then they often suffer a backlash later. To use an example, Air BNB are suffering an enormous backlash from people saying that they don't have to meet the standards that a B&B or a small hotel would meet, and it's not fair. Also, as I'm sure you all know, Uber is also coming under a great deal of attack, especially in London, from not only taxi drivers but even the Mayor of London is attacking Uber for essentially not having to meet the same standards of regulation. And it not being a fair, competitive playing field. What can I say? We have every plan of disrupting the gambling industry, but we have to do it within a regulated market."

Moderator: "Thank you. Moving on to content, I remember 2009 as being the year of the product. Now it's hard to

believe that we're still talking about product as a means of growing for operators, I mean that's a given, because how else are they are going to grow? So Helen, when talking about product, we keep hearing about 'mobile first'. What does this actually mean in practise?"

Helen Walton: "Well, at Gamevy we would regard ourselves as a mobile first company. By which we mean we design entirely for mobile devices, i.e. phones and tablets. But of course very early on, we came across distribution issues, and we found that for our customers, we needed to be producing things within a format that suited desktop and which was then sort of responsive for mobile sites. So it was very different to the way we'd developed our technology, and we've had to adapt to what our customers want." Ms. Walton continued by explaining that the core appeal of Gamevy's products is the "high fidelity experience", which is best accessed on a mobile device. "Our games are meant to feel as entertaining as a TV game show. That means we need video, a lot of feedback and animation, music and sound is very important, all sorts of things that really push both the hardware, and the frameworks that are delivering software to the hardware, far beyond what they are necessarily comfortable with. Especially given the platform, the kind of HGML (Hyper Graphics Mark-up Language) that our customers want. So we're always looking, whenever we use a particular framework, to see how much further we can push it, and we're always looking for the next generation of hardware. Although we're designing for it to work with what there is now, we're always very aware of the capabilities that we know are coming soon, be it 2, or 6 months, certainly less than a year away. That kind of quality of development, that's what we think of as mobile first. So it's really pushing the existing capabilities further to give the best experience that can be delivered on the mobile."

Ms. Walton went on to define her

company's approach to the design side of things: "On a more product, and user interface model, I think we'd say that for us a lot of gambling products are slightly hidebound by where they came from. To take one example, scratch cards are really often about producing the paper scratch card on a mobile, or on your desktop. But paper is just not a very good medium really. You can do much more exciting things with the process of opening boxes, discovering something, being able to continuously change things. Online is just a much better medium. So we really believe that our scratch cards, for example, are going to be a much more entertaining interactive game, that actually suit the medium that they are being delivered in, rather than trying to copy the paper history of the scratch card. So that's how we think of it, in design and UX (User eXperience) terms, of mobile first."

Moderator: "Ok, that's very interesting. For things that mobiles are good at, yes, but perhaps not for things that they are not as good as they could be. Things like content delivery, the video, the sound, stuff like that, aren't they better seen on a desktop? What do you think?"

Helen Walton: "Of the difference between desktop and tablet, not really. Again you've got to differentiate between what the hardware itself is capable of, which is a lot, and what are some of the constraints that exist because of delivering things to customers on their platforms. And they can create constraints, that mean that

"On a more product, and user interface model, I think we'd say that for us a lot of gambling products are slightly hidebound by where they came from."

you can't deliver something that the hardware is actually capable of. So it's about always making trade-offs between those things, to deliver the highest fidelity experience that we can."

Andrew Tottenham: "Obviously mobile is increasingly important as a method of access. You've only got to walk around, spend time on the Tube in London for example, and everybody is bent over their phone. Even watching TV! It's no longer about watching something on a wall, or a laptop, it's all on the mobile phone. So in terms of delivery, obviously mobile is incredibly important. But what frustrates me is the idea that you can just port from one particular delivery system to another. I think the gaming industry has to innovate. And I'm not talking about innovate to attract the millennials, I'm talking about innovate to attract the people in their 30s, 40s and 50s, to keep them interested."

Mr. Tottenham described his recent experience at G2E, and the slot machines showcased there: "The stands are incredible, and the machines, but you can't distinguish one machine from another. They all look the same, and play the same. The only difference is they might have Batman or the Rolling Stones or the Beatles or some kind of license, as a licensed product. But there is no innovation, they're pretty much the same stuff. So what's happening is people are taking that, and porting it to a desktop environment or porting it to a mobile environment. Instead they should be saying, ok, what have I got sitting in my hand? What is going to work on this? What can I do to create some content that actually works on this particular device, as opposed to, I'll grab something from over here which seems to work. And really, the only reason it works, is the price. The big manufacturers are competing, and hard, for your custom. Of course operators are seduced by the best price, as opposed to, this is something that is a product for my customer, that my customer is going to like, or I'm going to attract or satisfy new customers. It's the challenge that the industry faces."

Helen Walton: "You see, that's what I mean by thinking about the medium. The whole point of a mobile phone is that it is up close and you are touching it, and moving things about, and all your games need to be designed to work like that. If you're just pressing one button at the bottom, things that might have been perfect when you were clicking a mouse or a symbol, feel just dull when you're on a mobile phone or tablet. Also the game has to be much more interactive, much more physical."

Stephen Trimble acknowledged the stretch – and opportunities – this creates for ISPs: "In terms of delivering that, the challenge is getting bigger and bigger. A few years ago, you would have actually quite a big tolerance as to what would be acceptable in terms of sending a message and receiving a reply back, whereas now everyone is on 4GLTE handsets, or on superfast broadband at home. They expect their game, their app, to be delivered really quickly, far faster than 2-3 years ago. And in fact the speed of delivery is often the thing that gives people the edge over their competitors. And so they come to us, and say, ok, into this jurisdiction, how quickly can I deliver my app? Then they can tune it around that. We are absolutely seeing more of it. For a number of the operators that we deal with, in the last 2-3 years, the balance between mobile revenues against traditional desktop revenues has tipped. It's now firmly on

the mobile side: that is a strong area of growth. So in terms of delivering those things, you know, you've got to be everywhere, as close to the users as possible."

Moderator: "Speaking from my own experience, when visiting a client earlier this year, they demonstrated to me the way of creating a sports betting slip. The old style is where you select the sport you want to play on, then the league, then the team, and whether you are betting to win, draw or to lose. But with his app, he was just dragging stuff around on screen. I thought, this is magic! Why haven't we done this before? Because this is how we operate on smartphones all the time."

"We think that is a major theme in general for the future, that more and more of our entertainment will be interactive, and that we'll have us at the centre of it, rather than entertainment that you are a consumer or passive viewer of."

Moderator: "Moving on to other industries, gaming has been out there for almost 20 years now, and it has developed and matured very quickly. With the recent M&A boom, gaming is unique; in other industries this would take over 50 years. We are looking to consolidate down to 4 or 5 key players already. So my next question is, what can the gaming industry learn from other industries? Helen, what about app development? Are there tips and techniques from other sectors, that you can use in gaming development?"

Helen Walton: "I think there are 2 sides to this really. The first is what can we all learn in design, and borrow from other sectors in terms of a technology sense. There is lots of really exciting stuff being done in social gaming, and in all sorts of other forms of entertainment, that we can borrow from and learn from. The second side to this, is the problem: it's very hard to do it in gambling. This is because of the difficulties imposed, sometimes necessarily imposed, by regulatory issues, and by problems of distribution that are inter-connected with regulation. They can inhibit the ability to adopt new technologies and new ideas. So it's not that the technology doesn't exist, or that they are not sufficiently robust; it's that it's very hard to integrate them. But of course that is also the big opportunity. So I would say that we're constantly looking to other forms of entertainment. And wondering how we can make those a form of entertainment in which you can win real money."

"Indeed, we think that is a major theme in general for the future, that more and more of our entertainment will be interactive, and that we'll have us at the centre of it, rather than entertainment that you are a consumer or passive viewer of," enthused Ms. Walton. But, she warned, there are big challenges in adopting the technologies; it's not as simple as merely copying ideas from other industries.

Moderator: “Andrew, with your involvement in banking, is there a frustration that bank reconciliations are still a problem, even after 20 years? In your experience, are other industries doing this better?”

Andrew Tottenham: “The short answer is yes. Parallels exist between online gaming and the banking industry, and mobile devices play a part here too. Take, for example, the banking industry: you’ve got a high volume of low value transactions, it is regulated. Security is a concern, as is protection of client monies, especially with regulators. And yet, banking has seen and solved the problems of performing reconciliations: they have to reconcile millions of transactions a month. Mobile phone companies have to do it too. They also have been through pressure from regulators, to the point where they’ve actually been forced to step up their reconciliation process. Frankly, I’m still staggered to see that eGaming companies port their transactions to excel spreadsheets and actually try and match them. They can’t, because of the different payment cycles and the commissions and the different FX rates and so on. It becomes a nightmare! I had one FD tell me that 20% of their reconciliations never reconciled. How can you know the actual financial position of our company? How can you know what your exposure is to your customers? What are your client funds? Is the money that you are putting aside in a segregated account, is that enough? Is it too much? When things go pear-shaped, is everyone going to get their money back? Do you have the records to be able to say ‘Joe gets X money and Mary gets X money’?”

“So, in the gambling sphere, many companies are unable to do that, and yet regulators accept it. Which is extraordinary.” Mr. Tottenham then referred to the procedures when a company does collapse, and as a consequence, their customers’ funds have been at risk. “Now when that happened in the financial services industries, the regulators came in and said ok, you need to get control of this, and they did. So you no longer had a situation where clients’ funds are at risk, but on the eGaming side, they may be or they may not be.”

Mr. Tottenham continued, “The other aspect to mention is audit. How do you get an audit trail for a reconciliation when somebody is sending spreadsheets sometimes to India, for somebody to manually reconcile and then come back and say, yes it’s done? Then the financial director of the company is signing off at the end of a month on a regulatory return? In my view, it’s unacceptable.”

Stephen Trimble moved on to a final item on the panel agenda, which marks a potential big change for infrastructure. “Relating also to other sectors, as well as eGaming, is the use of a rapid adoption of application containerisation. I’ll try to explain that. So when cloud, or virtualisation came along, there was this concept that you could have multiple virtual servers running on one physical server. Application containerisation is where you can have multiple contained isolated apps running on the one virtual machine. It’s really kind of like the next quantum leap! It just enables apps to run: if you’ve got 10 web servers, for instance, you don’t have 10 operating systems to patch, 10 management overheads, 10 things

that have to be in sync all the time. You only have to have one big operating system.”

This is big news, assured Mr. Trimble. Drawing on an analogy of the way people historically loaded boats, Mr. Trimble compare the process of application containerisation. The extreme difficulty in placing various goods in various parts of a boat, meant that, by the time the ship sailed, half the goods had rotted. Shipping containers revolutionised boat loading; as a shipping container is its own environment, and is fully stackable. “So this is exactly what our containerisation is. Where it will make a real difference is in terms of use of the Cloud. So your app, in its container, can run on your private cloud, on the public cloud, on any infrastructure as long as it is in its container. This is what makes it quite special. And in terms of gaming, we’ve been doing this for 18 months to 2 years now. Companies are able to release games far faster because of containerisation. Other industries, for example financial services, are also starting to adopt containerisation now.”

Presentation: Gambling, Leisure & Pleasure: Exploring Psychosocial Need Satisfaction in Gambling

Dr. Jonathan Parke, Sophro

Dr. Jonathan Parke is the Founder and Principal of the consumer research hub 'Sophro'. He is also a visiting lecturer at the University of Bangor. Dr. Parke has served as principal investigator on a variety of government, industry and research council sponsored research projects, most of which focus on gambling behaviour. At present, Dr. Parke is exploring harm minimisation in gambling, qualitative methods in understanding real world quantitative data, and consumer motivation in leisure. An innovative researcher in gambling studies, he has published numerous academic articles, books and technical reports on gambling behaviour. Dr. Parke engages in research that influences the field through thought leadership and the examination of emerging issues in gambling studies including social media and gambling, game design, harm identification and minimisation, and need satisfaction in gambling.

The KPMG eGaming Summit was privileged to receive a fascinating presentation by Dr. Parke on the subject of "Psychosocial Need Satisfaction in Gambling".

Dr. Parke's presentation outlined the findings of a recent study he has undertaken in collaboration with Dr. Robert Williams of the University of Lethbridge, Canada. The study was sponsored by Unibet Group PLC of Malta.

He explained why the research had been undertaken: "The vast majority of studies which have been done focus on the negative impacts of gambling, and rightly so. Understanding and preventing the negative impacts of gambling are important goals. However, our research tried to redress the research imbalance that currently exists, when you have 2-3% of players who experience a gambling problem; yet 99% of the research focusses on that minority. It's important to get a complete picture of gambling as a

behaviour, otherwise our understanding is going to be limited, and this in turns limits the potential for fair and effective policy and regulation."

Dr. Parke highlighted a report entitled "Fair Game", which, he said was very critical of gambling researchers taking money from the industry. Michael Daube, a well-respected professor of public health in Australia, was recently quoted as saying: "Researchers who accept funding from the gambling industry are knowingly contributing to that industry's strategy." Dr. Parke disagrees. He explained that he considers any position that seeks to restrict the research agenda to be naive, and implies that researchers are not capable of acting independently under stakeholder pressures. What matters most is that the research is objective. To restrict objective research because it may or may not suit the gambling industry (i.e., ideological reasons) is not science but advocacy.

Dr. Parke proceeded to provide further detail surrounding his research. He said that their starting point was leisure motivation, and the needs that people satisfy from their leisure activities. He said: "The key finding from the literature review was that we have certain psychological needs, and that leisure is an opportunity to partially reshape our environment to meet psychological needs, that are not currently available."

Dr. Parke explained that we are inclined to seek out opportunities for us to demonstrate mastery and control over our environment. It has an evolutionary basis, in that our drives are argued to revolve around the need to survive or 'master' our environment. Research in the area of 'flow' over the last few decades suggests that the reward provided by leisure activities was the experience of a state of deep absorption, which Csíkszentmihályi labelled as a 'flow experience' whereby the task difficulty was NOT too easy (which would result in boredom) and NOT too difficult (resulting in stress or anxiety). The critical component of leisure is our

ability to define the parameters of the activity; and this seldom happens in a work environment, even for those of us lucky enough to do a job that we love. The fact is, timing in a workplace is often beyond our control, e.g. unwelcome distractions, task deadlines etc. In leisure we can control the parameters often without pressure and judgement.

Identity is also a key aspect of our leisure needs. Dr. Parke said that for most of us, "there is some gap between our ideal self and our current self. The argument goes that if that gap gets too wide, it has negative implications for our general levels of happiness and our well-being. E.g. Alan in accounts, may, in his downtime, like to be known as exciting, masterful, a winner... so maybe he is drawn to play poker in his leisure time.

Social needs and companionship may also be important: they are an essential part of survival, thousands of years ago and still now. Companionship is important for developing functional allegiances and

has been shown to mediate stress. Quite often one of the key determinants of stress is not having enough control over a certain situation. In terms of leisure, it empowers an individual to have autonomy over what they do and how they do it."

Dr. Parke explained that the study investigates psychosocial benefits. He explained that they did not examine financial benefits because the link between money and gambling, particularly from a motivational point of view, is a very complex one. Earning income and playing with money are often not the same thing.

Dr. Parke expanded on this saying: "Players mostly realise that they are paying for a leisure experience. They are not expecting to be paid, except for a small minority, who are going to earn an income as a professional gambler. Money is a secondary reinforcement. In other words, you need money to stimulate excitement rather than playing for free. You need money to make games, for example poker, a game of skill-based arbitrage. When you take out money, it loses a lot of its



meaning, and the experience changes. While you know that you won't be earning an income from gambling, or gaming or betting, you might be more motivated in terms of winning money simply to extend or to engage in better aspects of game play when you pay a higher price. In addition, money is sometimes the metric for measuring success. From a problem gambling perspective, one thing that I will say is that quite often the motivation can change from some of the various leisure needs that I've identified in the last 10 minutes, to a financial reparation, in other words, chasing and trying to get money back. When a player chases losses, money then becomes important as a primary motive. But I just wanted to outline that, because the focus of our study was primarily on the psychosocial benefits."

He said that the study wanted to explore psychosocial benefits, but also wanted to understand what kind of benefits accrue and how they relate to the player, how they relate to the product, and to the marketing segment.

The research followed conventional lines: an email was sent out to Unibet players, inviting them to participate. It was a self-selected sample, but when they looked at the data, those who were responding were surprisingly similar to those who didn't respond. There were roughly 1500 participants in the survey.

So what was measured? The study measured the responding players' preferences, what games they played, how frequently they played them. It also posed some brief questions in terms of motivation, health and well-being. In total, there were 70 items included.

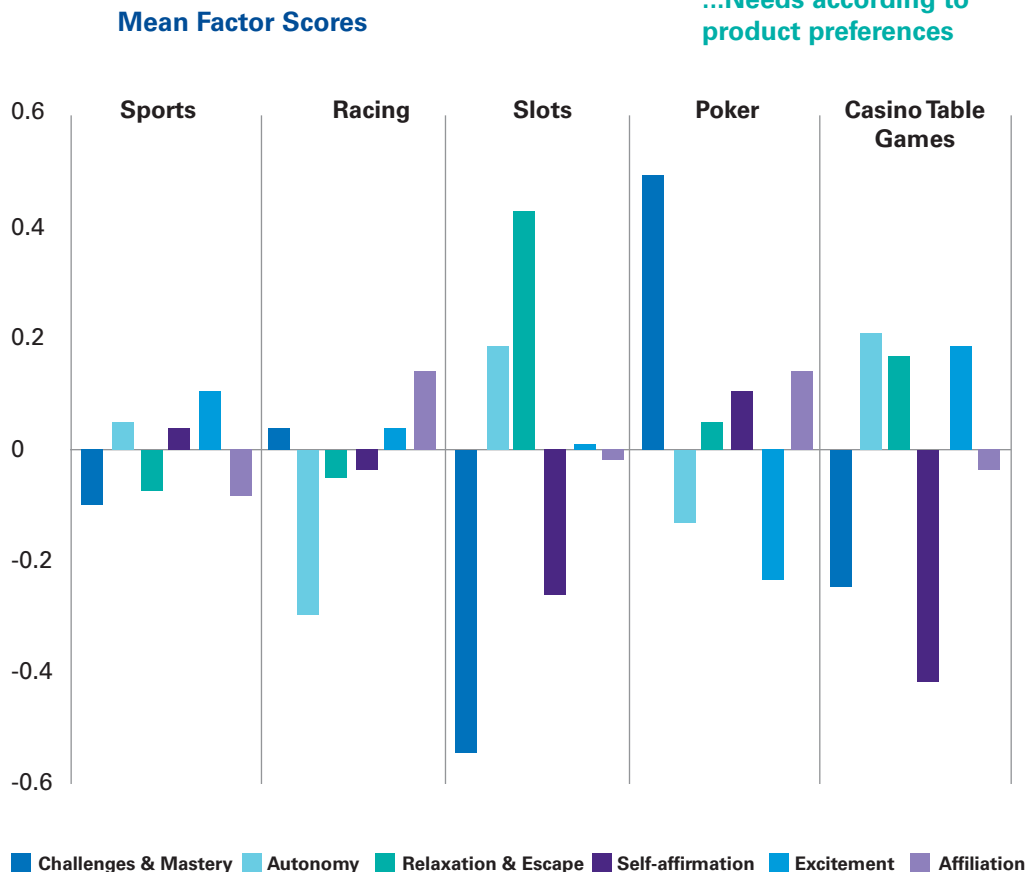
Dr. Parke said that the study was very much exploratory. The aim was to find some initial directions that are worth exploring in more detail, in future studies. Some of the measures were very brief, one or two items in terms of happiness, stress, and of course a few demographic variables.

Importantly, they wanted to measure needs satisfaction. Dr. Parke explained that they initially had a list of around 200 needs that people get from leisure. They compared it to what was already known about gambling motivation, discussed it with other experts, and thereby narrowed it down to 26 items.

Dr. Parke shared with the audience some detailed raw data from the study. The next step, he said, was to look at this raw data and try to break it down into more meaningful chunks. He explained that they did a factor analysis from which 6 core factors [reasons for gambling] were identified:

1. **Challenge & Mastery**
2. **Autonomy**
3. **Relaxation & Escape**
4. **Self-affirmation**
5. **Affiliation**
6. **Excitement**

Results (3) ...Needs according to product preferences



Dr. Parke explained that the above slide shows how the different core factors scored, when analysed with respect to different games: “So essentially in terms of sports, the first surprise for us, was that it was negatively associated with challenge and mastery. Now we think that probably reflects the different types of sports that are out there and that the increase in technology and increased access may augment its position as a fast-paced, live action game. In terms of slots, the most associated need was relaxation and escape. But it was also associated with autonomy. In other words, some people just liking playing slots because there was some hedonistic element to it. As you’d expect, slots were negatively associated with mastery and challenge. Poker was strongly and positively associated with mastery and challenge, but also with affiliation and self-affirmation. I think what really comes out here is the competitive aspect: even though poker players might not be chums and chatting about TV using the chat function, there are certainly social elements that drive it in terms of competition. Poker, relative to other games, was something that people were proud to be associated with. Casino table games were associated with autonomy, relaxation/escape, and excitement.”

Dr. Parke then sought to draw some conclusions, stating that the current study makes a number of significant contributions to the study of gambling:

1. First it provides initial support for considering gambling as a legitimate leisure activity, and suggests that engagement in gambling activities, for the majority of participants, may yield specific and tangible psychosocial benefits. In this research, 6 different types were identified. Prof. David Forrest, an economist, in his assessment of the costs and benefits associated with gambling participation, suggests that “gambling benefits very many people, each by a little, and hurts a rather smaller number of people, but each by a lot.” This research represents an important first step in understanding the potential psychosocial mechanisms that may underpin such benefits.
2. Secondly, not all gambling games are created equal in terms of the needs they satisfy. Consider poker, for example, a game of arbitrage involving an element of skill and involving multiple players; it is not particularly surprising that it was reported to satisfy needs related to competition, social interaction and mastery [i.e., problem-solving and skill development]. However, in contrast, an unanticipated finding was that sports betting was not associated with the need for mastery or challenge but primarily with the need for excitement. This was a somewhat surprising finding since betting has typically been seen as more of a skill-based form of gambling relative to say slots or table games. However, it may be that the individuals in this study were not motivated to partake in sports betting as a form of challenge, but rather to enhance the entertainment value of the sport itself by betting on its outcome. Satisfying the need for ‘excitement’ by betting on sports therefore seems logical when viewed in this context.

3. Understanding what drives different gambling preferences is essential for working with all aspects of gambling behaviour - both pleasures and pains. For example, there may even be clinical implications for problem gamblers, by helping treatment professionals to better understand motives, and identify more adaptive leisure substitutes providing the same needs satisfaction.

In his closing remarks, Dr. Parke mentioned a finding that they found particularly perplexing: when asked a very basic question, “Do you derive leisure benefits from your gambling?” half of respondents said “No.” This is clearly something that warrants further exploration, “My view is that there is a problem with how that question is actually worded. For example, if you asked an English rugby fan during the recent world cup, ‘do you derive benefits from attending England rugby games?’ The answer is probably going to be no. Frustration and disappointment, are central themes in gambling, it is part of the experience. It is also likely that addiction, problem gambling and the absence of financial benefits also influence how people respond to this over-simplified question.”

The bottom line is, understanding how leisure needs are satisfied through gambling is not a simple task, and this research is only one step in that direction. In future research, we will examine how need satisfaction may vary across different gambling formats and also compare it between consumers who gamble as a leisure choice and those who struggle to control their gambling because of addiction. We hope that trying to answer such questions will take us one step closer to understanding how to achieve what is considered to be the ‘Holy Grail’ in enhancing the consumer gambling experience – ‘maximising the benefits, while minimising the harms’.

Panel Session: IMGL Master Class: Financing the Consolidation Boom

Moderator: Susan Breen

Partner, Head of Betting & Gaming, Mishcon de Reya LLP

For its second consecutive year, the KPMG eGaming summit hosted three world-class IMGL Masterclasses. The second Masterclass of the day focussed on “Financing the Consolidation Boom” and provided a fascinating look at many aspects of recent M&A activity in the sector. These included the drivers behind the mega mergers, and how those deals are actually playing out; the impact of regulation at all levels; different verticals and market share; and the importance of technology. Providing a positive and insightful outlook for the sector over the next 12 months, the panel moved on to discuss likely investment sources, such as private equity and debt-funding; potential mid-market activity; expansion into new markets; technology developments, especially the move to mobile; valuations; and exciting new products, such as eSports.

The moderator for this session was Susan Breen, Partner and Head of Gaming at Mishcon de Reya. Susan was joined on the panel by industry experts Linda Main, Head of UK Capital Markets, KPMG UK; Daniel Macadam, Managing Editor (Europe), Gambling Compliance; David Shapton, Partner, Akur Capital Ltd., and Chris Treneman, Managing Director, Investec Investment Banking UK.

Moderator: “Welcome everyone. This morning our panel will concentrate on what we have described as ‘Financing the Consolidation Boom’. We’re going to look at several aspects of the M&A activity and some of the drivers for that. There are a significant number of mega mergers that do not achieve investors’ ambitions, and that is true of all aspects of industry, not just of eGaming. Some would argue that as soon as you see a pair of CEOs approaching a podium, investors should run and sell stock! How true is that, of the current wave of M&A activity? Let’s first look at some of the

regulatory aspects that might be driving current activity. Dan, what are you seeing right across the spectrum, in terms of some of the key drivers?”

Daniel Macadam: “One way of looking at it was to say that 2014 was the year of major US M&A in the gambling space. US companies IGT (International Game Technology) paired with GTECH, and Scientific Games with Bally; the reasons there being slowing growth and trying to tap into a crossover with lottery and slot machines. But US financing also played a part: you had major backing from Blackstone for the Amaya takeover of PokerStars. If 2014 was the year of US M&A, 2015 is certainly the year of major UK M&A. There are about £12 billion pounds’ worth of UK-linked deals in the last 12 months. There are also some links back to that US M&A, from last year. There is still a significant amount of money in US private equity, and Canadian private equity that’s looking for a home. There is real inertia now around online gambling in the US: in New Jersey,

Panellists:

Linda Main,

Head of UK Capital Markets, KPMG UK

Daniel Macadam,

Managing Editor (Europe), Gambling Compliance

David Shapton,

Partner, Akur Capital

Chris Treneman,

Managing Director, Investec Investment Banking UK

Nevada, and Delaware; and it's very unlikely for any other states to open up in the next 12 months. So on the one hand you have most of the likely deals done in the US, and on the other, you have this US private equity money looking for a home. This is one factor why we are seeing a boom in the UK. The other factor which Susan alluded to is the regulatory and tax change which we've already heard about today: the point of consumption tax regime, which started at the end of last year. You know it's putting pressure on operators' margins, it's slowing growth, and making operators take difficult decisions about their marketing budgets. That's a key regulatory driver that we are seeing in the UK. It's that combination of cheap debt, money in private equity firms, and regulation change, that is making operators think harder about where their growth is going to come from, but at the same time is probably making investors who hadn't previously looked at online gambling, think again. Because now it is a clearly regulated space, definitely in the UK, and in many other countries across Europe."

Moderator: "Thank you Dan. Before coming onto the financing side, Linda, you are involved in a couple of very large transactions at the moment on the Stock Exchange. Are you seeing the

same trends in terms of cheaper debt, drive because of the regulatory burden, and extra cost? Because if these deals don't work at the mega level, it's not so easy to hide the failures on the balance sheet; you can't amortize the bill in the same way as you could before. So what are the big boys looking at when they decide to do deals?"

Linda Main: "You are right: you can't hide anything on a company public balance sheet. What people are going to look at very closely is how are they able to drive out cost savings, market share improvements, marginal improvements from these big deals. I mean they are obviously largely paper deals and so to some extent that is slightly less of an issue. What we are actually looking at here is the potential operational benefits of the transactions, and that's what the big players are really interested in, and is equally relevant to a smaller company as well. Any M&A who can't see clear operational or market share benefits from doing it, will need to question very carefully why they are doing it in the first place."

Moderator: "Chris, we've been in the trenches on one of the very big mergers, Party and Bwin, some years back. Picking up on Linda's points about operational benefit, strategic

value, synergies and costs, are current deals getting it right, in terms of the rationale for merging and combining?"

Chris Treneman: "It may be too early to tell with some of them. But I agree with Linda, there is no hiding place for these big deals. A lot of people assume the synergies and deal benefits are much quicker and easier to deliver than they actually prove to be; the evidence of the history is, they often take longer and cost more. So I would put those caveats out there. But it's undoubtedly the case, the World has become a lot more competitive with these bigger players, and the nature of the industry has changed quite a bit over the last 7 years. For example, you've seen the move to mobile: that has been hugely important. People who have been behind on that, need to address it in some way, which is one significant factor. If you look at the UK deals, they all have a slightly different motivation; you can probably get no two more different deals than Coral/Ladbrokes and Betfair/Paddy Power tie up. Whilst I recognise the regulatory and point of consumption pressures in the industry, I also think there are specific motivations for some of the bigger deals that are being done which it's important not to lose sight of."



Moderator: “Thank you. David, are some of those motivations value-driven, defensive?”

David Shapton explained the differences between the current 3 mega deals: “Firstly, in each case, they are being financed differently. If you look at GVC’s acquisition of Bwin.party, there has been pressure on Bwin’s board from activist shareholders for

“So while regulation has some influence, in each of those cases there are probably larger factors in my view which have driven those deals.”

some time to do something with that business. This culminated in the competition between GVC and 888 to take over the whole business which, the board concluded, was the neatest way to move Bwin.party forward. GVC were able to finance that deal primarily through debt-funding, from a syndicate of US hedge-funds and private debt investors. As to the motivation, GVC is predominantly a grey-market operator and has been for a long period of time, but there was an opportunity to increase the scale significantly from where it was. A lot of industry observers believe GVC will reverse Bwin.party’s move a few years back to close down some of the unregulated markets, in the belief at the time that that would increase their valuation. What’s been interesting since then is that the difference in P/E multiples between the likes of GVC, which had a low single digit multiple, and those with very clean records, like a Paddy Power, have converged significantly, such that the public markets are much more understanding or accepting of having a proportion of your business coming from unregulated territories. In the case of Ladbrokes and Gala Coral,

Ladbrokes, like Bwin.party, has been one of the major underperforming gaming stocks for several years. Gala Coral has been through various private equity ownership, and as we know, private equity always needs a neat exit within a reasonable period of time, be it 3, 4 or 5 years.

Both those considerations lead to that deal making sense, and Ladbrokes is doing or has done a significant equity placing for cash to ensure that the combined business carries a level of debt that public markets are comfortable with. Finally, with the Paddy Power & Betfair deal: there isn’t too much overlap in those 2 businesses but one of the most important factors is that the Betfair CEO is the former CEO of Paddy Power, the management teams know each other quite well, the culture fits quite neatly, and there’s not been a need to bring in outside capital. It’s a pure, share-for-share merger. So while regulation has some influence, in each of those cases there are probably larger factors in my view which have driven those deals.”

Ms Breen theorised as to whether the



determining factors for big deals were largely economic, and Mr. Shapton responded that, while cost, competition, and market dominance all bring greater shareholder value, there are often additional reasons why certain mergers occur. It can be a question of a cultural fit, or other individual or funding factors.

Moderator: "Moving away from the mega deals to the mid-market, do you see the trends continuing? Are there opportunities for the smaller and mid-size businesses, or are they going to come increasingly under threat?"

David Shapton again: "In my view we will see a considerable amount of mid-market M&A, predominantly trade deals, where operators can look to pick up mid-size players in markets or in verticals where they are not currently strong. If you look across Europe, there are very few brands that have a strong presence across multiple markets, be they regulated or unregulated. So there is considerable scope for that to happen. There is also the possibility for buy & build, for mid-size companies. With increased regulation, what we've seen is more

and more private equity houses becoming comfortable with the possibility of investing in pure online gaming businesses, which is not something we'd have seen 4 or 5 years ago."

Moderator: "On the topic of bigger deals, will they themselves create opportunities for smaller, mid-market activity? How about divestments of non-core, extraneous, unregulated vs. regulated or yet-to-be regulated businesses? Linda, I'll put that question to you."

Linda Main: "There will always be parts of any merger that end up being non-core or duplicated so yes, there's going to be opportunities for M&A transactions around the edges of any major deal, and these big ones in the market at the moment are no exception to that. With the current mega mergers, there will certainly be occasion for the middle market players to play, as it were, on the backs of the big deals."

Moderator: "There seems to be a place in the market for the large, dominant operators and the small niche operators. How about the mid-

market? Chris, if we pick up on David and Linda's points about verticals, products, and territories, how would you advise a mid-market operator to look at its growth plans now?"

Mr. Treneman suggested that while it will depend on the circumstances of individual companies, the next 12 months may be a testing time for many in the UK "For mid-market operators, there will be opportunities if they focus on their core skill set, to try and build those out, and link up with other mid-size operators where it's appropriate. Remember as an employee stuck in the middle of a merger of two bigger operators, that is an uncomfortable place to be, until the deal plays out. In those circumstances both bigger businesses can lose focus and direction and it's quite possible that innovation and imagination might go out of the businesses. If that proves to be the case, it is probably not all bad news for the mid-market operators and may provide an opportunity. Clearly if these big deals go well, you will certainly see these larger companies becoming more aggressive in the market once the dust has settled. However if they go less well, that short

term opportunity may become a longer term one or at least until they get themselves back on track. Therefore I think there is a bit of time now for mid-market operators to come up with something different. And, from a merger and acquisition perspective, there will be things that may well come free from these bigger deals, for example there has been speculation around whether GVC will make divestments. Whether they eventually decide to pursue divestments or not, one has got to think that's a realistic possibility at this moment."

Daniel Macadam: "I believe there's more room for smaller and medium sized players in the online casino and bingo sector than there is in online sports betting. This is good news for the Isle of Man, with its many online casino and bingo licensees here. Looking at some of our estimates for the online UK market share, you can see that in UK online sports betting, the top 5 operators made up 75% of the market last year. If Paddy Power & Betfair, and Coral & Ladbrokes goes through, the new look top 5 will have 85% of the market. That is real domination from the top 5! However, if you look at UK online gaming which is casino, bingo and poker, if you roll those 3 products together, the top 5 operators have less than 50% of the market, in the first half of this year. (Of course poker on its own is an exception because of PokerStars' dominance). So you can see how it's a much more fragmented, crowded marketplace than sports betting. There are certainly fewer barriers to entry in casino and bingo than there are in sports betting, where you need to have your trading teams, and you need to advertise during sports events, which is an expensive advertising slot."

Mr. Treneman added that the earlier presentation by Dr. Parke was a suitable reminder of the motivation for the players in all the different gaming verticals, "and in some of the big businesses which may be more sports-based betting culturally, they can lose sight of what the customers in other verticals are all really about, whether it be slots, bingo, casino."

Moderator: "Looking behind the scenes at platforms, technology, mobile, these create a huge impact on all of these businesses, both at the big and mid-size levels. Are any of you seeing in your day to day jobs, drivers around technology platforms and mobile which are of themselves driving a particular combination of businesses, whether it is across verticals or markets?"

Chris Treneman: "In terms of M&A, if you are all working on a common platform, it makes life much easier as ultimately, you are talking about trying to port customers from one platform to another as it's quite difficult to run platforms in parallel. That is where a lot of the synergies, cost-savings, and redundancies lie. Frankly people think pretty hard about that, before they start meddling with it. Look no further than William Hill, spending a huge amount of time and effort right now, working on their Project Trafalgar, to achieve a platform they are comfortable with to take the business forward for the next few years. It's all about being able to have a platform which will enable them to bring products to market much more quickly."

Ms. Main agreed with Mr. Treneman and suggested that the primary motivation for these big deals is not the technology, but as the technology is there, it represents an important part of the achievement of synergies being reached by the big players through these deals.

David Shapton: "The reality is there is just far too much difficulty in the migration of players, in trying to run two platforms. In the case of Ladbrokes & Gala Coral, the fact that they are both on the same platform now, is an important factor in making that deal work."

Moderator: "Coming back to the structure of negotiations, they say there is upwards of \$400 - \$500 billion of private equity money around to do deals. How many deals are being driven by the appetite of the private equity houses to find another form of investment, as opposed to the CEOs themselves, wanting to do those deals? Linda, can you give us any insight into a typical big deal? Looking at some of the aspects of their structuring, are we talking about shares, with a combination of cash on the balance sheet, or something else?"

Linda Main: "We're seeing quite a variety of structures being put in place but the motivations and the incentives are going to be different in each case. Clearly private equity at the moment does have a lot of money, is keen to do deals, and as we've said is increasingly comfortable in this space. But having done deals, it then needs to do the next one, it needs to always get out, and obviously at the moment we are seeing a number of deals in the listed company space, involving shares. Currently one of the bigger challenges that we are seeing, and these have been largely UK deals, is the cross-border aspect. This is proving to be quite challenging for some players; actually executing cross-border deals is a complex thing to do. We've seen less success, perhaps, with overseas players seeking to make these transactions here."

Moderator: "So is this debt too expensive, in terms of the price to be paid for funding this sort of mega-merger? Chris and David?"

Chris Treneman: "A new company who is looking to take on some of the alternative bank debt, which is out there and being provided, needs to think quite hard about how they are going to pay that down, because it can eat away at equity returns very quickly. If you consider the cases of Amaya and of GVC, it may well suit them both just to keep with it for the moment. I'm not involved in either of those deals but I am sure that they will certainly have thought about ways of paying it down. But as an equity investor, I would be quite concerned to see that expensive debt paid down, or at least a way to paying it down quite quickly. Let's not forget that private equity money is not known for being cheap money."

David Shapton: "I agree and would add that you would only, as an acquirer, take on debt to make an acquisition if that was really cheaper than equity, certainly as a public company. As a private acquire, then the question is how highly do you value your own equity if you are an owner/manager, such that you'd be happy to take on that level of debt? Or in the case of private equity, you would often see that private equity usually builds its minimum return into its preferred structure whether it's via debt or equity. Generally, the management stake is always having to clear a hurdle. So as well as being clear on whether you are able to pay that debt down, through cash flow, one should also consider whether equity on a risk-reward basis is more or less expensive than the debt that is being offered to you."

Moderator: “Returning to a point that Chris made about stifling innovation: even if the maths doesn’t work so easily to begin with, one of the objectives of a merger, big or small, is to access and promote novelty and attract new customers. Now this is not an end in itself, but the beginning of something bigger with a merger. Will this drive or stifle further consolidation plays? How are you going to be able to do that as owners of businesses, with increased marketing costs, increased taxes, and the burden of regulation which is only going to get worse and not better? In the short term, is that not going to put some pressure on the underlying fundamentals of the businesses to deliver and grow and become more creative?”

David Shapton shared his view that mergers in themselves are not necessarily the start of further consolidation. One purpose they do fulfil however, is to publicly indicate that, “this is the size of company that we need to be, to take things forward for the next few years. Larger companies have always struggled with innovation because of the needs of public shareholders, to retain cash to meet quarterly earnings targets and pay dividends. So I don’t think that situation changes

very closely at regulation control and the way the business is operated: they don’t want any value to leak away through problems in any of those kind of housekeeping areas.”

Moderator: “Linda, is any part of this driven by valuations per se in the market, when you are looking at listed companies? Or is that just a by-product of the fact that there is a business rationale to be dominant in a particular sector? Can you say anything about how valuations will pan out over the next year or so? That may be a difficult question..”

Linda Main: “It is a difficult question! If I could see how valuations were going to pan out over the next 12 months, I suspect we wouldn’t all be sitting here on this panel. [laugh] Well, clearly valuation is a driver, there is a definite perception at the moment that there are more deals to be done, that it is a good time to be doing deals. But in terms of how that is going to move over the next few months, I would defer to my equity markets colleagues on my left.”

Chris Treneman acknowledged the trickiness of the issue, “There is a huge divergence in ratings between

“I believe there’s more room for smaller and medium sized players in the online casino and bingo sector than there is in online sports betting.”

significantly. There is always room to add some more bolt on acquisitions to these larger businesses. But what these mergers need to provide is an organic growth base, and an increased profitability from the costs that would be saved by putting those two businesses together. And as has been pointed out, the increased costs of regulation are best offset through scale.”

Daniel Macadam: “I would completely agree with that. I was especially struck, while you were talking just now about increased regulation and other increased costs for operators, at how we’re seeing a greater curiosity from our private equity subscribers in markets that previously wouldn’t have attracted interest, before this M&A wave. There is interest in Russia, particularly because of Amaya and PokerStars, and the potential \$550 million pay-out Amaya will have to pay if regulation changes favourably there. But also in Italy and former Soviet states. You mentioned greater regulation: this comes from countries’ licensing, online gambling and other forms of gambling, it also comes from regulation in adjacent sectors. We heard earlier about the excruciating costs, particularly for smaller companies, around IT security and data storage; there is also AML, and testing labs. So you’ve got all those regulatory costs, you have countries adding regulation, and you have private equity taking a greater interest in what’s going on in all of those areas.”

Linda Main cautioned on this critical point: “the one thing a private equity owner is not going to do is sit back and let you take a casual approach to any of the above. Because once you’ve got private equity anywhere near your business, they are going to look very tightly and

Paddy Power-Betfair, and the others at the moment. One has got to think that should normalise over a long period. I can see why valuations are far apart, but in an increasingly competitive UK market in particular, quite a lot of growth is required to justify the top end of those ratings. My own sense is that, if you look at the UK and Ireland writ large, if I was over-invested in those markets, I would worry about political and regulatory risk, and the headwinds to growth that might bring with it. I would like to think that the big UK operators will come up with a way of finding new markets abroad, to diversify that risk.”

David Shapton: “I wouldn’t forecast which way valuations as a whole would go. Typically, with acquisitions of private companies, valuations have been in the 6-8 times trailing EBIT or EBITDA range, and I don’t see that shifting considerably. Unregulated businesses tend to be below that, and regulated and fast growing businesses can attract a higher multiple. But given the multiples that public market businesses trade at, which is generally higher, there can be some significant earnings enhancing transactions to be done, at that kind of level. We see that continuing, not only amongst operators buying into new markets and new products, but amongst B2B providers as well.”

Moderator: “Thank you. Now let’s talk a little about Asia. Would regulation make M&A more likely, Dan, there?”

Daniel Macadam confessed his surprise at the lack of any Asian-facing operators, in all the recent M&A activity. Citing reasons for this, he continued, “the regulatory landscape in Asia is grey, to dark grey, to

black. That is probably a factor that's holding back significant funding going into M&A deals in that sector. If anything, the momentum now is towards more prohibition of online gambling. You have Singapore in February, banning it for all but the 2 state-run companies; you also have Korea, in the last couple of weeks, announcing prison sentences for online gamblers, and a 100-day crackdown on any affiliates that are linked to online gambling operators there. To me, the arguments that we have in Europe, where governments are being persuaded to license online gambling for extra tax revenue, are compelling. The debate in Asia is far more around integrated resorts and the financial benefits that governments can get from those, which dwarfs any income that you would get from online gambling licenses. It means that online gambling is either not on the radar or it is there as something to be prohibited."

The moderator then moved on to ask Mr. Macadam about new territories. Were there particular factors in emerging states that could point towards the ability to grow into, and add significant scale to, the large merged entities? How likely was a large South American or African market, in which to play for? Were there key regulatory shifts or developments under way in those regions?

Daniel Macadam: "One model that seems to be particularly popular at the moment in Africa, and attracting interest from small to medium size operators from Europe, is a kind of omni-channel approach, where you have a betting shop that connects directly up to a website. You see a lot of it in Italy, that Stanley Bet pioneered. That model is currently working and being rolled out in Nigeria and Kenya and some other large African countries. I don't know of any major operators who are doing that yet, perhaps because of regulatory uncertainty about whether it is completely legal, and whether it is licensed, but at the moment there are smaller companies that are very interested in it, and seem to be doing well."

Moderator: "As to outlook for the coming year, we are seeing lots of new products, such as Daily Fantasy Sports; we heard comments from the government this morning about licensing, the position in the States,

and mobile. How do we see these separate businesses, or the potential for social, daily fantasy, mainstream, sports betting, poker, casino, to grow together? Will there be geographic and product differences maintained within the market? Have you, David, seen movements to consolidate on a much wider product at a geographic level?"

David Shapton: "Looking at each of those in turn, Daily Fantasy is huge in the US, and has run into some regulatory difficulties of late. The two largest players in DFS are looking to launch into the UK and other territories. I can't see how they would achieve a similar market share and growth that they had in the US, when they'd have to compete for marketing space with sports betting businesses, which they've never had to do in the US. You will typically have businesses and brands that are strong in one particular vertical versus the others. I don't see it all converging into one, although of course once some of these larger mergers are complete, where else do you look for growth other than to swallow up some complementary products or verticals?"

"One area that hasn't been mentioned that is very interesting is eSports. It brings in a type of gamer or gambler that would not normally have come close to our industry. Video gamers tend not to be typical sports fans or sports bettors, being more focussed on their Xbox, or particular games. So there are already some businesses around, and some M&A here, which is making good progress in establishing eSports, not just as a huge spectator sport from a land base and event point of view, but also in establishing pools based betting, fantasy sports or even simple bookmaking on eSports. So those areas are the most interesting, and eventually, I think we could see some convergence here."

Moderator: "That is interesting. Would you say then that the Intertain model of focussing on bingo, and being dominant in a particular product and across many territories, is still a sensible way to go for operators? In terms of strength in an offering, as opposed to dilution across territories and product offerings, if you don't have the band width or the technological skills to do that?"

Chris Treneman tackled the question, "If you are an operator and looking to

extend your customer base, you've got to be wholly sure you know how you are going to go about it. Therefore, take bingo, or eSports or Fantasy sports for example, each of which potentially brings you a completely different set of customers, with different levels of motivation, you need to know what you are doing. Remember too, each of those products have some pretty powerful competitors who know what they are doing. Therefore I think you'll probably want a business with a degree of ballast to it already, and understanding, and momentum, because I think you would worry about your own ability to nurture and drive that business forward under your umbrella immediately."

Moderator: "How about whether there is enough appetite to do IPOs? This is really the big boys all getting together. There are some obvious omissions. But in terms of the mid-sector, what's your best guess for the outlook for the next year?"

Linda Main: "I think there is appetite for IPOs. Clearly, all transactions that we are seeing at the moment are running a dual track: IPO and sell process, because the PE houses we've discussed are very interested in the space and are increasingly prepared to invest. To get the best value you've always got to have a flexible approach to any transaction. But there is definitely appetite and interest among the small to medium size category players, towards looking to an IPO. We work with a huge number of companies that think they are going to IPO and then end up doing something else. Interest and excitement in an IPO doesn't necessarily mean that's the ultimate outcome of the transaction, but there certainly is enthusiasm."

Chris Treneman: "From my perspective, I would commend an IPO to anybody who thinks they can offer a unique market position and opportunity for growth, going forward. That's what UK investors are looking for. They have loved the online model over the many years, because of its cash-generous policies, and ability to pay dividends. In the long term, it is worthwhile, if you meet those criteria."

Presentation: The Multi-Jurisdictional Licensing Process

Jennifer Houghton, Annexio Limited

Multi-Jurisdictional licensing

After lunch delegates enjoyed a presentation by Jennifer Houghton, Managing Director of Annexio Limited. Annexio are an Isle of Man based, regulated online gaming company. Established in 2010, Annexio specialise in the secondary lottery market and own the websites PlayLottery.com and WorldLotteryClub.com. Ms. Houghton has a background in international audit, banking and insurance, with industry giants AXA and Deloitte making appearances on her CV. Having lived and worked in several countries, including the US, Sweden, Luxembourg and the Isle of Man, Ms. Houghton is ideally placed to understand the stresses and benefits of running a company in possession of a multi-jurisdictional license.

Ms. Houghton's approach to multi-jurisdictional licensing was to present the subject from the perspective of an operator who had been trading on the Isle of Man for the last four years. She indicated that, in the case of Annexio, the firm chose to base itself in the Isle of Man due to the following:

- Licensing worldwide was changing.
- White listing in the UK was a short-term position.
- The EU would, and still will, evolve further.
- The position with regard to the US would remain challenging and any solution would probably continue to lock them out anyway.

In particular, Annexio felt that, in the Isle of Man, new businesses are especially well supported, as they continue to evolve.

Ms Houghton explained, if you examine the market trends from the perspective of an operator, it is best to break it down into seven areas: competition; cross border; regulated markets; customer protection; fiscal and taxation; know your customer; and the need to regulate. These, she explained, are the current trends in lottery worldwide which deserve attention.

Competition

Commenting on competition, Ms. Houghton observed: “Quite simply, we need to see where the future business for ourselves will come from and where those who went into the market after us have thrived. It’s important to our survival that we know who to shoot and who to avoid being shot by!”

As an issue that affects every industry, and as a building block of the free market, competition benefits customers and companies alike. That being said, there are lessons to be learnt from competitors abroad. “Accepting the EU as our biggest market,” Ms. Houghton continued, “Changes in the EU have meant that the competition for cross-border providers such as ours have changed completely. The need to consider the competition of home regulation and also competitors operating in the home

markets of the EU is critical to be more ahead of the game. We see changing positions in the UK, Spain, Italy and Germany. Therefore any cross-border model in the future needs to take account of the European position and of the very many directives and tax and VAT rules that apply.”

Like most operators, Annexio are also looking further afield, to the US and South America. In spite of the US traditionally being a “no-go” area, companies should examine the changes that are taking place with the terrestrial gaming companies and also individual states, as these are the days of shifting sands. As Ms. Houghton remarked,

“That there will be one solution that fits all states, to my mind, is highly unlikely. However, if one wants to break into this highly attractive market, then one of the things to keep an eye on is the viability of state by state licensing.

As for South America the market has always been very complex and to be able to operate efficiently in that part of the world one needs a local based operation, particularly call support staff and then, of course, you become embroiled in the regulatory position and also that of different approach between different countries on the continent.”

Ms. Houghton touched upon the Far East as a market, citing the huge rewards for companies breaking into this area as being worth any “substantial barriers to entry, in terms of language and customs, as well as the current volatility of the regulatory climate”. It would be an expense and a challenge to obtain the necessary resource to break into the market of the Far East.

Cross-border issues

Moving on to cross border issues, Ms. Houghton underlined the extreme difficulty of operating in the European market while being outside the EEA and without any presence. With that in mind, Annexio applied for, and were granted, a UK license to operate their UK based business and also to act as a beachhead for the rest of Europe.

As Ms. Houghton outlined, “It is clear that the ability to operate in Europe is not simply based upon white listing or indeed passporting. There is a complex algorithm of compliance, taxation and VAT questions that every company must answer for themselves.”

Annexio regard an Isle of Man license as the perfect tool that combines customer protection and excellent standard of regulation, but also gives them the confidence to expand into other markets. As those markets change Annexio will change with them, and has faith that the Isle of Man

government will do the same. Annexio believe that the future lies in a blended solution that centres around a base of operations in the Isle of Man.

Elaborating on the perils of being a cross-border player, Ms. Houghton continued, “One must always cope with the difference of a level playing field between locally based companies and those operating internationally. The use of legal opinion and also on the ground resource is critical to be able to obtain the current market position and also of course the future market movements. It would be incredibly frustrating to make an investment in a new country only to be blocked out from that country a few months later. It sounds unlikely, but this is something that we have had to deal with in the past.

Operating across borders is increasingly going to be an issue for the sector. The rate at which the problems increase will depend on the continent. One only

needs to examine the situation in the UK with white listing to see a vision of the future where governments decide to change the rules in an attempt to bolster either local based companies or alternately and more importantly local based tax revenues.”

In order to obtain market access, one must also consider the rules that exist for cross-border players into other countries. This may seem obvious, but the rules are far from clear depending on what type of game you offer, what type of product that you offer and also the situation in the home state with regards to foreign entrance.

Those who are familiar with the UK may also be aware that there is a requirement to ensure that when turnover in a specific market exceeds 3%, then the company is required to hold the necessary legal advice which confirms the manner in which they are providing services to that country.



World Trends in Lottery

Competition

Cross border

Regulated markets

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AML / KYC

“Whilst we do not know the timescales we feel that the move to compliant based business, depending on the local market, will be an irresistible force in the future...”



The future for a multi-jurisdictional operator

Ms. Houghton pondered on a future for Annexio:

“Whilst we do not know the timescales we feel that the move to compliant based business, depending on the local market, will be an irresistible force in the future: we have already begun to organise our model to take advantage of these future market changes, and when the market changes again, so will we. Of course the future is never certain but one must have in mind the operating model that they believe will cope with future positions. For Annexio, we believe that the hub and spoke model, with the Isle of Man at the centre of the wheel, aligns with our current model.

But dealing with the unregulated, internationally regulated, and with European markets differently, depending upon local needs and also the appetite of the regulator and the risk appetite of the company, is highly challenging.”

“The segregation of players funds from that of the company is not just good practice, but also a sure winner when it comes to describing the situation to potential customers.”

Payment solutions and cryptocurrency

One issue which affecting operators across the industry is how to deliver payment solutions. This is becoming increasingly difficult, as Ms. Houghton described:

“We see this problem at the heart of the move to compliant based business as the changing risk attitude of banks, and also to payment solution providers, will mean that their ability to process business in the grey market or indeed business that is not clearly regulated will be increasingly limited in the future.

I recognise that this is a challenging statement and runs contrary to the thoughts of a number of other operating businesses. However, one only needs to look at the current High Street banking model and also the moves internationally to see the challenges ahead.

I know that some businesses are looking to solutions such as cryptocurrencies or other payment methods. We are broadminded and of course will look at future solutions as they become available. However, we must bear in mind that the core of our business lies in currency transactions, and any solution that we introduce must be convenient for both our players and also ourselves. We will not put at risk our own banking relationships, or indeed of future payment solutions.”

However, like many other companies, Annexio has looked into the case of cryptocurrency, and whilst the proposition is extremely attractive, the company remains cautious to ensure that the deployment of a cryptocurrency solution does not affect their players, their banking or the industry more generally.

As Ms. Houghton continued:

“We are looking to regulators to give a clear indication of their position with regards to cryptocurrency and also from the clearing banks to ensure that, should we use this method of payment in the future, there will not be any unexpected consequences. We are keeping a close eye on the position with regard to the UK and also further afield, where the attempt to understand, and most likely to regulate cryptocurrency in the future, are on the agenda. When this comes to pass we see that the ability to use alternative payment methods, such as cryptocurrency, is an extremely attractive option. Whilst many do not consider customer wellbeing as part of their core marketing proposition we believe this is fundamental. It remains optional for now but the future of regulation and the nature of free markets will see this become a necessity. Fiscal and taxation is of course important too as the desire by governments to improve the tax take will inevitably impact upon the profit margins of the gaming companies.”

Regulated Markets

Why regulate? There are obviously numerous other issues affecting the eGaming sector and therefore the need for regulation, but from a multi-jurisdictional perspective I think some are the more relevant in an ever changing climate, than others. Number one, the increasing sophistication of regulated markets and the two way learning between markets by regulators will cause problems for some gaming companies as rules and complexities become more apparent.

Number two, It is important to recognise that with multiple regulations, diverse markets, and evolving regulations, it is possible, even likely, that you will eventually breach rules somewhere. The regulators recognise this, however the key is how you respond to the breach. You have to act quickly and decisively, to give the regulators confidence in your ability and maintain relationship with them. I'm pleased to say, Annexio has never had this problem.

So, when dealing with regulated markets, if you are going to be a regulated player then there are rules that must be followed and the rules that we would identify are as follows:

The rules on VAT are changing particularly in the UK and other parts of Europe. So one must be very careful not to build up an unrealised liability to VAT simply by attempting to structure

the business in such a fashion as to avoid the VAT. The introduction of consumption tax was the start of the campaign. We believe is just the tip of the iceberg in terms of ensuring that everybody pays their fair share of both duty and also associated taxes.

When working with the regulators one also must be sure that they understand the differences between varying regulatory regimes. We have started on this journey quite recently, and already we see the challenges in working with multiple regulators. Not least that compliance departments, and the staff that they employ, need to be familiar with the rules of our home state (the IOM) and also that of the other country.

It is very easy to assume that the rules in a foreign country are the same as the home rules but often this is not the case. Annexio applaud the efforts of the GSC to work with other regulators to ensure that there is an understanding and also acceptance of the Isle of Man as a recognised well-regulated jurisdiction. Their work makes everyone's lives much easier.

Customer Protection

Annexio consider one of the key strengths of the Isle of Man to be its approach to customer protection. This is critical for multi-jurisdictional operators, such as Annexio, as Ms. Houghton outlined:

"The segregation of players funds from that of the company is not just good practice, but also a sure winner when it comes to describing the situation to potential customers. As cases over recent years have demonstrated, the fragility of player trust must never be underestimated. The ability to demonstrate that the care taken with players' funds is equal to that of a financial institution is one of the things that will bring consistency and also acceptance to the industry more generally. Operators must also ensure that they are familiar with the rules of customer protection in that country, and also vis-a-vis the competition more generally."

When considering customer protection, one must also consider very carefully how the payment solutions that one deploys in the country match up with ability to pay customers if there were any difficulties. Annexio are attempting to use multiple payment solutions to ensure that our customers are best served depending upon the location, the rules of the jurisdiction, and also of course the cost of the payment solution itself.

A very important aspect when considering regulated markets is the tax position, especially in conjunction with the regulated position. If you're familiar with the term 'principal place of establishment', you will also be aware that there is a very fine line when creating a PPE and also complying with the necessary rules of the country to which you wish to establish.

When working in a regulated market one also must consider the terms of business that are both available to the player and also displayed on the customer website.

Often it is found that the terms of business between different countries need to be adjusted to ensure that they are compliant with the home state and also that of the target state. This alone consumes large amounts of resources as well as costly legal advice.

Annexio recommend paying close attention to this area because, if something were to go wrong, then the liability could be eye-watering.

“We intend to operate in this industry for many years to come, which means that we need longevity not just in our product but also in the trust and acceptability of our business model.”

Fiscal and Taxation

Scanning the horizon for any upcoming fiscal issues, Annexio recommend that operators watch the taxation position with regard to the UK and the EU, very closely. The current focus on OECD Base Erosion Profit Shifting and the introduction of Diverted Profits Tax means that, depending upon turnover, the situation with regard to taxation and to that of players may change drastically.

Ms. Houghton, “Again, this plays to the stance that we are deploying of hub and spoke. If one is to challenge for

market share in other countries, then you cannot have an Achilles heel at home. With the acquisition of our UK license, and possibly others in the near future, we hope that no matter what position arises, we will be in at least a compliant position. Of course it is attractive to seek to operate in different ways to ensure that you mitigate taxation as far as possible, not least because of the impact on profitability margins in many of our individual sectors, but what would be damaging is the exclusion from the market totally or penal tax charges due to lack of compliance in the past.”

Annexio are examining the structure of their corporate entities very closely to ensure that they can maximise the use of their hub in the Isle of Man and that of local deployment to provide good customer service, a compliant market offering, and the minimisation of taxes and duties in foreign countries. They are confident that they can operate in all our target markets in a fashion that makes everybody happy, including shareholders.

AML / KYC

With AML, the logical thing would be to assume that one size fits all with regard to this type of compliance.

However, one would be wrong. Whilst there is an international standard of compliance under Financial Action Task Force principles the deployment in individual countries appears to be sometimes random at best.

It is easy to understand why the large clearing banks with multinational operations are defaulting to a risk adverse process: it is very easy to get the application of local rules wrong. And of course this could have devastating results. We even see differences between the UK position and that of

the Isle of Man which sometimes is extremely difficult to explain to a customer base.

The way that Annexio has dealt with this is to ensure that the systems which we deploy in the Isle of Man are fit for purpose to apply to customers recruited from other locations and make sure that our staff are well trained and also familiar with the necessary rules. Whilst this may seem expensive overhead, if one is to operate in a trusted and also respected industry then one needs to follow the international rules. Annexio has introduced electronic verification, transaction checking, and also of course the profiling of customers.

Ms. Houghton continued: “The dangers of poor systems are not only dangerous to the company itself but we also see a wider responsibility to that of the Isle of Man. With the impending MONEYVAL visit, we recognise that the international institution will be looking for weaknesses and we must ensure that it is not ourselves. We owe this to our regulators and of course to the rest of the industry here on the Isle of Man.”

Why Regulate?

Ms. Houghton came to her final topic of the day: regulation.

“So why do we need regulation? We often come across competitors that are not regulated. It is sometimes frustrating that, as a business, we have overheads and responsibilities that others seem to be blissfully unaware of, or unconcerned about. Whilst we can understand these businesses wish to maximise their profit margins and therefore share value in the very short term, in the long term we know an unregulated approach is unlikely to pay dividends.

We intend to operate in this industry for many years to come, which means that we need longevity not just in our product but also in the trust and acceptability of our business model. We feel this comes with operating within a regulated environment which in turn generates an increase in customer confidence.

We need to ensure that when that time comes, or when we are approached by an appropriate party, for trade sale or IPO, then we are not just fit for purpose but also an attractive partner for our future owners. We have been asked to look at other businesses for acquisition and also merger but often these businesses have no regulatory standing and some of the practices, frankly, are quite worrying within them.

We need to ensure that when the same thing happens to ourselves, we are in a position of strength to negotiate with any third party. However, we have no plans for exiting at this moment in time, thank you very much.

Everything that I've talked about today is related to good practice in a regulated environment. I know it is not the most interesting subject in the world for customers, but for shareholders, for our bankers, and for regulators I can assure you the subject is fascinating.”

Conclusion

As Ms. Houghton concluded her presentation, she summed up her experience of creating and operating an eGaming business on the Isle of Man with the following: -

“The process of building Annexio reminds me of my journey climbing Kilimanjaro. It was a challenging, albeit very rewarding, process.

When I first set up Annexio I did so without the help of a CSP, or a lawyer, I did so by understanding the detailed regulatory requirements, which was a significant investment of time. There was certainly a lot of fine print to read, and many, many, forms to fill out, but it was a process that has helped give me insight into the importance of regulation.

Customers are more likely to trust a product if you can show your company is rigorous in its application of regulatory law. Investors, who are concerned with return on their capital investment, are more likely to trust a company that can prove, without a shadow of a doubt, that it is compliant.

For our industry to thrive, we have to think on a global scale, and not just consider the pros and cons of a single jurisdiction.

When seeking to move abroad, and operate across multiple jurisdictions, the process is much the same.

You begin with hard work, then the foundations you establish and the routes you choose will put you in good stead when you finally reach the summit.”

Panel Session: Social Responsibility in Gaming

Moderator: Micky Swindale

Head of Advisory, KPMG Isle of Man & Gibraltar

Moderator: "Allow me set the scene for this panel about social responsibility. Last April at our eGaming summit in Gibraltar, we had a panel session which included the Head of the Gibraltar Betting & Gaming Association, Gibraltarian Ministers, the Chair of the Senet Group, a Data Analytics expert, and an UK independent gambling consultant, Steve Donahue. The panel debated the whole area of corporate social responsibility, with an emphasis on gaming companies. They focused largely on traditional CSR, in particular its role in shaping perceptions of eGaming operators, as a force for good, and to oppose any negative views held by the wider public. They talked about the impact of TV advertising; questionable marketing campaigns run by one or two high profile operators; and increasing morals in markets across the globe, which we've certainly seen from a tax point of view here in the offshore world. Considering their impact on the wider public view of gaming, the conclusion in that debate was that CSR was not just morally right for gaming companies, but, specifically in this sector, a strategic and a financial necessity. So that was one of the drivers behind wanting to debate this today," said Micky Swindale of KPMG Isle of Man, opening what became a very stimulating panel session, on the sometimes sensitive topic of corporate social responsibility in eGaming.

"Another driver for this session is the recent changes to social responsibility regulation in the UK. Not just the UK Gambling Commission's technical standards, which came into effect in October, but also the Industry Group for Responsible Gaming's Guidelines for TV advertising that came out back in August. We are fortunate to have today three individuals on the panel who are very involved in the broader question of CSR. Indeed, looking at that wider debate, in Gibraltar recently I hosted KPMG's Global Head of Citizenship, Lord Michael Hastings. He was visiting to speak at the Barclay's Future Leaders Development Programme, which KPMG have been supporting, and he spoke about the wider area of citizenship. I know that Barclays were interested because, like many in the financial services world, they have been

exploring the importance of CSR in a market where public trust has been eroded. In fact, one of the debates that the panel looked at in the run up to this, was a Barclays' hosted debate, entitled "Is CSR Dead?" You'd be interested to know that their conclusion was that it isn't dead, but actually that traditional CSR programmes in the financial services sector are no longer fit for purpose. To illustrate the point, they used an analogy from Wired magazine, (a magazine which always rates new technologies as 'wired, tired or expired') and they rated CSR as certainly tired, and in need of re-wiring. But I suspect these companies on our panel bring something that's far from tired, in terms of their approach to CSR. Panel, please introduce yourselves."



Panellists:

Sue Hammett,

Head of Corporate Giving, PokerStars

Janine Woodford-Dale,

Head of Marketing, Events & PR, Microgaming

David Schollenberger,

Partner, Head of Gaming, Healys LLP

Mark Reynolds,

Director, Newfield

Dr. Jonathan Parke,

Founder and Principal, Sophro

David Schollenberger: “I’m David Schollenberger, a Partner and Head of the gaming team at Healy’s Solicitors in London. We advise operators, suppliers, governments and interested parties, in gambling regulation.”

Sue Hammett: “I’m Sue Hammett, I’m Head of Corporate Giving for PokerStars Full Tilt, part of the Amaya Gaming company. I’ve worked in CSR for 15 years, specialising in community investment, and have previously worked for Orange UK. I’ve been here on the Isle of Man for three years.”

Janine Woodford-Dale: “I’m Janine Woodford-Dale, Head of Marketing, Events and PR for Microgaming.”

Jonathan Parke: “I’m Jonathan Parke, a psychologist looking at the consumer psychology of gambling. I have worked at two of the UK’s main research units for gambling, then I was Director of Commissioning for the Responsible Gambling Trust. I have recently set up on my own doing research and training, for my consultancy firm, Sophro.”

Mark Reynolds: “I’m Mark Reynolds, a Director at Newfield Limited, which is a proprietary para mutual and exchange sports trading company based in the Isle of Man. I’m a chartered secretary by training and worked within the CSP industry for over ten years. I moved into the gaming industry three years ago.”

Moderator: “Given the wider backdrop, we’ll start with our CSR reps first, and ask you in turn, to describe your company’s CSR approach and activities.”

Mark Reynolds: “We are a relatively new company on the Isle of Man, in operation for just over three years following a decision to base the headquarters of a larger group within the Island. One key function for Newfield, set from the beginning, was to invest locally in the Isle of Man. A vital part of that was to recruit IOM workers, and develop them, with the objective of building our staff base purely from local talent. From February 2012, we grew from having two people to 12 by the end of the year. We’ve doubled year on year; now we employ up to 95 people (some on a part-time or contract basis). In fact, more than 85% of them are IOM workers, so we’re very proud to have achieved one of our key ideals.”

“When we started, we didn’t really

have a focus in terms of our CSR policy. It was something which we had to develop over time. My view, with a CSR policy, is to look at where you are, how you are going to enter into the local community, to become the ‘good local corporate citizen’. Then you look at things on a more regional basis; then when you reach that level you consider things on an international basis. We have just now implemented new policies where we are looking at charitable donations and sponsorship. We’re really looking to help re-invest in the island. As a new company, over the last two years we have focused firstly on our own staff, and looked at ways to help them develop. For example, we have a number of staff who are IOM representatives in sport. On two occasions we financed them to attend the Island Games. We’ve started to move into actual team sports, the Isle of Man TT, and most recently have looked at developing youth, with the hope to link that back into our mission statement. We’ve financed the Isle of Man Sport Aid Academy which aims to

“By giving to charities, and supporting these causes, we hope that we generate a cycle of generosity and kindness, that will go from that point onwards, and benefit others.”

move young elite athletes into a position where they learn key skills and characteristics which will help them from a sporting perspective, and also potentially in future careers. We’ve doubled our charity budget year on year. We let our staff vote on which charities they would like to support: we want to engage staff in how we run that side of our business. We also run raffles at our staff events each year, and match what is raised, to give as a charitable donation.”

Moderator: “So very much early days for Newfield. Microgaming and PokerStars, this is a longer established area for you. Janine, please tell us a little bit about Microgaming’s approach.”

Janine Woodford-Dale: “Microgaming has an extensive CSR programme called ‘Microgaming Play It Forward’. We donate to a number of causes, both on and off the island, in three key areas. One is sport, the second is health and

the third is education. We’ve been doing it for an awfully long time. We established the Microgaming Health and Care Trust back in 2002. Since then we’ve been involved in a number of causes, from sponsoring elite sports ambassadors on the Isle of Man who’ve got the potential to go all the way, right through to sponsoring Castletown Bowling club. So there is a real mixture of things that we do from a sporting perspective.”

“The Health and Care Trust has been involved in multiple projects in the island, from Red Cross through to Men in Sheds, to Hospice, and equipment at Nobles Hospital. We’ve introduced educational bursaries to help rising stars who don’t have the financial support to make it through to university, to get there. From our point of view, we’re incredibly proud of the work that we do on the island, but it’s not just a fiscal contribution. We feel quite strongly that it’s also important to give time, and to offer ideas, and to help develop these charities and causes that need it most. It’s at the

root of everything that we do as a company. Our ethos is very much about work hard, play hard, but also play it forward. By giving to charities, and supporting these causes, we hope that we generate a cycle of generosity and kindness, that will go from that point onwards, and benefit others.”

Moderator: “Sue, I think you will have heard a lot there that ties in with many of your views. But please, talk us through PokerStars’ view on this area.”

Sue Hammett: “At PokerStars, we have over 80 million customers around the world. Our corporate giving programme reflects that fact: it’s more of a global giving programme. We have a separate Gaming Responsible department that is in place to ensure complete player protection. My department is responsible not just for local corporate giving but also our global giving. This is split into two key areas: the focus on what our staff want

to do, and the focus on our communities. Specifically, within our communities, we have our online community which is massive, our live player community, and our global community. Within those different areas we focus on key things. Our themes for our global giving are very similar to Microgaming, in that we focus on sport and on health.”

“We also focus on technology, particularly technology that enables social change. Through that particular field we create staff involvement. A recent example is from 2014, when we funded a mobile phone game called Play to Cure: Genes in Space, in conjunction with Cancer Research. It wasn’t just about funding that game, because our staff were physically involved in the development of it. In that case, our funding obviously came

forward, but so too did our staff skills set. For PokerStars it’s not just about throwing money at a charity project. We want to ensure we make a tangible difference, as a business more than anything.”

“With that in mind, we embrace disaster relief as well. I mean, poker players can be very generous people! We’ve got a long history of giving back at times of international disaster. For example, when the Asian tsunami hit, back in 2004, the problem we faced was that charities didn’t want to take our money. That is the issue still facing us, because of the nature of our business: they don’t trust us. So in recent years, we’ve partnered with a charity called Care International. They have become our nominated disaster relief partner, so that in times of international emergency we can put

out an appeal within 48 hours. Earlier this year, with the Nepal Earthquake Appeal, we raised US\$260,000 in two weeks, via our players, which we then matched. So really, in terms of what we’ve got to offer, it’s not just from a funding perspective, it’s our players who want to give back, and us as a business using our key skills, to give back as well.”

Moderator: “Thank you Sue. That idea that a charity might be reluctant to work with a gaming operator, will bring us nicely later to talking about whether this is an imperative for the industry as a whole. But before we do that, I’d like to move now to some of the other areas. Jonathan if I may start with you, why is responsible gambling important?”

Jonathan Parke: “I think there are quite a few reasons. To start with an obvious one: regulatory compliance. However, it is important to consider what would motivate corporations to exceed basic compliance requirements. This brings us swiftly to the second less obvious issue: consumer trust. Observing the industry from the outside as a researcher, it seems that a lot of the battleground around marketing is connected to product, cost, and technology. From what I hear the margins on costs are becoming increasingly competitive. But trust is a very important aspect, and basically a new frontier to develop the brand. What does trust mean? When we did a large scale survey on remote gambling with almost 11,000 respondents from over 80 countries, we asked a question ‘Do you think the operator has a switch they can flick on or off, making you win or lose?’ and around 50% said yes. Here, you have ‘soft hurdles’, for example, when a player tries to take money out of the account, it says, ‘Are you sure?’ and if you proceed, you may lose your bonus. Those are things that cause players to think, well, I want my money back. Clearly

I intended to click, ‘Yes, withdraw’, so why are they putting up these hurdles? These are subtle devices that need further consideration. I could be wrong here, and the industry may well have this under control, with such cases being isolated.”

“But if we’re talking about why responsible gambling is so important, this leads nicely to a third point, and that is timing. From where I’ve been observing over the last 15 years, one of the challenges is working in the short-term rather than in the long-term. In larger companies especially, executives have significant responsibility in the boardroom, to shareholders, and for the company’s performance. If you want to be truly responsible, and don’t want problem gamblers on your books, then implementing an effective policy regarding player welfare, may have a negative short-term impact but a long-term positive one. But really, how do you achieve this? It’s a problem, because of ‘diffusion of responsibility’. Everyone is just trying to do their job and is ultimately concerned about how they will be appraised for their specific job performance. It’s

very easy for somebody working for, say, an anti-gambling lobby, to have strong views – that will be a primary component of their job specification. But in reality, for those working in the gambling industry, it’s not as straightforward as that. Clear goals need to be linked to employee performance and to the overall mission statement. The regulator also has a role here in appropriately incentivising businesses to have impactful harm minimisation strategies.

“There’s not an industry like it [the gambling industry] where mud flies, and sticks as hard. In some cases, it is warranted. There is misbehaviour, whether it’s bonuses or lack of transparency, although transparency has improved a lot in recent years. There is however paranoia out there that is unjust (e.g., consider the 50% of people thinking there is an on/off switch for winning and losing!). Surely there must be a way to tighten up that reputation, with respect to the players. I think impactful responsible gambling strategies, that aim to maximise pleasure and minimise harm, are one way to do that.”

Moderator: “Thank you. That leads us nicely to one of the points we were planning to look at. Before I move to David to talk about social responsibility regulation more widely, I’d just like to read a quote from the chair of The Senet Group, who took part in the debate we had in Gibraltar. Because she was talking about TV advertising and perhaps making a point about unintended consequences, or the impact on the wider public view of the gaming sector. When she was asked, ‘Has the industry done a good job on

dealing with sensitivities around advertising?’, she said, ‘The short answer is no, they haven’t. As soon as companies were allowed to advertise they were like kids at Christmas. Marketing ideas need to have some longevity, and I think what happened was that a whole series of companies who hadn’t been able to advertise on TV and didn’t have experience, were suddenly able to. The result, it has to be said, is that some of the adverts were unbelievably crude, unbelievably basic and without context. The problem was

that all of the ads were shouting ‘Free bets! Free bets!’ and the consumer who wasn’t used to seeing this suddenly thought gambling was all over the place, and a problem. It’s something people aren’t used to and it isn’t completely socially acceptable. These ads are also highly targeted around sports: football, cricket, boxing and so on. So it’s even more concentrated, and perceived as such.’ So before we move on to talk about social responsibility regulation as a whole, we might just do our first poll.”

At this point in the proceedings, delegates picked up their mobile phones to vote on the following question, via the Bizzabo app:

Are sports betting operators overdoing it on TV?

The poll results revealed:

62% said YES

31% said NO

5% said DON'T KNOW



Moderator: “So 31% of you said NO. That would suggest there has definitely been a move on this since Gibraltar; however over 62% of you think YES. David will be able to discuss some of the guidelines that have come in around TV advertising as well as the UK Gambling Commission’s social responsibility regulation. But if I can start with a more general question for you, David, is there enough regulation on social responsibility?”

David Schollenberger: “I will speak from the perspective of the UK because that is where I’m practising. My view is that the UK has done a pretty reasonable job in getting the balance right with the Gambling Act of 2005. Also the licensing conditions and codes of practice has recently updated this year, which I’ll talk about a little bit later. In the balance between protecting the public and allowing people to enjoy recreational gambling, there are jurisdictions such as Singapore where I think they have gone too far. There, for example, friends and family can put you on an exclusion list without your consent. In the US, on the land-based sector, maybe not enough has been done for problem gamblers. But the vast majority of gamblers do so responsibly, betting limited amounts over a reasonable period of time. So there has to be a balance that doesn’t ruin the enjoyment of those who gamble responsibly, as well as protecting those who don’t. In my view, self-regulation and industry groups, such as The Senet Group, and the Industry Group for Responsible Gambling are in a better position than a government agency to regulate what should be done with respect to social gaming. And I think in the UK they’ve done a good job to date in that respect. In August a new Gambling Industry code for socially responsible gambling was released, and has been embraced by the Senet Group and operators as something that they’re prepared to do. One of the key features of that new code will preclude sports betting operators from advertising promotions to get new customers, such as free bonuses, before 9 o’clock. It will also require notices in their advertisements about gambling awareness that is prominently displayed into a period of

time. So I think the industry is in a better position to regulate itself than the government would be, and I think they have done so fairly responsibly to date. They have a lot of incentive with the history that was mentioned, of the reputation of the industry, to make sure that they appear to the public to be doing the right things at all times. It is in their self-interest to do so and I think they want to do it anyway.”

Moderator: “Thanks David. If we can return now to the wider area of corporate social responsibility, each of you has described your company’s corporate social responsibility approach and activities and how they have developed over time. Could you expand on which element of the impact of your CSR programmes is most important to you? Be it inspiring your staff, or PR for potential recruits and customers, or creating shared value of the bodies that you work with. Or indeed other motivations altogether? May we start with Janine please?”

Janine Woodford-Dale: “I would say all of those factors are relevant to Microgaming. Without a shadow of a doubt, the principal driving factor for us having a CSR programme is to give back to the community. We’re nice people at Microgaming, we’re a good bunch, and we actually care about the Isle of Man, and other issues around the world. We’re not a brass plate Manx company, claiming to be based on the IOM and not actually having a presence. We have a lot of staff over here and we are building a new office. We are committed to the island, and we feel passionately about giving back to it. It’s the heart-warming stories of the impact that we make on and off the island that make the biggest difference to us. To give you an example, about 18 months ago a member of our staff came in and said “I’ve just had the most incredible experience at Nobles Hospital. My son was very ill and had to have an IV drip put in. His previous experience of that was incredibly stressful, to the point where they couldn’t get the drip into his hand so they’d had to put it into his head. He became really distressed. This time around the doctor said, ‘You’ll be fine this time, we’ve got a new piece of equipment called a vein

viewer.’ They took my boy’s hand and put it on the machine, and the drip went in effortlessly. It was incredible!” Our staff member also explained that when she thanked the doctor, he told her the equipment had been funded by Microgaming, by the Health and Care Trust. Here at Microgaming we support over a hundred different causes, both on and off the island. It’s those little stories have the biggest impact, and make us feel proud of what we do.”

“I do believe that there is a huge benefit to businesses everywhere, in having a CSR programme. We know from research that consumers are savvy, and want to buy from companies that have an environmental awareness, a sustainability awareness, and do give back. When we go through an RFP process, operators will come to us and say, you’ve got a great product, but do you have morals and values? A good example is one of our operators, PAF, who give 100% of their profits back to charity. So I think the driving factor for us is, we want to give back. In my opinion, It’s important for all organisations across every industry, to give back and have a CSR programme. But also the fact that the stakeholders, mainly customers, but staff too, and the millennials who are coming through are saying that 50% want to work for organisations that have a greater purpose, and contribute to a greater purpose.”

“Finally, we’ve just gone through a staff engagement process, where all our staff completed a survey. Over 90% of them have said that they are incredibly proud of what we do from a corporate and social responsibility perspective. This idea feeds itself too: staff start to look for ways to engage with CSR themselves, for example, it was Microgaming staff who went out and rebuilt the garden at the MSPCA. Another example of staff engagement is the following: Microgaming kindly give us lunch for free every day. We asked our staff if they’d be willing to give up one free lunch every month for a period of time. The money saved from that was donated to Change Heroes which enabled 2 schools to be built: one in Kenya and one in China. So for us it’s a combination of all of those factors.”

Moderator: “Sue, where do PokerStars sit on the question of what your priority is?”

Sue Hammett: I would say it’s very similar to what Janine said, although what it isn’t, is PR driven. When people ask, ‘Why do you do what you do? Is it because you want column inches?’ I say, absolutely not. For PokerStars has philanthropic origins: Its founders wanted to give back to local communities in Costa Rica, where the company first began. That ethos has remained throughout the company. We give back because it’s the right thing to do. We are a profitable company; we have an obligation to give back. We still have a service and support office in Costa Rica, so it’s right to give back there; also via our customers online. We’re really passionate about it, and hopefully that will never change. Speaking of the Isle of Man, we work very closely with the local community here. We have an active charity committee which is inundated with requests on a regular basis. We also have five other committees around the world, one in each of our office locations. Each faces different challenges: what’s relevant in the Isle of Man isn’t necessarily what’s relevant in Costa Rica. A large part of our budget goes towards supporting those local communities. Then on a global scale, we’re working with some fantastic charities and seeing real differences made. It’s all happening, but quietly. We don’t need to get PR from it.”

“Where PR does come in valuable for us is where we’re trying to raise money. So most recently we partnered with Prostate Cancer UK on a brand new annual fundraising, called Lads Night In. This actually promotes poker as a force for good. It’s about encouraging guys to get together, play poker, and raise money in the process. A recent fundraiser smashed it out of the park. The idea is for guys to get together for poker but also to talk about health problems. We’ve got an obligation towards our players, to raise awareness of these issues, and use them as a greater force for good. We are particularly proud of where we’ve come with fundraising. Since 2013 we’ve raised over US\$7m around the world. That’s not a trivial amount. That’s making a real difference. But as I say, we don’t need PR to talk about it.”

Moderator: “Mark, what about Newfield, are you interested in the PR side?”

Mark Reynolds: “Yes, and whether you want it or not, there is always a PR link into what you do with your CSR policy. We tried to come at it as a way to entice people to want to come and work for us. We want to be seen as the type of company reaching out and investing into our local community, we want to be seen as an employer who helps develop staff and offers them the best platform to reach the next level, whether that be in their career or in their hobbies. Clearly Microgaming and PokerStars, are the pinnacles of what everyone should be aspiring to. It’s indeed inspiring that Microgaming have set up an independent trust side, and taken the focus away from their business. This suggests more of an outside perspective and key focus on what they want to invest in, and donate to. PokerStars also supports some very worthwhile causes; and as we heard, they’ve even found innovative ways to fundraise.”

“For licensed operators, I think there is very much a focus on protecting your reputation. It’s about trying to safeguard your brand, and taking the spotlight away from the stereotype of the industry. By really encouraging the focus of every organisation towards a sustainable and coherent CSR policy, we can counteract this view of the industry that everything is black, and nothing is clean or transparent. If you check the business news on a daily basis, you can see more and more companies taking a much keener focus on CSR.”

Moderator: “Yes, and that would certainly marry up with some of the views expressed in the Gibraltar summit earlier in the year, and particularly by Steve Donaghue, who in this quote said, “I would like to see every CEO of every gambling company personally take £200,000 out of their pocket, put it in a big pile and spend it on a home for puppies, or something similar. You are here [gesture] and you are trying to be there [gesture]. It’s no good trying to do it incrementally, because of regulatory creep working in the opposite direction. Each new regulator, each new jurisdiction, each new academic, just makes the argument tougher and more obscure. What you need to do is make a massive leap.” The panel in Gibraltar felt that PR is a very important element of that. So before we go back to the question of responsible gaming, and the regulation around it, let’s just do a poll to see what your views on CSR are, as delegates. Here is question number 2:

What is your view of corporate social responsibility activities?

- A. Equally important for all companies
- B. Particularly important for companies in the gaming sector
- C. Nice to have but not a need to have
- D. Not a good use of time/ money
- E. I don’t know.



The poll results revealed:

- A. 65%
- B. 28%
- C. 0%
- D. 5%
- E. 0%

Moderator: “So that’s very interesting. This idea that it’s particularly important for companies in the gaming sector, it’s significant but not the dominant view. The overriding view is very much that it’s a moral imperative for all companies, which I suspect is a position that three of our panel members feel very comfortable with. I’ll be keen to know at the end of the session what the number of voters in the room are.⁽¹⁾ But returning to the question of responsible gambling, and protection of players. Jonathan you talked to us about why responsible gambling was important. I’m interested to understand, as an area that you’ve been looking at for a long time, how has the industry’s approach changed over the last decade?”

Jonathan Parke: "I think the industry as a whole, and eGaming in particular, has moved on a lot in the past decade. If you look back at 2004 for example, there was research that suggested that only one out of every 30 operators offered self-exclusion. Research also recorded examples that when a player lost, they might receive an email to entice them to try to win their money back. Nowadays, if you did a matrix and looked at the various different responsible gambling tools and policies, such as limits and activity statements, there would be ticks by almost all of the regulated operators. But here I think there is a real need for specificity and consistency. So to give you an example, let's consider players provision of an activity statement. This would result in a tick in a box for almost all regulated operators. But not all activity statements are created equal. For operator A, it may remain difficult to ascertain how much a player has actually spent, whereas with Operator B, the overall net expenditure may be crystal clear."

"The second thing to mention is the idea of identifying your problem gamblers and being able to effectively intervene. Over the last 10 years, there has been some encouraging development using data analysis, but I think on-going work needs to go into how you can increase the accuracy. This is specifically important for the operator, because they don't want to target individuals who don't actually have a problem. Then once you've identified a problem gambler, what do you do? I think the first step is communication: messaging with the player who might have an issue. So what does a good message look like? Let's remember that the pathological gambler will have impulse control problems. Telling them that gambling will be bad for their financial health may not help that individual. What you need to do is make sure that the message is simple, dynamic, personally relevant and prompts personal reflection. Avoid using disclaimer language, like 'This superman costume will not make you fly' but use simple, purposeful language to get the players to assess the appropriateness and consequences of their behaviour.

"For me the biggest take-away message is having evidence about impact. Actions may speak louder than words, but in terms of harm minimisation impact is what counts. It's a real shame when you see operators adopt an approach using guesswork. It costs a lot of money and takes a lot of time. If unsuccessful, they get left with a PR mess at the end after it's failed, even if they thought it would work. However, if an appropriate impact evaluation is built into the trial, then a failed attempt is just part of the learning taking everyone one step closer to more effective harm minimisation. It's not straightforward because you are pushing sometimes against politics, and needing to satisfy regulators who need action now. For responsible gambling strategies to do what they're supposed to do, our collective understanding about what is the best approach needs to improve quickly. For me personally, small-scale trialling is the

best way to achieve this, sharing the outcomes with other stakeholders as you go. It's lower risk, and you are going to be much more efficient at dealing with players you do want to deal with. You may even be seen to be a thought leader in the area.

Moderator: "What was interesting in Gibraltar, possibly because we had a data analytics expert on the panel, was how good the industry has been at sharing data around problem gambling, with one another. I know that one of the areas that KPMG in the UK have worked on with operators like PokerStars, is the ability to be able to spot when a first time player comes to a site. If they appear to be playing in a very inexperienced fashion, the site is able to direct them to Free Money Play. So I suppose as data analysis gets much more powerful, the ability to look at player behaviour and react accordingly will get much better. Given, Jonathan, that one of the things you highlighted in your presentation this morning was that the aim of both operators and regulators should be to maximise the pleasure, and minimise the pain, it's interesting to consider whether regulators are getting that balance right. Actually one of the questions to your presentation implied that the French regulator possibly isn't getting it right, that they are much more focused on limiting the ability to gamble. But David, I think you feel that the UK Gambling Commission probably are getting that balance right?"

David Schollenberger: "Yes, and I think that it's a difficult job because they are not on the coal face like the operators. They have to try to figure things out, and some things work and some things don't. I'll give you an example of a few of them. In 2014, the Gambling Commission did a review of its Social Responsibility Licensing Conditions, for the first time since the 2005 act was enacted. They also amended the LCCP (licensing codes and conditions of practice) in 2015, following our consultation for one year with operators, and with some contemplative changes. The changes that they have enacted apply with respect to auto play. At the moment a system must stop auto play, when the loss limit is reached. Each time the customer uses the auto play, it must select the stake, the number of auto plays and the loss limit. With respect to loss limits, where a customer sets the loss limit, it can only be increased after a 24 hour cooling off period. After the new LCCP, with respect to reality checks, customers must now be able to set the frequency of reality checks depending on what they feel is necessary in their own particular situation. The reality check must give the customer the instructions on how to exit it if they want to. And none of these changes were really objected to, too strenuously by the operators in a consultation period. So I think the balance that they have struck in trying to increase player protection without going over the top is fairly reasonable at this point."

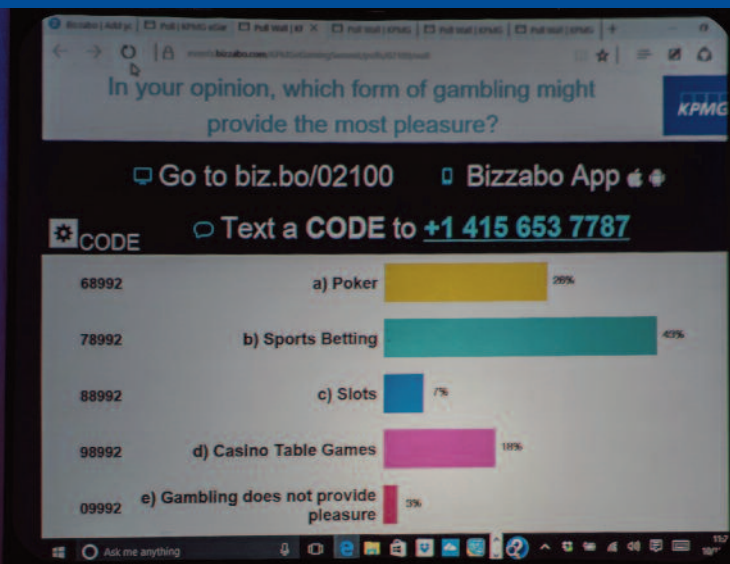
Moderator: "Ok, which leads us very nicely to our final polling question of the session.

What is your opinion regarding social responsibility regulation?

- A. Unnecessary – operators should self-regulate
- B. The regulators are getting it about right
- C. More regulation is needed
- D. Don't know

The poll results revealed:

- A. **29%**
- B. **38%**
- C. **23%**
- D. **8%**



(1) The total number of voters in the room was 65.

Presentation: Innovation & Incubation: Exploring the Sector Trends

Bernard Marantelli, Colossus Bets

Bernard Marantelli is CEO and Founder of Colossus Bets. Colossus Bets goes beyond offering the world's biggest guaranteed pools; with unique patented technology, that allows clients to cash-in all or part of their multi-leg bets at virtually any stage of a game, through its Partial-Cash-Out technology. This enables clients to extract value from the game as their selections are proved correct, without having to correctly predict the entire set of matches.

Mr Marantelli opened his presentation by explaining that, having established Colossus Bets three years ago, they have chosen to partly base their operation on the Isle of Man and partly in the UK. He said that Colossus has found the Isle of Man to be a good place for an incubator business.

Referring to a slide showing the saturation rates for various innovations over the last hundred years, Mr Marantelli commented: "As you can see these types of saturations get predominantly quicker, the adaptation of innovation is faster".

Mr Marantelli highlighted the clear mismatch between where industries spend their advertising budgets and where people spend their time: "If you are looking at innovation, there is a particular mismatch there, and it is

around internet and particularly mobile advertising, and mobile time spent by humans. And it's definitely misbalanced in the other direction against print media".

UK gambling growth is being driven by Online. He referred to the strong timing element to innovation, saying: "people might not look at Bet365 and say they are an innovative company but I think in 2002 when they basically sold their shops and said "we're going to go all in on sports betting online"; I think that was an innovative step, particularly when sports betting online was really in its infancy." Mr Marantelli reviewed for the Summit various recent high profile successes and failures and the factors that led to their success or failure, saying: "I tried to look at what factors counted the most for success and failure across all these companies. And the results really surprised me. The

number one thing, was timing. Timing accounted for 42% of the difference between success and failure."

In Mr Marantelli's opinion: "the industry is starting to prize innovation, or recognise it as a stream of development, rather than a change in marketing or a slight tweak in product. We see a lot of industry awards now... . I think people have seen in the media: William Hill now run a lab in Shoreditch in London. Matchbook have announced Matchbook labs, and even ATG, the behemoth of Sweden, that many people would say would be the last company to innovate, have a small incubator within their firm as well."

"Innovation really can drive things", he said – commenting on Betfair's latest financial release. "They introduced a product called price rush which was basically if you wanted to bet on their sports book, but the exchange had a

better price, they would migrate your bet across to the exchange in a seamless transaction that you didn't realise, and say, you wanted to take 6-1, we've given you 6.6-1. And they've found that straightaway, that added 10% to the bets that their clients were placing in an average play, per day."

Mr Marantelli identified a number of businesses that he considers to be real innovators in gambling: BuaBook, Fan Duel, i-Pools, Wikibetting, Favourit, Draft Kings, Mondo Goal, Betfect, The Sports Predictor, Casumo.

Mr Marantelli turned then to the common causes of failure: "Some people are trying to solve problems which don't really exist. They get very granular in some element of gaming that they are looking at They think, "I personally think this X should be different" but what they don't consider is, is there really enough of the population that thinks it should be different?" He also mentioned that many of them run out of capital before they get anywhere: "If you look quickly at the journey from an idea in the pub to being a successful company, it basically goes like this: "Drunk in pub, got an idea, go home, put together slide deck, go and raise \$50,000 at a \$300,000 valuation, put together some BETA, raise \$300,000 at a \$million valuation after a year, have some sort of secondary BETA but still no live product at the end of Year 1 (when you got the \$300k funding) and you're basically going back trying to justify to the street that they should fund you 2 or 3 or 4 million dollars. You don't have a clear partner map, you don't have letters of intent, you don't have live product and it's at that sticky stage that we've seen a number of start-ups and innovators really struggle to get through that step. Where the founding team or some of the funders just say "Hey! We haven't got traction in two years, it's game over for me, I'm going to move on". Both from the personnel perspective saying, well I'm not going to put another two years of my life into this and sweat equity, and from the funding perspective as well. And I think, and it's not a critique of the incumbent firms, but the incumbent firms are quite happy for that journey to be difficult and not have little brats come up in the industry and try and take some of their lunch off the table. So they are quite happy to almost deliberately string them along, happy

for the process to be slow enough, and not have new entrants in the market."

Looking at some of the fatalities, Mr Marantelli commented: "Even well supported companies like Takai, which was betting tournaments and [it failed], even with the support and backing of Betfair. So it does go to the point of how much is about timing. Bet Butler was about a problem that existed but couldn't be solved. If you are a winning punter, William Hill and 365 and Coral don't want to accept your bets. So Bet Butler said, well you tell us what your bets are, we'll get all these other students to run around and bet for you. And eventually that doesn't work as a model either because they all get closed down. "

"These are success stories that I think were timed to perfection. Bet365 went

"the one thing that doesn't much come out in literature, and one thing I think really drives the distinction here is that start-ups don't have money, big firms do."

all in on internet gaming just as it started to be prevalent. Betfair really worked because when they launched the betting tax where you had to pay 9 or 10% on your bet or on your collects, was essentially scrapped in Betfair's year and a half of operation, which essentially made the economic model of a person to person exchange work. ... Airbnb, where people like Craig's list failed, Airbnb just got to the stage where they had some traction around 2008-2009, where people went from "I got loads of money, I'm never going to let a person stay in my house when I go on my two week holiday" to, "I'm actually a little bit broke, I am going to let them stay in my house." He made the point that Airbnb were very clever in that the one complaint about the site surrounded the pictures of the houses where you could stay: "They were taken by mums and dads with basic cameras and poor

lighting, so they hired a photographer and went 'round all their properties in NYC and photographed them all professionally at no cost to the people renting out the houses. And booking rates just in NYC, went through the roof, and a month later they hired 20 professional photographers and sent them around all of their properties all around America. The timing of the crisis, and the timing of this introduction, made a massive difference to Airbnb, where other people were trying similar things."

Mr Marantelli went on to compare incubators in big firms vs. start-ups: "the one thing that doesn't much come out in literature, and one thing I think really drives the distinction here is that start-ups don't have money, big firms do. But the big firms also have layers of bureaucracy. Start-ups can try new things; big firms work on committee so they can't. I think the real issue here and the real driving force is the risk profile of the individuals making those decisions. If you go to PokerStars, or Unibet, or Ladbrokes, for example, the mid-to-senior-management who are there, have got a wife, kids, and a standard of living that goes with whatever salary they get, and in some respects they need to maintain that for five or ten years more. Someone might come to them internally (or externally with an idea) and say, what do you think about this? Well the real risk profile for that individual is if he says, yes, I like that innovative idea, let's put money behind it, launch it, and see if it works - if it fails, he'll get the sack or a rap over the knuckles - if he does nothing, except tweak the acceptable products that are around him, and change his income 5% up or down, he's not really likely to get any binary outcome on his remuneration (as in bonus) or binary outcome as in you did badly, you're getting fired. So I think a lot of the driver is the risk profile of the individual people."

He explained further: "I think then you go into a room where there are five mid-managers who have to make a collective decision to say, we'll take something innovative in, from outside or develop something innovative internally, you now not only have to get the risk profile of one of them, you have to get six of them to agree, because the standard process, if you don't have a unanimous decision, is it's not going to go forward. But a start-up's hand is more forced. 85% of the



UK market, with the new mergers, is controlled by 5% of companies, or what would be seven companies now merging into five. So if you are scrapping around in that bottom 15%, and you want to become a ME 2 operator, you're going to get your head handed back to you on a plate, in a war of attrition, mostly around marketing, and small tweaks to products. And we see a lot of firms which have large capital behind them, really struggling. A small number of firms own the clients and it's hard to get them to move across for a ME 2 product."

"So if you want to innovate, what do you need to do?" asked Mr Marantelli rhetorically. "You have to attack in an area where there is a lack of innovation, or get a product and properly change it, rather than just marginally change it, or perhaps pioneer a feature of something new, but again everybody is going to steal and copy or borrow from you or whatever. What we did in Colossus (to talk briefly about my own experience) is we looked at some of these products, like football pools, and we thought, they haven't really changed since many people in this room were five or six years old, and they probably ran their Dad's coupon down the pub. We looked at lottery, which you know, has a great omni presence that everyone knows about. So you know, we were looking at areas like that, and thought, we can innovate here, we were particularly innovative in saying that we wanted to build lotto-sized prices on sports. We said, we think that, as a person progresses through a multi-leg event of any description, where their value becomes higher and higher, they should be able to cash out their accumulator or their pool or their lottery or their slot or their bingo or their

Keno. So we came forward and invented that release in 2013 and since then it's kind of become industry standard with a few people replicating it."

Mr Marantelli said that Colossus is also introducing the social media element of betting: "Paddy Power have over 500,000 followers on Twitter. Now I know a lot of those will be passive, but it is essentially a free communication channel, and it's a very instant communication channel."

Another area of interest is the UK facing fantasy predictor game: "We heard earlier that Fan Duel and Draft Kings are both expecting to launch UK games, DK are much more advanced, they were going to be live in September, then October. They've got all their data feeds ready for soccer, so I think the fantasy space in the UK will have a mini bubble of activity although I personally think it's not going to be a successful innovative area."

A member of the audience asked Mr Marantelli for his views on eSports. He responded: "I would venture to say that it's slightly a niche. I struggle to see it ever being competitive in the public psyche with soccer or football on a global level. I think people in that area will make money, but I just can't see a world where the retail public, the 18-50 year olds who are the predominant sports betters, become lunatics about eSports and watch it like Man U and bet it on it like that. It's a hot topic because the industry four years ago was like, Social! Social! Social! And a lot of people re-invented themselves about Social and that kind of died a death... I think it will remain reasonably niche on a global level."

Panel Session: Looking to 2016 and Beyond

Moderator: Russell Kelly

Head of Audit, KPMG, Isle of Man and Gibraltar

“The focus for the next hour is looking forward to 2016, seeing what the industry has in prospect for next year. With that in mind, our panel is a wide variety of operators and advisors to the sector;” Thus Mr. Kelly introduced the final panel session of the Summit.

Panellists:

Bill Mummery,

Chief Executive of Celton Manx (SBOBet), Isle of Man

Stephen Ketteley,

Partner, DLA Piper, London

James Agnew,

Director, KPMG UK

Paul Novellie,

Partner, Novellie, Verardi & Mitchell, Isle of Man

He went on to outline some of the current issues raised during the course of the day: topics such as innovation, the social drivers of eGaming, and changes in the pipeline for the Isle of Man, as the principal jurisdiction in question. Mr. Kelly then addressed his panel to gauge their perspective on what would be the main trends of 2016. Turning to Mr. Agnew, he asked:

“James, what are your views on this? Will there be a continuation of M&A activity, big deal consolidations, smaller deals, or bespoke one-off deals where people pick out targets to strengthen their positions?”

Mr. Agnew inferred that he broadly agreed with those who’d contributed to earlier panels, regarding M&A activity in the sector. Citing one key driver as recent consolidation in North America, (notably the deal between Amaya and PokerStars), Mr. Agnew explained how this had captured the attention of the UK industry. The other driver, according to Mr. Agnew, was the pressure on profit for UK companies, “That is probably the single biggest driver, and is something that is not going away. The investors are certainly focussed on this now, and the rating agencies have also commented on that quite recently. That pressure has led to a need for people to get together, to have larger platforms on which they can spread both their investment in technology, and their investment in acquiring new customers. So I think that pressure is very much going to remain in place as we go into next year.”

Mr. Agnew provided an idea of what to expect in 2016 regarding mergers in the UK, “The other thing to note is that the competitive landscape is going to change somewhat. Again,

people focus on William Hill. Hill’s, on their last results call, were obviously very keen to point out that they are a large company and therefore under no pressure to do deals. Some commentators have noted that their position in digital in the UK will have gone from being in the Top 3 to probably being 4 or 5. And I think that the last speaker commented on the heavy concentration at the top end. So this year it felt in the UK a bit like buses: you wait for a long time and suddenly three come along at once...I don’t think we are necessarily going to see a repetition of that, as we go into 2016, but I’d be very surprised if we didn’t see another wave of consolidation.”

Mr. Kelly then asked Bill Mummery for his perspective. While Mr. Mummery was broadly in agreement with Mr. Agnew, he suggested that in 2016, M&A would not be rushed: “I think the driver for this last year was a reflection, in fact, of the significant increase in taxation burdens and cost of regulation. My sense is that, next year will, in part, be one of catching one’s breath, looking at how other external factors to markets progress, and then another round of M&A.”

On the advisory side, panellist Stephen Ketteley, Partner at DLA Piper, explained how his involvement in large deals has also supplied an indicator to likely activity at mid-market level.

Stephen Ketteley: “What you call the mega-mergers...do happen for different reasons, operators or suppliers have different needs in terms of product type or jurisdiction exposure. You can’t necessarily extrapolate right across an entire industry, the reasons for deals.

However, one of the things that we as advisors are seeing is an invigorated interest in the market for private equity particularly, both in Europe and in the US. There are some very good businesses out there in the mid-market who either have fantastic technology that they own and they control the road map of, and/or are very good at the marketing side of things. So I do foresee more deals being done at the mid-market level. And I don’t see them just being done between trade. There will be some fresh ‘financial blood’ coming to the market as they begin to get excited about the industry again, as they did 10 years ago.”

Mr. Kelly remarked how this was encouraging news to all those who act on the advisory side of transaction services. Considering some of the drivers behind recent M&A in the Gaming industry, he proposed that one was certainly regulatory taxation. Suggesting that another could be the scale of technology investment required, Mr. Kelly invited Paul Novellie to speak on the subject of technological pace of change, within the Gaming sector.

Paul Novellie is the Senior Partner at Novellie, Verardi and Mitchell, in the Isle of Man, and chief advisor to gaming software giants, Microgaming. “Well I think it’s going to carry on apace, and if anything it’s going to increase. All of the companies are out there innovating, as hard and fast as they can. And I think it’s going to get faster and more competitive, I think we are going to see a significant increase in resources to keep that pace up. We’re already facing skills shortages across the jurisdiction and in the industry and I don’t see that slacking off.”

“There will be some fresh ‘financial blood’ coming to the market as they begin to get excited about the industry again, as they did 10 years ago.”

“The increasing demand of the regulated markets on technical supply has meant that all of the supply side has to meet a wide variety of different demands.”

Mr. Kelly went on to explain the effect of regulation on not just the gaming companies but on the suppliers for the eGaming companies as well. Turning to Paul Novellie, he queried the impact of this, and whether it caused a widening of all, of the regulatory net.

Paul Novellie again: “I certainly think it’s going to impact suppliers, perhaps with a little more tail than with the frontline operators. As the regulatory impact is absorbed by suppliers, they inevitably see themselves cycling in the second wave. There will be some reflection I am sure as to how they fit in to regulatory regimes and how that ties in with how they deal with those sorts of regimes. Ultimately, it’s all in one basket, if you look at the M&A questions that have been asked. A lot of the smaller deals that have gone down in 2014, and 2015 now, they don’t get much headline because they are not big. But people are buying market access to regulated markets. And they are buying access not only through operators, they are buying it through their supply chains, their suppliers. And suppliers are going to have to fit in with that. The increasing demand of the regulated markets on technical supply has meant that all of the supply side has to meet a wide variety of different demands. Unfortunately, all regulated markets think they can do it differently and better than others. This multiplies the requirements of the software development quite significantly.”

The panel then considered the question of gambling regulation, not just as a catalyst to further M&A activity, but in terms of territory application. With so much regulatory activity in the European environment in recent years, is it viable to expect this to spread globally? Which markets are embracing regulation? Mr. Kelly put this question to Stephen Ketteley.

Stephen Ketteley: “The two regions that we are seeing the most interest for legal advice in at the moment are Eastern Europe and Latin America. Latin America has some populist jurisdictions which are at an advanced stage of regulating online, for example, Colombia, and Mexico, to some extent. Chile’s also got draft legislation out there. Brazil seems to vacillate: one week it is regulating, the next it is prohibiting, so I’m not quite sure where that will end up! But needless to say, you do have two or three large Latin American jurisdictions that are regulating, and a number of European operators and suppliers are engaging in that process. Colombia has 48 million people in it, it’s a huge country and presents a very good market for people who want to adopt a regulated market strategy in that part of the world. Eastern Europe is a challenge, I think, for many people, who are entering those markets from a regulatory perspective. There are some very strong local brands, with local presence, and local connections. However, anybody who is paying attention to what’s going on in the Romanian market in particular, will be quite aghast that a regulator in the European community can behave in such a way, as the Romanian press would have you believe. I’d like to think that there will be some developments there that will help the Western European operators enter the Eastern European market in the right way. But there is some way to go, I think, before that happens.”

Mr. Kelly thanked Mr. Ketteley for this insight into new markets, before approaching Bill Mummery for his opinion on Asia.

Moderator: “We saw a little foray into prohibition in Singapore during recent times. Do you see any further regulation coming across Asia?”

Mr. Mummery expressed his hopes to see progress in some of these major markets. “Of the stance that we take, using Singapore as an example, first of all I would say that the fairly draconian action of closing out Singapore was a political response to pressure arising not out of remote gambling, but out of the excess success of the two land-based casinos developments. They felt they had to do something. It certainly decimated their national tote operation, The Turf Club, for example. But you have to deal with these things, and taking the example of Singapore again, at the end of the exercise, I got a really pleasant note from the Singapore government, thanking us for the manner in which we’d managed the process.”

The optimum solution with potential markets is to keep open the lines of communication, even when the going gets tough, as Mr. Mummery explained: “You can only act in that way and then say in the medium term, maintain the dialogue, and hope to build the relationship where you are actually seen as a credible, safe pair of hands that can be part of the process of moving it towards regulation, when the climate has changed. I think that is probably a general principle, not to push back at it but to try and engage with it.”

Moderator responded, “Yes, and I think that would be pretty key for the Isle of Man, given the level of presence we have here from Asian facing sports books. It would be interesting if there’s anything, when we talk a little later on, that the Isle of Man needs to do to, to deal with regulators in other parts of the world.”

Having touched on Asia and Latin America, the panel went on to consider where they might see the next true market developments. Could it be South America? Or even Africa? And, in the event that these markets were to open, what sort of product could suit those jurisdictions.

Mr. Mummery tackled the question from a Sports betting point of view: "I feel fairly strongly that it's likely to be certain regions within Africa. The model will probably be a hybrid model, whereby you have an arrangement with a substantial local operator, and that it will have a mix of physical outlets, which themselves then feed the bets into a large liability book online. Of course you have got to look at how you collect monies and how you repatriate them. Kenya might be an interesting testbed for this, as they do have the mobile phone system, which is ideal for micro payments. It's probably the only place in the world where, certainly a sports company, could look at working with mobile phone systems. This is because it's no accident that they're really only strong in things like ring tones, being a very high margin product with a very low cost of sales. The commission that the mobile operators want is entirely prohibitive for a sports book, but that model in Kenya could be attractive in saying, 'We will use this as a testbed,' in effect."

Mr. Kelly then invited Stephen Ketteley to join the conversation on Africa, "Stephen, do you see Africa as a promising jurisdiction? Are you getting a lot of enquiries from there on the legal side?"

Mr. Ketteley drew on his experience as an advisor in the industry to state: "One thing with these emerging jurisdictions, they have local incumbents in one guise or another that will often be involved in some

"In a number of African jurisdictions, it's actually the local lotteries upon which any online gaming will be built. "

European operator's entry into that market, even if it's a mobile operator, for example, as Bill said."

He then mentioned the parallel with Mexico, where the strength of the mobile operators means they are already, and will be going forward, involved in the market in some way or another. Returning to Africa, Mr. Ketteley continued, "In a number of African jurisdictions, it's actually the local lotteries upon which any online gaming will be built. There are people now who are building relationships with those lotteries, either through the suppliers, or as advisors, to try and explain to them how they can take their lotteries online, and how they can operate different product types across that market as they look to grow the revenue for the state treasuries. So the idea of going into these markets without some kind of local partner seems very, very difficult."

But in the case of uncharted markets, the matter of licensing is key. Mr. Kelly put the following question to the panel: "So would you think that it would be done by licensing in a jurisdiction such as the Isle of Man or Gibraltar, or do you think it would be a local licensing operation? Or, could they license somewhere like here, and then try and go into local markets afterwards?"

For those who wish to start approaching the expansion of their product types in Africa, and in Latin America, Mr. Ketteley pointed out one possible benefit: "These territories would, in my experience, seem quite open to fairly flexible supply chains, in so far as they wouldn't necessarily say what some of the European regulators have tried to say, that everything has to be within the jurisdiction. They seem to be more amenable to technical flexibility. But you would almost certainly need to piggy back off the local licensee and act as a supply to it, rather than as a supplier in your own right."

Mr. Kelly thanked the panel for their input on potential markets and steered the discussion toward innovation, in particular the hot topic of eSports and Fantasy Sports.

Moderator: "Considering innovation in game type, or play type, we saw some of the analysis this morning from the polling as to what drives people to play different types of games, be it casino,

slots, poker or sports. Do the panel see innovation coming in the next year in the direction of eSports and Daily Fantasy Sports? We've talked a little about it, and had the view from Bernard Marantelli of Colossus Bets earlier today. I wonder if Bill, you might have anything to say on this?"

Mr. Mummery offered the following observation: "It seems to me the origins of eSports and DFS were originally in South Korea, then it migrated to the US, and very shortly thereafter it gained the attention of the authorities there. So that's going to put the brakes on it for a little while. But it's now on the radar and people will look at it as a model. I would question whether there is a fit for the demographics of people that are really into the eSports. In terms of sports betting, we've seen some interesting developments these twelve months. In particular, there are two things that can be built upon next year: one is the ability to cash out, on multiple bets, that companies like Betfair have executed so well. This will grow. Indeed, Betfair gave an interview a few days ago where they indicated that in the last twelve months, in their soccer, 75% of their revenue came from 'in play'. You only have to go back two years to see, that those brands that publish figures, such as Hill's and Ladbrokes, were being quite congratulatory that they'd hit about 47%. I would identify with the Bet365 figures, and in enhancements to products, things like Cash Out. But I think there is still a lot of mileage in concepts, such as smart phone usage, and from 'in play'."

Continuing the dialogue on new products and enhancements, Stephen Ketteley was keen to identify how this raises the very important question of integrity in the industry:

"There is a crossover between eSports and gambling which I think has only emerged in the last year or so. Probably really as a result of the fact that there are only a handful of bookies offering books on eSports. So the gambling regulators have begun to pay a bit of attention to it, because they don't really understand it. It generally probably does raise some integrity issues. Obviously eSports is not regulated like normal sports betting, so there are integrity issues around it. But



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“There is a crossover between eSports and gambling which I think has only emerged in the last year or so.”



what that has led to is an additional analysis by the gambling regulators of eSports, in itself. So some of the gambling regulators are beginning to show curiosity around that in the same way they did around social gaming 3-4 years ago. I can tell you, because I've been advising some big games providers. These providers have been aware of this potential crossover for a number of years, and have taken quite a lot of steps to ensure that their games, and their products, and the tournaments around their games, are not gambling products where they are offered. So the regulators are a bit behind on all of this, and I think it may well end up being a bit of a storm in a teacup in the way that the social gaming thing was. What I would say, however, is that, like social gaming, consumer regulation may begin to bite a bit more, on eSports, in the way that

it did on mobile games. At the moment I don't think consumer regulations have quite caught up with eSports.”

Following on from product innovation, the panel turned its attention to the subject of financial services, and financial services regulation, and the crossover between this and online gaming. Mr. Kelly sought the comments of James Agnew, on this area of potential development:

“James, are there some products out there that may be getting caught in some financial services regulation?”

Mr. Agnew: “It really is a new and fascinating area. One interesting thing that I've watched is Playtech's moves. What they are doing is taking advantage that some of their systems are applicable in the financial services area. It seems to me that this has

always been something of a grey area. Where exactly do you draw the line between spread betting, and when you move into activity in derivatives of one kind or another. I think the regulators are very aware of this already. Obviously large amounts of money flow around the globe in the gaming industry and they are alert to the implications of that at a time when they are all over the financial services industry. So I don't see that changing, and I think in regulation the direction of travel is all one way. People are going to get carried along by that. For that reason, I think the companies which have good systems and which are focussed hard on doing things right will be well positioned and it will stand them in good stead. I think investors are acutely aware of this. One of the earlier comments referred to the investors' greater appetite to look at

companies, with exposure to unregulated markets. That is a fact, it is something which has increased over the last five years. Part of what they are doing is looking ahead to unregulated markets, which are going to come into the regulated net and therefore, companies who have built up businesses and who are well positioned there, may be attractive when they are able to make that transition. I think it is also a reflection of the fact that there haven't been any particular public, major blow-ups at least among the listed companies, partly because most of them have been focussed on the regulated markets. So it wouldn't take very much to remind them of some of the risk which still sits out there. But I do think that the crossover with financial services is something which is going to get more focussed as we go forward."

Mr. Kelly thanked Mr. Agnew for his views before moving to his final question for the panel. Taking all of the key themes into account, he urged panellists to consider our own jurisdiction, and how best the Isle of Man can prepare for new markets, innovation, regulatory changes, and so on. He put the query to Isle of Man based advisor, Paul Novellie: "Returning now to the to the Isle of Man, Paul, what do we need to do, and what can we look forward to in 2016 as a gaming jurisdiction?"

Paul Novellie: "In a way the Isle of Man is no worse off

than any of the other licensing jurisdictions. In common with all of them, they have some kind of a USP, in that they offered specialist access to some territory or another. The Isle of Man was whitelisted for the UK; Malta & Gibraltar offered the hope of free movement of services through the EU and so on; and all of that has gone by the way. The jurisdictions and the Isle of Man are left competing, with no specific USP to fight for them. So the Isle of Man ultimately has to make itself an attractive place to come and live, and work. As we heard in earlier sessions today, BEPS are all coming to get you. In a perverse way, BEPS ultimately may turn out to be very good for the island. Because if you do have to place your higher value components of your business in a jurisdiction because that is where the value is going to be assessed and taxed, it is going to pay you to put it in a low tax jurisdiction. And if that means serious jobs and high level people, and HQ have to be placed in those jurisdictions, that means it is jobs, and high value jobs, and expenditure on the Isle of Man. So that is the potential, how does the IOM meet it? The IOM has to really grasp that it is competing, but not as in the old days when the mind-set was, it was competing against the UK. The IOM is competing internationally, and the government, and everybody needs to understand that that is who you are competing against in order to get the new wave of people coming in. This business is an international business, with



“The IOM is competing internationally, and the government, and everybody needs to understand that that is who you are competing against in order to get the new wave of people coming in.”

people coming in at high levels, and they are looking for an international jurisdiction, in which they can educate their children, and house themselves, and have medical services, and, especially in this industry as it's international, be able to get on and off the island quickly and easily. Those are the sort of things that people coming here in the new wave of investment and business are going to be looking for. The island needs to be working very hard to meet those aspirations.”

Whilst broadly agreeing with Mr. Novellie, Mr. Mummery was, however, keen to underline the outstanding benefit of the Isle of Man as a gaming jurisdiction:

“I do think that we still have some key notable differences: the quality of our regulation, including player protection, is better than anything that is out there. In the last twelve months there have been lots of examples of some dire disasters in a couple of other jurisdictions, in terms of infrastructure, be it power, or networks. We simply haven't had those issues. In addition, I think that for all of us, ICT skills will be a major challenge going forward, as it is in the UK and Europe. Admittedly, whilst it's in a fairly embryonic stage, we should take heart from the fact that this public/private sector achievement has been reached, of delivering, as it will now, the Nunnery as an ICT college initially, moving towards a university. That, apart from the practical benefit it will derive for the island, also aids the standing of the island. For me those problems will get worse because the UK government has made some fairly draconian statements over immigration from next year, out with the EU, and one of the benchmarks was simply, if you are not earning \$35k pa, you won't come in. Well, that doesn't affect our industry, but I hate to think what it's going to do to their NHS, and indirectly, to us. Clearly we are not operating in those salary levels, but it is a strong statement that we have identified the issue, we've grasped it, and taken a fairly imaginative approach to the Nunnery which is to be congratulated and supported.”

Moderator: “Yes, I agree with that. Stephen, you are advising people globally on where to place their business, and what the future prospects are in terms of regulation. What do you think, from an outsider's point of view looking in at the IOM, does the island have or need to do in order to prosper in 2016?”

Mr. Ketteley thanked Russell for a nice light question to finish on! He suggested a need to go back to basics, and look at the four main European licensing hubs: “Take Malta, Gibraltar, Alderney and IOM: what were they for? What was the original purpose of them? It was to provide a home for businesses that couldn't be somewhere else, and give them a regulatory base from which they could flourish. That criterion doesn't necessarily need to be served by the offshore hubs any more. I think the idea of having a B to C operator business located in the Isle of Man is still attractive to some, but it may not be as attractive as it was 10 years ago. The island needs to look at what are its strengths in terms of personnel, technology, infrastructure. As Bill said, some other jurisdictions have had problems with infrastructure, which the IOM hasn't had, and you should play to those strengths. Other jurisdictions like Malta and Gibraltar are themselves revamping their regulations at the moment, trying to work out how they need to reposition themselves for the next however many years, in the face of point of consumption regimes around Europe, and how they interact with those. I think it requires quite a bit of naval gazing from the jurisdiction to think, what are we trying to provide here, and what is it that the industry actually wants from us?”



Closing Words

Russell Kelly, Head of Audit, KPMG Isle of Man and Gibraltar

Russell joined KPMG Isle of Man in 1993 and has also worked for KPMG in London and Jersey. He is Head of Audit for KPMG Isle of Man and Gibraltar. His client experience encompasses financial services, telecommunications and eGaming. Russell also undertakes transaction services and ISAE3402 work; including advising on flotations on the LSE, AIM, Luxembourg and New York Stock Exchanges.

Mr. Kelly closed the day's proceedings with a word of thanks:

"Thank you to everyone for coming along today, and thank you very much to our speakers.

We've heard and seen some very interesting themes and trends developing and likely continuing into 2016. Personally, I do think the Isle of Man is in a very good place from an eGaming perspective: the industry is still thriving, and hopefully some of our recent initiatives, such as the ICT university, will be a positive move for us here on the IOM. I'd also like to thank our sponsors; without whom it would be impossible to run today. So to Continent 8, Derivco, IMGL, Manx Telecom, NedBank, PokerStars, SMP Partners, W2 Global Data: thank you for your support, and your continued support over the years. I'd especially like to thank IMGL for bringing their Masterclasses here to the IoM, we're very proud to have the association with IMGL during the course of our recent summits. It really does provide some expert input in to the sessions, both here and in the SI group, where they've also been taking some of those Masterclasses.

Thank you also to our media partners: Gambling Insider, iGaming Business, and the World Casino Directory, who support our summits through publicising them. And on the media side, thank you to Ashgrove, who put today together for us, and worked very hard to make it the event that it is.

Next year, we are running our summit in Gibraltar, on 21 April, and again here in the Isle of Man, a little earlier than usual, on 8 September.

Here at KPMG, our IOM-based eGaming team continues to grow in numbers and experience; 5 of our leadership team are now predominantly focused on the sector, supported by around 10 of our management group, and countless staff. There has been similar growth in our UK eGaming team, and I'd like to thank the five experts from KPMG UK who joined us for today's event"





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