KPMG

KPMG eSummit

Gibraltar

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A Word from our Sponsor

At a time where change is accelerating and the future economic landscape for business is in many ways unclear, it's vital that everyone involved in the gaming industry has time to reflect on where we have got to and how to successfully navigate the coming years.

The KPMG Summits provide the opportunity for everyone involved in gaming to do just that and we are proud to once again sponsor the KPMG Gibraltar summit report, bringing the latest in thought leadership, market analysis and operational developments to a wider audience.

Covering a host of topics from evolving regulation to social responsibility, from the potential impact of Brexit to the industry's vigorous appetite for M&A, the report captures the views of leading operators and key figures in the gaming world, including addresses from both the outgoing Gambling Commission Phill Brear and his successor Andrew Lyman.

With the focus very much on the future, delegates also heard about Gibraltar's trailblazing regulatory work around DLT and blockchain and there was much debate about how technology and innovation will play critical roles in addressing the challenges of multi-jurisdictional operating.

At Continent 8, we thrive on providing reliable managed hosting, security and global network solutions for today's online businesses. Working out of 30 locations around the world we support critical online operations across Europe, Asia and the Americas.

We are delighted to present the 2018 Gibraltar Summit Report and look forward to welcoming you to the next summit in the Isle of Man on 20th September 2018.

Michael Tobin

CEO & Co-founder, Continent 8 Technologies

KPMG Gibraltar 2018 Summit Opening Address

The Hon Albert Isola

Government of Gibraltar

" I'd like to start by welcoming you all to the 8th KPMG eGaming Summit. It's an event that has grown bigger and better every year that has passed and I have had the pleasure of delivering four opening addresses. To hear today that this event is over-subscribed does not come as a surprise to me but it's a reflection of the great work that Micky Swindale and her team at KPMG do to put this event together for the benefit of all of us. I'm extremely grateful, on behalf of the Government, to Micky and her team. She has been a constant support to the Government and all things gaming in Gibraltar plc and we are really most grateful for everything you do and it's a pleasure to work with you and continue to work with you in year to come.

I must also thank the regulatory and licensing staff who support Phill and Andrew. Welcome to Jenny Garcia who has taken over from Lorraine Britto, to Caroline, around who so much of the administration now pivots, and another new arrival, Kayleigh. On the regulatory side, Paul, David and Nick wrestle manfully with sports integrity, money laundering, technical architecture and a wide range of customer and industry issues while liaising far and wide with other regulators, operators and indeed members of the public. This year will see more additions to the team including a new Deputy Director to support Andrew in his role.

The industry in Gibraltar remains in excellent health and good order. Yes, there are new and tricky headwinds, which I will come on to, but the number of licensees remains around 30 despite the constant M&A activity locally and further afield.

New and established B2C and B2B providers continue to make applications to be licensed and located here, with a small handful in train. There are still over 3,250 staff directly employed and half as many again employed in industry support services.

It cannot go without comment that the recent completion of the acquisition of LadbrokesCoral by GVC has brought together 10 licences once held by Party, bwin, Ongame, Ladbrokes and Gala, while the completion of the Kindred deal with 32Red brings together the six licences held by Kindred, Stan James and 32Red. If other factors were not pressing for a reshaping of our licensing and duties model, then the scale and nature of these consolidations would surely do so in their own right.

As I announced last year, the Review of the Gambling Act was purposefully stalled in 2016 whilst we came to understand the management of the Brexit process. We are determined to re-boot that Review in the next few months – and work has already started - with a view to overhauling the Act by this time next year when the shape, timing and nature of Brexit will be very much clearer.

I know that Brexit has created uncertainty for many, indeed, it is the main workstream of this and the UK Government and others besides, but we must be careful to distinguish between the realities of the Brexit process and outcomes, and the speculation that has surrounded it since the notion was first conceived.

In my many meetings with Gibraltar firms, many of whom are here today, all of whom have very different business operations, the professional and measured manner in which you are approaching matters reflects a clear intention to avoid disruption to your existing operations, limiting this to the minimum degree possible and we are working with you to deliver this.

The Government here is working tirelessly with the UK Government to square the circles Brexit has created, and we are making great progress. We are making progress because all parties want the Brexit outcome to deliver continuing strong and dynamic economies within new relationships. Whilst the Brexit process has been likened to a divorce, in many ways it is more like the mergers and acquisitions that I mentioned earlier, as the parties are brought together to work in new and different ways.

The UK and the EU27 have always competed for business, have always had differences, be they political, legal or cultural and for 40 years the European Commission (or the ECJ) set the rules and 'held the ring'. Brexit is resetting those rules: all sides are negotiating what those rules will be and what effect they will have, but the outcome will be of a similar nature – the parties doing business, transport, tourism, security and

co-operation and the myriad other issues that currently permeate our international relationships.

Let me provide an update on the stage we have reached through the UK and Gibraltar Governments' work both in the Brexit Working Group and the Joint Ministerial Council (JMC). In the Working Group we have met repeatedly over the past 12 months with both the Department for Digital, Culture, Media and Sport (DCMS) and the Gambling Commission, and are now approaching the framework for an enhanced relationship between our respective Gambling Commissions, as in Financial Services, granting Gibraltar access to the UK market post Brexit in whatever shape that may come, and working ever closer in a number of different areas. The JMC, headed by the Chief Minister, has steered Brexit discussions at a political level with HMG across all areas of mutual interest, including of course our important eGaming community.

It is most likely that the UK and the EU will agree transitional arrangements, and indeed that we shall also benefit from that arrangement delaying the exit until January 2020, which in itself could still be pushed back or become a phased process. Our aim, like most of yours, is to defer any significant changes to our existing model until the options can properly be evaluated.

Operators and their advisors must work on facts rather than speculation. Between these two poles rests the sensible and responsible judgement of uncertainties. What I can see is undue credence being given to certain theories with no credit being given to equally likely consequences.

In recent weeks it has been has made clear that only Gibraltar has guaranteed access to UK markets post Brexit. That is the only certainty, and whilst this is a moving feast, patient and proper analysis of complex and difficult issues is the way forward, working together to face and deal with any challenges that may arise.

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We will of course work our way through this with you, as we always have, but we mustn't and cannot pre-empt the outcome of negotiations elsewhere.

If Brexit and licensing were not enough, taxation has also been in the air for an even longer period and we'll all be familiar with this. We undertook to restructure all gambling charges once the Point of Consumption issues had been resolved in the UK Courts. That point was reached last July and in yet another complex and multi-layered process that has to take into account the new uncertainties of Brexit, we have had to re-cast our early modelling designed to simply maintain the current scale of charges across the industry through a fair and balanced system to one that is more scientifically and politically robust, but still designed to maintain rather than increase industry charges, following those same principles.

Taxation issues always have an element of 'purdah' to them and I can say little more than we are working as fast as we can to complete the work, but with changing factors such as the number of licensees, the size of licensees and variable turnovers, margins, yields and product lines, that process too has become strained and our aim of a new model for 2018/2019 now hangs in the balance in terms of what collection arrangement will be in place at the end of the first quarter, when the first payments are usually made. It remains our wish to have such a new model in place at the earliest opportunity but it may be 'more of the same' for a little while longer. I am grateful for your patience.

I would like to divert briefly to another subject you will be considering today. Our move into the DLT space is innovative, exciting and as the first jurisdiction to legislate in this way, attracting quality operators to our shores as we did in gaming some 25 years ago. In fact one of the architects of this framework, who will be speaking to you later today, was first introduced to Gibraltar by Micky and her team at this very event. We were fortunate to meet Siân Jones, whose expertise and incredible knowledge in this space has guided us through the challenge of legislating in this sector. My thanks to Micky and of course to Siân.

As you will know we have now introduced our DLT legislation with effect from 1st January 2018 and will very shortly be publishing our Token Regulations, bringing a regulatory framework to the issue of tokens in Gibraltar. I am delighted that the Gibraltar Financial Services Commission has already received over 30 applications for DLT licences which will bring more expertise, innovation and business to Gibraltar. We will remain alive to the speed of change in this sector, working hand in hand with the private sector and of course the regulator. Like gaming, this is an example of what can be achieved when Government, regulators and the private sector work together for the benefit of all.

Putting all that aside, and moving swiftly back to gaming, in recent years I have been able to announce that Phill Brear is staying a little longer; I am delighted to report that I can make

“Operators and their advisors must work on facts rather than speculation.”

that same promise again, but in a slightly different way! As we move closer to the summer, Phill will be assisting and advising us on some of these very tricky projects, but he will then take a well-deserved break from his duties as our Gambling Commissioner. I take all the credit for extracting an additional three years out of him, and can do no more than repeat my and many other’s thanks for the contribution he has made in what will be just short of 11 years in Gibraltar.

When I first arrived in this position five years ago, I quickly appreciated how very fortunate Gibraltar was to have him here. That appreciation has increased every single day since and it has been a real pleasure working with him. A man of complete integrity, a true professional, conscientious and extremely hard working. He is pragmatic and proportionate and enjoys the full respect and support of Government, his team and the sector. It is impossible to separate Phill’s work from our success as a gaming jurisdiction, and I strongly believe he has played a significant part in our growth and development. I was delighted to be at the Gambling Compliance Awards last week in London where he was presented with the Compliance Lifetime Achievement award. He has made a huge contribution to our Jurisdiction, and I have much enjoyed working with him, and I hope you will all join me in thanking him for his incredible 11 years of service.

To mark that service KPMG have asked me to present our friend Mr Brear with a little token of appreciation on behalf of KPMG, the Government and all of you for his services to Gibraltar.

(At this point Minister Isola presented Phill Brear with a commemorative poker chip from KPMG.)

Of course, every cloud has a silver lining, and most of you will be aware that Andrew Lyman joined Phill and our team in January and has very much picked up the reins and is taking over where Phill leaves off. Indeed, it is the excellent start to Andrew’s own tenure that gives us the confidence that there will be a seamless transition from one principal regulator to the next in the months to come. Andrew, you are warmly welcomed to Gibraltar. If I may quote Phill: “He arrives knowing more about the industry than I do as I leave”. I think that is absolutely true and certainly in the short time that we have worked together it has been an absolute pleasure to work with you and I am entirely confident and comfortable that we are in extremely good hands. On that basis you have made a flying start and we all look forward to working with you as you take the industry forward in its next phase.

I have also been asked to make a second presentation this morning, and it gives me frankly enormous pleasure on behalf of KPMG to do so. This presentation is to a man who I consider to be one of the “unsung heroes” of our gaming community. He has quietly and modestly gone about his business excelling in every position he has ever held. I am, of course, talking about Mr John Anderson who is here with us this morning.

After 20 years at Ladbrokes, working his way up to the Board, he left to become CEO of the Burford Group in 1995, and then joined 888 as CEO in 1999. For four years he ran both

companies, before focusing all of his efforts with 888. John moved the group’s Headquarters to Gibraltar in 2003. He led the company’s successful IPO in 2005, and continued as Group CEO until 2007. He continued on the Board until 2016. On behalf of HMGOG and KPMG, I would like to say thank you, Sir, for your excellent service and commitment to the industry and the jurisdiction, and for everything you have done for us in your 40 years in the sector. It is a real privilege for me to be able to stand here today and recognise your work. Ladies and Gentlemen, Mr John Anderson.

(Minister Isola presents Mr Anderson with a commemorative poker chip.)

In summary, ladies and gentlemen, every KPMG conference has had at its heart a big issue. Indeed, every year the industry has had a big issue to wrestle with, often more than one, but it has shown that in Gibraltar there is the political support, the resource, the flexibility, the resilience and the creativity to surmount these challenges. That remains true in 2018 and I am confident that will enable us to look back on this year’s challenges, in the same way as we do today of the challenges we have faced together in the past.

Thank you very much and I wish you a very interesting and enjoyable day’s events.

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One Last Throw of the Dice

Phill Brear

Gibraltar Gambling Commission

This year's KPMG eSummit marked the end of an era with Gibraltar's long-serving Gambling Commissioner Phill Brear giving his final address in post to delegates. Hugely influential in shaping Gibraltar's gaming regulation, Phill took the opportunity to reflect on the various challenges he faced over the years and the emerging issues for his successor Andrew Lyman.

Phill began by thanking the various members of his team over the years and acknowledging that the GGC's success was "very much a team effort, indeed, multiple teams pulling generally in the same direction, focussed on the same or similar objectives." As well as his fellow civil servants, Phill thanked the Government for "its strong and visible support from the top" and all the operators and professional service staff "who have each always presented a constructive and positive approach to being licensed and regulated in Gibraltar." He continued:

When your job is to regulate the very best in the industry, having people who want to go with the grain, as well as colleagues and bosses who want to get on with their jobs, then doing the regulator's business is so much easier than if any of those elements is missing, or is silent, or worse, is pushing in the opposite direction.

You have heard this from me so many times before: successful regulation begins with who you licence. Licensing only the right people, with the right attitude towards their stakeholders, their customers, employees, regulators, governments, suppliers. There is a long list, but Gibraltar gambling is characterised by there being so very few significant disagreements or differences between the key parties.

Don't get me wrong, I am not being naïve. Mistakes have been made and there have been some moments when we have had our differences. But given the scale and scope of gambling from Gibraltar, the millions of customers and the billions of transactions, and when compared to what has arisen in other places under new and different licensing or regulatory arrangements, our internal issues have been, and remain, small in number and generally small in significance, with mistakes tending to be just that – isolated errors, individual over-stretches rather than deliberate or systemic breaches. Resolved by way of clearer guidance and constructive discussion, occasionally reparation and a proportionate penalty if necessary.

Even when licences have been removed and, yes, they have been removed, it's been done in a way that a licensee can only agree is the right and inevitable outcome.

What we are living through now is what I describe as the bursting of that bubble and the industry increasingly facing a harder edge of external pressures. None more so than the fog created by the Brexit process, putting in the shade even arbitrary, unpredictable and, at times, irrational regulations arising from other places.

I am little more qualified than most people in the room to pontificate on Brexit - I am just older than most people in the room so that qualifies me to make you listen! So here are my thoughts on Brexit. As Minister Isola has said, in more diplomatic language, the negotiating parties are some way down an uncharted path trying to get to an uncharted place. They are not sure when they will arrive, they are not sure how long they have got, they are not sure if they are wholly there, or only partially there, by April 2019, January 2020, January 2021, or a date or a set of dates beyond that. They are not really sure what they will have when they get there. And nothing is agreed until it is all agreed. So even when they are there, they may not be there, unless the other side agrees they are there. I am sure someone could make a good game out of that, if it wasn't so serious.

What is misunderstood, or simply not being revealed, is lost in the fog or perhaps is forever changing in that journey, is to what degree are the parties trying to help each other along the way. Sadly, with much, if not most, of the UK media re-running the Brexit referendum arguments, we are assailed on a daily basis with more heat than light when it comes to understanding what is going on and what the outcomes might be. Indeed it just looks like a never-ending squabble rather than a journey to a different place.

In the days after the vote I used the analogy that we would see a few rounds of chest beating as the parties appeared to be squaring up to each other, a few rounds of mud wrestling as the extremes on each side of an intractable conundrum accused each other and perhaps experienced some 'dirty tricks', but in due course this would all be settled over a cup of tea and a compromise, or perhaps a cup of coffee and EU fudge.

Because that is what has to happen. That is the only possible outcome in such multi-layered, multi-partied, complex, historical, and at times hysterical, sets of issues. There has to be compromise or a series of compromises. There is no black and white solution to this. As more than one politician has said, Brexit is more complicated than the end of the Second World War, which lasted six years.

Brexit is addressing 40-odd years of UK membership and the immediate interests of 28, or 29 if you include the EU itself, members. Each of which has its own particular as well as common or shared interests. These interests will have to be solved by way of general principles that frame the required details, and nothing is going to change in isolation. Indeed, anything that appears to stay the same won't be the same because things around it will have changed. We just don't know what those changes will be.

What I am saying is that Brexit has too many conditionalities for anyone to call specific outcomes or even the timing of specific outcomes. There will be no single, simple shift from life as it was to life as it will be in April 2019 or January 2021 or whenever. Those dates will simply become historic milestones that the change process swept past, with many intricacies as well as substantial adjustments taking place before, on, and after those dates.

I should, for the sake of political balance, also mention at this point that some hope, or believe, the journey may be cancelled and tea brought on early. But we do have to deal with the realpolitik of life rather than Brexit being derailed.

So the purpose of my analysis is this: while people, companies, organisations and Governments have to plan, have to analyse and plan, have a responsibility to analyse and plan, those plans can be better informed, better structured, and can provide for better outcomes, than the aforementioned uncharted masterplan that has been described largely in the media.

In the specific context of our licensees, the prevailing 'what ifs' may suggest certain outcomes. As a Northerner I will tell you there is a whole series of 'what ifs' but 'also maybes' incorporated into the thinking that could cancel them out, or compensate for them in some way. Indeed, the 'what if' you might be relying on may be delayed, deferred or be done in instalments, with compensatory, or counter measures arriving at the same time, or before or after. But nobody knows that because the 'what if' itself hasn't even arrived. It's not even understood, it's just assumed.

"What you can be sure of is that Gibraltar isn't just sitting back and watching."

What you can be sure of is that Gibraltar isn't just sitting back and watching, or wondering what's going on and watching it sail by. Gibraltar doesn't sit on its hands, it gets on with things and believe you me it is getting on with things. It just isn't shouting about it from the rooftops because that is not the protocol.

Now, I may never take this stage again, so I will just digress a little. We all crave certainty. In my previous life, amongst my more onerous duties, I used to have to make speechescome-lectures to newly promoted officers to help set them on their way as managers. I probably did this 20 or 30 times to some 400-500 people. I had a common theme upon which I hung other stuff, a bit like today. The theme was that, as managers, the biggest challenge they would face would be that of managing uncertainty and ambiguity. I was saying this 25 years ago. That you have to make your decisions when you don't have all the facts and when apparent facts may change. Making decisions with incomplete information that will change people's lives, and in their cases, may change people's lives for the worse.

"Have a plan, have more than one plan and be prepared to change as new information arrives."

So contrary to many management theorists, my view was, and remains, that no decision is better than the wrong decision. To not act is better than reacting the wrong way. While that is clearly not a permanent condition, you must give yourself options, you must work out the angles. You must have a plan, have more than one plan, measure what is not being said as much as what is being said. Always be prepared to add new information. And that remains my advice, or my analysis now. Have a plan, have more than one plan and be prepared to change as new information arrives.

So back to who is or isn't sitting on their hands. I mentioned earlier that most of the media, in my view, are simply replaying their pre-referendum arguments, just with fewer red buses but now even more colour. To me, this is a side show: its largely a confection, it is serving multiple purposes, including selling newspapers and advertising space, filling web pages and stroking the egos of politicians in other places, businessmen and academics. It is not so much fake news, as faked news. Fake news is untrue, faked news is stories for their own sake, PR to create an illusion, an image of what Brexit might be rather than what it actually is. And others are engaged at times in noisy Brexit opportunism, also creating an illusion of what might be.

"What really matters is what is happening below the surface and what the final outcomes are, not the stages in between."

As with all things political, what really matters is what is happening below the surface and what the final outcomes are, not the stages in between. What matters is who is doing what and what is going on in the places that matter. There is far more of that than you see in the media or hear in political statements. The media's obsession with reporting what is sexy, and the public's preference for reading and remembering what is sexy, means the grind below is being largely unreported. The boring stuff, the boring people, the step-by-step, sort this, sort that, what if this, what if that – those negotiations are what will define Brexit, not what you read in the press.

In the interim, all commentary is speculation, and spectacular speculation will always be more prominent than the dull stuff. Much better a headline 'Outgoing gambling regulator rubbishes media reporting' than 'Outgoing regulator calls for more measured approach.' That's all I'm doing. I'm saying you have to keep your options open, have contingencies for comfort or for real, but beware of going down the road you cannot reverse out from.

Now, more prosaic matters: I am leaving. Sort of. I am in the last three months of permanent employment and will be undertaking projects associated with the Gambling Division. In reality, I will be completing work I couldn't get round to, due to all the other work we had to do, until Andrew (Lyman) arrived. Now he can do it!

"Gibraltar is what it is because we have all listened to each other."

Andrew is a duck to water. Within days, even hours, he was answering stuff that had been making my head hurt. He has filled an enormous gap in our resource and he brings the energy of rising to a new challenge. I repeat it, because it is true, I have passed the baton to someone who's arrived knowing more about the industry than I do as I am leaving. He will use that knowledge to quickly navigate the channels, openings, dead ends and bypasses that knit together the gambling industry here and elsewhere. It is his ability that makes my departure possible, so on Tuesday night when he nearly walked under a bus by looking the wrong way, I was more startled than he was. Andrew, you must learn which way to look!

He inherits the best operating and regulatory environment in the world. But he must now do it his way, he must shape and oversee continuing change. Gibraltar is what it is because we have all listened to each other. For my decade or so I was able to move things in a collaborative way, in a collaborative direction, chopping off what we didn't like, adding bits where there were gaps.

Where I might have picked up the tail end of what some called the Wild West, and saw the industry really professionalise, he picks up a more commercial, distributed and pressured industry and he must steer and shape it into a new form for the next decade so that it continues to thrive. Andrew, your arrival means I can sleep more comfortably at night, and with that, thank you all, and let's move on.

100 Days

Andrew Lyman

Gambling Division, Government of Gibraltar

Following the outgoing Gambling Commissioner's address, the man who is stepping into his shoes as the lead gambling regulator in Gibraltar had an opportunity to introduce himself to delegates and set out his vision for the regulatory future of gaming in the jurisdiction. A lawyer who has worked across public and private sectors, including 20 years with HM Customs, Andrew Lyman is well-placed to take on the mantle from Phill Brear, having previously helped establish the UK Gambling Commission and also having experienced regulation from an operator's point of view with a spell as Director of Regulatory Affairs at William Hill.

I am delighted to be here addressing you this morning in my new role, not least because I am delighted to be living and working in Gibraltar. Christmas now seems some time away; it was spent with family but also, in the down time, reading about the history, politics and the culture of Gibraltar. As a beginner, I have been helped by many people to further understand what is a vibrant, diverse and unique culture and economy with its own complexities, history, anomalies and delights.

Whilst I have retired from Twitter as an active tweeter, following the Twitter accounts associated with the Government, the wider public sector, key individuals, the cultural institutions and even those who delight in controversy in Gibraltar has become a bit of an obsession. And I'm an active reader of the Gibraltar Chronicle and rival media publications.

Although self-improvement books, the sort that occupy the shelves of various airport lounges, are generally not my thing, the first 100 days seems like a common business theme. Take this one which contains advice for successful leaders in the first 100 days.
Advice: establish credibility and promote yourself.

Well I'll try to promote myself, hopefully in an understated way and hopefully in my own style. But I see the regulatory role as akin to that of a football referee. It is the referee's job to make the game flow within the rules, earning the players' respect, showing the odd yellow card to reset the tone of the game. Occasionally opining and interpreting the rules in private meetings. Playing advantage where one can and not being the subject of the post-match analysis. It will be up to you to judge over time whether I have credibility or not.

Advice: understand the challenge. I think I do. And today I will start to outline the challenge.

Advice: accelerate your learning and get orientated. For this I need to pay tribute to Phill Brear, who has not only been a very successful Gambling Commissioner overseeing for a decade the growth of a successful gambling industry, but who has invested a great deal of time in me, mentoring, briefing and guiding me in my new role in his own inimitable way. I am getting orientated and the nature of the role certainly means that my learning has to be accelerated, not least downloading the contents of Phill's brain with its large, complex and retentive intellect before he finally takes us his new role as a gardener and handyman in Sotogrande.

Advice: build your team. I have inherited a very capable team and I hope that we will grow and learn together. That team is destined to expand and to meet the challenges of the future. My welcome both in the industry and within Government at all levels and the wider public sector has been warm and supportive but it is clear to me that I have arrived at a time of uncertainty and change but also massive opportunity. I do not underestimate the challenges faced by the industry. But my first 100 days has not dented my optimism that Gibraltar is and can remain a first tier regulatory environment supporting a critical mass of B2B and B2C operators. My team is not just the Gambling Division colleagues but, in a wider sense, a multitude of people in both the public and private sector in Gibraltar who are all working for a common objective: the success of Gibraltar plc which in turn sustains and supports the wider economy.

Advice: communicate your vision. Stay tuned and I will try and do that in a few moments.

Advice: manage yourself. Now there is a challenge. In September, in fact on Gibraltar Day by happy coincidence, I will have been married for 30 years and there is one person who firmly believes that I am in need of very close supervision at all times, even for basic tasks such as loading the dishwasher, or the gap I maintain between the car in front and me. Everyone needs someone to keep their feet on the ground. In a work sense, my role is a combination of strategy, operational detail, policy, legal interpretation, technical understanding, relationships, management, diplomacy, breaking a few eggs to make an omelette, and lots and lots of self-criticism and the application of intellectual rigour to get to the right answer. Who wouldn't want this job? I will make mistakes, hopefully only small ones, but I do expect challenge and while I won't necessarily change my mind, I do think that solutions are better arrived at by robust debate.

Advice: build trust. I will do my best to do that but again that's for others to judge.

Now to work. I have done my best to meet most operators and whilst Phill continues to tell me that it is not normally this busy, every day so far has been intellectually challenging, full and very different. The Gambling Division is dealing with a number of prospective licence applications, testament to the fact that others see a future for Gibraltar Gambling plc.

The jurisdiction with its many advantages cannot be readily dismissed. The licensing principles around location of people, management control and technology underpin the application process and are a starting point for the good standing of this jurisdiction and regulating in the public interest. This has never been and will not become a brass plate jurisdiction. We want all our prospective applicants to be commercially successful bringing benefits to the Gibraltar economy. For that reason we will continue to license on the basis of a cogent business plan, realistic projections, a commitment to compliance and we will back winners, not chancers.

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As the Chief Minister said we are not joining a regulatory race to the bottom. However technology is advancing, operators are under cost pressure, the cloud has the potential to reduce technical operating costs and we recognise the technical architecture including platform support is becoming increasingly multi-jurisdictional. We also understand that operators need to make contingency plans to deal with the Brexit risk and the advance of in-country regulation. However there is no need to behave like Corporal Jones in Dad's Army, certainly no need for panic.

The Government of Gibraltar, from the Chief Minister down, is focused on getting the right Brexit deal for Gibraltar and supporting our established operators. We are prepared to support cogent and flexible regulatory solutions and whilst we will want as many key functions as possible - people and technology - to remain in this jurisdiction, our regulatory structures are already flexible and we are now focusing on the recommendations of the Gambling Law Review to introduce a more flexible and future proof regulatory regime. That new regime is likely to bring the majority of gambling support functions within the licence perimeter but not at any significant financial disadvantage to those who currently sit outside the perimeter or those who need to flex their arrangements. What is more, Gibraltar is always, and will continue to be, a supportive regime for socially responsible operators.

Through the joint Ministerial Committee, the UK has guaranteed continued access to the UK market through the transition period and beyond. Gibraltar is the only jurisdiction to have achieved such an assurance. We know operators are concerned about access to other European markets but a cross-jurisdictional approach may be more sensible than putting all your eggs in one basket. Gibraltar is an open and consultative regime at all levels and whilst senior executives and boards have to act in the best interests of their stakeholders, decision-making is often improved by discussion of all the options and we are prepared for those discussions.

We recognise that operators do not want to give up the business and lifestyle advantage of being in Gibraltar and we understand the integration challenges being created by increasing industry consolidation. Moving people and technology in a knee-jerk way carries with it a significant level of business risk and we are here to work with operators, not against them.

It is a personal view but listening to the mood music I am confident that Gibraltar will be included in transitional arrangements. Certainly the red line for the UK is Gibraltar's inclusion in the transition deal. And after that, who knows? The Government is focused on equivalence in terms of data legislation and everyone appreciates the importance of access to European and a wider data economy. We know that Gibraltar operators are focused on GDPR compliance and having corporate rules to transfer data across international boundaries. Again, it's a personal view, but I also believe that Spain is convinced that a collaborative approach is right for its citizens and those who cross the border every day.

We do not want to present operators with binary options but equally we are alive, as Phill said, to what I would term "Brexit opportunism". What I would say to our operators is hold your nerve and work with the Government and the Gambling Division in a transparent way to facilitate the contingent measures you need to take without burning any bridges and leaving you able to access all existing markets. Do not be seduced by the short-lived financial and perceived technology advantages elsewhere and work with us to fashion the future.

That said, we are also focused on the regulatory cooperation with key European jurisdictions who have recognised, like us, that operators do not want to make "either or" decisions but would prefer to locate functions on the basis of business need. We also know that operators continually review their arrangements but whether it is gaming tax, corporation tax or VAT status, Gibraltar provides a business supportive tax regime which is supported by significant lifestyle advantages.

Turning now to the relationship with the United Kingdom and, on a micro-level, the relationship between the Gibraltar Gambling Division and the UK Gambling Commission. This is an important relationship because we estimate that some 80% of sports betting and a very significant of eGaming is catered for by Gibraltar-licensed operators in the UK. The Chief Minister has referenced a close regulatory relationship between Gibraltar and the UK. That already exists for

"My first 100 days has not dented my optimism that Gibraltar is, and can remain, a first tier regulatory environment supporting a critical mass of B2B and B2C operators."

“Gibraltar is always, and will continue to be, a supportive regime for socially responsible operators.”

financial services and we expect that the gambling regulatory regime will develop. Not on the basis of either regulator acting as an agent for the other, or taking primacy in a particular area, but on the basis of shared values, all be it there is scope for a variation of approach.

We support the broad principles of the UK Gambling Commission's three-year strategy on protection of consumers, and keeping gambling fair and safe are worthy principles and ones which we would expect our operators to maintain. We would expect to develop a close working relationship with the UK Gambling Commission in the areas of licensing, policy, and compliance. We believe that we will make the landscape clearer for Gibraltar-based operators and save any duplication and effort however our aim will always be to employ the lowest and most pragmatic tool to achieve the desired regulatory outcome.

I'm a great believer that regulators should work in a collusive and pragmatic way with operators and support the health of the industry without compromising their ability to take regulatory action where there are clear and unaddressed shortcomings. We recognise that risk appetite is changing and that operators are making great strides forward in the areas of AML, CTF and social responsibility. My overall message is that operators should seek to keep pace with, and if possible, stay ahead of the regulatory curve in whatever jurisdiction they take licences. I am seeing significant commitment from our licensees in terms of incremental improvement which simply does not justify the negative political and media anti-gambling rhetoric in the UK and other jurisdictions. Gambling has always been, and always will be, a political and media football but it is incumbent upon all stakeholders, including regulators, not to join the kickabout.

Whilst this sector is not perfect, there are a lot of people striving to deliver growth in a responsible way. The people we talk to value regulation and the reputation of their businesses, and they value being in a jurisdiction with a good reputation. If this industry is making a mistake, it is not making sufficient noise about the significant investment it is putting into technology and automation to protect consumers like no other technology sector does. It is easy on the basis of limited surveys to pursue a narrative that the industry has lost public trust, and the political and media cycle can mean that this is a self-fulfilling prophecy. I do not believe that the pursuit of this narrative by wider industry stakeholders is helpful, in fact it is dispiriting and it leads to an erosion of partnership.

However, if the negative news cycle is to be reversed then the industry needs to continue to focus on social responsibility and AML issues, but also be prepared to devote the time and effort it is spending on consumer relationships and customer due diligence elements. The spectrum of moral views about gambling means the industry needs to work harder to control the agenda, and positively influence the media and the political dialogue. Being in a robust but supportive regulatory jurisdiction can help. Surrendering the regulatory agenda to others is not the answer, neither is trying to fly under the radar.

Extending the argument, driving customers into the grey or black market by over-regulation, product limitation and overly restrictive payment options would be a significant mistake in my view. The industry has got the message about treating customers fairly and safely but needs to be given time and space to make the technological changes necessary for cogent change. Regulatory overload slows down rather speeds up the natural evolution which is happening at the moment.

Turning now to a key priority: from the middle of 2017 the Gibraltar regulator was given, along with other Gibraltar regulators, new supervisory powers for the AML/CTF area. This provides the capacity for the regulators to employ a range of enforcement tools to include ordering third party reports, and imposing administrative fines. As I have already stated, the Gambling Division is not an enforcement-led regulator but the sector can expect to see some more structured activity in this area, focused on the effectiveness of an operator's own systems and controls. We are having to work with operators to make the standards that we expect clear and we will not expect anybody to second guess us. You can rely on the transparent and proportionate approach. As part of this process, we are seeking to clear up the identified anomalies in the SAR reporting regime and to reduce defensive reporting. We think it will go some way to improve the industry's reputation.

Whilst there are challenges, I am determined that now, and in the future, Gibraltar remains a first tier regulatory regime that is at the centre of the European and international regulatory community. Gibraltar has never shied away from supporting properly regulated market disruptors such as the companies engaged in the secondary lottery market and we are open minded about block chain technology and crypto currency, subject to compliance-focused business plans. Likewise we are willing to support and to create the right climate to develop an even more vibrant gaming sector. Traditionally Gibraltar has not accepted new start-ups but I think we also can be more flexible in that particular area where start-ups are manned by experienced management teams.

The licensing bar will still remain high but I believe Gibraltar, with its concentration of intellectual property in the gaming area, can still be an incubator for tech business. We are open and remain open for business as we've already discussed.

Finally I will finish on a note of optimism. Gibraltar is a great place to live, it's a great place to work and it's a place that supports entrepreneurial spirit. That is why the economy has succeeded and will continue to succeed. On an individual basis anyone who has been here for a while quite simply does not want to leave. Weighing all these factors in the balance, that is why I am optimistic for the future. I look forward to discussing all of these issues during the day and probably late into the night.

Thank you very much.

Gibraltar's Future in DLT/Blockchain

Siân Jones

Gibraltar Financial Services Commission

Distributed ledger technology (DLT) and blockchain have been heralded as game changers for businesses across all types of industries. In this session, Siân Jones, Senior Advisor on DLT for the Gibraltar Financial Services Commission, explained how the technology is being assessed from a regulatory point of view and how Gibraltar is on the front foot in legislating for DLT and public token offerings.

In a room full of gambling people I am the odd one out. I'm a blockchain person and I'm the one who is going to talk to you about DLT and blockchain, the subject that just won't go away.

I guess there are a few in the room today who were around in the UK about 25 years ago and who will remember the slogan prepared by an advertising agency for the mobile phone network Orange: "The future's bright, the future's Orange." Well, let me tell you a little bit about why the future could be bright for Gibraltar and DLT.

But first a little bit of history, as around the time of my first visit here three years ago Minister Albert Isola decided to set up and establish a crypto-currency working group. It was a public/private working group, responsible for investigating this new topic of virtual currencies that had received some publicity, not always good publicity, and with his usual foresight Albert decided to look at the reality of this new technology and whether it could bring something of value to Gibraltar.

The working group produced two reports, one in 2015 and another a year later. In 2016 the Gibraltar Financial Services Commission was charged with developing some regulations for this space.

Very quickly we recognised that the topic wasn't just about crypto-currencies. There was a much bigger picture. Admittedly crypto currencies sat within that but actually they were just the first application of the new technology, this blockchain technology or distributed ledger technology as it's now widely known. So we expanded the remit to cover a regulatory regime for the whole of DLT.

In the second quarter of last year, a consultation paper was published. Feedback was received by Government in October and DLT regulations, as they are effectively and endearingly known, became law and came into force in January of this year. Essentially these DLT regulations are a new way of regulating businesses that use a nascent and evolving technology. In the past, especially in the financial services sector, we are used to dealing with more mature products and services, a more mature industry, more mature businesses. Here there was something that, if you took snapshots every month, seemed to be morphing and changing and continuing to evolve. How do you set some rules and regulations for a technology that is still being formed?

> "We wanted to harness DLT for Gibraltar's good."

What we came up with was something which was purpose designed, something that was unique and not something that lifted directly from any other piece of financial services legislation. What we did was to make the outcomes we wanted to see the most important central part. We had the notion of constructing legislation around outcomes rather than around rules. So it is based on principles rather than rules.

Don't mistake this; this is not something that is a soft touch or light touch regulatory regime. It is just as robust as any other financial services legislation and we regulate the people and businesses in this sector with the same rigour and to the same standard as any other financial services business. What we do is we make it appropriate, appropriate for the technology and the changing nature of the technology, we make it proportionate, and we apply it where it is relevant.

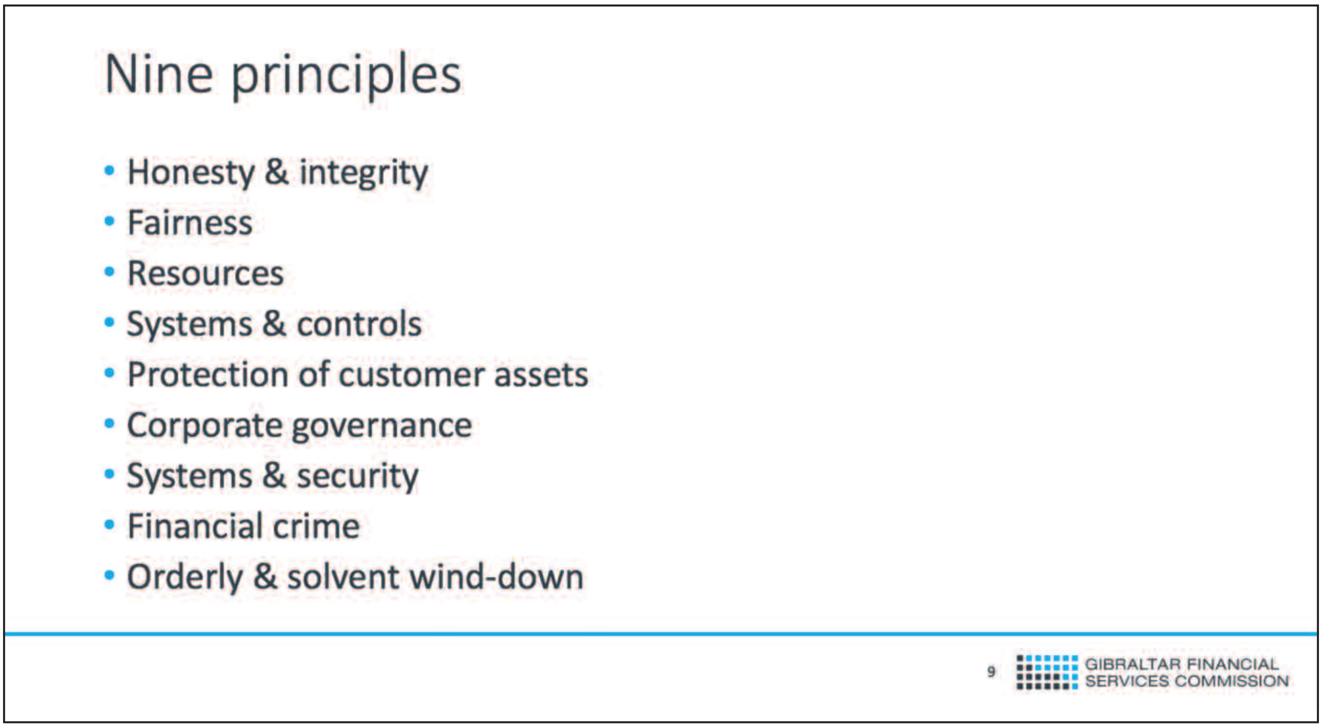
So let's look at the first piece of legislation heading into force at the beginning of this year. It brings into financial services regulation those who carry on by way of business, in or from Gibraltar, the use of distributed ledger technology to store or transmit value that belongs to others. This borrows from the idea of what we regulate in the traditional world, of focusing on looking after other people's money. So it seems perfectly logical that in this new space, the equivalent of that should also be regulated. Folks who have responsibility or some custodial responsibility for other people's value should be regulated and consumers should be able to rely on them.

I talked about outcomes and there were three fundamental outcomes. Firstly we wanted to protect consumers. This was a new area; this was the wild west of issuable assets. Nobody quite knew what it was that they were dealing with, nobody quite knew who they could trust and so front and centre, as with most things in financial services regulation generally, consumers were placed at the top of the list.

But Gibraltar being Gibraltar, we were very jealous of our reputation and we didn't want dabbling into this new sector to in any way adversely impact our reputation. Finally we wanted something that would be good for Gibraltar's economy. This room is filled with people from the last significant wave of innovation that impacted Gibraltar's economy and this DLT sector looked like it could be the same thing. We wanted to harness that for Gibraltar's good.

So what are the principles that are written into the legislation and govern the way in which we regulate businesses in this space? First of all we look for businesses that conduct themselves with honesty and integrity; we look for businesses that have paid due regard to the interests and needs of each and all of their customers. And we looked for businesses that are able to communicate clearly and fairly and not misleadingly with those customers.

"Essentially these DLT regulations are a new way of regulating businesses that use a nascent and evolving technology."



We want to make sure that DLT providers have adequate resources, that they maintain the appropriate financial and non-financial resources to look after the value of their customers. They need to manage and control their businesses effectively. They need to conduct those businesses with due skill and diligence, and they have to have proper regard for the risks posed to the business and their customers.

DLT providers need to have effective arrangements in place to protect their customers' assets and also their customers' money when it appears in conventional fiat form at times when that business is responsible for those items. They have to have effective corporate governance arrangements. You don't always find this in the technology sector. Lots of bright young things are focused on the innovation, they are focused on what they can break in the existing system. They don't normally put front and centre how those businesses are governed and operating and held to account – but they need to here in Gibraltar.

They also need to ensure they have the systems and controls in place to maintain high security standards. Coming towards the end of the list, much is made of financial crime and what we need to do to maintain our position as an adequate defender against financial crime. So we expect DLT providers to perform exactly the same as their traditional financial services counterparts and have appropriate systems to prevent, detect and report on money laundering and terrorist financing. Finally, in the event that businesses fail, we are really only going to tolerate those businesses that fail for the right reasons, then they need to be able to ensure an orderly and solvent wind down of the business.

As Minister Isola has mentioned some 30 applications have now been received since the beginning of the year and they represent a stunning array of different use cases and business models. When we looked at this a year and a half ago, the story was not just going to be about crypto-currency. Round about 50% so far of those 30 are at the stage where their applications are being assessed and working through the various stages that we require them to go through. We are expecting to grant our first licences for DLT providers in the summer of this year.

"Front and centre, as with most things in financial services regulation generally, consumers were placed at the top of the list."

So let's move on to ICOs, these magic letters that we see bandied all over the press. Initial coin offerings. They've certainly been at the top of the tabloids, they've been at the top of the financial press and we're now seeing businesses wanting to raise finance using this new novel method.

What is an ICO? Let's deconstruct it. This is essentially just an offering of tokenised digital assets for members of the public. We're going to call them from here on in public token offerings (PTOs), just to establish a meaning and a meaning that's relevant here in Gibraltar.

Essentially it is just a means of raising finance, typically by early stage start-ups, but without having to issue securities. We're also starting to see businesses at later stages of development using this method of financing. Some of you may be aware of a messaging app, probably a start-up five, six or seven years ago but now a very large business globally, Telegram. They recently announced an ICO for scaling the next stage of their evolution. We're also seeing this method being used established enterprises, some of you may have read that firms like Kodak are launching their own ICOs.

"We look for businesses that conduct themselves with honesty and integrity; we look for businesses that have paid due regard to the interests and needs of each and all of their customers."

So why has this become such a topic, why do we see it in the press all the time? PTOs exploded during last year, probably because the means with which to do it became easier. One can almost take a bog standard template and launch one's own token very quickly as a means of raising finance from the public without all the complexity of issuing securities, without the burdensome and costly processes that are involved in bringing a company to the public market.

In common with a lot of other regulators around the middle to latter half of last year, we issued as public statement. We drew the public's attention to some of the risks that are involved in this new form of investment because it isn't investment in the traditional sense, it is more like investing in commodities - and if you don't understand commodities and you're not particularly expert in investing in speculative ventures, then this might be something you want to think twice about. We tried to draw the public's attention to some of these risks, however sexy they may sound, or however large the appreciation might appear to be in some of the prices, the astronomic growth and the huge volatility in prices that were seen last year, one still needs to bear in mind that it might not be somewhere where you should put your life savings. These are the kinds of points that we put across last September.

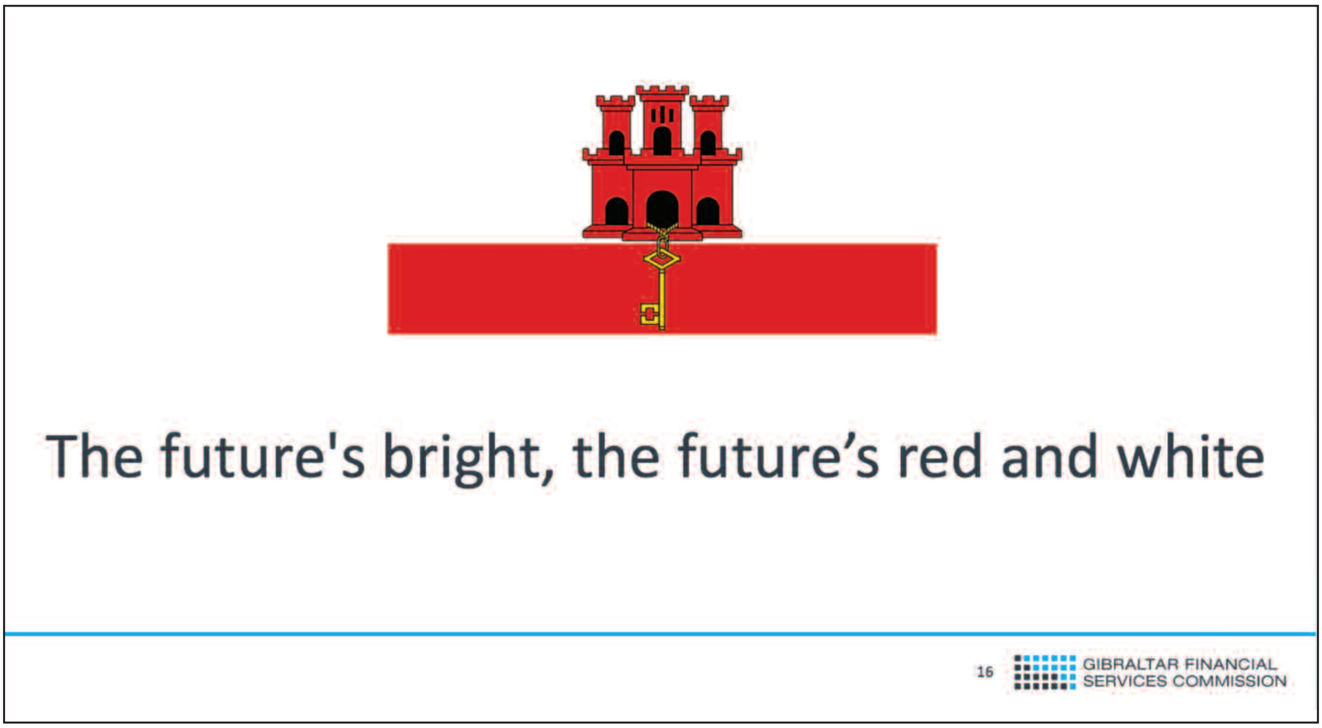
Then we put out a discussion paper in December and this was circulated to the Finance Centre Council and feedback was sought from stakeholders. That was received and considered, and in February this year, HM Government of Gibraltar issued a press release saying that it would go ahead with some token regulation and again the GFSC was charged with drafting those regulations and that's the place that we are at now.

Along the way, the financial crime aspects of PTOs have been addressed by amendments to the Proceeds of Crime Act so those who receive the proceeds from the sale of tokens are now subject to POCA. We expect that during the course of this quarter legislation will come before Parliament.

These token regulations then, they will complement the DLT regulations. There will be three limbs. The first will be around promotion, sale and distribution of tokens in the primary market, their initial issue and sale. The second limb will be around secondary market conduct. Market abuse is already legislated and regulated in the traditional sectors, in securities, in bonds, in debt instruments, in commodities, in derivatives but not in this virtual digital asset space and so we are seeking to align that and get the same kind of protection against front running and insider dealer. The third and last limb will be around investment and ancillary services, and that will include things like investment advice relating to that.

So indeed the future is bright, in fact the future is DLT. *(At this point Siân showed a slide of the Gibraltar flag.)* More importantly the future is bright and it is red and white!

"Firstly we wanted to protect consumers. This was a new area; this was the wild west of issuable assets."



Gibraltar eSummit Brexit Panel discussion

Moderator: Mark Essex

Director of Public Policy, KPMG in the UK

Panellists:

Peter Montegriffo QC
Hassans

Peter Isola
ISOLAS

Jon Tricker
KPMG Gibraltar

Susan Breen
Mishcon de Reya

Samantha Barrass
Gibraltar Financial Services Commission

With so much yet unknown and potentially so much at stake regarding Britain's exit from the European Union, it is inevitable that any industry forum at the moment will have a Brexit session. The Gibraltar eSummit was extremely fortunate to have KPMG's "Brexpert" Mark Essex present to lead a distinguished panel from across the industry in considering the latest developments and their likely impacts.

"We expect the politicians to deliver a result that is good for business albeit we will undoubtedly have to expect compromise on both sides."

Mark Essex: I am introduced as a Brexpert but, of course, there is no such thing as a Brexpert, as there has never been a Brexit before. But I have spent my time since 2014 immersed in the subject and talking to politicians, civil servants and business leaders to try to help all sides understand what is going on. With the help of my expert panel, we will try and do the same for you this morning.

First I want to start with a question for the audience poll: **It's just over a year since the UK invoked Article 50. Over that time do you think the chance of a "no-deal" Brexit has increased, decreased or remained the same?**

While we wait for the results, I will tell you the sense I get from my clients. In the UK, clients mostly think everything is going fine. They see transition agreed, and have almost visibly breathed out. This has been helped by the British press going quiet lately. This is no accident. I think Tories have realised that talking about Brexit costs votes and there are local elections in the UK next week.

In Europe, it's the exact opposite. It's as if the transition deal made people in the EU finally believe it's really going to happen! A referendum in Britain is not something which you keep repeating, hoping for the best of three. Companies in Europe are starting to plan. So in the UK, boards think the threat has retreated; in Europe, they are getting more concerned.

What about here in Gibraltar? The results of our poll are in and show that 44% of those polled think the threat has increased, 38% think it has decreased and 17% think it remains the same. I'm going to ask the panel to put that into context for us.

Is that what you'd expect?

Peter Montegriffo: The first thing to point out is that the transition is only agreed subject to final agreement on all other outstanding matters. So I am not surprised about the confusing nature of the response. I go back to the wise words that Minister Isola, Phill Brear and Andrew Lyman articulated earlier this morning: because of the many variables involved there is very little chance of finality in the short term. This suggests the overwhelming expectation and likelihood is that there will be a transition. There will be a pragmatic set of solutions. They probably won't all arrive on a particular date but will appear over time so moving into a more comfortable transition period is probably the sensible thing to do, while planning for a number of eventualities that might still need to be actioned.

Mark Essex: Susan, do you share Peter's view of the threat of no deal?

Susan Breen: Yes, and I think we need to take a step back. One of the reasons it might be harder to anticipate how this will pan out is because the question is wrapped up within wider questions about Europe, the fracturing of the party political system within the UK and global economics. So if we put all that together in the melting pot, it's almost impossible to understand how to navigate the road ahead. From a voter's perspective, there's a changing narrative every day. That uncertainty leads to tension and a sense of powerlessness. So to some extent there is a sigh of relief about the announcement on transition and a feeling from business that we can't worry or try to anticipate what's coming further down the line; we have to leave that to the politicians.

It is however necessary and incumbent upon businesses to plan for worst case scenarios. I would not be surprised at all to hear businesses saying I can't influence the outcome, I can't even begin to see what the solutions are so I am going to face those issues that are pressing for us within UK, Gibraltar and Europe generally. And that's all about business continuity. We expect the politicians to deliver a result that is good for business albeit we will undoubtedly have to expect compromise on both sides. That's not something which this business community can entirely influence given the political tensions although it remains important to keep a dialogue with government on key issues. As we go through this, there may be a couple of very difficult binary decisions, but over and above that I think we are going to have to take a pragmatic approach, plan for what we can do and unfortunately wait until later in that timeframe to decide how to react to those situations.

Mark Essex: Samantha, the poll says 44%, the majority expressing a view, thought the chance of a no deal had increased. Is that your understanding?

Samantha Barrass: It depends on what you assume the question is. So if the question is do we think that all the details are going to be sorted out in a year's time, then the chances of that are zero. In that sense I would be surprised if it wasn't greater than 44%. If people's assumption in answering the question is do we think that at the end of March 2019 everything is just going to fall off a cliff because nothing has been agreed, then I can understand the answers, with people saying no we don't think that will happen.

I think there have been two really significant developments in terms of the politics of this over the past year since Article 50 was triggered. The first is that generally the complexity, in my view almost sheer impossibility, of delinking the UK completely from Europe, has really begun to sink in, not just in the UK but in Europe as well. The second development is that in Europe at both a political level and the more popular level, there is an understanding that Brexit isn't just a UK problem; it is one that has potentially significant consequences to their own population.

Just looking at an example in my own area: will non-UK European car drivers be able to continue driving their car on 30th March? Will they be legal to drive based on the policies they have and will they be able to continue their insurance policies? I think those two developments give a real understanding of just how complex the task is and are waking up Europe to the fact this is a European wide issue, not just a UK one. In my view that means the chances that we go into the 30th March without something pragmatic, ensuring that there is a calm period, whether it be a transition or a high level deal or some such thing, I think is low.

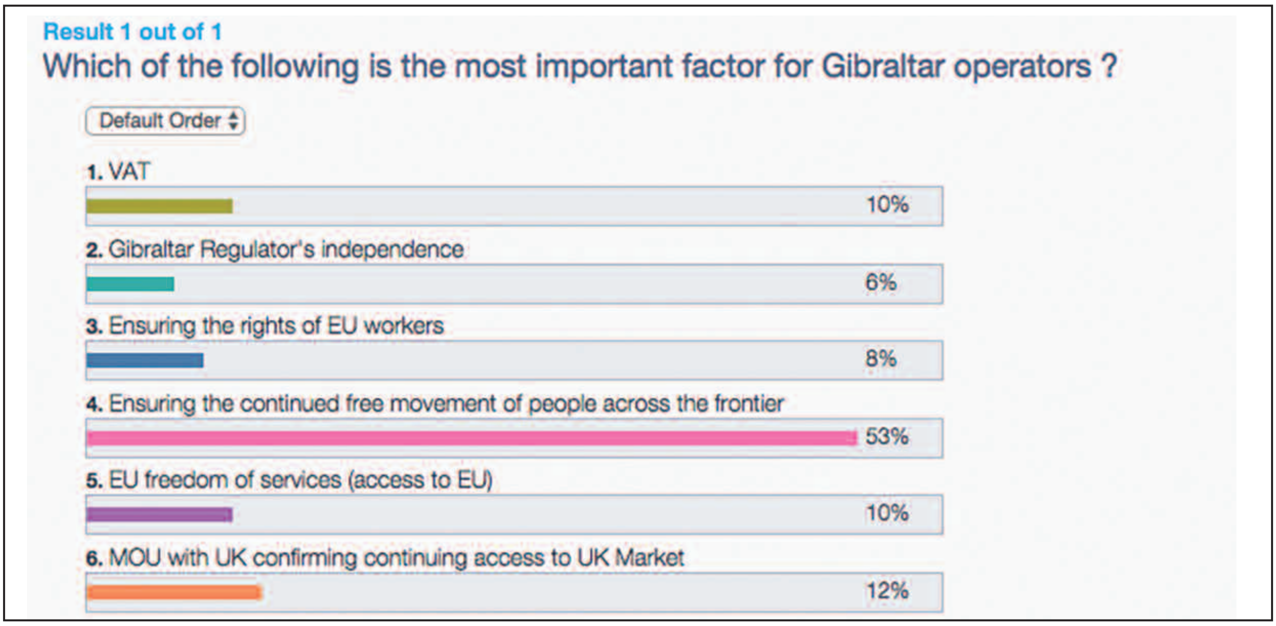
Mark Essex: Peter, is that the sense you are getting from your clients?

Peter Isola: When Article 50 was triggered back some time ago, there was some feeling that there would be an agreement by March 2019 but it soon became clear that was impossible. But the fact that they have agreed transition provisions, the fact there has been a realisation that to have a specific date where everything is going to happen is not realistic makes me more aligned to Phill Brear's way of thinking. There is too much pressure both on the EU and the UK to arrange it so I think there is decreased possibility at the end of the day, and more realism these are complex issues that need to be solved.

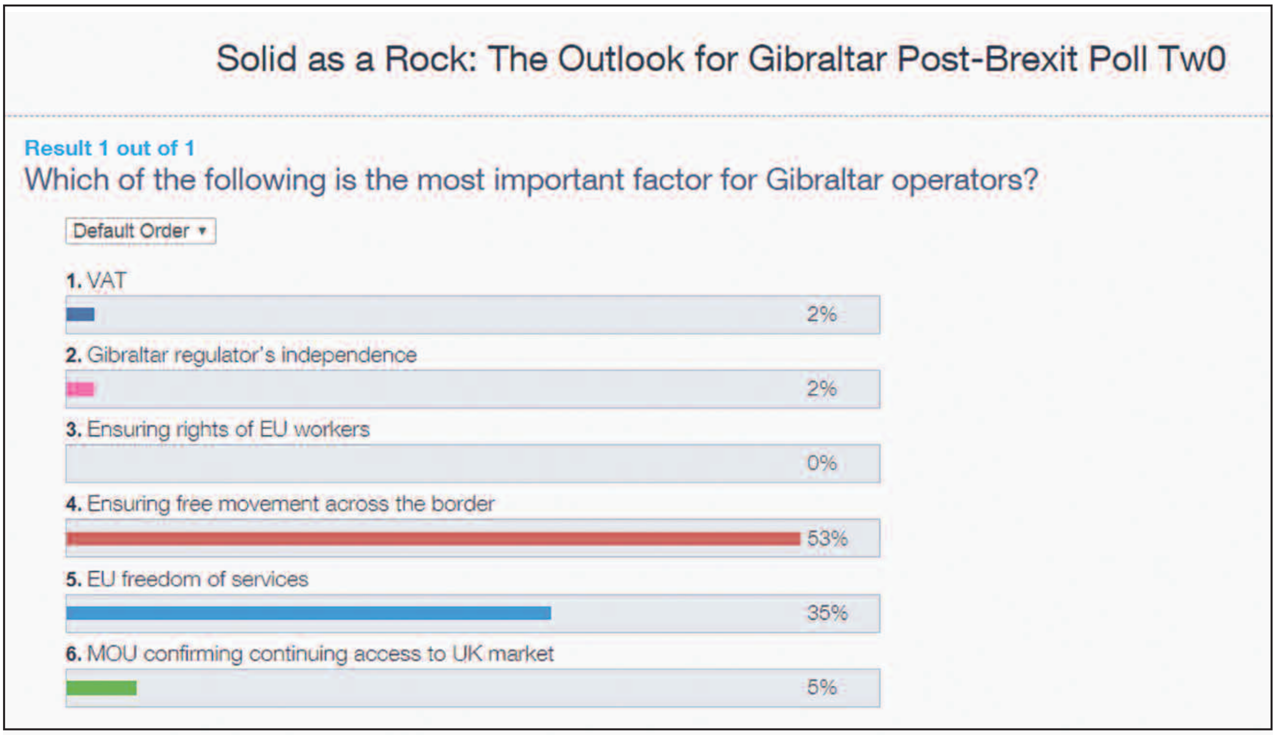
Jon Tricker: I agree with Peter that the chances have decreased. I take that view because of the dynamic - there's a divorce going on and you have one party in the EU which initially seemed pretty entrenched and does still seem quite entrenched. You have another party which has shown a willingness to compromise and a determination to compromise. Theresa May's leadership will be defined by Brexit and she has no choice other than to deliver a deal of some kind. It may well be that that deal is dictated to her by the EU and they have shown some compromise lately and I am sure understand the UK's position. From the point of view of the UK and a Conservative government, a deal has to be pushed through. Whether that deal is then put to the electorate or not, I suspect it probably will be, but time will tell.

Mark Essex: Thank you. I think the people who are trying to do a deal are trying to do a deal. My own nervousness about no deal comes from something happening in the ratification in the House of Commons or the European Parliament which I think is less predictable. I want to move now to some of that practical advice. Given what is going on in the economic environment, we have to react and plan for a range of possibilities. What is the most important aspect of the Brexit uncertainty for Gibraltar operators? Let's ask the audience which is the most important factor and we'll compare to what they thought last year.

Below: 2017 Results



Below: 2018 Results



It's clear that free movement across the border and access for services are the two joint winners there and I think we can show the results of last time so you can see how things have moved. Free movement across the border has similar levels of voting but freedom of services has become much more a concern since last time. Peter Montegriffo, what do you make of that, does that resonate with you?

Peter Montegriffo: Yes, it does, and I am not surprised by those results, they are very rational results. Firstly, as far the border is concerned, it remains the primary matter of interest and therefore is properly reflected in that high rate. I say "interest" rather than "concern" because one thing we've had over the last year is a reiteration from Spain and the UK of just how much significance they attach to the continued fluidity at the frontier. You've got to be very, very cynical not to believe that there is real political will on both sides to ensure the frontier continues to work properly. That is a huge reassurance and explains to a large extent why businesses actually remain very comfortable with developing and investing in a presence in Gibraltar.

With regard to the EU free movement of services, which features more highly this year, I think the way you explain that is that the other concern which is access to UK markets has also been very definitively settled in the course of the last 12 months. If there was any doubt 12 months ago about the UK's commitment to allow us guaranteed access to the UK markets - of course this is more relevant to financial services rather than gaming because we all knew we'd need to be licensed anyway – the confirmation that we are going to have a special relationship in gaming provided very strong reassurance on that front. That logically displaces that concern and you see that movement towards the other issue of continued access to the EU/EEA markets.

It's natural that the EEA will become a second area of concern because in an ideal world, of course, what we would like out of this is very simply a frontier that continues to work as it does now. It is already to some extent a "hard" frontier because we are not in Schengen. We already have customs controls, so the change for us may not be that dramatic. But the UK could negotiate for Gibraltar continued access into the EU and EEA, with everything that would import. And to be frank that would be an absolutely spectacular result for us.

Mark Essex: That was a comprehensive explanation of the results. Are there any decisions that a Gibraltar business can take today that look like good bets in almost all the scenarios, with "no regrets" decisions?

Jon Tricker: In terms of actions, if an operator does not already have an EU licence outside Gibraltar, it's probably a good idea to simply obtain a licence in a jurisdiction such as Malta, or Ireland, as a backstop position. That's something that can be sensibly and relatively easily done before the transition period is up or, indeed, before the deal is finalised.

Mark Essex: Peter Isola, any "no regrets" decisions?

Peter Isola: Our poll shows that the frontier is obviously a great concern to gaming companies. It is not an issue that's been put to bed by any means, but we can take comfort from the fact that we already have hard borders. It's not an Irish situation. We are already outside the EU effectively an external border but there are EU Directives that require that border to have fluidity. So we are protected as much today as we will be when we exit the EU by those Directives.

I agree that some of the issues of concern have been resolved therefore they've gone down in the ratings but we mustn't lose sight of the gaming operators' situation. They do have, for example, employees living on the other side of the frontier. The Spanish are becoming more and more effective in collecting their tax, there are issues there. The exchange rate has gone down. The high cost of renting in Gibraltar. There are a lot of soft issues which are of concern for gambling operators which are not listed there and which

we might have to deal with rather than looking for safe, easy bets. I'm not sure there are safe, easy bets at the moment but there is a need to take a pragmatic approach and to have a plan.

That plan is going to change from time to time but I do feel people should take comfort on the border not only from the EU Directives but also the economic benefit that Spain is getting from it. The latest figures are 13,000 cross-border registered workers coming into Gibraltar, many of them are Spaniards. It probably affects 60% of the gaming industry and every EU country is crossing that border to work in Gibraltar except Luxembourg for some reason. That certainly has an impact across the whole of the EU. We need to work on the soft factors in Gibraltar to make it easier; lower cost rentals and things like that. There are probably greater concerns for the gaming companies but we mustn't lose sight that the frontier is the biggest concern to anyone using it.

Mark Essex: I'd like now to contemplate whether there are some upsides from the referendum. I ask this, not just to be contrary in a room of people who might rather it hadn't happened, but also to force us to think about the economy, the challenges it faces and where opportunity may feature. Susan, are there any advantages or any opportunities for Gibraltar businesses?

Susan Breen: It's an interesting question and I am reminded of some comments that were made last week at the Commonwealth Heads of Government Conference about new trading blocs and new powerhouses emerging. Some views have been expressed that we need to improve and cement Commonwealth relationships going forward in the context of the Brexit vote.

A number of Commonwealth countries present suggested that the only way to deal with something of this nature, which is so fundamental and structurally important, is to plan for the future with pragmatism but equally, and perhaps more importantly, to plan with a renewed sense of creativity and with a view to diversifying trading relationships. I believe that there are lessons to be learned by Gibraltar operators, the Gibraltar Government and the Gambling Commission from those sentiments.

Brexit will challenge all to look beyond the coalitions of the EU to a wider global economy not simply as part of a contingency planning exercise. It's a question of diversifying and mitigating risk. Additionally, as the Chief Minister said there is some very welcome confirmation about access to the UK particularly for Gibraltar financial services and gaming businesses, but I don't think any business should rely entirely on the status quo remaining exactly as it is today.

Mark Essex: The two sectors in the UK that have done the most preparation for Brexit are our banks and pharmaceutical businesses. I think it is no coincidence that those are the two sectors whose regulator was pretty clear that doing nothing, and not having plans, was not going to be an option. So the role of the regulator in encouraging businesses to plan ahead is pretty important. Samantha, are there any differences in the approach to Brexit between financial services regulation and gaming regulation in Gibraltar, and to what extent do you think that is influencing behaviour?

Samantha Barrass: In financial services regulation, we have been very clear that banks and insurance companies and others that are utilising the freedom of services to passport their services into Europe need to be thinking about what potential outcomes there might be and planning for those.

Ultimately, and this is where we have been very aligned with the messaging coming out from the FCA and PRA, the decisions on contingency planning are for firms to make. Those that are significantly using freedom of services to passport into the EU and UK in Gibraltar are in the minority. We do have examples in the insurance sector where there is significant presence in the EU outside of the UK. We are keen to work with them to understand what their thoughts on Brexit are to receipts and the planning they need to do.

At the same time (and I have got a lot of sympathy for this position, because it's not quite clear what the outcome is going to be) some of the decisions they can take for contingency planning could be very impactful as far as their business model is concerned. If you have got an insurance company that wants to go through a portfolio transfer, that's very costly, it takes a lot of time and they might get to 30th March and it is completely unnecessary. I am deliberately not saying what they should do. The main thing that we are focusing on here, and it's very similar as I said to my counterparts in the UK, is to be assured that services are approaching this in a sensible way and certainly that has been my experience of the industry based in Gibraltar.

Mark Essex: Thank you. Does anyone want to raise a question from the floor?

Question: My question relates to the enforcement of the border. You can't run a business with people facing 2-3 hour queues to get in and out of work whilst they simultaneously can't afford to live in Gibraltar. To rely on our Government to address a multitude of issues rather than addressing the issue of Spanish enforcement of the border doesn't answer the concerns I feel that the room has relating to the frontier.

Peter Isola: The EU Directives require the free-flowing frontier. You can have many checks as you want as long as you have enough officers there to man that frontier. I don't want to understate the political issue but, at least at the legal level, we're on very strong grounds where we are to today. The reason why we had three or five hour queues of cars four years ago - and it's rare we have significantly lengthy queues today - is that they were resolved by EU Directives.

Also the EU has set up Frontex with 1,000 customs officers and police, who can go somewhere if it is particularly slow. A hundred of them are actually from Spain. So the EU has capacity, if there is a political will, to improve the flow of the frontier. Of course if a political issue arises, once the UK is outside the EU, it has less capacity to influence what happens at the frontier. But Spain today is not the Spain it was many years ago; it has moved on from being a fascist dictatorship to a mature democracy. So for the 13,000 registered workers, I think there would be issues today trying to slow them down.

"There are probably greater concerns for the gaming companies but we mustn't lose sight that the frontier is the biggest concern to anyone using it."

Another important factor is the huge drug problem in La Linea, and I don't think you should underestimate the cooperation between Gibraltar and Spain today at a police level or at a customs level. So I think there are practical matters, as well as EU Directives, that are keeping that frontier flowing. Of course things can change but, on the whole, I think we have reasons to be relatively comfortable.

Mark Essex: One other question is on the impact on Europe after Brexit rather than the impact on Gibraltar. Most people know that Brexit is about the British exit, they think it is entirely on how Britain will change. If we ever had influence on those other 27 nations, you have to assume that will change. Susan, where do you think the EU is going to go and where does that derive the greatest opportunity or risk to Gibraltar?

Susan Breen: One thought is that the EU could become increasingly over regulated, investor unfriendly and a very unwieldy bloc to deal with. That would have an impact on business and it would force us, or indeed create opportunities for the UK to pursue other trading relationships. The EU falling into disarray as a result of populist moves in Italy, Poland and the Baltics could also have a bearing on the political negotiations. Conversely, you could have a situation in which, rather inconceivably, the EU, as a 500 million trading bloc concludes better trade deals globally than the UK can achieve. It is very difficult to anticipate how relationships will develop. We must remain optimistic for common sense to prevail while planning for and looking at other opportunities for trade between the UK and rest of the world particularly those from which Gibraltar can also benefit.

Mark Essex: Jon, are there any upsides or threats in your mind for Gibraltar companies?

Jon Tricker: There are lot of "ifs" and "buts" in terms of what could happen to the EU. It depends on the final position with Brexit and it's not inconceivable that other countries look to have their own exit from the EU in a way similar to the UK, leading to a potentially more fragmented EU. I think it more likely you would have a reinvented EU where certain principles remain in place so there is still an alignment but with different flavours country by country.

In terms of upside, we haven't spoken about Gibraltar and the specifics for Gibraltar. I mentioned the political dynamics between the EU and Britain, and there's a very different political dynamic between Gibraltar and Spain. Spain has succeeded in getting the veto on the transition arrangements and the future deal that would apply to Gibraltar. But what's very clear is that Gibraltar does have a very clear position, and it will not depart from that position with regard to sovereignty. There is a very different negotiating dynamic going on between Spain and the UK/Gibraltar and that's already noticeable in terms of the points that are being discussed.

Gibraltar has a history of being in the right place at the right time and being lucky. Gibraltar might well find that what comes out of the agreement is good for Gibraltar. So agreement around the airport, for example, if that is the main concession desired by Spain, in my view it is most likely an acceptable concession to make which could improve the lives of people living in Gibraltar and using Gibraltar airport. There may well be other similar "concessions" which actually work in favour of both sides. We'll have to wait and see.

Mark Essex: I would love to debate this subject more but our time is up so it just leaves me to say an enormous thank you to our panel for sharing their thoughts on Brexit.

IMGL Masterclass The US Sports Betting Market

Richard Schuetz

Richard Schuetz's 45-year career in the gambling industry is remarkable in having taken in both four decades of experience as a casino operator and more recently several years as a regulator in California and Bermuda. He has held senior executive positions in numerous jurisdictions across the United States, including the gaming markets of Las Vegas, Atlantic City, Reno/Tahoe, Laughlin, Minnesota, Mississippi, and Louisiana, and has also taught and consulted around the globe. Richard's earliest days in the industry were characterised by the drive to remove organised crime from the sector and, as part of the IMGL Masterclass series, he delivered an entertaining address about the opportunities and challenges today in the US Sports Betting market.

Richard began by reflecting on his career which had its roots back to 1972: "before most of you were born". As a hard-up college student Richard began working at a casino, dealing dice and blackjack from 9pm to 5am before "sleeping through most of my studies." A career was born however which eventually led to a role as CEO of a casino operation before a move into a regulatory position. Along the way Richard worked in Atlantic City, Las Vegas and other gaming hotspots across the United States. This included a spell managing Stardust, a casino that had previously been in the ownership of organised criminals ("the mob").

"If you ever want to do anything interesting in your life then follow in the management of a casino that has been for the last 10 years run by the mob. It's quite an education. I did not have any college classes on that," he commented.

The activities of the mob proved to be a recurring theme in Richard's career from the FBI tape recordings with criminals he used for his PhD dissertation effort in Economics to shaping his thoughts as a regulator. "I had 35 years' experience before becoming a regulator and that was important," he said. "I always annoy American regulators when I have this discussion but I learned more about regulation being regulated than I did being a regulator. I am not suggesting everyone needs to go gambling, but you should have some people on that board with industry experience.

"When Stephen Crosby was appointed the Chairman of the Massachusetts Commission, he did a press conference the next day and he said he had never been in a casino in his life. Now this was the guy who was going to project faith in the industry so to speak. That fascinates me. What if they said the person in charge of medicine in Gibraltar was a great plumber? It just doesn't make sense."

Among Richard's many claims to fame is the oversight of the largest book in Las Vegas. "We had 11 payphones out on the wall and those were the 11 highest grossing revenue payphones in the United States," he said.

Moving on to his time in California, Richard pointed out that California is the largest gaming state in the US. "Most people don't know that. Nevada claims it is and it's not even close. California is a state of 40 million people, it has the sixth largest economy in the world. When I was working in Bermuda, I was talking with the Premier one time and I said you'd be the mayor of 147th largest city in California. Our Department of Justice had 1200 attorneys – we had 70,000 state employees. It's just a different scale. But I ended up being the Governor's consultant on iGaming and it was the kind of situation where, in the land of the blind, the one-eyed man is king. I was not an expert by any stretch of the imagination but they didn't have anyone else in the state interested or knowledgeable in gambling.

"I was also the Senate's consultant on iGaming, which is interesting again. This meant that with the Californian legal system I could draft a Bill and then go over as the Governor's consultant and draft the veto of that Bill."

Richard's time in California coincided with "essentially every iGaming company on the planet" being there. "And they did thing after thing after thing that was stupid and did not help their cause. So I tried to point out some of the mistakes they made moving into the US market, because the more knowledge and understanding you have, the better risk profiling you can do.

"They were getting some bad information by a really screwy press which is primarily driven by affiliates who have very much a vested interest in the outcome of these decisions as to how big the market was going to be, what was going to happen and stuff like that. They made some mistakes there and I'm trying to be of help, mostly because of Murphy's Law. Murphy's Law, of course, is anything that can go wrong, will."

Richard then ran through some of the historic US gambling regulation, beginning with the Professional and Amateur Sports Protection Act 1992 which gave power to the federal government over sports betting. This was supposedly done to protect the integrity of the sport rather than have it run by the mob.

He also highlighted the Federal Wager Wire Act of 1961. "This is terribly important because it was written to control the mob on the wires, mainly on horses but also on sports, and what it says is that you cannot transmit bets across state lines. You need to understand what that means if you're in the United States. You can be in this state and you will be landlocked. If you look at the opposition to the PASPA Supreme Court case, it was all the evangelical groups, church groups, and if you don't understand anything else about my old neighbour Donald Trump, you should understand that he is going to take care because that's his base. He will veto anything that comes out to change or take a position that's very contrary to the evangelicals.

US Regulatory Goals

- The owners, vendors, managers, employees and sources of finance should be free from any inappropriate past or present associations and behaviors, and uphold high ethical standards
- The casinos should possess sound operational and financial controls
- The games offered should be fair, honest, and operate with a high level of security and integrity
- All fees, taxes and related payments should be appropriately accounted for and paid
- There will be controls in place to protect the vulnerable

"The way it works in the United States is that every one of these states is a different entity. So you don't go to the United States, you go to Nevada, New Jersey, Pennsylvania, California and you're landlocked in that context. Each one of those states has a monopoly and a monopoly that's on regulation. I was fascinated when I went to ICE for the first time and I saw all these different booths for regulatory entities. If you go to California you have one choice: the Californian Gaming Commission. You cannot shop for regulators and that's really important to understand. I studied economics a lot. What are the characteristics of a monopoly? Are they really incentivised towards introducing new technology? Absolutely not. They were anti-innovative. Do they price low? No. Name a monopoly that prices low. And is their service excellent? Talk to anybody that has to buy a television service from one provider in the United States, how they would like to run over the CEO of that company. I know people will tell you we can change that, but they're lying."

Moving on to US regulatory goals, Richard talked about the US emphasis on suitability and the thoroughness of vetting procedures for owners, vendors, managers and employees, as well as the checks on sources of finance, that are required for licensing. "They go through your phone books, they take you apart and if you tell a lie, or there is a perception that you tell a lie, you're done. So if you are going to enter any state I would start investigating internally, through a third party, your people now because if any mistakes are found, they're going to trip you up and slow you down." The seriousness with which the US regulators approach this is down to the historic drive to rid gaming of organised crime through the mob, he said. "That may have gone away but we continue to hold on to these vestiges of by-gone eras. As regulators we are not very innovative."

Another important factor to consider is the equally enormous emphasis in the US on operational and financial controls, he said. "The reason for that is that one of the characteristics of casino and table gambling is that it's one of the only businesses in the world where you can do a $500 or $5,000 transaction and there is no receipt. Name another business that doesn't have a receipt. So that calls for very unique internal controls for debt and bank rolls. Which brings us back to suitability, because we found that if a person has lived his life in a very honest way that behaviour has a tendency to continue. If he has certain problems there is a higher probability that he's going to continue and so those two areas are a little new and more emphasized in the US versus European model."

With regards to the gaming being fair, honest and operating with the highest level of security, Richard said the European model seemed well ahead of the US. "I think what you guys do is quite brilliant," he said. Another regulatory goal in the US is that all taxes, fees and related payments should be appropriately accounted for and paid.

"This relates to skimming," said Richard who recounted a tale of the early days of the Stardust casino when it was run by the mob and undeclared money was thought to be taken out by briefcase. A police raid was arranged with the press invited to observe and film it, only to find the briefcase that day was filled with chocolate cookies as the mob had received a tip-off. "The mob guys ran very good casinos. They were extraordinarily smart but they were terrible accountants!" said Richard.

The last key goal is to ensure controls are in place to protect the vulnerable. "These are people under age, people that have pathologies with respect to gambling and you guys are really big on that one now," said Richard. "That's gone on steroids, especially in England."

Richard then ran through a guide for operators thinking of moving into the US sports market.

"You need to learn the rules of the game. Learn what the regulatory challenges are, learn that in the United States borders are of critical importance. If you go five metres outside that state, it could be a serious disciplinary matter.

"Play nice with the regulators. There are three groups that you will run into in the United States and they are a kind of modern parasitic experience. You have legislators, lobbyists and lawyers. They are regulatory parasites and you will have them. Everyone will tell you they've got the best lawyer in town, but they don't. Half of you will get an average lawyer and half of you will have worse than average. It's the same with the lobbyist. All those people who monetise the experience try and keep you away from the regulators - the regulators can't monetise that relationship because of the ethical rules - but the lawyers are out to get all your money and the lobbyists too.

"So try and be nice to the regulators. If you annoy them, they own you. And they can own you in a million ways. Things may go wrong with your application and you don't know why. There may be an investigation, where regulators need to go for a week and look at something, and you have to pay for that. They have a lot of decisions they can make with respect to your licence and if you really cause them a lot of grief, they will use them. And anybody who thinks they won't, does not understand human nature. If you have two customers to deal with and one is very pleasant and respectful and the other is demanding and treats you like you are a stupid bureaucrat, let me tell you who is going to move through that queue most efficiently.

"It's complicated too. I was hired by regulators in Kansas once to go through a financial evaluation of Harrahs, which is now Caesars. It had $24bn of debt at the time and, despite all the experience I had, it was close to impossible to go through all those financial statements.

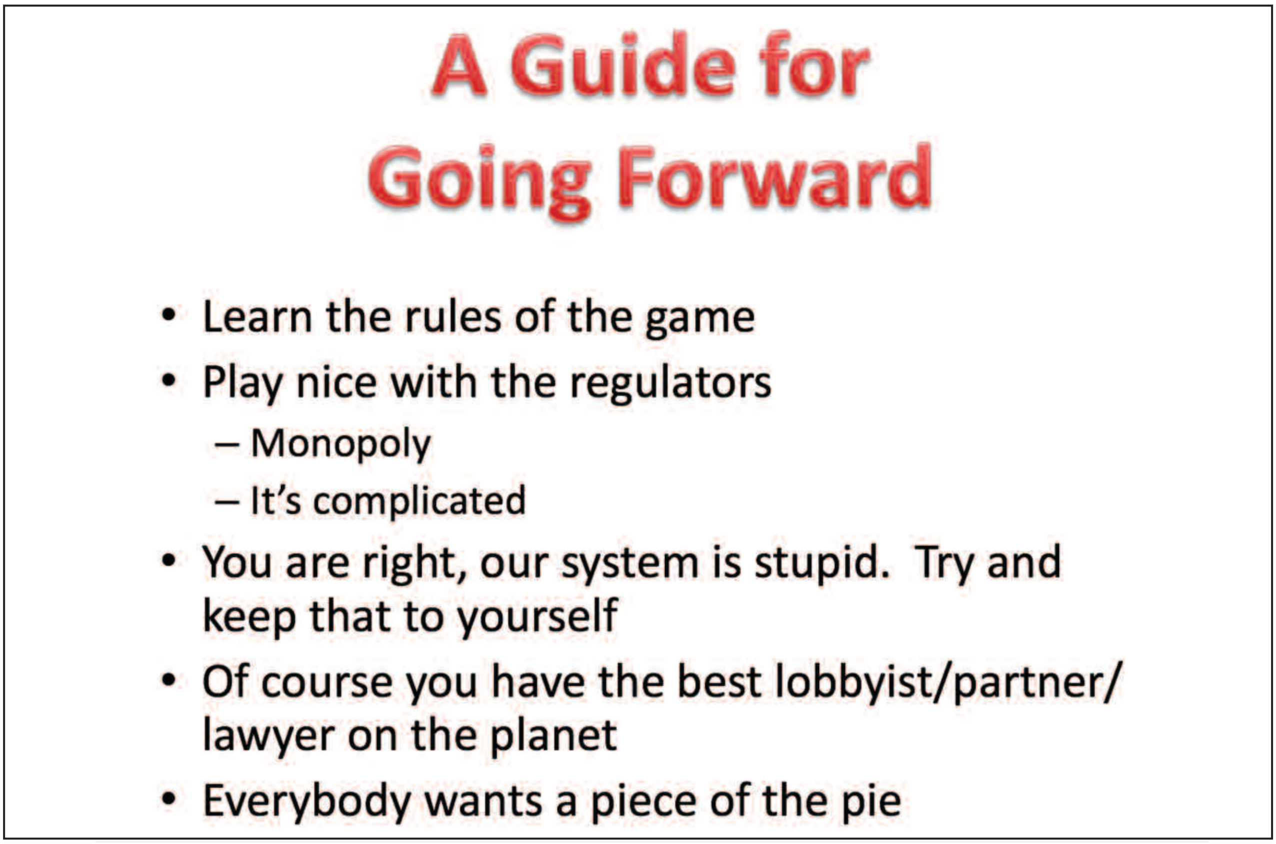
"Regulatory agencies don't have these huge budgets so they are not going to understand things and it is imperative you work with them to help them understand these things. Because if they don't understand, then you're going to get regulations that are drafted in fear and ignorance. So work with the regulators as much as you can because it is complicated.

"The US system is stupid. You're right, I've heard that a million times. Keep this to yourself – it doesn't advance your goals to talk about that.

"And be aware that everybody in sports wants pieces of the pie. They want to put a 1% integrity fee on handle. They don't know what that means. They want to control the data for each of the leagues and they will monetise that. The states want a piece, it goes on and on – there's a lot of people with their hands out, some of them have pretty high tax rates in some of the states. Everybody is in line to profit."

Richard summed up his assessment of the market by saying "it's a minefield out there. You can make money in that field if you know what you're doing, but watch your expectations because it destroys executives. If you have bad expectations and disappoint your shareholders, then you might find you've got to let the executives go," he warned.

"The more knowledge and understanding you have, the better risk profiling you can do."



Market View: The Gaming Sector

Simon French

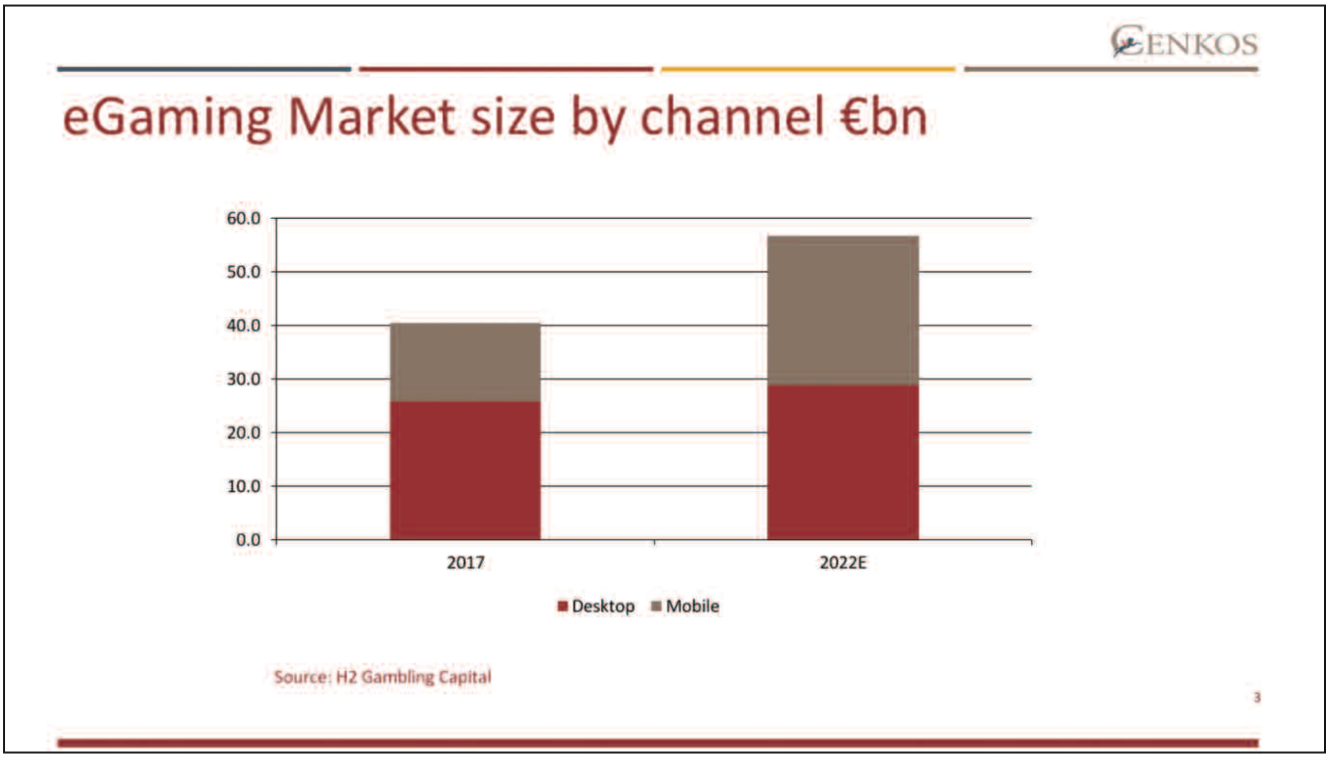
Cenkos Securities

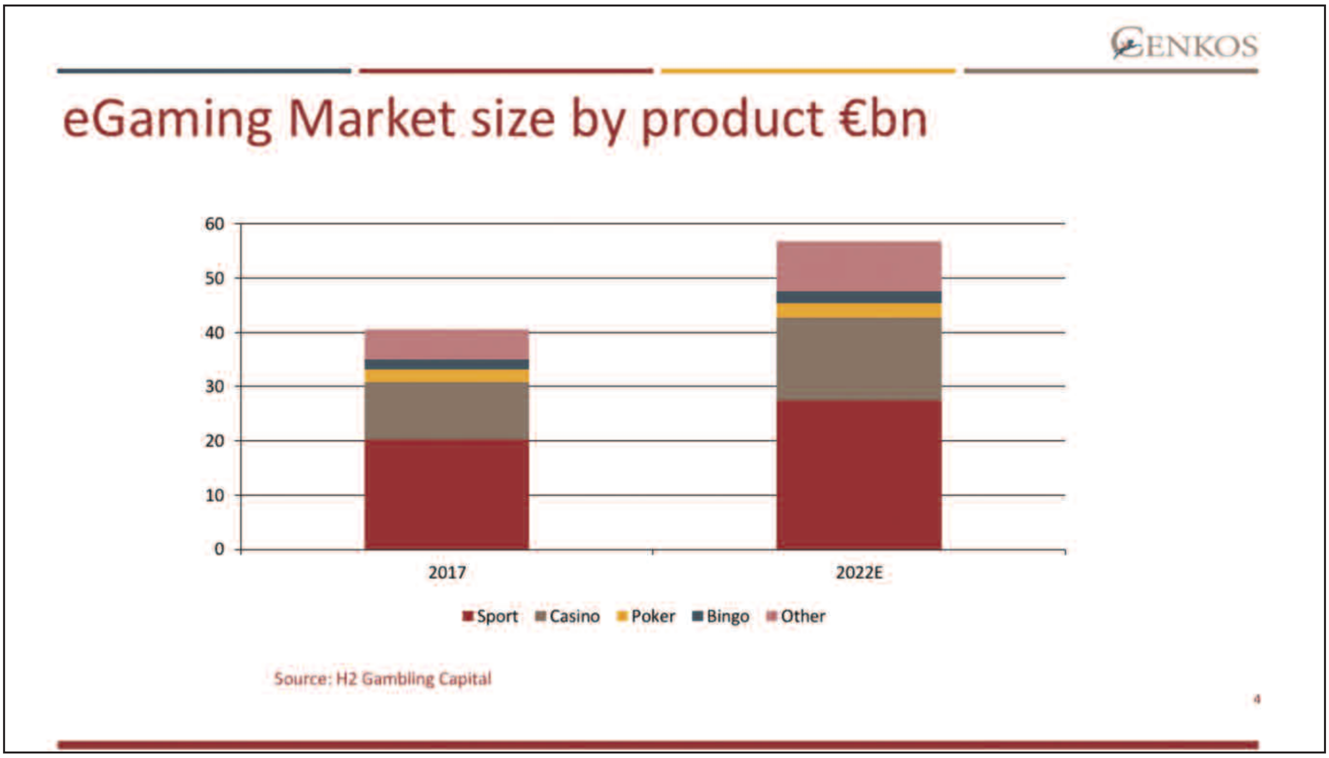
In an industry that continues to evolve at a fast pace amidst a changing regulatory landscape, the market never stays still for long. However, what looks a good deal today may look less attractive tomorrow and vice versa as illustrated by Simon French, Leisure analyst in the equity research team at Cenkos Securities, who gave delegates an illuminating overview of the market from an investor's point of view. Simon has covered the online gambling sector since 2005 when he worked on the IPOs of 888 Holdings and 32Red and has since advised a number of public companies including Ladbrokes, Sportech, Gaming Realms and GVC Holdings.

Normally when I'm speaking to institutional clients, I'm in the fortunate position of knowing more about the sector than they do but today I feel maybe the boot is on the other foot! What I can do today is provide a little bit of context about how the public markets currently view this sector and expand on some of the key themes that have already been discussed today. This will include market size and growth, regulatory and political risk, public market views and the US opportunity, ending up on M&A which really cuts through all of this.

"Without technological innovation or regulatory change, this is a sector that is fundamentally a GDP type industry and that gives us a clue as to why we are seeing so much M&A."

If you look at the market today, it's always worth reminding ourselves just what a big market it is and why it is so attractive to institutional investors. The market was over €40bns of revenue in 2017, having grown at a compound annual growth rate of 10% since 2011. At the moment, it is split roughly one third mobile to two thirds desktop. What's interesting is not only the forecast of strong growth out to 2022 but the market is going to be worth just short of €60bn growing at a rate of about 8% with mobile growing around 14% per annum and desktop around 2%. That 2% is certainly broadly in line with global GDP growth forecasts and that serves as a reminder to us that without technological innovation or regulatory change, this is a sector that is fundamentally a GDP type industry and that gives us a clue as to why we are seeing so much M&A.





Also on mobile, it was noticeable that in the Stars Group's presentations accompanying the announcement of the acquisition of Sky Betting & Gaming, they majored on mobile growth forecasts as the key driver behind the acquisition. Mobile will drive the industry forward and therefore be a key enabler of success over the next five years. Thus, in 2022, mobile is forecast to account for just under 50% of revenue in the market which is really unthinkable from where we were 10 years ago.

In terms of products, in 2017 sport accounted for 50% of the market or a revenue share of €20bn. Casino is just over a quarter of the market and the balance is split between poker, bingo and that other well-known product "other" which is predominantly state and commercial lotteries.

By 2022, this mix is forecast not to have changed materially but it suggests poker's share of the pie reducing marginally and casino's marginally increasing. Of course we are dealing with big numbers here and, if you look a little bit closer at the growth rate, the key thing is that sport is forecast to grow at just under 7% per annum and casino is forecast to grow at just over 8% per annum. It's these two products that will remain the powerhouses of the industry, and those who can excel and master cross-selling between them will be the winners over the next five years.

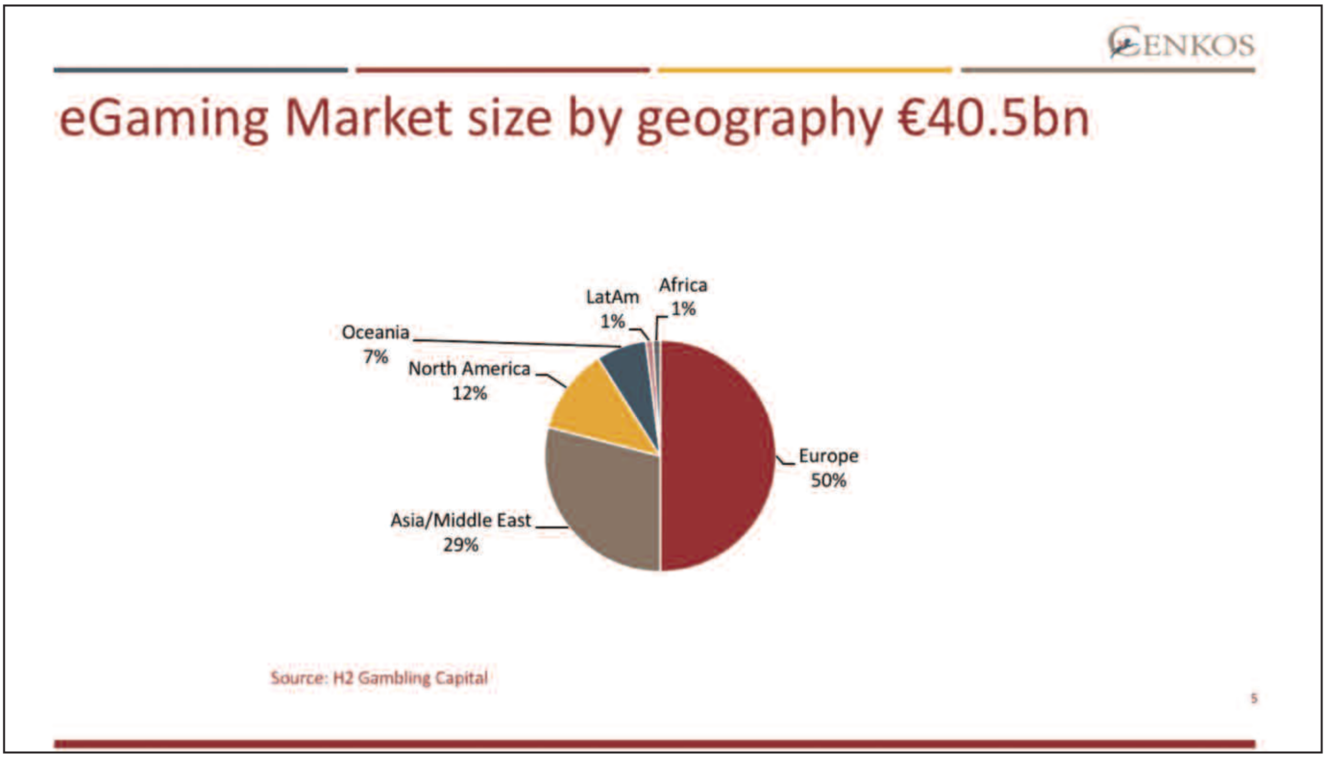
Finally, on the market, let's just remind ourselves of the geographic slant. North America has a 12% share, it will obviously increase dramatically over the medium term although maybe after Richard's presentation before lunch, not quite as quickly as some might hope. And it's the two smallest territories actually on that pie chart that I think offer the most excitement in terms of LatAM and Africa, there is significant growth potential and mobile driven and enabled.

If you look at the 50% European share, let's remember that it is the UK that is the powerhouse of the continent. That makes the regulatory and political risks I'll discuss over the next couple of slides even more concerning. In my own personal opinion, gambling - and particularly online gambling - is one of the few industries that the UK is genuinely world class and arguably a leader in. I am sure the UK Gambling Commission's intention is to support this leadership but there is a risk of it being undermined. That leadership is further at risk of being bought out by companies from North America who are acquiring UK brains to go with their US bricks.

So let's quickly have a look at that regulatory and political risk in more detail. From a stock market perspective, the core skill of investors is actually being able to accurately price risk and discount the likelihood of various events happening that could affect a company's ability to deliver on its business plan. Sadly, in gaming, this hasn't always been the case and we've seen that even this week; I'll come on to that shortly.

Regulatory and political risk, particularly for UK-facing companies, is heightening and it's starting at the very top with a deliberate change of approach from the UKGC. I was speaking at the Gambling Compliance conference last week

"The reason why investors do get so excited about this sector is the fact there is no truly dominant global player."



where I described the UKGC as a necessary evil and someone said why do you have the word necessary? That wasn't me who said that, just to be clear!

AML was a key topic at that conference in London last week and it was actually Ian Ince from Playtech who made a very valid point that it isn't the UKGC to fear in the industry but the NCA, the National Crime Agency, and I think that is something we have to be very aware of. There are huge amounts of money now changing hands and it's starting to attract the interest of a far wider range of regulatory authorities and therefore compliance becomes of heightened importance.

Taxation, we'll cover this in more detail shortly, but in essence the big risk is that the UK's relatively generous taxation framework is going to change, potentially quite quickly and potentially linked to what happens with fixed odds betting terminals (FOBT).

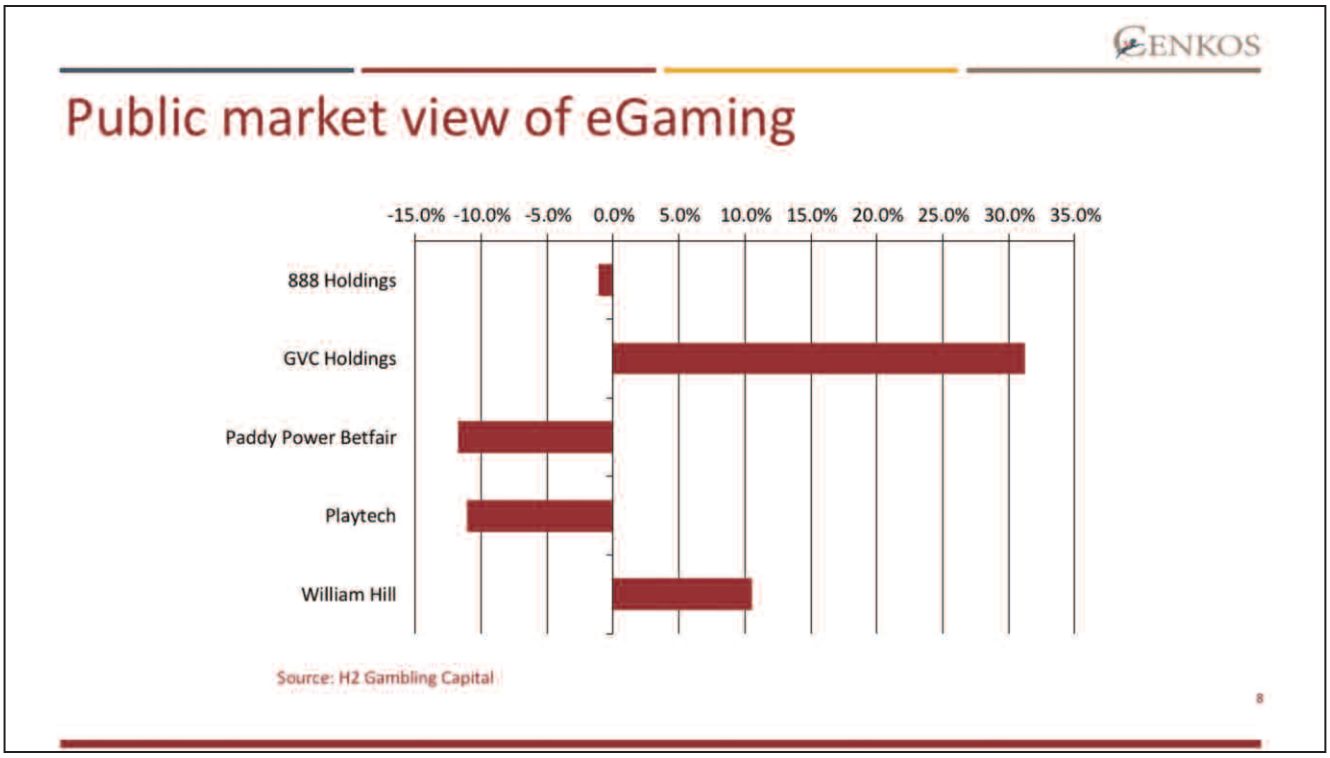
Advertising: for an industry that appears somewhat ironically addicted itself to it, it is perhaps a more significant medium term issue. Studies in Norway suggest some major negative impacts of advertising are likely to be undermining the resolve of addicts to quit while studies in Australia and the UK have shown that gambling advertising has a harmful impact on minors. If we roll that forward, to sports integrity, it was quite helpful that there was a big BBC expose on tennis that published its findings yesterday and that was effectively saying there is a tsunami of match fixing in non-elite tennis. Now this is worrying for a number of reasons, but given the importance of tennis to a number of companies operating in the sports betting arena, the fact that they are recommending the discontinuation of the score feeds for non-elite tennis could really be a big inhibitor to growth and it's not hard to see how that could be replicated across other sports. And clearly, as we heard from Richard Schuetz earlier, the US leagues are trying very hard to get what they view as their fair share of revenue by demanding an integrity fee from state regulators even if they are not exactly sure what they are going to do with it.

As regards Brexit, the speakers on the Brexit panel this morning did a far better job than I can do in articulating some of the major issues but, from my perspective, what is interesting when you're talking about pricing risk is that there is a complicit assumption by institutional investors that the solutions to these problems will automatically be found. That of course may prove to be too optimistic.

"Mobile will drive the industry forward and therefore be a key enabler of success over the next five years."

Moving on what public market investors really think of the sector. Now this chart is far too simplistic to do justice to the myriad of public market views on the sector. The chart is also completely wrong – my efforts to adhere to the organiser's preference for my slides to be submitted by the end of last week were somehow not taken into consideration by the journalist at The Times, who decided to splash on Tuesday a bit of an exclusive that the maximum stakes on FOBT were going to be reduced to £2 and that a deal has now been struck between the Department for Digital, Culture, Media and Sport (DCMS) and the Treasury that led to a fall rather than crash in share prices but means that, as I say, the data in this chart is completely wrong.

To give a sense of the impact that has, GVC has seen its share price gains over the last 12 months now reduced by



about a third to 22% , PaddyPower's losses have widened to 16% over the last 12 months, Playtech's to 15% and William Hill's 10% share price gain is now a 4% loss. So risk matters in this sector.

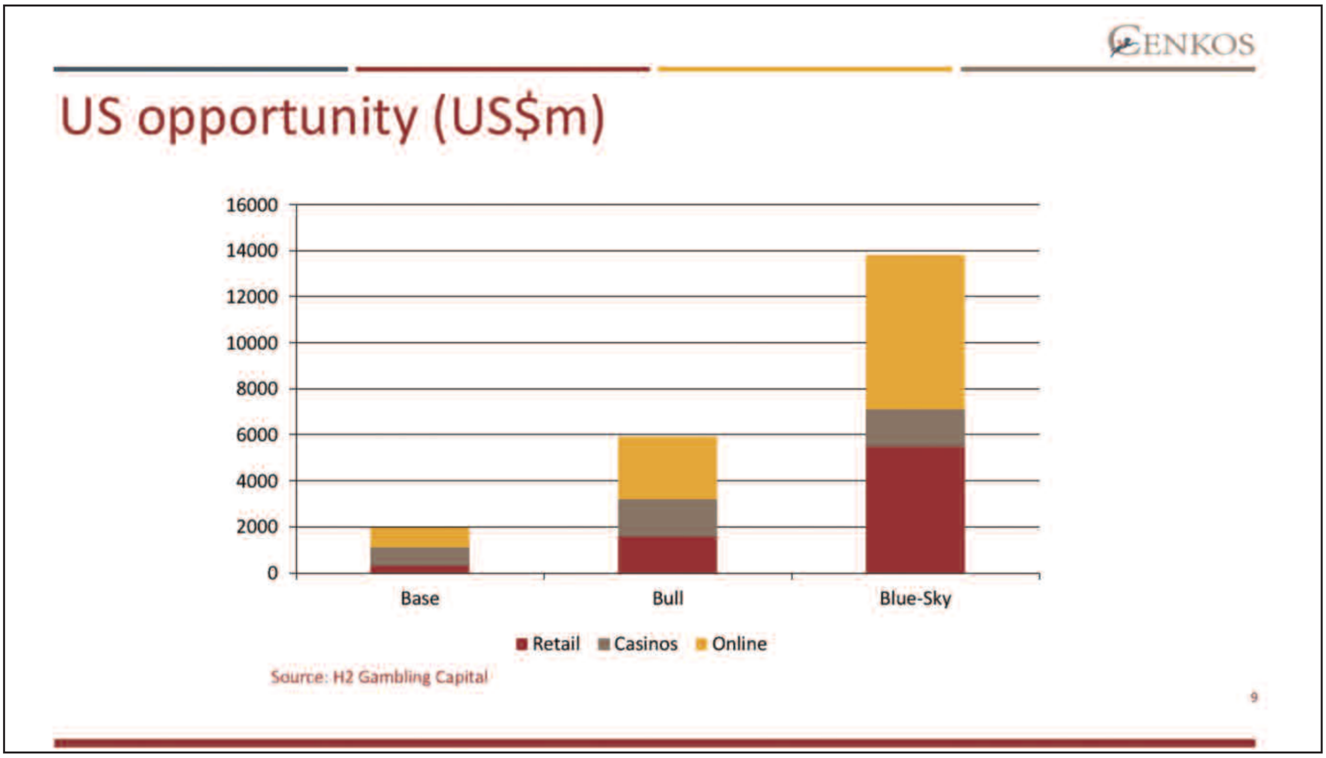
But if you look at the €40bn industry, the reason why investors do get so excited about this sector is the fact there is no truly dominant global player. 365's global market share is probably only 6%, PaddyPower is 4-5% and they are now joined by GVC and the enlarged Stars Group, assuming the SkyBet acquisition completes. This new big four has the potential to reshape the industry along the lines of the brewing industry. We published a note last year entitled MegaBet in which we compare the industry to the brewing industry of 15-20 years ago, where we had a large number of small players which consolidated down through a succession of M&A to a small number of large players. Similar to the brewing industry, the long tail of craft brewers will be replicated in the eGaming industry by a large number of niche operators with either geographic or product expertise.

Obviously a key question is why does such scale matter? This is neatly encapsulated in The Stars Group's conference call in which they indicated the enlarged group including its recent Australian acquisitions should achieve a pro forma EBITDA margin including synergies of 37%. That's against an industry average for quoted operators of 25%. So effectively a 50% higher margin. This matters because it means the larger operators can generate superior free cash flow and that is what investors, both debt and equity, are really interested in. With that free cash flow they can invest, pay coupons on debts and fund attractive dividends for equity holders. And The Stars Group believes it can de-lever at around 1xEBITDA per annum and when you level over five times debt to EBITDA, that is very reassuring.

"Sports and casino will remain the powerhouses of the industry."

So when I'm talking to institutional clients, along with M&A and regulatory and political risks, the other topic of interest and much debate is clearly the US opportunity. Being somewhat long in the tooth covering this industry, my initial response to these questions has been somewhat laissez-faire, given the number of false starts in this territory both pre and post the passing of UIGEA in 2006. It is fair to say now that the mood music is somewhat different this time. Data provided directly by Gambling Compliance shows a potential $14bn opportunity in the near term should there be a wholesale re-regulation/deregulation of the US market. That will not happen though in my view. The American Gaming Association estimates that $150bn is wagered illegally on sports and its internalising that spend that will focus the minds of state regulators. To achieve this a measured approach will likely be needed with casinos, racetracks and card rooms likely to be the dominant interface for customers seeking to wager legally.

How then can UK-listed operators benefit from this? Today the most success in the US has been achieved by William Hill, with Joe Asher and his team in Nevada creating a genuinely world-class offer with impressive levels of profitability. Tie ups in New Jersey have seen mixed level of success and Sportech's efforts to improve their online wagering in Connecticut have been stymied by offshore operators. The takeover of NYX by SG, or Scientific Games, was in essence the acquisition of Openbet taking them in one leap to the top of the tree in terms of

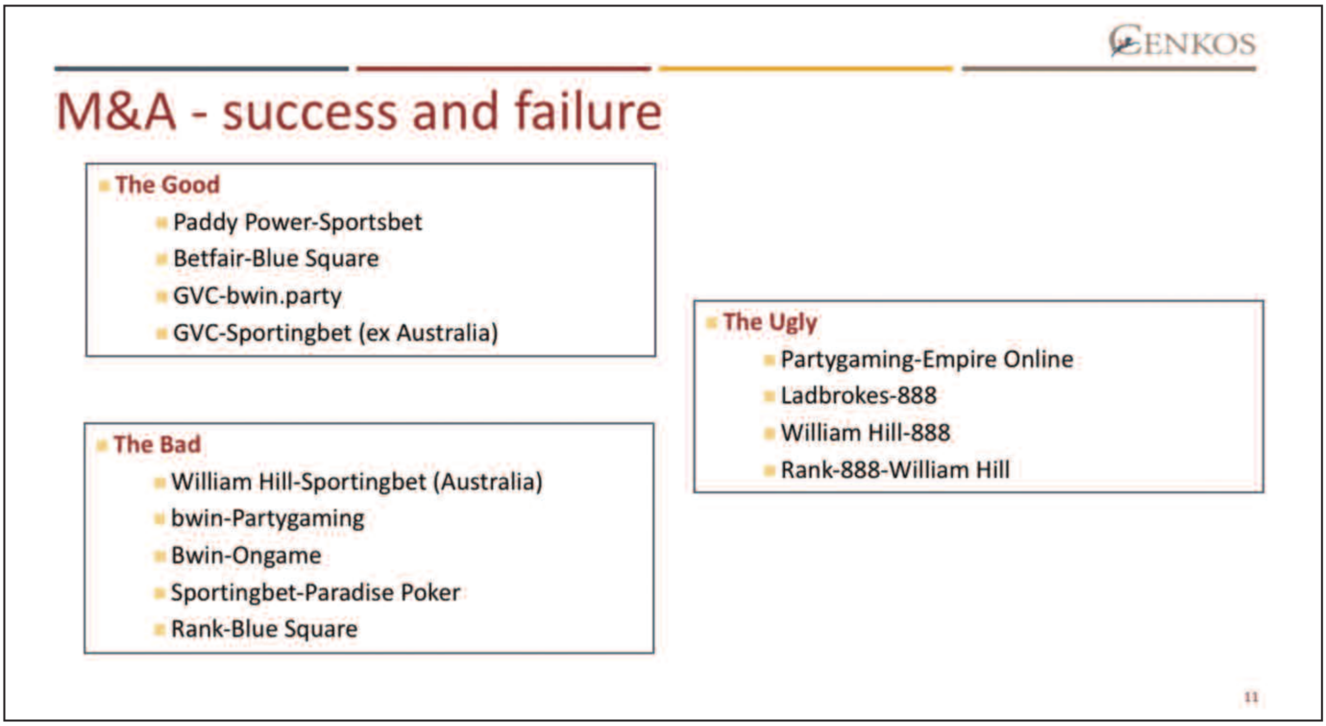


the B2B sports betting offering. Similarly, whilst not the reason for the acquisition of SkyBetting and Gaming, The Stars Group acknowledges that the enlarged group will be in a much better position to capitalise on the US, should it open up.

That leads neatly in to M&A. The slide here is actually a copy of the one I used at an Isle of Man eSummit 18 months ago and remains completely valid. The only difference now being the even greater availability of cheaper financing. For The Stars Group to be able to raise $6.9bn dollars of debt for an all-in cost of under 6% in a very short timeframe is nothing short of miraculous. Similarly GVC have been able get finance for the cash proportion of its Ladbrokes Coral acquisition for an all-in cost of under 4%.

Putting that to one side, why else has there been so much M&A and why do companies (and indeed investors) like to do deals?

To take the second question first, the list on the left hand side of the slide attempts to address a number of points as



to why companies undertake M&A. The key drivers in this industry, at this juncture for M&A, are to deliver cost synergies, accelerate earnings growth and reduce risk through diversification in terms of both products and geography.

Similarly, on the right hand side, I've already talked about the market growth and whilst it remains impressively forecast to grow at 7-8% per annum, that is significantly down on the 10% per annum that was achieved to date. It's also worth commenting that it is the lower-margin, regulated markets that are forecast to grow faster, thus increasing the need for further consolidation.

M&A success and failure - this is another slide that I had up at the Isle of Man looking at the deals have worked, those that haven't worked and those that never happened or perhaps wished they hadn't. From the slide 18 months ago I have removed PaddyPower/Betfair from the Good box and from the Ugly I have removed Amaya's takeover of Rational Games and I think that is quite instructive. Eighteen months on, what seemed a fantastic tie up between PaddyPower and Betfair is now the source of much speculation as to what has happened to the corporate capabilities that's seen the architects of those deals leave. And in terms of Amaya/Rational, the group has taken a huge bet, literally, in transforming themselves into probably the global leader in online sports betting and gaming.

I haven't yet formed a view on the more recent M&A activity in terms of Playtech's acquisition of Snaitech and GVC's acquisition of LadbrokesCoral and, of course, the aforementioned SBG takeover by The Stars Group but it's fair to say you could well end up with one of those in each of those boxes.

So how about a few that have happened in the past? I think Betfair's acquisition of Blue Square was fundamental to the group's explosive growth. It was a drop in the ocean at £5m but a strategic masterstroke which jump-started Betfair's sportsbook operations. Of course the flip side of that deal was it crystallised a huge loss for Rank which had acquired Blue Square for almost £65m some 10 years' earlier.

Another deal which saw differing fortunes was the carve-up of Sportingbet between William Hill and GVC. At the time it was widely assumed that Hill had pulled off a masterstroke finding a partner to take the bits of Sportingbet they didn't want and it could capture the jewel in the crown, the Australian business. However a business built on customers placing bets they wouldn't remember, on horses they couldn't see, using money they never dreamed of having, wasn't the most sustainable of foundations and eventually crystallised as a £385m write down when they sold the business to The Stars Group earlier this year.

GVC on the other hand turned a heavily loss-making business into profit and used it as a stepping stone to acquire bwin.party and then subsequently LadbrokesCoral.

The only one I'll highlight off the Ugly list is Partygaming-Empire Online. The others never actually happened, putting 888 at a slightly vulnerable position today when we talk about the benefits of scale and consolidating market.

Empire Online had floated in 2005 and was a skin of partypoker.com. You may remember all was fine until October 2005, a few months after Partygaming floated, when it blocked players on Empire (and other skins) from accessing its partypoker platform. Empire then threatened to sue Partygaming which then paid $250m to settle and acquire the Empire Poker site at the beginning of 2006 and followed that up post-UIGEA buying the company for just $40m. A lesson of what regulation can do.

Suffice to say this is a fast changing now, rather than fast growing market, and consolidation, whilst seemingly attractive isn't always so. But the pace towards additional consolidation is seemingly inevitable. Investors will be attracted regardless given the strong cash generation characteristics, assuming regulatory and political risk does not rise substantially from here.

I hope you've enjoyed that canter through our view of the market place and its dynamics. Thank you very much for listening.


Our
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Summit

M&A Activity in the Gambling and Betting Sector

Moderator: Simon French

Cenkos Securities

Panellists:

Steven Caetano
ISOLAS

Neil Davis
KPMG

Paul Richardson
Rank

Stephen Ketteley
Wiggin

Following on from Simon French's presentation on the current market view, in which he highlighted further consolidation and on-going M&A activity in the industry, there was much for this panel to reflect on. This included the motivations and challenges for operators and shareholders in clinching good deals, the impact of evolving regulation and the risks of operating in new territories.

"While regulations and taxation are certainly one driver for M&A activity I don't think they are a key driver. From where I sit here in Gibraltar, the main driver, from a very simplistic perspective, is market share."

Simon French began with asking how much M&A is determined by CEOs and their views on the marketplace as opposed to board strategy, and whether this meant there was the potential for behaviour to be influenced by short-term remuneration?

Stephen Ketteley: My view is that CEOs are much more focused on what they call their legacy rather than on their remuneration package. One of things that comes out when I'm tracking M&A activity is where in a CEO's incumbency they tend to do transformational deals, which is roughly at the beginning and the end. If there is a big push in the public markets, there might be a me-too - if someone else does one, they want to do the same thing - but I think it is more around their legacy and their market position than remuneration.

Paul Richardson: I would add that CEOs are hired by boards that tend to choose the person who they think is going to do the right thing for them. A CEO's job, before anything else, is to set strategy and execute it. And the board's job is to support him in any way it can. I am not so sure about what drives M&A in the short term but I think it is a sense of overall strategy tying in with what comes from the board in the first place.

Steven Caetano: CEOs are all characters in their own rights, they all have personalities, and the link between remuneration packages and growth is intrinsically linked. You've got to give value to your shareholders and to motivate your executive you have to have remuneration packages so at the end of the day one doesn't cancel out the other. Also some deals will be down to a chance meeting: a network lunch or at a bar, where two CEOs get talking to each other could be the genesis of market-changing M&A deal.

Neil Davies: The question suggests there is an element of vanity that drives M&A but there are so many stakeholders, so many observers having their say, that I think it would be quite difficult to be the sole driver. It's important to have strong non-execs to challenge why businesses are doing what they're doing. When we are advising people, we want to understand at the very beginning of the transaction what the point is and what's trying to be achieved so we can try and spot some bumps in the road. Generally we find in the industry that the people running it are clear on their strategies and are able to explain what they are.

Simon French: I talked in my earlier session about how, after two years, the PaddyPower/Bet Fair tie-up did not seem as attractive as everyone thought. When the architects of those who map the deal leave so soon after its completion, is there a risk that not only the good work in putting those two businesses together is undone but that also they were incentivised on delivering short-term integration rather than long term strategy? Should there be some form of deferred payment in M&A deals rather than judging the success or otherwise of the deal on short-term share price reaction?

Steven Caetano: I think it's a good point, something that some firms are looking at already, precisely to stop those things happening. But yes, I think it could work and stop losing the knowledge after the deal.

Paul Richardson: The dangers with front end investing, or back end investing, is you can end up only incentivising a certain thing. The key thing that happened at BetFair is that if you just do a deal on cost synergies, when you've run out of cost synergies then what? And that's currently where they are. So they are focusing on delivering the practical cost synergies, fantastic profitable growth and now what?

Simon French: I talked earlier on about regulation and how that has inspired M&A but does ever-increasing regulation potentially lead from slightly increased taxation to inhibit consolidation if certain markets start to become unsustainable or less profitable? I'm thinking here about the UK - one of the things we saw in the papers earlier this week was the allusion to a potential increase in point of consumption tax for gaming to offset loss of tax revenues from a reduced stake on FOBTs. Historically regulated, white markets, whatever you want to call them, have attracted a higher multiple but if they are going to be fundamentally less profitable does that make some M&A less attractive?

Steven Caetano: I think the question relates to more than M&A activity. While regulations and taxation are certainly one driver for M&A activity I don't think they are a key driver. From where I sit here in Gibraltar, the main driver, from a very simplistic perspective, is market share. Market share equals growth and then you have the cost of compliance - because you have acquired an interest in the market, you need to abide by the regulations. I really think it is the other way around. I think the driver of the whole thing is revenue and then, as a by-product of consolidation, you've got to face the regulation and taxation that comes afterwards.

Stephen Ketteley: There's a different strategy in consideration here. A few years back people were buying territories with the view that European regulators were offering the certainty that you just talked about. So, at the time, it was anything but uncertainty and unattractive markets where now, certainly in our advisory work, we've seen a flight back to more of a blend between regulated and unregulated markets. So I think that your questions presupposes that its territories that drive M&A, when there are a whole load of other reasons.

Just to pick up on one point from earlier: we are seeing more impact of regulation on the due diligence we undertake during M&A. If you did an acquisition of an operator a few years ago, you would have looked at the territories you were doing business with from a regulatory point of view, but you probably wouldn't have delved that deeply into their compliance processes. Now you really would. We see a lot of risks there to satisfy the regulator and also the way regulations are being crafted. For example, if you have a business that has a UK customer base and you bolt on another business with a UK customer base, lots of the social responsibility driven requirements in your licence conditions apply to your group, all of a sudden you find you may have a customer you can't trade with over there. I'm not sure necessarily that people buying companies are focusing on those potential downside risks as much as they are going to be going forward.

Neil Davies: If you go beyond this particular sector, the logic is that if you are successful and your share price is doing better, it's easier to do M&A. So you could say that the more these companies come under stress and under pressure, it gets harder to do meaty M&A. I think the one thing I would add is that diversification has helped this particular market to recover. One of the things that drives thought is that the UK is getting tougher and tougher, we need to diversify revenues.

Paul Richardson: We spend most of our time looking at regulations and tax in every market right now because you can only spend money once. If you get it wrong, for whatever reason, then you put your licence in jeopardy. It's not just gambling regulations; there is CMA and all these other things out there. So we do take things seriously, we spend far too much money on lawyers, trying to make sure that when we do take steps, we take a step in the right direction.

Simon French: Cost synergies have been an integral part of the deals that have been done so far in this sector but if you look at the amounts Playtech and Stars Group have alluded to delivering from cost synergies from their recent announced acquisitions of Snaitech and Sky Betting and Gaming, those synergy numbers are relatively small compared to what we've had before. There is a myriad of reasons for that, but it's very noticeable. Is the focus therefore shifting more to revenue synergies and the sharing of best practice - and what the two companies can do together in terms of driving the top line - rather than on costs?

Paul Richardson: You have always got to buy a business on the basis that one day cost savings will go away. The sum of the market has got to be greater than the whole revenue generation perspective. So the key thing you are looking at is customer base, you're looking at skill set, you're looking at market demographics and geographic markets, to build a portfolio that makes sense for the overall group strategy that the board has set. If you do it that way then the cost synergies are a short-term benefit but certainly not the be all and end all although they can probably last 18-24 months.

> "You have always got to buy a business on the basis that one day cost savings will go away."

Neil Davies: I think the emphasis is always going to be on these synergies. When you are talking about transactions, it's much easier talking about cost synergies than it is to talk about revenue synergies. There is also a blurring in my mind as to what is a revenue synergy and what is a cost synergy. So where you've got more routes to market or cross selling, that technically can be either a cost synergy or revenue synergy. It's the same if your marketing spend is more efficient, when for the same amount of marketing spend you get more bangs for your buck. That effectively is a revenue synergy but is also a cost synergy. And going back to

CEOs - CEOs, by way of nature, tend to focus more on revenue than the growth side of business when they are going coming together.

Steven Caetano: Some builds where you have two operators coming together, say Paddypower and Betfair, may be different to the Playtech side deal which is a B2B brand buying a B2C business. There are other long-term strategic reasons for that acquisition other than cost synergies so I think it is just more than costs.

Simon French: Steve you mentioned there Playtech effectively changing, evolving its business model completely from a predominantly B2B provider into a B2B/B2C model. Do you think the lines are going to become increasingly blurred around how business models work in this sector between what's a B2C company and what's a B2B provider? And trying to access markets like the US? To my mind, I can't see that the US would let European operators go there. Do you think companies will have to be a bit more flexible in how they operate and is that going to bring about more costs, more compliance?

Stephen Ketteley: I think in terms of skill set there is still that division, whether that is driven by perceptions from the market that B2B providers are worth more than B2C, they carry less risk and are further away from the risk. Over time, B2B providers - particularly the way in which the casino vendors have developed - their involvement with the transaction has got closer and closer to the operation and the operator themselves so there has been a blurring, certainly by the regulator of B2B and B2C. I'm not sure necessarily whether the market values B2B as being any less risky than B2C so some of the external pressures that may sustain that division have certainly been eroded. And you also see it the other way round, B2C businesses are saying I want to be a bit more master of my own destiny and own my own tech so they are now all competing with each other.

> "We are seeing more impact of regulation on the due diligence we undertake during M&A."

Steven Caetano: It's also maturity in terms of licensing, with B2B licences being around for so long. Now we have become accustomed to B2C. The regulation that applied to B2Bs before was slightly lower whereas now it is pretty much the same; it's pretty obvious there's going to be a blurring. We probably won't know just yet whether a particular operator has a full solution. Like you said before Simon in your presentation, it's going to end up like the brewery sector where you have huge groups which have massed together and you've got niche suppliers.

Simon French: In terms of the US, we've already got Paddy Power, Betfair and GVC and NYX which may turn out to be a very well-crafted and timely acquisition. William Hill has got its sportsbooks in Nevada and obviously you have got other game publishers, providers and operators of various types in New Jersey. I think the supposition is that US companies will eyeball UK companies. Flipping that on its head, can you see UK companies looking to buy more US assets? Can you see any UK companies looking to land-based casinos in the United States?

Paul Richardson: It's a really difficult market to enter without lots of money. If you look at the US land-based market, it's in the multiple billions in terms of market size. For a UK company to go and take that step I just can't see us having scale or skill set to do it so the short answer is almost certainly not.

Stephen Ketteley: When casinos were regulated, when the whole industry regulated apart from New Jersey, a number of these acquisitions were where US buyers were buying European skills and technology. That's going to happen again. I think that it is a very easy strategy for the Americans to come and buy the skill set they don't have but I am not sure necessarily a European route into the US would be viable.

Neil Davies: We don't see any evidence that UK operators want to go big in the US. I think they all think they can get what they need to do with individual joint venture arrangements or some sort of bid. If they really do want to invest in the US, I think they will do it on some level rather than actually go and buy something.

> "You could say that the more companies come under stress and under pressure, it gets harder to do meaty M&A."

Stephen Ketteley: When those deals were happening, you'd have the US operators look at these businesses and risks would be valued on their current revenues, many of which are coming from jurisdictions that the US acquirers weren't interested in. Some of those proposals didn't work because of the huge differentiation in value between someone who is doing business and is willing to sell it at and someone who is willing to buy it. Things have moved on it a bit with the way the New Jersey regulator has come out and endorsed grey market strategies of sorts and so I think some of the impediments to those deals that existed five or six years ago in casino may have gone. I think it is just easier.

Simon French: So if the US outcome is to some extent pre-determined or pre-ordained, where are the other territories that UK operators should be looking at, should they be looking to get more aggressively into Africa? How to you crack the conundrum that is South East Asia?

Stephen Ketteley: You definitely see more joint venture opportunities in jurisdictions, obviously GVC went to Russia. There are some other large Latin American jurisdictions where there may be licensing opportunities of sorts, and maybe these larger operators who have the clout behind

them, who have the contacts and a number of stakeholders who also have influence, could find that those are an opportunity. But that would be for a small number of larger players rather than for market share.

Paul Richardson: One of the key problems in those markets, certainly in Africa, is how do you get the money out and how, as a responsible operator, do you satisfy yourself that people are playing legally? These are two issues which make life challenging right now, certainly for Africa, and you will probably see the more established operators move very slowly into those markets. South America is offering a lot of potential right now – there are licensed regimes coming through. Colombia is a proper multi-channel market in which you have got retail, casino, and that's exactly what we are hoping for. But, again, as with all these markets, getting your money in and your money out and not putting your home licences into jeopardy has to be factored into that before you can go and play.

"One of the key problems in those markets, certainly in Africa, is how do you get the money out and how, as a responsible operator, do you satisfy yourself that people are playing legally?"

"The US is a really difficult market to enter without lots of money."

Simon French: Finally, there has been an absence of the private operators participating in this M&A frenzy. We referenced Gamesys earlier on and obviously 365, their near neighbours in Stoke, BetFred up in Manchester - do they not have the ambition, do they not have the capital? Where do their roles end up in all of this? As a smaller private operator, do they just get beaten away, or could you see a scenario where they actually do start to try and do deals?

Stephen Caetano: Private operators don't suffer the same restrictions; they are not hampered like the rest of the operators are. It's also possible that the expectations of shareholders are different, therefore there is less pressure on the executives to announce deals and please the shareholders. It could be as simple as that.

Neil Davies: I think each one is slightly different. It is all around what the current stakeholders are looking to achieve, what their time horizon is. The logic for them doing M&A is exactly the same as the logic for other companies doing M&A: it's the same principles, the same synergies. But their motivation is often very different in terms of the market.

Treating Gambling Disorders in a Virtual World

Presentation by Hilary Stewart-Jones

HSJ Consult

Dion Croom

HABET

Peter Greenhill

HABET

In this session, the audience was first shown a video introducing them to HABET, a new virtual world approach to treating gambling disorders which, through the use of avatars, allows sufferers to access information, support and treatment totally anonymously. The creators of HABET, Creative 3D Web Plc, are currently in discussion with regulators and the health service in the Isle of Man to undertake a research project assessing the provision of treatment within an online environment, something which may offer gaming operators a simple and effective way of helping those experiencing problem play issues.

Hilary Stewart-Jones began by remarking that she didn't suppose there was anybody in the room or involved in the industry who wasn't "really cognisant" of corporate social responsibility now. "It is embedded so heavily within the licensing regulations that we have to adhere to as operators in the industry," she said. As well as pressure from the Gambling Commission in the UK, some have attributed the focus on problem gambling as a response to very negative media, she said, "including newspapers such as The Times who have had the gambling industry in their sights for quite some time." Helping people with problem gambling is not just the right and humane thing to do, she added, it is also financially expedient because those who are getting it wrong are facing quite staggering fines in the UK.

> "Nobody now, apart from those operators that are still possibly in unregulated environments, has not started to take this matter extremely seriously and embed in their systems ways in which customers can be helped."

Referring to the HABET video shown, she was interested to hear the word addiction being used.

"I think part of the problem that the industry has had is that, like a lot of things in the 21st Century, addiction is a hyperbole that is quite often over-used. Terms are used interchangeably and there's not really very much evidence or research from a social science perspective as to what actually comprises addiction. Quite often the research that has been done has been low grade, poor value, conducted by the industry itself or funded by the industry which again has pejorative connotations."

The problem was compounded, Hilary said, because the neural pathology found in gambling addiction quite often has overlaps with other addictions. "So if you are only treating one part, or one element, of those addictions you're going to fail in gambling addiction as well." Addiction is at one end of the continuum and there are other disorders along the way that could flag a potential addiction issue. But not all forms of excessive play actually add up to addiction and can be treated in that way.

"HABET was born out of looking at addiction not from the gambling industry point of view but from sufferer's viewpoint."

"The industry has made great strides to improve its game," she said. "Nobody now, apart from those operators that are still possibly in unregulated environments, has not started to take this matter extremely seriously and embed in their systems ways in which customers can be helped. The problem is that how do you lead people down a path they don't want to go? At the end of the day, gambling is a lawful activity; you can't pillory operators for supplying that activity that is lawfully supplied and is taxed by Governments."

There is also the fact that when people are in an artificial environment, they often don't want to read safety messages. "There is nobody in this room that hasn't by-passed a security message quickly because you want to get online and do something," she said. So to a degree, social responsible messaging is going out to people who don't want to see the message, she added. "They want to bypass it quickly and get on with what they want to do which is to gamble."

While much had been made of algorithmic social responsibility programmes that look at patterns of spending they do not necessarily identify behavioural for harm spending and they don't tend to be bespoke until a player ends up on a critical watchlist. This means that people may not avail themselves of the tools that can assist them. What is interesting with HABET, she said, is that this is a product that can address all the potential issues in the online gaming environment where people were resistant to the messages being provided to them. It could also help a large number of people whereas existing social responsibility charities and organisations providing help for problem gamblers were unable to treat people in volume – and it offered a way of undertaking the research needed in the field. Hilary then invited Dion Croom to explain more about the HABET project.

Dion: HABET was born out of looking at addiction not from the gambling industry point of view but from sufferer's viewpoint. When you look at one of the key elements of a person who has gambling addiction disorder, they will not tell their best friend, it's something they suffer in silence. For instance, Peter may know my wife and my children so if I have a £2,000 a week fix, he's the last person I am going to tell. I'm not going to tell him because he knows my wife and he knows my family situation so people who suffer from this suffer alone.

Looking at various research that has come out from Canada, we find that addiction itself is environmental. So we deal with the environment that surrounds the person addicted and begin to make them responsible for what I call their addiction healthcare. HABET is an immersive virtual reality 3D environment: we're talking about using technology. So if someone suffers and suffers alone what if you put them in an environment where they're in control. I'm not talking about VR, I'm talking about a browser-based technology where they can walk into an environment and be anonymous. So that's how we look to address it: by giving support in the environment, by bringing the stakeholders and bringing the information into the environment where they are able to walkthrough and interact with is far better for getting the data out of them on what they need.

Hilary: Another feature which is interesting to me is that it is not an all or nothing approach. People can go into the environment and take just that little bit of information that they personally need. They can also do things like attend seminars. There are ways people can be drawn into finding out certain types of information.

Peter: There may be other people who have got a real concern, friends or wives of people who they suspect to have a problem. They can go into this environment, again anonymously, find out more about it and help from that perspective.

Hilary: I think the one thing that the industry is terrified of is the friends and family class action. For the family suffering from the impact, nothing is done quickly enough. I think the world has moved on and operators now get this is something they don't just have to pay lip service to. You are asking them to do something that is ultimately the right thing to do but it is still counter-intuitive because, at the end of the day, stopping people gambling impacts bottom line. Peter, do you still see today a commercial reluctance, deep within the cultures of certain operators, that they would not be sure to take all that is available to try and help the players?

Peter: I think there is a difference between certain levels of operators and support services within the industry. I have spoken to some of those key members of the industry who certainly do recognise such problems. And they are serious about contributing in a meaningful way to addressing them. I do feel there is still a large number of people who are paying lip service at the moment, who are putting something like "don't bet too much" on their website, for example. They are not yet along our path. I think our key operators will lead the way forward and I think we will see others follow on.

Hilary: In terms of other products that are out there, we talked in terms of embedding responsible gaming messages in games. Part of our technical standards requires people to develop games that are not overly addictive, whatever that means, and also embedding messages that are largely ignored by people. Do you see any other product on the marketplace that can offer the same range of what you are aiming to do?

Dion: No, there isn't. We recently had a very interesting meeting with GamCare. One of the things I discovered is that last year they reached only about 8,000 people directly for support. That's a matter of staffing and other things but they also only reached around 30,000 by their phone lines. With a product like HABET we can multiply numbers by ten or twenty in the virtual environment. We can create a classroom environment or theatre environment on a mountain top where one counsellor can deal with a hundred people, two hundred people at the same time. HABET has its own chat and VOIP system, and all of that is maintained and monitored in environment so here again we can reach more people. That's what is missing, how do you get support to a large number of people? You can only do it in a virtual environment by using avatars and we haven't seen another product yet.

Hilary: I think not only that but you are creating a product that will obviously have appeal to people who are digitally savvy. The users come from an online environment so they are going to be more comfortable going through an online environment rather than picking up a phone and talking to someone. In terms of the actual product and the logistics of what you are expecting, do you think that sufficient counsellors can be sourced in order to meet what might be lots of people availing themselves, even in curiosity, of seeing what's available?

Peter: This is a problem that is world-wide, let's be clear about that. Some numbers from the UK at the moment suggest there are in the region of 600,000 people who have some form of disorder or some issue. When you are dealing with that number of people, trying to get in touch is a massive problem and can't really be addressed at the moment. Talking to GamCare this week, their staff are dealing on a non-anonymous basis so they are having to talk one to one. That's taking an awful lot of their time and is difficult to spread out. Our system allows one person to talk to very many and to do that completely anonymously. It also allows for the training of new counsellors using this system and providing the industry with more training, that should really help.

"You are creating a product that will obviously have appeal to people who are digitally savvy. The users come from an online environment so they are going to be more comfortable going through an online environment rather than picking up a phone and talking to someone."

Hilary: I would imagine HABET will be of interest to regulators as well. Has there been interest, have you managed to pique interest in terms of the product becoming standard or even compulsory?

Dion: It has been highly encouraging talking with regulators on the Isle of Man. At first I wasn't quite sure how we were being seen but they said what they liked most about the product is that we are completely neutral in this space. We are not an operator, we are not a gambling company; we're interested in coming here with software that we believe will make a difference. With this system you can set up individual environments for each company to use the technology for their own internal training and such like. We've got very exciting responses from regulators and we would like to speak to more.

Hilary: I'm assuming this business model will be free for the end user?

Dion: Yes, it will.

Hilary: You don't want anything else discouraging them from using it. Peter have you gone out there speaking to operators, suppliers, people that would be interested in offering it, even on a B2B basis, to their customers?

Peter: Absolutely and we have widened this to all the stakeholders that we actually need to move this issue forwards. So it needs to be regulators, operators, definitely suppliers to the industry as well.

Hilary: And health service providers?

Peter: Yes health services as well. I have a dialogue going with the Head of National Health in this area within the Isle of Man and the interesting things coming back from there is it isn't just gambling addiction that they want to resolve, it's gaming as well. So kids as who are on gaming systems and having problems, and other forms of addiction too. Something like this, that people can work with in an easy fashion because it is online and people are used to that, it's a massively good opportunity.

Hilary: There's also all the data from the research, the building of common themes and common understandings about what the neural triggers are that allow someone to safely play excessively and then addictively play excessively.

Peter: We certainly see a difference the way things were a few years ago. The key operators and key suppliers want to move something forward now.

Hilary: Yes, we've all been witness to the very ineffective messages, particularly in the bricks and mortar environment where they are bound to be overridden and ignored and people quite often insulted as well in some instances. So Dion if I come to you today as an operator and I want this product, is it something I can embed? Is it ready to go and how do you proceed from here?

Dion: We have a research document about using virtual world technologies in this space for the industry to download from our website HABETonline.com. We want operators to give us their input. This is not us telling you what you should do with it. We need that input back from you to help to modify and grow the system. We've already got support coming from the regulators in the Isle of Man and others so we'd like now to interact with the industry. We want you to tell us what you need. We've already paid the initial price of building it, we now need your support in scaling it up and getting it out there.

Hilary: And embedding it. So let's have a look at our poll question now. Following recent UK Gambling Commission fines, what is your opinion now regarding Social Responsibility regulation?

27% of the audience think more regulation is needed but the vast majority of 77% believe that the industry should work together with the regulators and health services on this issue. I think that's probably the right result given that there are so many things we don't know. That's why we need non-industry funded research.

Dion: We need your input so please go to www.habetonline.com. Register for the free document to see how you can get involved. But do get involved, because we need to make a difference from the industry down, dealing directly with these sufferers and their habit. Thank you very much for your time.

"We need input from operators to help us modify and grow the system."

Protecting Vulnerable Customers

Moderator: Adam Rivers

Panellists:

Nathan Beaver
KPMG

Emma Hunter
KPMG

Marc Etches
GambleAware

Paul Foster
Ladbrokes Coral

Social responsibility, and in particular protecting vulnerable customers, continues to be a key focus for the eGaming industry with operators coming under ever more scrutiny regarding their approach to identifying and dealing with players showing signs of problem gambling behaviours. Adam Rivers, from KPMG's economics team in London, led this panel of cross-industry experts as they examined the issues and challenges ahead.

Adam began by introducing his panel starting with Nathan Beaver, Partner in KPMG's Customer & Digital practice based in London who was instrumental in setting up NOSES (now Gamstop), Emma Hunter, director at KPMG specialising in financial crime, Marc Etches, CEO of GambleAware and Paul Foster, director of regulatory compliance at Ladbrokes Coral.

Commenting that in the previous session Hilary Stewart-Jones had spoken about how vulnerability, problem gambling and social responsibility were the hot topics right now in this sector, he said: "You don't have to look far to find a regulator who cares about it. You've got the UK Gambling Commission (UKGC) with its four-year strategy very heavily focused on consumers. You have guidance from the Advertising Standards Authority (ASA) about how betting and gaming companies advertise to your customers. Only a couple of weeks ago the Responsible Gambling Strategy Board (RGSB) published a new guidance note for operators in terms of how they should be doing more in relation to social responsibility, with some rather pressing recommendations to the UKGC in terms of what to do if the industry doesn't take action. These include some potentially severe measures, such as regulating game design and so on. This is all in addition to the consumer enforcement work that has been on-going at the Competitions and Market Authority (CMA).

"At KPMG, we recently met the UKGC to discuss these issues as well as our experience in vulnerability more broadly in other regulated sectors. We had senior team members across our business speaking about vulnerability and financial services, specifically on industry products such as low cost credit, and our views on how the Financial Conduct Authority has gone about its approach regulation. It was very clear that the UKGC sees the FCA as regulator it would like to emulate in the longer term.

However, that's enough from me; with such a good panel it's important we make the most of them. So, I'll start off with what you might think is a fairly straightforward question and that is, what is a vulnerable customer? And given he is the only operator here, I'm going to start with Paul Foster."

Paul Foster: From my point of view, from the organisation and the people I talk to, a vulnerable customer is somebody who is tempted to step outside their comfort zone when they are playing. It's somebody who lets temptation taken them a step further than the normal person would do. How do you define normal in this industry? You just can't, that's part of the problem. So the definition of a vulnerable customer is very difficult and what you have to look at is the behaviours of that customer. If somebody is showing signs of behavioural change over and above the way they normally play, not necessarily how everybody would play.

Marc Etches: The industry needs to think more broadly about this whole issue. Inevitably the industry rather focuses on problem gamblers and problem play. I would say that the industry just needs to take a step back and think about how to make it a safer environment for everyone. One of the issues around the concept of responsible gambling is that it puts the emphasis on the player themselves, whereas the idea of safer gambling actually puts everything into play. So who's a vulnerable player? It is really, really hard for the industry alone to identify this person, because you don't know what's going on in their lives elsewhere, they could be vulnerable in all sorts of ways. The thing about problem gambling is that gambling can be a cause of their problems in life but very often it's also a symptom of other things going on in their lives.

Rightly, GambleAware challenges the industry and what they do. However, gambling-related harm is a public health issue, and it is important to recognise that the state has a significant part to play in all this. One has to take much more of a holistic view and recognise that "vulnerable" comes in all shapes and sizes. But in terms of what the industry should do, it is to make their businesses safer, create a safe environment for everyone, because at the end of the day you want a sustainable business with loyal customers. It's also understanding what your players ordinarily do, and as has been said, it's being able to identify when that behaviour starts to change, or if someone arrives with what you can recognise as poor play, or behaviour that you think that ordinarily wouldn't be sustainable.

Adam Rivers: So we've got vulnerability in the form of problem playing, we've got vulnerability in the form of those factors that you can observe when a player signs up but there are a number of habits you simply cannot tell in the first instance.

Nathan Beaver: What can we learn from financial services on vulnerability? The FCA defines a vulnerable customer as one who due to their personal circumstances is especially susceptible to detriment, particularly when a firm is not acting with an appropriate level of care. So the question is where does the duty of care lie and who owns the duty of care on the player? How are the roles of all the stakeholders, whether it is the player, operators, regulators or the health authorities, what is their role collectively in creating a safe environment and who owns what elements of duty of care within that? That's a question we probably don't have time for today but for me ultimately it's about how we bring those stakeholders together to create a safer environment and understand each other's role within that.

Adam Rivers: You mentioned the duty of care. One point that is definitely within the operator's gift is identification where it is possible, and Nathan that's an area where both you and I have spent some time thinking.

> "The question is where does the duty of care lie and who owns the duty of care on the player?"

Nathan Beaver: Problem gaming is ultimately an outcome. For me, in order to identify people who are demonstrating behaviours that would drive them into a problem gambling state, or near problem gambling state, the answer is in the use of data and analytics. We exist in a world today where there are vast swarms of data that exist within the operators, and that exist within the external environment that we can use to model individual player behaviour. The challenge for many operators is that it is very difficult to get a good model and understand an individual player's behaviour, and ultimately risk rate them on an on-going basis. Often operators are sat on legacy spaghetti junction infrastructure so moving to a real-time, 15-minute or even 24-hour delayed review of a player's behaviour and their current state of gambling is very difficult but ultimately should be the goal of all within the sector. The real value then comes when you move from insight into action.

Identifying somebody who is exhibiting states around problem gambling behaviour is great to know but, unless an interaction or intervention is relevant and personalised to that individual, how do you know you are going to move them back into the safe zone? For me, if we can understand every single player and set the guide rails for how you want to manage them, the role of an operator is to then continually nudge them and keep them in the safe zone so ultimately you get a safe profitable customer and more importantly the player doesn't exit from one particular operator and arrive at another operator still with that particular state. This way of thinking is emerging within the sector and we've seen it in other sectors. It's a chance for operators to get some of those learnings that you see elsewhere. The obvious area is financial services, but there are some really interesting things that are going on in online retail for example around behavioural modelling underpinned by a data management approach.

Adam Rivers: So Nathan's view is very much around the data. Nathan, you mentioned the spaghetti junction of architecture within operators and all of you on the panel were nodding along. Paul, how as operator do you go about tackling something like that, specifically with regards to identification?

Paul Foster: The spaghetti junction of information is quite true. We operate on four platforms and we have something like 12 databases, we have seven different systems running on those. For anybody to try and get anything in real time is very difficult, full stop. So when you are looking at improving the journey for customers who may have issues, or who are susceptible to issues, you are reliant on the data. So we have to do work arounds, that's the only way we can do it. Some people look at it and say well it's very easy, you've got a database, you build this model, you get the algorithm. Well, that's not the reality of our industry. There's been so much M&A work over the past 10 years that we are very complex organisations. So it's all about having clever people who can build reports on the front end, who can take the tools available - and the tools available are getting better - and run them over some of our systems.

Adam Rivers: Investment in this instance is of course a very positive process. Emma, you have had a lot of experience in other types of industries with similar issues in the background – could you tell us about that?

Emma Hunter: We are seeing a trend in the gaming sector (and also cross-sector in other industries) where we are starting to now see more focus on holistic risk management. You may have a situation where you have organisations you've acquired over the years that have a multitude of technologies and platforms, systems and controls, and even compliance staff that have to deal with the various systems. We are now seeing quite a big trend to try and ensure that these are not siloed across different parts of the organisation, but rather considered holistically.

Take compliance and financial crime as an example; many organisations have systems and controls dealing with anti-money laundering separate from those dealing with vulnerable customers, completely separate again from those dealing with fraud. Everything is segregated, collecting different data and, when you go in and have a look, a lot of organisations don't realise that the data they are collecting in one silo can actually enhance the screening they are doing in relation to another silo. So we're seeing quite a big trend towards pulling everything together, but the manual intervention that you spoke of is something we see a lot. Even some of the largest organisations in the financial services sector, where you would be quite shocked to learn what they are doing on a manual basis.

Adam Rivers: And Marc in terms of specifically the identification of problem playing, where next?

Marc Etches: Here I'm going to make a semantic point about the difference between identification and about intervention.

Adam Rivers: Well we were going to come on to that, so that's a nice segue.

Marc Etches: We commissioned some work with four companies in particular, which I think was a great start for the industry. To its credit, the industry has taken this on board and run with it, although I think it now turns out there were one or two in the industry who were already running. I will go on to where next but I think this point is important: there is an awful lot of effort going on, particularly in the bigger companies, but actually there's not a lot of sharing that's going on. In my view, it's an absurdity that this is

regarded as a competitive issue, that Company X has done this, put so much effort into it but don't want to share it. It's clearly wrong and I hope in retrospect those companies will come to recognise that. So going back to your original question, the first bit was indeed to try and identify a battery of markers of harm the industry could use as a baseline from which to develop effective algorithms. What we have now moved on to is to commission behavioural insights to explore the effectiveness of the interventions companies make with those people whose behaviour is causing concern.

Emma Hunter: Sharing is a huge point, and really changing the culture and the mindset that the information is not proprietary or that the solutions are not proprietary is very important. It's very similar in other sectors. Specifically looking at anti-money laundering, for example. It's taken such a long time for various sectors to change that culture and to take a step back to understand the policy purpose of the regulations and that what the organisations are collectively striving towards, is the same thing. There is no competitive disadvantage in sharing how they are actually trying to solve the issue and what the solutions are but there is still that proprietary mindset and it is more prevalent in some sectors than others.

Marc Etches: One of the things we are investing time and effort in this year is to identify a repository for industry data, that can be mutually beneficial, that takes account of the inevitable sensitivities for individual companies, but that can allow some independent review of success and evaluate the sorts of activity that is happening. Of course this isn't new; the supermarkets have been doing this for some time. The gambling industry I think is only just waking up to the fact that this makes sense, not just for the individual companies but actually to their wider reputation because actually what the gambling industry risks doing is losing public trust. I understand the reason for tensions with the Gambling Commission as the industry's regulator but public trust is what the industry needs to win in order to push back on regulatory pressure. I think we're on the beginning of a turn for the industry but it probably needs to turn a little bit more quickly.

Emma Hunter: It's quite similar to Money Services Businesses (MSBs) and the remittance sector, again talking about that public trust. The legislation in so many jurisdictions is now only just catching up with this concept of sharing and there's legislative amendments going on in various jurisdictions that will enable MSBs (carrying on that example), to be able to share customer information. The ability for centralised data is quite important. Here we're talking about vulnerable customers and social responsibility, there's also that social responsibility aspect to counter terrorism financing or anti-money laundering. Companies have a responsibility as a 'good corporate citizen' to mitigate these crimes.

When you look at the type of information the MSB sector collects, and the transaction monitoring data many of them have, particularly in relation to money laundering or terrorism financing, it becomes quite apparent that it needs to be shared. Doing that enables better overall mitigation. But it's taking such a long time and legislation is only just now catching up.

So in this sector, I think it is really great there is this discourse already about sharing information and trying to make that happen, and I think industry groups will be part of putting the required pressure on legislation and regulation to facilitate it.

"There is an awful lot of effort going on, particularly in the bigger companies, but actually there's not a lot of sharing that's going on."

Marc Etches: Can I challenge that? Industry groups, if you mean by that trade bodies, I would dispute that. I think it is important individual companies show leadership. One of the things that has slowed things up and, in my view, contributed to the Gambling Commission in Britain challenging the industry about the pace of change is the reliance upon trade bodies. Inevitably, trade bodies by their very nature have to satisfy their membership. What's really important is that individual companies show leadership. That's what I am beginning to see, half a dozen companies who are market leaders acting together and showing leadership. Sure there will be free riders but actually surely the reputation of the industry is worth it?

Adam Rivers: The Senet Group, is that a forum to be a catalyst?

Marc Etches: I think Senet needs to speak for itself but I certainly see that there is change going on there in terms of how they are presenting themselves. There are all sorts of, frankly I would say childish, things going on around the

wider industry, a lot of factional fighting between different sectors. It's been like that for decades as far as I am concerned but I certainly see that the Senet Group seems to be thinking about this and I would be amazed if others aren't having those conversations inside or outside Senet Group. So it's industry leadership that is critical; the top companies need to take the lead.

Adam Rivers: And do you think it would be useful for the UKGC to be a bit clearer with some of these big players in terms of the reward for showing that leadership? Because, with my economics hat on, the risks for companies investing heavily in this sort of stuff is that the long tail of licence holders choose not to play ball and effectively just obtain the customers put off by those companies doing the right thing.

Paul Foster: As far as I am concerned it's not about reward for operators to do the right thing. As an operator you have a moral obligation to your customers to provide a safe environment to play and at the end of the day we have to take it upon ourselves to lead on this. It's very difficult for Tier 3, 4 or 5 companies to do this because they don't have the level of experience, they don't have the knowledge, they don't sometimes have the ability to invest. So it's the larger operators, who have got the money, who are spending the time and there's a huge amount of effort going into this area because we have to do something, there's no choice. That's a big difference. Three or four years ago people were sitting on the fence, now we have to do it and that's a cultural change that's going on. So as a Tier 1 or 2 operator, we don't need to be rewarded for it, we just need to get on and do it.

Adam Rivers: If the reward isn't built into the UKGC LCCP which mandates good practice, won't we just then be left with a long tail of operators that have got policies and procedure that don't conform to what good looks like?

Emma Hunter: I was thinking you need regulator buy-in so GC certainly needs to be not rewarding per se, but there is often merit in the name shame vs. the reward or vs. the collaboration. There is a balance that needs to be struck between carrot and stick. At the end of the day we really do need – and this is what has happened in other sectors – buy in from the top. You need the biggest players in the industry, the top two, three, or five, to join forces and be demanding the same things from their clients. Whether that's the way they monitor, whether that's KYC; they all need to be aligned. It's a future investment because in the short term you do inevitably end up losing a bit of business because people will take their business to an easier shop.

In other sectors we've actually seen that customer attitude drive underground banking or unregulated remittance, businesses that completely avoid the banking sector, but then for those types of businesses to be eventually scrutinised by the regulators - so it is a future investment. If you've got that regulator buy-in, eventually everyone needs to catch up. I agree it needs to come from the top.

Adam Rivers: You mention there losing business which obviously no operator wants. I recently had a discussion with an operator about problem gambling and one thing that came out was the distinction between interaction with customers and interventions. Interventions being things like temporary deposit blocking which leads to attrition. Interaction, however, can almost drive loyalty. Do you have any views on that?

Nathan Beaver: I think there is definitely a distinction between interaction and intervention. If we go back to the principle of what I was talking about earlier, which is trying to keep your player within the guiderails, for me interaction is a personalised way of engaging with that customer to nudge them and to keep them within the guiderails. And if you are doing that in a personalised way and you are doing that with integrity, our research more broadly around customer experience shows that those are the two greatest drivers of customer advocacy and loyalty. And so for me interaction is engaging with the customer to keep them on the guiderails and keep them safe.

Intervention is an interesting one and I've been pondering this question in terms of how do you define intervention and what it is. For me there are two parts to intervention. There's one part where you have a customer who is operating in that risk red zone for an extended period of time, who requires an intervention whether that be source of funds check through to an account block to something that is much more constrictive on their ability to play. Then there is more of a broader intervention where the customer is continuing to show and sustain behaviour in the risk zone and takes us back to the earlier point which is how do you bring the stakeholders together around that particular player in order to help them with probably what is a fundamental underlying behaviour problem?

Paul Foster: I counter that in a way because while theoretically there is a big difference between interaction and intervention, in reality it is very grey because we're very immature in the way we are dealing with this. We are learning all the time. We've got three or four years' experience behind us in most companies and it's very difficult to know when to interact and when to intervene. We have policies and processes, and we have tools, we have triggers. But at the end of the day every person is different and just because our process says that's an intervention or that's interaction, that might not be correct for the person.

What we need to get to is the stage where we have, through intelligence and experience, the ability to tailor to everyone whether it's an interaction or an intervention and what level of interaction or what level of intervention. But we just don't have the maturity, we don't have the data, we don't have the experience or the tools. We are running to catch up but in our sector we are just not there.

I am always interested when companies say oh we do this, we do that. I sit in one of the Tier 1 operators, I'm thinking we can't do that, why? Either they are not really doing it or they're tricking you. When you talk to people, it is about the maturity of their understanding. They think it is very simple and it's not. The bigger the company you're working for, the more complex it gets.

Adam Rivers: You mentioned there about not having the research. I'd like to move on to Marc and your work at GambleAware. First of all, and I am sure many of us here in the room get the EGR updates, last week the strapline read 'GambleAware to name and shame non-contributors.' Could you tell us about that? Secondly and more generally, I'm sure the operators who pay in to GambleAware would like to know what the plans are going forward?

Marc Etches: Thank you for giving me the opportunity to say what a load of rubbish! We're not about naming and shaming. This is a voluntary arrangement. We're an independent charity but we're signed up to a framework agreement with the regulator and the RGSB, and the Government has some sight on this as well. So we need to be completely transparent about where our money comes from.

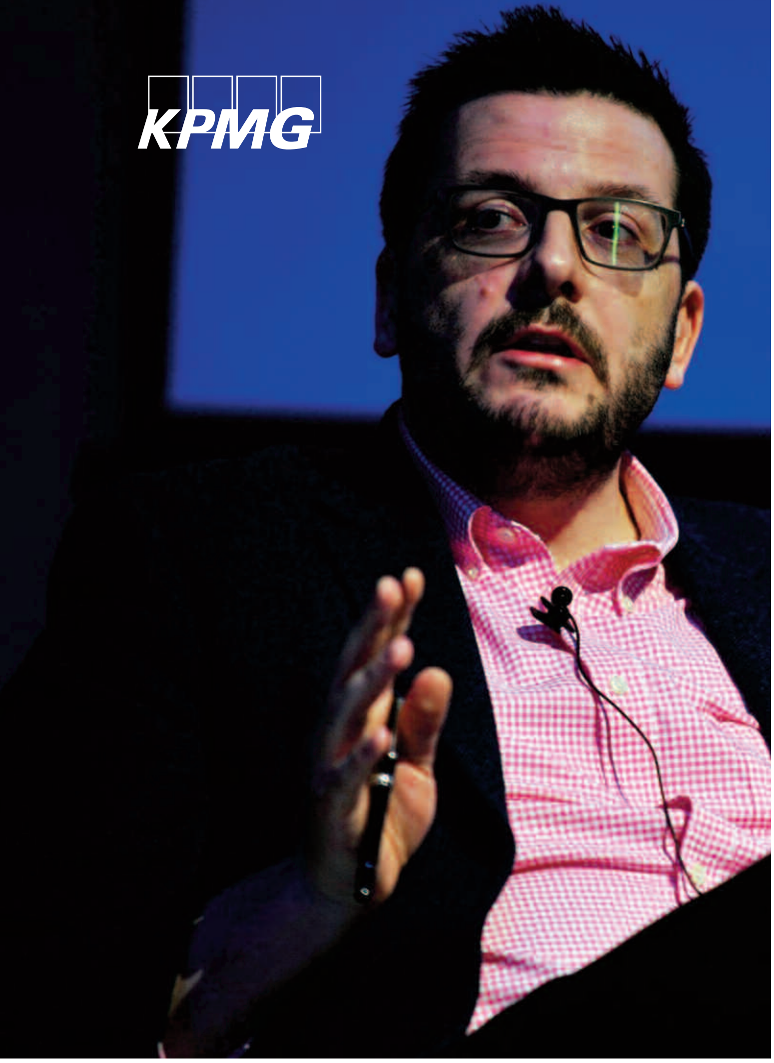
The current voluntary arrangement is such that there is an expectation that the industry funds the national responsible gambling strategy in Britain and that we are one of the primary deliverers. The minimum annual target is £10m at the moment, although I expect that to increase quite significantly as we roll forward. What we've said is, as of this financial year, from 1st April, every quarter we will publish details of who has donated or pledged to us, the amount, and indeed give those companies the opportunity to self-certify that their contribution represents at least 0.1% of their Gross Gambling Yield which is the formula we have suggested.

> "The industry just needs to take a step back and think about how to make it a safer environment for everyone."

It's entirely voluntary as to whether they do self-certify but, yes, we want to celebrate what we do get. Frankly the response I have had from most companies since we made that announcement back in October, is "good on you" and that's usually because those companies are actually doing their bit. It is important to say that last week I did take the opportunity to thank the industry for getting us to £9.4m of that £10m. That's quite a significant achievement.

As for the future, I want to focus our effort on getting the state much more involved in addressing gambling-related harm in a wider sense, not just narrowly on problem gambling, but more broadly in terms of the harm that arises not just for the individual but for families, friends, and the communities around that individual. So that is about trying to get Public Health England, Scotland and Wales, the National Health Service, engaged in this issue. The World Health Organisation recognises problem gambling, gambling addiction, as a behavioural disorder. That's very significant. What's also significant in Britain is that the Department of Health and Social Care, which every year writes to Public Health England about what it expects it to concentrate on, has for the first time directed it to look at gambling-related harm. So there is a real movement state-wide, locally, nationally and regionally, about this issue.

> "As an operator you have a moral obligation to your customers to provide the environment to play and at the end of the day we have to take it upon ourselves to lead on this."



A lot of our focus is going to be working with a whole range of strategic partners in order to bring awareness to this Public Health issue, which as was said earlier may be as many as 600,000 problem gamblers. That's broadly equivalent to the number of adults dependent on alcohol. It is interesting to see that 13% of those adults dependent on alcohol had interaction with treatment services but only 2% of problem gamblers have accessed the services we fund. There is a big gap. We want to address that. But no matter how much money we might encourage from the industry, not from naming and shaming but actually celebrating and being transparent, we alone will never have enough in order to meet the likely demand for services.

So we do see that it's very important that we spend significant time and effort on education in local communities. Ensuring that Citizens Advice services, doctors surgeries, debt advisors, other charities like the Samaritans, get to understand problem gambling and the harms that arise, that gambling can be an issue for an individual, not necessarily the cause, but it can play into a whole range of other issues. This is an important focus for us. At moment about 65% of our money goes on our helpline and treatment services. On the basis that there are no state-funded specialist services available, it is incumbent upon us to maintain funding levels to those treatment services we currently fund but increasingly we want to educate and spread awareness so that the state and society more broadly shares the burden with the industry.

Adam Rivers: Interesting. In terms of your engagement with those involved in alcohol, drugs or other addictions, is that because co-morbidity interaction is a huge element?

Marc Etches: It's no coincidence that the main counselling provider that we funded is GamCare. We're just about to enter into a new three-year funding agreement with them. A quarter of it goes to them directly, the rest actually goes to a whole network of providers, many of them are alcohol, drug, obesity services. So at the point where the individual is coming in to address their gambling-related behaviour then they are mostly coming into services that are already embedded in these other addiction services. It seems an absurdity to me knowing that it has taken so long to get state institutions to recognise this is an issue that should be taken seriously. For so long people have said well if you get into debt with your gambling it's your own silly fault. It's not been regarded in the same way as alcohol or drugs.

Adam Rivers: Crystal ball time then. This time next year, where are we?

Paul Foster: I think we're a lot further forward. The change we have seen in the people in the industry, in the environment we operate in, in our licence requirements, has started what is basically a tsunami of change in most organisations and that is going to continue. Hopefully, and this is a problem of negative press, we are still able to bring quality people into the organisation to really help us. Hopefully we will continue and we will attract the right kind of people to help.

Nathan Beaver: Excuse the pun but I think it's the right to win and the right to play. From an organisation standpoint, I think the right to play is that the bar is going to be raised and so if organisations aren't able to operate at a higher bar, there will be consequences, such as regulatory pressure, commercial pressure, customer churn pressure. So if they don't achieve that bar, they don't have the right to win. I think that's what we are going to see happen, maybe not as fast as we'd like over the next year but we are seeing the trajectory now. I think we all recognise this will be a three to five year journey, I don't think it is going to be solved overnight.

Emma Hunter: Culture changes and I think we're starting to see that change now. People are looking at compliance and social responsibility not as a tick box exercise. You know when something first erupts in the industry, when it is first regulated it becomes a very tick box exercise. Take KYC for an example. It becomes a throwaway acronym and people forget that it is about 'knowing your customer', actually knowing them and not just ticking a KYC box. I think we're now starting to see a focus on bespoke approaches, approaches that actually work for this industry, tailored solutions. That kind of trend will continue, it will be a better culture full of more bespoke approaches.

Marc Etches: So I go back as far as the challenges and the public debates around the National Lottery in the 1990s in Britain. Subsequently casinos were the issue, then we had machines in bookmakers. My personal view is that book-makers should have made some sensible decisions a while back to take the real sting out of it. Where will we be in a year's time? The focus will be on online, it will be around sports betting, it will be about that relationship between sports and gambling; it's already bubbling up.

Adam Rivers: Thank you, all four of you for sharing your thoughts and your time today.

Industry Outlook

Moderator: Andrew Lyman

Government of Gibraltar

Panellists:

Adam Craig

GVC

James Richardson

William Hill

Andrew Lyman began with acknowledging that the operator panel session is always a challenging one "because, quite rightly, operators don't necessarily want to come up here and expose what their specific companies are doing in terms of strategy or operational delivery." He was especially pleased to be joined by Adam Craig, a tax guru from GVC, and James Richardson, William Hill Online CFO, who he said "have manfully stuck it out and are prepared to engage in debate."

Kicking off with the first question, Andrew commented: In the role I have at the moment I see quite a lot of data on social responsibility and anti-money laundering reporting and I'm seeing an uplift in the level of that reporting, both on a social responsibility basis and anti-money laundering basis. But I am also seeing what I would describe as quite a lot of very defensive reporting in terms of suspects and activity reports. So individuals whose profile does not really match the level of their spend, and then that individual refusing to provide any further information. Do you think the culture around anti-money laundering and social responsibility has changed?

James Richardson: Yes, I think it is changing. It is moving from a state of defensive reporting to a realisation that this won't go away. And that there's a responsibility to continue to work together. I'm yet to see anyone going out on a limb that they will lead on responsibility so I think there is more we can do together. There's obviously commercial risks both ways – both with being overly-responsible impacting your operating model, and not being responsible enough and risking your licence. It's a balance and that's a journey we are on, we haven't played it out yet. There is more the industry can, and should, do to work together.

Adam Craig: I certainly agree the norms have changed. Those who have been around in this sector for a long time will recognise some difference over the last 10 years in what we consider to be normal now in term of social responsibility. That's partly due to the activity of regulators, having more than one, and it's partly also due to the realisation that you have to manage reputation.

I'd like to make a comparison if I may between our industry and the motor industry. The motor industry for decades tried to make better motor cars and they tried to make cars that people would buy. By the time you got to the 1960s and 1970s, car manufacturers were really trying to manage themselves as businesses, making cars for a price without any real consideration for things like road safety. And there were some scandals. Ford Motors made a car called the Ford Pinto, which was released in the 1970s. In order to manufacture this car on time and to a budget they put the petrol tank at the back underneath the boot and every time another car went whacking into the back of a Ford Pinto, the petrol tank ruptured and there was a massive explosion. The people who made this car knew this would happen because of the choices they made to make it cheaper. They left out safety modifications because they were managers who were trying to run their business to meet targets for a public company. And we are managers trying to run our businesses, to meet targets for a public company, so we are under pressures just like the people from Ford in the 1960s and 1970. Sometimes people just carry on doing things without really thinking about whether we are doing something that is actually right. It's an ethical journey that we need to go on which the motor car industry has been travelling along for the last couple of decades. We need to really consider: are we good people doing work for good businesses? Are we actually fully understanding what social responsibility means? I think we are changing.

Andrew Lyman: Moving on to another weighty subject: GDPR and management of data. Most of you will be aware that 25th May is the witching hour for GDPR and it has to be fully implemented and businesses have to be compliant. During my travels around Gibraltar, I'm naturally asking companies what their key issues are at the moment. Almost unfailingly, each of those companies I've asked said GDPR: either they are wrestling with it, they've improved and increased the size of their compliance team to do with GDPR or they are paying shedloads of money to consultants to help them get over the line. So can you talk a little bit about the impact that GDPR is having on your business, and perhaps more particularly, do you think we are ready? And if we're not quite ready, what do you think the solutions are?

Adam Craig: Well if you're not ready, there's not much time as the deadline is 25th May. And if you're not ready, I think the solution is to pay attention to the topic, have a roadmap and make someone responsible for getting you there as quickly as you can. The training of staff has come along. We've been informing people around the practical implications of responsibility for personal data and people are actually interested in this topic at the moment because, in training, they think about their own personal data and the broader applications. We've seen a lot of engagement from staff around that area.

"I think people understand GDPR is not something to be afraid of, it impacts their everyday lives. It's good corporate governance so we're doing the right thing again and it helps that social responsibility agenda."

James Richardson: You have to be ready. Like you say, there is no choice about being risk proportionate as to what readiness means for you. Again it has got great engagement across the business. Yes there are a lot of consultants in and other people helping us but there's great engagement. I think people understand it is not something to be afraid of, it impacts their everyday lives. We have to go through it. It's good corporate governance so we're doing the right thing again and it helps that social responsibility agenda. It can be a challenge in an environment and an industry where it can be quite adversarial with customers, win or lose. Obviously those that lose, that can bring with it some greater focus and some greater risks around GDPR. Some of our customers may want to go out on a limb with us if they are feeling particularly aggrieved at a point of time which is why I think there's a real balance out there. But as a whole, I think the industry has embraced it. People have maybe left it right to the wire, that's the nature of these things - Y2K all over again - but we're getting there, we will get there.

Adam Craig: There are some great examples across other ebusinesses about how you can give people their personal data. Many people in this room will have Facebook accounts and on Facebook now you can go to your settings and click a link and they will send you all of the data that they hold about you. It takes away some of the mystery and uncertainty about what it means to be dealing with Facebook. Customers like that. I very much doubt we will be able to do that on 25th May but it is something to aspire to, it's an example from a different sector.

Andrew Lyman: My overall impression is that certainly all the Tier 1 companies are very much focussed on GDPR. They are spending significant sums of money and devoting significant amounts of resources to it. The Government of Gibraltar is also focused very much on the equivalence of the legislation because, talking about the B word "Brexit" which we will in a minute, it is important for Gibraltar and the UK to make sure that their data legislation is equivalent to the wider EU framework. So when it comes to arguments about access of the UK and Gibraltar to European data markets, and European markets more widely, then the question of equivalence of legislation and compliance of the people within the jurisdiction is something that no-one can argue about. Moving on, someone recently suggested that there is a lot of technology in this sector but there isn't actually much innovation in this sector. Do you think this is really an innovative sector and do you think our customers want a great deal of innovation, or do they just want something that's safe and familiar?

"I would like to see more culturally specific products developed because in particular geographies there are gambling games which are suitable for local markets."

James Richardson: Perhaps I should go first on this one being new to this sector and having come from a couple of others that have been disrupted by technology, changing consumer practices and the disruption of regulation. Personally I think that innovation in gambling is about moving on from the old marketing adage of 4Ps – getting the right product, place, price and promotion – into the three Es around customer experience, customer engagement and ease of use. If we approach the industry with that in mind there is a way we can use innovation in other areas like payments, financial services, blockchain – there are other areas of innovation we can bring into this sector to help us without necessarily needing to innovate ourselves. We can act as the core of innovation and bring in partners, routes to markets and access that help move the customer model on from 4Ps to 3Es.

Andrew Lyman: When you have conversations with various companies, Marketing Directors, CEOs, they all think they have a USP and will gain a market advantage but my experience is that when you talk it through, the thinking is very much along the same lines. I think it's as much about the use of the site for the customer and the wider experience, the ease of access to the site to be able to put a bet on the table. But people tell me millennials want more than that, they want more of an experience.

James Richardson: I think it is about balance of customer engagement and service, the right product, the right place, the right time, in the channel the user wants. I find it easier to place a bet online personally than going to a betting shop. Betting shops scare the living daylights out of me (and I work for a betting company!) because I don't really know what to do whereas online I can self-educate, I can do a bit more research, I can do it in my own time, my own place, my own house.

Adam Craig: Just on one of those 4Ps, product, I would like to see more culturally specific products developed because in particular geographies there are gambling games which are suitable for local markets. Probably the return on investment in innovating games to take them out to broader geographies just isn't there but my naïve hope is that we might have some take up for culturally specific games like Tarot in France or the particular versions of poker like Bura and Seka you see in the Russian markets and nowhere else. I rather like those games but we're coming at it from an Anglo-American casino betting kind of background; we can do a bit more.

Andrew Lyman: Sticking with the innovation and technology side, I have found there is a very vibrant games development software supply market in Gibraltar. There are lots of relatively small B2Bs but B2Bs that then expand very quickly; it doesn't take long from being the new kid on the block developing wonderful games to being at an all singing level of growth. In terms of Gibraltar licences we are split almost evenly between B2C and B2B. I do spend quite a lot of time on the B2B sector because some of them are coming relatively new to a newly regulated sector.

James Richardson: A healthy supply chain is a great thing. It's good for the consumer, it's good for us and creates healthy competition. There are the challenges of regulation, ensuring they are doing the right thing and that we're in control of that. Customer

responsibility brings with it the need for prioritisation, so we need to ensure we offer the right game at the right time to the right customer from that responsibility perspective, also in the way they want it.

Andrew Lyman: Let's move on to deal with the B word – Brexit. I promised Adam and James that I am not going to ask them to reveal where they are in the Brexit planning stage of their own businesses but to talk on a generic basis. Is it possible to make yourselves feel more comfortable around Brexit and what plans can be made in what is a very uncertain environment?

Adam Craig: There were at least two very practical suggestions that were made in the debate earlier around any "no-regrets" decisions you can take. Jon Tricker said go out and get another licence as a back-up and that seems to make perfect sense. Also Susan Breen said to remember there is a wider global picture here, so be dynamic, be creative, show some mettle and look beyond the EU - and I thoroughly endorse that. I would add to that keep an eye on what else is going on in the EU.

Brexit is not the only thing happening in the EU at the moment. There are quite a lot of other changes going on which will affect business models including tax changes. For example, there are some EU tax directives that we all rely on when we make international dividend payments, some of us interest and royalty payments, so you might need an EU holding company but you won't necessarily be able to rely on Gibraltar benefiting from those particular tax directives anymore.

Keep a careful eye on the confusion around customs duty and VAT. Although Gibraltar is currently outside that environment, we've got some other companies in our groups or our business arrangements which are inside the EU which might be affected by changes in those areas. And there are significant anti-tax avoidance and information exchange obligations coming. So do keep an eye on what else is going on in the EU.

James Richardson: Adam is available for tax advice after this session for anyone who needs it! I think what you can do is try and get comfortable with the unknown, especially in gambling. Get some optionality, start thinking about things you might need to lay down plans for. A confidence I take away from this industry, being new to it, is that we're pretty good at reacting to stuff. We're good at evolving, changing and adapting. I've no doubt that we will be well placed, if not better placed than many other sectors, in being able to deal with the unknowns of the future however they land. So we should take some confidence from that and start to make some plans for things that could happen but stay flexible enough if circumstances change, you've not made any decisions that you live to regret.

Adam Craig: Just one other consequence that might flow through from GDPR is that we may all find ourselves required to have servers in the EU to serve EU customers.

Andrew Lyman: And obviously tax in some jurisdictions, as you told us earlier, creating effectively jurisdictional issues depending where servers are situated.

Adam Craig: I remember from the early days of regulation in Gibraltar that we had a system of regulation that required you to have key functions carried out in Gibraltar and to have servers here. I think back then people were still getting their heads around what an ebusiness model involved and what was really going on in this server. For online gaming, there were certainly people back then who liked to think about business models involving a server being like a mini casino, lots of tiny people inside, somehow receiving the bet and doing something to it and sending out the answer. We've got legal advice which pretty much has that kind of analysis in it. And people believed in it at the time. Certainly, from a regulatory point of view but also from a tax point of view, the way that people use servers has evolved a bit since then.

I'll throw it back to you and ask what you are prepared to accept from a regulatory point of view? From a tax point of view we are very wary that the server is still kind of seen as a mini business by some tax authorities. So if you have a server somewhere that isn't very friendly from a tax point of view they will treat it as a taxable establishment and try to attribute profits to the activity that goes through it. The OECD guidelines draw attention to equipment and significant people functions and if you have both in an OECD country they will definitely try and allocate some tax for that. You might even get VAT allocated to that as well. So you really need to be aware of what the tax authority thinks, whether you can have a server in that location, and use it for gambling transactions.

There are jurisdictions out there in the European Union which are prepared to take a more commercial view, particularly in this kind of period we are coming to after April 2019, which would give operators a way to keep customer data in the EU. But that depends on whether the regulator in your home jurisdiction is prepared to accept that the gaming servers might not be there anymore. So do you think that is something that Gibraltar can be more flexible about?

Andrew Lyman: It was very kind of you to warn me you were going to ask that question earlier on so I have already had a chance to think about it. I talked this morning about some fundamental principles around licensing in Gibraltar which are location, technology, location of people and also core management control. But since I've been here, I've had the opportunity to discuss it with various people and I think it is a question of not lifting the lid straight away but with the cloud, the Brexit issue, with technology architecture becoming more complicated, then I think the jurisdiction needs to start thinking about being more flexible. That's why we have said we are talking to operators individually about the flexibility of their architecture.

Obviously we want to retain as much here as possible, we want to retain as much benefit economically in Gibraltar as possible, but what we don't want to do is drive operators into binary decisions. So when you are factoring all these things in, factor in that in Gibraltar the regulator is prepared to have conversations, is prepared to be flexible and do something that is right for both the jurisdiction and the operator. I think that view is now more widely supported and is something we will be talking about to operators in the coming weeks. Please don't make decisions in isolation; include us as well and we will be pragmatic.

James Richardson: I think that engagement is key. Regulation needs to move with technology and we risk technology tail wagging the technology dog at this rate with people ripping out servers in jurisdictions to try and counter tax planning and changing regulation. With cloud computing, data nebulation, the fact that data is no longer stored in one place, there's a realisation and a keenness to work with the regulator to show that businesses can still be run from territories where they have data stored in the cloud. So it's good to hear that there will be that level of engagement.

At this point the panel took questions from the audience.

Question: If we look back 10 years to where we are today, do you feel that the boards of the gaming operators have more ethics today than they did 10 years ago?

Andrew Lyman: I suppose this leads to the wider debate around social responsibility and anti-money laundering. Certainly those subjects are much higher up board agendas. When I look at board minutes and other documentation, the outcome of corporate reviews and the like, for the majority of operators those subjects are more widely discussed. I don't think there are bad people on boards, or bad executives: there are executives who are under pressure to deliver growth but I think these ethical considerations are more and more prominent. I don't know how you feel James and Adam, but you sit in meetings and you run organisations, and I'd be surprised if you never discussed those specific subjects?

James Richardson: I'm relatively new into Hill's but there are certainly more questions coming down from boards I work with now across financial services, ebetting and egaming. Questions around ethics, corporate social responsibility, sustainability, customer first views, treating the customer fairly. Board composition has changed over the years; they have become more balanced now. There is an external industry, people coming in and questioning the very best practice from the sector so I'm definitely fielding more questions, more heat and more in-depth analysis and interpretation of what we're doing as a business around ethics, morals and creating a sustainable business model. It's all over our annual results. We report on it and the Board are focused on it alongside commercials.

Question: Do you see an opportunity for crypto currency to be adopted by the online gaming industry and, if so, what kind of rate of adoption is achievable? Is it something the industry could do relatively quickly and get good customer take up?

James Richardson: If you've got the answer, Andrew, great!

Andrew Lyman: I don't have the answers to some of these questions. If I did I might be able to package it and sell it! Obviously we have had discussions and Siân Jones has given presentations around the whole issue of DLT, coin offerings and cryptocurrencies. I've had a number of relatively short meetings with people who ask what is the regulator's view towards crypto currency, or towards DLT and you will have seen that the Financial Services Commission has around 30 applications for DLT technology type businesses, although not necessarily crypto businesses.

As I said earlier, Gibraltar is open for business in that area. I can see DLT technology being useful in perhaps peer to peer betting, perhaps exchange type business. I've also had propositions put to me from traditional gambling hardware and software operators who just want to accept crypto currency.

My answer to that is always to bring me a good business proposition which includes how you are going to deal with anti-money laundering and counter terrorist financing, then I am prepared to actually sit and listen to it. We would not be totally risk averse to a proposition. And that proposition should be based again on the same principles that we licence at the moment. The integrity of the management team, the viability of the business plan and all the rest of it. People are struggling to articulate how they would do AML and CTF and I think it's a question of people thinking it through themselves, bringing a proposition and then for it to be tested. I think people who are engaged in this area are also finding it difficult getting banking facilities and the banks are risk averse about this type of activity.

I have told people I am happy to talk and theorise but the best thing you can do is go away and bring the whole package to me: banking arrangements, payment arrangements, the company structure, business plan, compliance aspects. Then we will sit down and talk about it. I must admit I was expecting to see more people knocking at my door about this. Perhaps GDPR and everything else has occupied people. If we get the right proposition, we will consider it.

James Richardson: From an operator's perspective, it's anything that makes it easier for the customer. Perhaps 15-20 years ago, 10 years ago, we would have been sat here talking about Paypal and Neteller and other ways as a means to accepting bets and placing deposits to do gaming. I can't tell how quickly it will be adopted, I think there is a whole host of questions out there around bitcoin, and operators will plan for themselves, but from a customer perspective anything that makes it easy and a good experience to deposit money and gamble responsibly is good for us, something we'd look to accommodate.

Andrew Lyman: Our time is up. I'd like to thank Adam and James. As operators it's always difficult to sit up here. I have found it very interesting and I am sure there will be conversations going well into the night.

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