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Gibraltar eSummit

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A word from the sponsor

It's always a pleasure to introduce the report on the KPMG Gibraltar eSummit but this year's event was particularly notable for Continent 8 Technologies as it also provided an opportunity for us to mark our own 25th anniversary.

Kristian Valenta

Chief Financial Officer
Continent 8 Technologies

Continent 8 was born during one of the most transformative periods in modern times, when companies were accelerating humanity's position in the technological era at an unprecedented pace. Global events included the World Wide Web being made accessible to public, transforming the way we share information, the way we connect, and the way we conduct business. There was the dot.com boom, launching monolithic empires like Amazon, eBay and Yahoo; portable music with the first consumer-level MP3; construction of the International Space Station; the cloning of Dolly the sheep; and the completion of the Human Genome Project.

Amongst these cataclysmic events and global shifts in politics, technology, science, Continent 8 was created in response to a pretty simple idea: that with all this proliferation in technology, computing needs are only going to go up, and these companies are going to need some form of real estate in which to house their computers.

The first location, just outside of Montreal, attracted some of the world's largest gaming and poker companies. Since then, the business has grown to a network of almost 100 connected locations across the globe, providing a wide array of solutions and services, including managed network, managed hosting, and cybersecurity solutions to the majority, if not all, of the world's largest eGaming brands.

Here in Gibraltar, we are especially proud of our data centre which is housed inside the Rock, a truly unique environment, and we are currently implementing a security operations centre here too. This will marry our leading technology, our state-of-the-art facility, and some of the world's best talent. Elsewhere, we continue to invest in our sites, our solutions and our personnel to ensure our customers can focus on what matters the most: driving value.

As report sponsors, we are delighted to share the presentations and discussions from the 2023 eSummit. We have been proud supporters of this event from its inception and it always provides a fantastic opportunity to hear from some of the biggest names in the industry from across the globe as they review recent developments and potential pathways for the future.

Please enjoy the report and we look forward to meeting you at the 2024 KPMG eSummit.

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KPMG eGaming summit welcome address

It has become a tradition for Minister Albert Isola, who has responsibility for digital services in Gibraltar, to welcome delegates to the eSummit and to reflect on the issues and opportunities facing the eGaming sector. Picking up the eSummit's theme of Sustainability in an Uncertain World, Minister Isola outlined the many unexpected developments both businesses and Government have had to deal with over recent years but also how the industry has met and adapted to those challenges with an exceptional degree of resilience.

Good morning, ladies and gentlemen. It's incredible that this is my tenth KPMG Gaming Summit – and your twelfth – which is really quite remarkable. When I look around the room, I see many familiar faces who were here at the first one and many new ones. In all, a lot more people than I've ever seen before, which is fantastic news for the summit today, and of course, for the jurisdiction.

Sincere thanks to KPMG for making this a permanent fixture in our gaming calendar. The work that you do in bringing us all together to talk about the many issues you're going to be discussing today is very helpful to us, and to the regulators as well as to the industry itself, so a huge and sincere thanks. I would also like to thank the sponsors, without whom we wouldn't be able to do all the things that we do today. To each of them, a very big thank you.

I'd like to start by touching on a couple of points that I know you will all be thinking about during the course of the day.

The theme of today's conference is 'Sustainability in Uncertain Times'. Think of what we've lived through these past recent years: when I came into politics 10 years ago, I never imagined in my wildest dreams that I would be facing Brexit, COVID, treaty negotiations, withdrawal agreements, and everything else that's come through.

What I did expect was a Gambling Bill, which we started working on before Brexit, before COVID, and we're still working through. I know many of you are asking, 'When will we see that come out?' I can tell you that it will be coming out very shortly. We are just working on some final details.

Hon. Albert Isola MP

Minister for Digital, Financial Services & Public Utilities

Many of you have been very engaged with us in the consultation, for which I'm grateful. I hope to have publication of the Bill before the summer and then engaging with you further on any issues that still arise. I'm not going to go into any details. I know there are many other people far better qualified than I to talk through the detail of the Bill through the course of the day, and I'm grateful to them for doing that.

I'd also like to thank Sarah Gardner for being with us today. The relationship between Andrew Lyman and his team (at the Gibraltar Gambling Commission) and the UK Gambling Commission is important to all of us, and I'm very grateful that she's taken the time to spend the day with us. I know that it will be interesting to have her insight into the recent activity, and what's going to be happening as a result of the White Paper in the United Kingdom.

I always use this opportunity to thank my gambling team: Andrew, our regulator, who works closely with you all on some easy matters and some difficult matters. I'd also like to thank the licensing and the regulatory teams who have been super busy these past few years in dealing not just with the legislation and the preparation for what's coming – that transition is going to be very important to make sure it's a fluid and easy transition into the new legislation – but also in respect of all the work they've been doing with Moneyval, FATF, and everything else from a regulatory side.

If I talk through the issues, I'll start with the grey listing. I think that you guys were targeted a little bit, if I can put it like that, in June of last year, in my view, wholly unfairly. I think your regulator had done a sterling job. Certainly in the presentations that I was at in the face-to-face meeting in Paris, the Gambling Commission had literally nothing to answer. The documentation that had been provided was superb. There were no questions arising from it, and therefore, to be targeted in the way that we were afterwards was, I thought, unhelpful and unfortunate.

But we have agreed to embark on this process, we have jumped in with both feet and we've done an extremely good job. When I look at where we were, just a few years ago, and where we are today – and I include all of you in this – we're in a different place. Our approach, our professionalism, our expertise, not just in your industry but across the entire jurisdiction.

Where we were five years ago when we started this journey and where we are today is a very, very different place. We are so much better. I think now we hit the grade, and we can say that with some pride.

That is why I tell you that, for me, it's very obviously not if, but when, we come off the grey list. There are a number of very small matters of detail which we're working through with the Committee and the working group, and I hope very soon to be able to say that, as far as we're concerned, we've done that.

As I say, timing is not within our control, and I appreciate very much the extra work that you have all had to do in dealing with the grey-listing. I think the jurisdiction has worked through it extraordinarily well. If I tell you that, in the last 12 months, we've had 13 new B2B and B2C applicants coming through, it tells you that the confidence in our ability as a gaming jurisdiction, and our reputation, is untouched, and we continue to punch well above our weight. To all of you, I am incredibly grateful to you for that.

The other issue that concerns you, understandably, is mobility. I have to say that we were making some very good progress in recent times on our negotiations on the Treaty, and we were literally almost there to the tune of beginning to draft the detailed text of the Treaty itself. The amount of time invested in this process, not just by the United Kingdom Government, the Gibraltar Government, and the Spanish Government, but also by the European Commission, has really been quite remarkable. There is a determination to get this through the line, which I know you will all want to see.

The sudden curveball that we received, in terms of the announcement of the Spanish election, threw us all a bit. But, as we do, and as we've always done as a community and as a jurisdiction, we get our heads down and work our way through whatever it is that we need to face. What I can tell you is that the work is ongoing; we haven't stopped. There isn't a pause. We continued to work and there is a lot of work to be done in preparation.

We are seeking to use the time between now and whenever we have the outcome of the Spanish elections to be in the best position possible to pick it up and move more swiftly, rather than to then have to wait a period of time to work through the finer details. It's very much a work in progress. I know Fabian [Picardo – Chief Minister] is totally committed to this process and 100% invested in it, and I remain confident that we will have an outcome that works for all of us, in terms of the mobility that you crave and we all desire.

So with respect to the grey-listing, we are in a good place. With respect to the Treaty, we are awaiting the outcome of what happens in Spain, but making use of the time to progress matters as far as we possibly can.

As I said at the outset, when I started doing this job 10 years ago, I never expected some of the shocks that have come our way. My God, they have been shocks. Yet, like you do, like we do, you have to play the cards you're dealt, and that's what we've done relentlessly through this period, and that is what has seen us through the biggest challenges our community has ever faced.

The way that we managed to get through COVID together, the way we've managed to get through Brexit and the withdrawal agreement together: when you think that we lost the entirety of all of your European businesses, and yet the numbers today are as strong as they were before that happened in 2016. It's remarkable, and a testament to your professionalism and your entrepreneurial spirit, which always will see us through when we work together.

I can tell you that our commitment to you remains as strong and as solid as it always has been. I am available to you, and to your Association, individually and jointly. I have to say a very big thank you to Paul Foster, who's been the head of the Gibraltar Betting and Gaming Association (GBGA) for the last five years now. For all of his time, and all of his work in representing your interests with government, I'm deeply grateful to him, and I wish Nicky [Nicholas Macias] every success in his new position with a dream team that is supporting him in that process – God help you all! I very much look forward to continuing to work with them in dealing with any issues that you have.

As I always tell you every year when I come before you to open today's events, my door is always open. I am absolutely able to meet you as and when you need, and to help to work through any issues or problems that you have, in the way that we've always done, together.

So thank you, KPMG. Thank you, everyone, for being here today. We have record numbers, our jurisdiction is looking strong despite the curveballs, and I very much look forward to this ongoing and to seeing your industry continue to grow in the way that you have done up until now. Thank you very much, and have a good day.

Gibraltar Update

Presentation by Andrew Lyman

Gambling Commissioner and Executive Director at Government of Gibraltar

Reflecting on the past 12 months, Gibraltar Gambling Commission Andrew Lyman outlined the progress the Gambling Commission Team has made in terms of meeting regulatory challenges and responding to the evolving needs of the gaming industry. He also updated delegates on the progress of the Gambling Bill and developing regulatory approaches to the increasing numbers of multi-jurisdictional operators in the sector.

It doesn't seem five minutes since I stood up at the last KPMG conference. Time flies when you are enjoying yourself! But, when you get to my age, time definitely speeds up. If you will forgive me for being self -indulgent for a moment, being in the latter part of your career (some might say the twilight) means you can bring all your experience to bear, have the luxury of learning from all of your mistakes, be self-aware (to a point) but, ultimately, not really dwell on what anyone thinks about you. That's a happy place for me, but for my team and perhaps sometimes for the industry, that might be a difficult place.

Turning to my colleagues, both on licensing and regulation, I am very proud of the heavy lifting that we have done. We are a small team (only nine), but we have processed a significant number of new licences, both B2B and B2C as the Minister indicated, helped operators expand the verticals they offer, kept up the pace on structured AML site visits, supported the industry with multiple software approvals, dealt with consumer complaints and a large number of sports integrity cases.

On top of that there has been a busy stream of risk, governance and enforcement issues.

As well as the operational side of the business, we have been very busy on the policy front. The Gibraltar Gambling Division is an understated, perhaps even under-appreciated, part of Government, but nevertheless it plays a vital part in an important sector of the economy.

I am pleased that the FATF assessment team have upgraded their assessment of supervisory effectiveness for all Gibraltar supervisors in the enforcement area, but that we have been able to demonstrate that effectiveness without, hopefully, losing the confidence of the industry.

We have also moved to more suitable office space and the team have punched above their weight in terms of output and commitment. My greatest professional pleasure is knowing that the Gambling Division does not need me for the purposes of good administration and that I am now an irritant to the team when I decide to turn up on site visits.

Our next step is digitalisation of our processes and everyone knows what they are doing. For all that, I thank my colleagues and indeed the industry for their level of engagement with me and colleagues.

It is vital that the regulator understands not only the regulatory framework, but the commercial drivers, the strategic direction, and the future landscape for the industry. I also think it is vital for the regulator to understand the gambling industry supply chain and the wider eco-system which is why you will have seen some changes in the new forthcoming Bill in terms of what constitutes regulated activity. Like Gilbert and Sullivan's The Duke of Plaza Toro, I look forward to leading my regiment from behind because I'll find it less exciting.

Seriously, though, my focus is now on transition and modernisation, leaving more of the day job to colleagues and putting my shoulder to the wheel when required on change management. I still have the energy for that and, as one of my colleagues keeps telling me, I like coming to work too much.

I had hoped to have showcased the new Gambling Bill today but, whilst all the major revisions have been agreed, following extensive industry consultation which has driven changes and simplification, we are still looking at how we effectively regulate aspects of marketing conducted by those without operational licenses. This has prevented getting the Bill to Parliament before the summer. There is a small window of opportunity for further informal engagement on this issue.

The lull in legislative progress is allowing us to catch up on other policy work such as the development of a new social responsibility code, a new technical standards document and defining new processes. We will have our noses to the grindstone during the summer months to move this work forward towards consultation.

The whole gambling eco-system is changing. Most jurisdictions are moving to their own open market regulatory regimes.

The content of the recent Gambling Regulators' European Forum was much more knowledgeable and sophisticated than I have ever known it. There is an impetus for cross-jurisdictional regulatory cooperation to deal with multi-jurisdictional operators. Gambling regulators now have a greater understanding of the supply chain and future trends which conflate gambling with entertainment.

There are still some political headwinds, as the Minister mentioned, to negotiate. I have come to appreciate the political and structural realities of the FATF evaluation process, but I am convinced that the direction of travel is very positive with now only one further action point to meet.

The uncertainty of frontier fluidity continues but the industry has lived with that for some time and I am confident that, regardless of timing of outcome, the industry will sustain in Gibraltar.

The industry, using gross gaming yield as a proxy, is 72% UK facing and operators are still looking to build out their rest of the world, emerging market business from here. Industry employee numbers appear to be up, there is constant interest in licences and expansion, and Gibraltar is still a hub of choice for many.

Whilst Gibraltar remains an operational centre, it is also developing as a multi-jurisdictional service centre, with at least one US business having its trading team here. There is also interest in the jurisdiction from as far away as Taiwan and other locations, and I am spending a lot of my time on what some might describe as business development (or I might probably more rightly describe as triage). B2Bs still see Gibraltar as relevant from

a commercial perspective and as a good place to do business from.

We are a regulator that tries to provide pragmatic solutions whilst protecting the good name of the jurisdiction. What we ask of our licensees is good faith, a shared objective in providing safer gambling, and a commitment to financial propriety and consumer protection. The new Act will have a statutory objective about protecting the reputation of Gibraltar and we simply don't want anyone here who would play fast and loose with Gibraltar's good name.

I attended the KPMG event yesterday on diversity, equity and inclusion – and as a 61-year-old privileged white male, I have a lot to learn. I am actively engaging with both the ESG agenda and DEI as a subset of this and I would urge all industry leaders, particularly at C-level, to engage with the agenda. To the rest of you, I would say call it out if it's not right!

Finally, a plea to the industry to support our Centre for Excellence for Responsible Gambling (CERG) at the University. The CERG has now received UK RET recognition and is doing great work. With the number of UK operators based here, it aims is to be part of the coordinated UK research effort. Given the wealth of consumer data held under Gibraltar licences, I would urge the industry to engage in building a secure and lawful data repository to assist meaningful research. The industry must also provide a sustainable funding solution for the CERG.

I am not a politician so I do not have to have an unswervingly optimistic view in the face of challenges but, strangely, I do feel genuinely optimistic about the Gibraltar gambling sector which will sustain and prosper in what is a period of continued uncertainty.

Thank you and enjoy the day.

Great Britain Gambling Commission Briefing

Presentation by Sarah Gardner

Deputy Chief Executive, GB Gambling Commission

With the publication of the UK Government's Gambling Review White Paper in late April, delegates were understandably keen to learn how proposed reforms to the UK Gambling Act 2005 might affect operators in the future. In her detailed speech, Sarah Gardner outlined key areas of interest and a timetable for consultation, appealing to the industry to help provide evidence to ensure regulations were robust but would not bring unintended consequences. She also gave an update on recent enforcement action and the Commission's work to ensure safer, fairer and crime-free gambling in Great Britain.

Thank you very much for inviting us to be here for today's eSummit. Such excellent timing for us, too, not least because I finally get to do a speech where I'm not describing the White Paper as 'probably imminent', and I can start using the past tense a bit more, albeit there is still quite a lot of future tense.

At this moment in time, we have the crucial work of the Gambling Act Review implementation beginning. The publication of the White Paper we see very much as the start, so it's good to have that behind us, but in the coming weeks, you'll see us starting to deliver on the commitments we've made as part of that process. That includes publishing the first set of consultations, as part of the implementation of the White Paper.

Today, I'm going to give you some thoughts on the White Paper, and what that first consultation window, in particular, is likely to look like. I also want to spend a bit of time talking about our recent compliance activity, what we think that tells us about the state of regulatory compliance in the British market, and how, through collaboration, including talking to you all here today, we hope to make even swifter progress in making gambling safer, fairer, and crime-free.

First, given all of that, I thought it would be useful to briefly cover some of our statistics because they give quite a good sense of the state of play in the British gambling market. We've been saying this for a little while now – but it bears some repetition – that when we look at the British gambling market, even when you account for the COVID-19 pandemic, it still looks and feels like the mature licence market that it is.

In terms of some of those headline stats, the year to the end of March 2022 saw Gross Gambling Yield at £14.1bn. When we look at participation, we've got some more recent data there, so the year to the end of March 2023 saw 44% of adults taking part in a gambling activity in the past four weeks, according to our data.

Many things have changed in the world since COVID-19 first hit, and gambling, you don't need me to tell you, hasn't been immune. But that these numbers are similar to where we were in early 2020 is worthy of some note.

Similarly, when we look at participation, the land-based gambling participation rate for the last year remains statistically stable at 27%, and online also statistically stable at 26%. We often hear people talking about an explosion in online gambling since the pandemic, but the numbers, whilst confirming a long-term trend that we've all seen for growth online, refuse to show anything that I would describe as an explosion.

> **The broad picture is that we've got a mature, stable market in Great Britain with – when regarded internationally – a liberal approach to products and high rates of channelisation. This, of course, drives operators towards innovation, if they wish to grow in what's a highly competitive market. That feels like a healthy place to be, in terms of healthy markets and so on.**

Partly related to this, although arguably also related to some of the work we've been doing at the Commission, we think we're starting to see some encouraging signs of operator innovation and competition based around compliance. We started seeing some of this last year, in what operators were saying to the market about the impact of newly-introduced safer gambling measures, and now we're starting to see some encouraging signs from our compliance activity.

The last year has, of course, seen the Gambling Commission conclude some of the largest enforcement cases in our history. In terms of scale, we broke our own record for the largest ever settlement twice in the last financial year (2022-23). In that year, we concluded 24 enforcement cases, with operators paying over £60m because of regulatory failures. That compares, for example, to the 2016-17 financial year, where we had three operators paying out £1.7m. So the scale is of a different order.

I should emphasise, before I go on, that we don't take enforcement action, or mete out penalty packages and agree settlements just to mess with operators and make headlines. Neither do we launch enforcement action for every minor wrinkle that we see in every operator anywhere. More about how we deal with some of those lower-level issues later.

To be clear, we launch enforcement action where we have breaches and failings that demand it. So the cases you'll see on our website don't talk about minor failings. They're not even particularly debatable in terms of the harm: we don't have long debates about whether this should or shouldn't have happened, generally speaking, in these cases. These are serious failings. They are normally actions or, quite often, omissions which lead to these enforcement cases which let down real people, and often lead to real harms as well.

For example, recent cases (and we always publish them on our website, so you can read all of these) have included one customer who was allowed to open a new account and spend £23,000 in 20 minutes without any checks. Another customer who was allowed to deposit £43,000 and lose £36,000 within seven days without being identified as potentially being at risk of any harm, or any due diligence having been conducted to establish what the position was. Another customer who was allowed to lose £70,000 over a ten-hour period just a day after opening their account, because there were no controls in place to prevent large levels of high-velocity spend by new customers.

All three of those are real examples. They're from different published enforcement cases that you can read on our website. Regrettably there are more there. At the Commission, we've been consistent with a clear message that those kinds of cases have to stop.

We have some green shoots: whilst these examples show the scale of some of those failings in the recent past, we are seeing some hopeful signs that things are improving in places. To be clear, I'm not saying that we've seen an end to these kind of unacceptable breaches, and we don't yet have extensive data. Some of this comes from me just being an irritant to our compliance team and asking, 'What are you seeing at the moment when you are in operators?' But, anecdotally, in our compliance work, we do appear to be seeing less of the types of indefensible examples I've just outlined.

We remain cautious, and we don't expect people to ease up too soon, but this definitely feels like the right sort of direction. What's more, if this really does turn out to be a trend, and it continues, it will mean that the Commission has more time and more resources to start dealing with areas that are far less clear-cut, and where we know operators – because you tell us – would welcome further insight into our expectations.

Talking to our compliance teams about what they're seeing at the moment, we can see some trends in terms of systems of internal control. For example, where internal-audit processors might be checking that a process is being followed, but they're not checking whether the process actually works effectively.

When a Gambling Commission compliance team comes in, one of the things they will always ask is, 'How do you know that that's effective? How do you know that it works?' I doubt anyone wants a box-ticking approach to regulatory compliance, and I think all of us need to guard against it.

Another area that we are seeing relates to the appropriate oversight of affiliates. Not a new issue, in some ways and, again, emerging as a theme in our recent compliance work. Some of you are aware that we are still seeing complaints around blocked withdrawals. I know Andrew Rhodes, our Chief Executive, has reached out to a number of operators directly about this.

These are areas that are often more complicated than may first appear. Withdrawals is probably a good example of that, as some of the CEOs and others that Andrew has engaged with have told him when they've had a look at what's actually happening in their own businesses. That's been really useful. It's right that the Commission asks these sorts of questions

You may have heard us recently talking a lot about how we want compliance at the earliest opportunity. We are clear that we'll play our part in that, too. An example of this is our special-measures process, which has been running for a little while now, and has helped a number of operators to get back into compliance far more quickly than if they'd been put into full casework with enforcement action following.

These have tended to be cases where, under our old processes, we would have put them through for enforcement action, but where, having engaged with the operator, we can see some prospects of getting them into compliance without going down the enforcement route.

So far, around 80% of operators who have been in special measures have successfully returned to full compliance at the end of the process. That's really positive, and something we'll now look to build on. That's not only protected consumers more quickly, of course, and supported licensees back into compliance, but also allows our enforcement and intelligence teams to focus more resources in those areas on issues like illegal online gambling.

Another long-term project starting to show some progress is our challenge to the industry to work with the tech sector and the Information Commissioner's Office to develop a lawful, viable, and effective Single Customer View solution, in order to mitigate the risk of serious gambling-related harms. We've been delighted that the BGC has led on that piece of work and is now trialling the first phase of GamProtect, the multi-operator risk-sharing solution. We are looking forward to more details of that being published as we go forward with the trial, and the subsequent evaluation and development of that model.

Tackling the illegal market has always been an important area for the Commission, even if we've sometimes disagreed with a whole range of stakeholders on both sides of the argument about the scale of the issue. It does, of course, continue to evolve, and is difficult to eliminate entirely. Since the Gambling Commission's last fees review, which took effect last year, we've been able to direct more resource at tackling illegal online activity.

As a result, we have been able to increase our enforcement actions in this area by over 500% between the last financial year and the one before that. We've more than doubled the number of positive disruption outcomes, and we've intervened with social media to close down illegal lotteries, and to stop influencers promoting unlicensed gambling.

Our efforts are increasingly further upstream to seek to disrupt these illegal sites before they get a hold. To this end, we've also stepped up our work with other regulators, in particular in the jurisdictions which tend to host these operators. We've been engaging with payment providers and ISPs, and working with them to cut these sites off from the British market, building relationships, and working agreements to cut supply at the transaction stage.

Whilst we continue to strive for further progress in this area, so we can better disrupt these sites, I should also say that we will never accept the argument that I've sometimes heard: that because an illegal option online exists, we should somehow have lower, less fair, or less safe standards in the regulated sector. No-one ever argued that a licensed taxi should be allowed to have bald tyres because illegal taxis exist. That's a relevant analogy here.

Britain is – and must continue to be – a world leader in providing consumers with

a fair and safe gambling market, and that's down to the efforts of everyone in this room. I'd like to thank you for that.

You may also have seen that the Gambling Commission was promised additional powers to deal with illegal online gambling in the White Paper that was published in April.

As you might expect, that wasn't the only part of the White Paper that the Commission particularly welcomed, and it isn't the only thing about the White Paper, or its implementation, that I want to discuss today. It's just shy of two months since the Government published the Gambling Act Review White Paper, and as you all know, the Commission supported the Review, and we continue to work closely with DCMS on it.

Alongside the White Paper, we also published the advice that we'd given to Government as part of the Review on the same day. Again, that's all available on our website.

We're now working closely with Government, stakeholders, and a whole range of partners to push forward with the implementation of the White Paper. But what does that mean in the real world? What does it all look like?

Well, firstly, we will shortly publish two items that we committed to deliver in our advice to Government. That's some reinforcement around licensees' responsibilities regarding third parties and white-label arrangements, and our vulnerability statement, which links to our guidance for operators on customer interaction, of course. I'll talk later about our work on data and filling evidence gaps, which again, was a commitment in our advice to Government.

I'm also happy to say that we are on track to deliver against our plan to publish the first tranche of Gambling Act Review-related consultations next month. When you see them, I hope it will be clear that we're committed to maintaining the momentum, and maintaining progress in line with the commitments we've made, and the expectations set out by Government in the White Paper.

This summer, we intend to consult on proposals related to four areas. Those are age verification in premises; removing features which increase intensity of play on non-slots casino games online; cross-selling, specifically giving the consumer power over what marketing they receive; and financial risk and vulnerability checks.

In order not to breach every rule under the sun about public consultations by pre-empting what's to come, I'm not going to be able to say much more about those now or in any questions later. But I hope you recognise that I am sharing as much information as I can at this stage because we genuinely want as much engagement with all of our consultations in this process as possible, from all interested parties. Critically that includes the industry, trade bodies, consumers, and those with lived experience.

I can say, though, that we are timetabling our most significant consultations to last 12 weeks, in line with best practice, and in line with our usual practice for significant proposals, which we think people ought to take more time to think about and provide us with evidence to support that process. As I and others at the Commission have already said, we want to get the implementation of the Gambling Act Review and all the proposals in the White Paper right. That means it's worth taking time to do things like consultations and the structured implementation timetable properly. So 'less haste and more speed' is the way I would characterise our approach.

We're also clear that implementation will not be a quick job, especially when you include evaluating the impact of any changes, which we are building into our plans from the outset. The White Paper has over 60 areas of work to implement. Not all of those will affect every operator (before everyone keels over!) but, from a Commission perspective, that's what it looks like. That necessitates that we prioritise our resources.

Please don't think that anything I've said here means that we don't want to progress things as quickly as possible. The consultations I've outlined this summer will be followed by a second tranche in the autumn. We're determined to make progress quickly but I am sure I am not the only one who has seen, over the years, examples of well-meaning policy changes having unintended consequences for the public due to the way they were implemented in the real world. So we'll be doing everything we possibly can to avoid doing that here. As I say, less haste, more speed.

One way of helping implementation is if all those interested in gambling regulation in Great Britain engage with the Commission and with the Government in that spirit of collaboration that we've already been discussing here. We really want your views, we want to get this right. Wrecking tactics on any side won't help anyone. Collaboration is the key.

Over the years, and where appropriate, the Commission has repeatedly sought to collaborate with gambling operators to help improve things for consumers at a quicker pace than would be the case if we were to act alone. The multi-operator risk-sharing solution, GamProtect, that I talked about earlier is the latest in a number of positive examples in that kind of approach. We want to continue to deploy that approach where it's useful and where it's appropriate to do so, and we're always open to conversations about opportunities to do that.

Delivering on one of our commitments and our advice to Government for the Gambling Act Review, we're also continuing to work with others on improving the data research and evidence around gambling. Again, not a new issue. Some of you may be aware, we had a really successful conference in March, which was a bit of an experiment for the Commission. We haven't tried anything like that before. What we did was to bring together operators, academics, and others to discuss and debate how we can improve the evidence base for gambling and the way it's regulated.

Since then, we've published some updates on the work we're doing to improve our Participation and Prevalence statistics, the pilot of which was delivered last year. We've published where we see evidence gaps that we think could be filled in the next three years. Again, we've done this to be transparent about the direction of travel, and to invite others to help us with what needs to be done; to try and stimulate some interest in these issues, particularly from people who can help to fill some of those gaps.

Both of those important projects also tie in to our consumer voice research. Last year, we published our Path to Play research, and we'll be continuing to study and publish on what drives and interests consumers and their gambling in the months and years ahead. By consumers, I don't just means those at risk of harm, I mean anyone engaging in gambling. It is clear from the Commission's licensing objectives that we exist for all consumers.

Finally, as I mentioned earlier, we are also increasingly active internationally. Whilst we've always valued our relationships with fellow regulators, we're finding ourselves placing more and more value in these relationships as gambling becomes an ever more global market. I'm pleased to say that we've got very strong relationships with the regulators you may expect us to, including here in Gibraltar, but we're also meeting and sharing information and best practice with regulators on a regular basis from Australia and the Far East, through Africa and Europe, and right across, increasingly, of course, to North America. And, yes, some of your organisations do come up in those conversations!

Whether it be improving our own rules, improving the evidence base, or improving outcomes for consumers, at the Commission we really value what we can achieve by working with others.

So, in conclusion, it's been said before but the next few years represent a real opportunity for everyone to make a decisive difference towards gambling in Great Britain being fairer, safer, and crime-free.

Implementing the Gambling Act Review will take time, as will improving the evidence base, and so it will take time to eliminate the need for us to intervene to the extent we have had to do in enforcement terms.

It is the Commission's firm view that we can achieve all of this in the months and years ahead. My ask today is to please join us. There's plenty to do, and I look forward to working with the industry and other stakeholders to do all of this. Thank you.

Questions were then invited from delegates.

Delegate Question: The UK sets the standard for regulation, it has done for many years now, and the world is following, which is good to see. The White Paper raised a few eyebrows amongst operators - and I know there is a consultation period going ahead – but the deposit limits set for players seem to be one of the main points of concern. I wondered how you initially came up with those limits? Have you also considered the effect on the horseracing industry of the levy that is required to fund that industry? Because it's a huge business, which some of our businesses rely on, as well.

Sarah Gardner: Firstly it's important that I say the White Paper is the Government's White Paper: the contents of it, including those limits, are what Ministers have decided to put in there. We have obviously advised on it.

This whole area, as you know, will be subject of consultations going forward, so it is a prime example of where it's really important that the industry in particular come forward with evidence. By which I don't mean assertion about 'This just won't work,' or 'Everything will come to an end.' I mean real evidence that shows if you do this, here is the evidence to show what will happen. No one plucks these things out of thin air. We want this to be evidence-based. We'll be trying to play our part to advise the Government on how to go forward.

Delegate Question: My question is about the white label, and the understanding around advertising, particularly in the sports-betting sector, regarding hoardings. There's some evidence-based research being conducted around Premier League games operator hoardings. Do you have any more information, just so I can understand which direction that's headed, and what the Gambling Commission's thinking around it is?

Sarah Gardner: We're often asked about advertising, which I always think is quite interesting because it's one of the areas where the Commission doesn't have total regulatory control. For example, we don't have the power to ban advertising, contrary to one of the myths and legends that's around. There are – as well as the Government – obviously other regulators in this space, including, notably, the ASA and Ofcom.

We have advised and committed to a package of measures relating to advertising and marketing, and that includes consulting on proposals to restrict cross-selling, to give consumers the choice of when they receive marketing, and ensuring that bonus offers or incentives are only made available safely.

That said, we do recognise the public concern – and I think we said this when we were talking to DCMS about our advice into the Review – about the prevalence of gambling advertising. Not always aligned to the evidence base, actually, which is an interesting place for Government to be, but I'm not them, and I don't have the freedoms that they have to make political choices in this space.

The other thing we would always say as a Commission about advertising is that it shouldn't be, in our view, considered in isolation. Our principal focus is on ensuring that the gambling product, the relationship between operators and consumers is as safe as can be. We are of the view that our broad package of ongoing work to make gambling safer, including things like our work on safer game design, customer interaction, and of course the BGC's important work on a Single Customer View, combined with our recommendations on areas such as increasing online protections, will make the playing of the advertised product considerably safer. I'm sorry, I realise that doesn't quite answer your question, but I probably can't say any more at this stage.

Delegate Question: One thing that's mentioned in the evidence gaps report is that you're going to be asking for really granular account-level data from operators going forward to build that evidence base. Could you give the room a bit of a flavour as to the capabilities currently at the Commission in that area, and how you plan on scaling up to be able to deal with that type of data?

Sarah Gardner: Yes, this is an area which we recognise is important, for good reason. There are areas of the evidence base for gambling and regulation, as you all know, where there are massive gaps.

Best evidence tends to be from what happens in real life, so things like patterns of play data, and so on, because we can see that. I can think of a couple of occasions internally where that has been very persuasive in dissuading my board away from what it would otherwise have to do where there's an evidence gap, which is to exercise what we call the precautionary principle, which is, if there is prima facie evidence of harm, then it's incumbent on the regulator to act.

There is a reason that we've said we want to get into that granular level of data, and it's why when we made our case to DCMS for the fairly modest uplift that we received last year, it was to enhance our capability in this area. For anyone who is bored enough to look at the Commission's vacancies page, you'll see that that's one of the areas, together with enforcement in particular, where recruitment has been more active than others.

Delegate Question: Will the Commission be canvassing the Government for legal changes so that we'll have more of a lawful basis to access closed group credit data and that kind of thing, to help us make the checks that have been expected of us? I know the Commission has accepted that those checks don't exist yet, but would that legislative change be something that you're looking into?

Sarah Gardner: Our advice on checks is already published. One of the positive things from the current process is that the Government is in active discussions with UK Finance and the financial-services industry. The Commission has been invited to be part of some of those discussions, so we'll be certainly be making sure that the advice that we gave to Government is reflected in that thinking going forwards.

Markets Update

Presentation by Nigel Hinchliffe

Partner KPMG

The eGaming world is well-known for exciting and sometimes surprising M&A deals. Ahead of two panel discussions on the M&A landscape, KPMG's Nigel Hinchliffe took delegates through the ups and downs of the gambling and wider markets over the past 12 months – in what could be described as a tumultuous economic period – and more recent positive signs of recovery.

Looking firstly at the global view in the M&A markets, it's probably fair to say that FY 2021, and perhaps the first quarter of FY 2022, were pretty stellar times for dealmakers.

The last 12 months have been somewhat more challenging, and certainly more volatile. *(Slide 1.)* In that period, we've seen deal values fall across the globe by around about 30%. Looking at that through a volume lens, it's slightly less, probably around 15% or 16%.

It's the top end of the market that has really suffered. So, those large buyouts that we'd seen previously and the IPO activity are areas of the market that have really struggled in the current climate. The mid-market, by contrast, has proved to be somewhat more resilient.

If we look at the UK side of things, there are similar trends with, if anything, slightly steeper declines of around about 40% in the last 12 months, and a similar correlation when you look at volume, with around a 20% decline in volume terms. *(Slide 2.)*

It's always important that we don't get carried away with this volatility, though. If you step back into the real world, and the conditions that we've been dealing with for the last 12 months, then we've had conflict in the Ukraine throughout that period. We've had an inflationary environment, the likes of which we've probably not seen for 40 years or so.

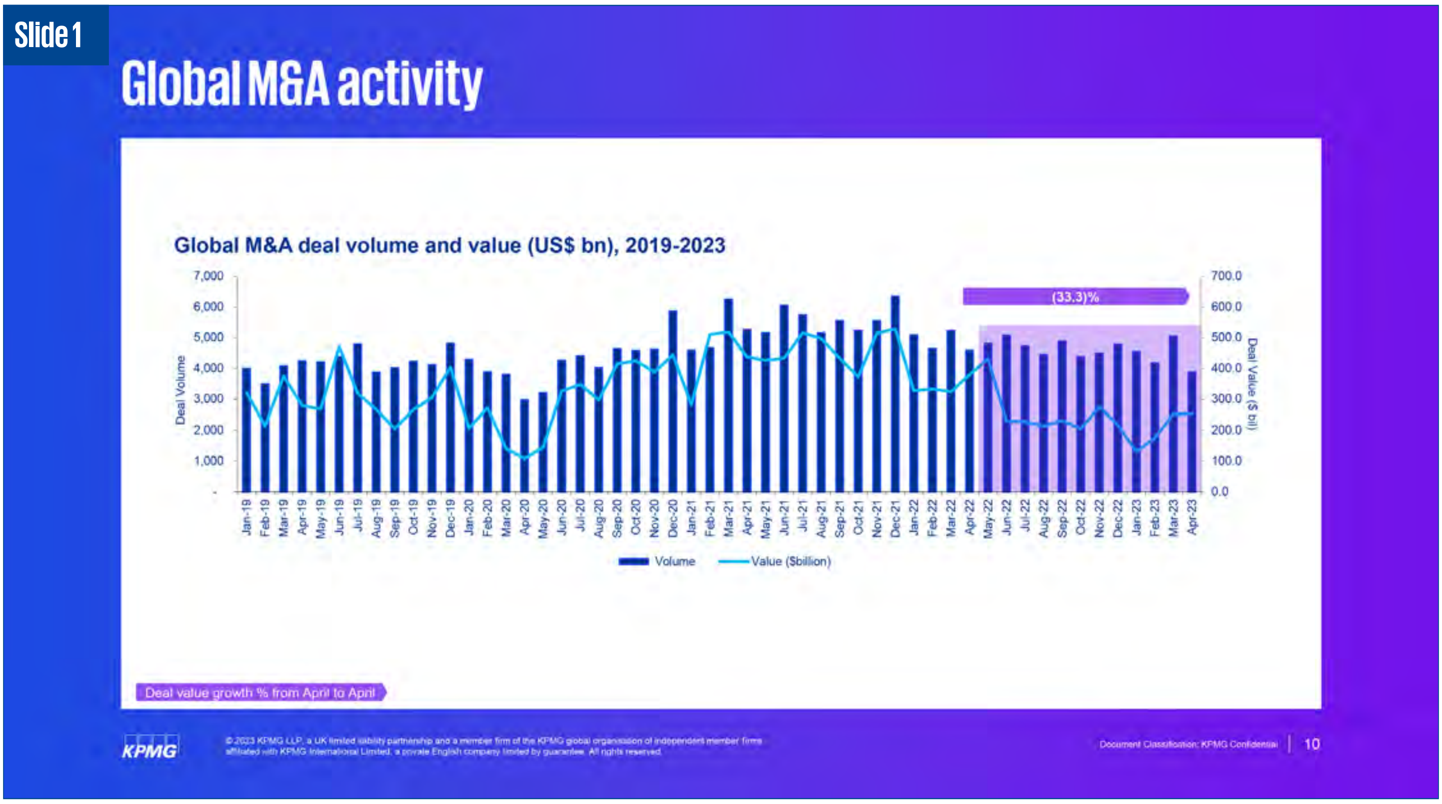
We've seen IPO markets virtually closed, certainly on this side of the Atlantic. It's probably fair to say, we've seen debt markets which have been more challenging than most of us have seen since the financial crisis.

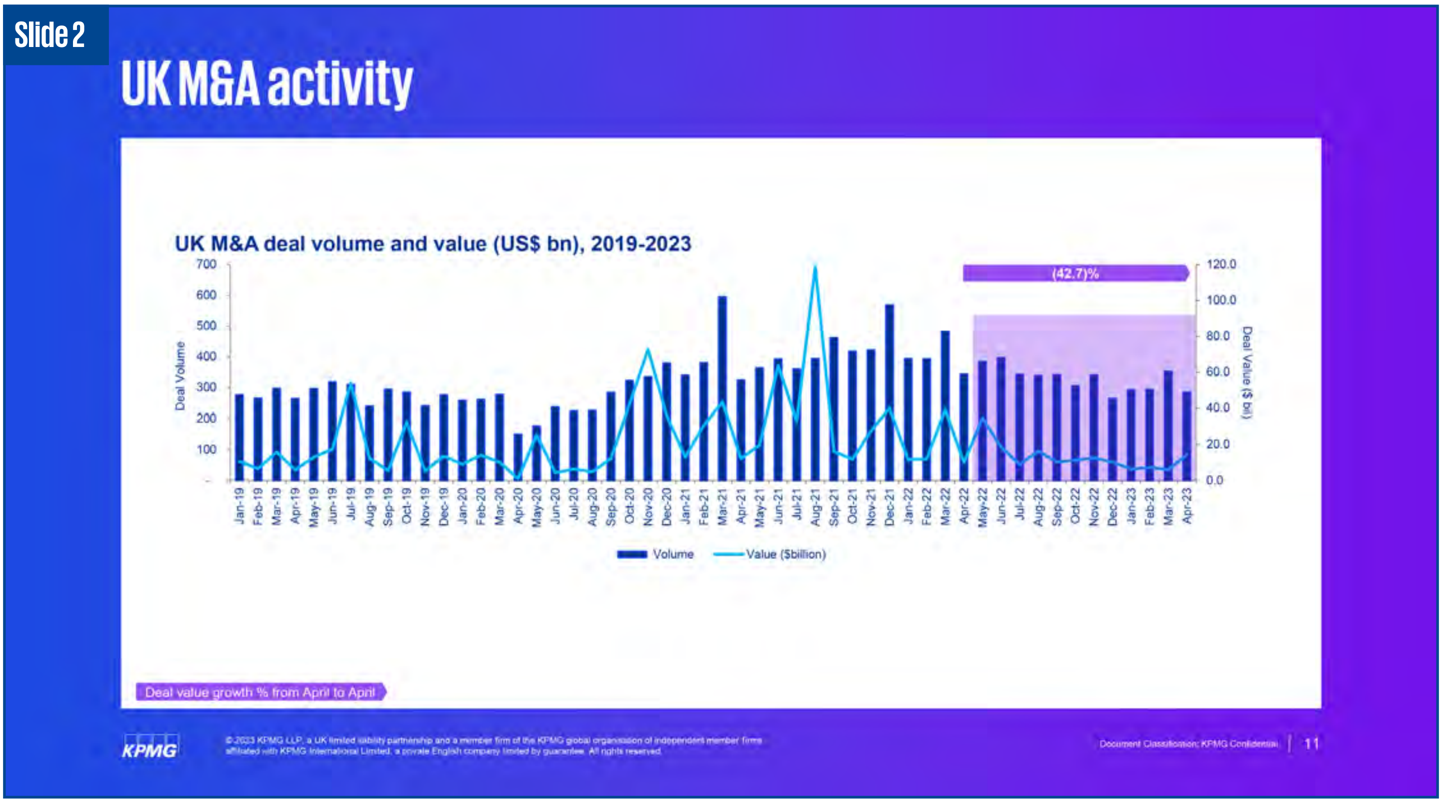
Throw into that the cost-of-living crisis, and the carnage that was the mini-budget back in the autumn, and I'm not going to say you've got the perfect storm but it is quite understandable why we're seeing some of these trends.

I'm going to come on to talk specifically about the gaming sector because, if anything, we are the silver lining from a sector perspective. Before I do that, I'll provide a bit more context from the public markets. I could have used most of the major indices here but we've got the NASDAQ and the FTSE All-Share, which show very similar trends. *(Slide 3.)*

Interestingly, most of the major markets have probably ended the last 12 months broadly where they started them. The fact remains, it's been a pretty rocky ride in the intervening period with pretty steep declines through late summer and the autumn, accentuated by that mini-budget, from a UK perspective.

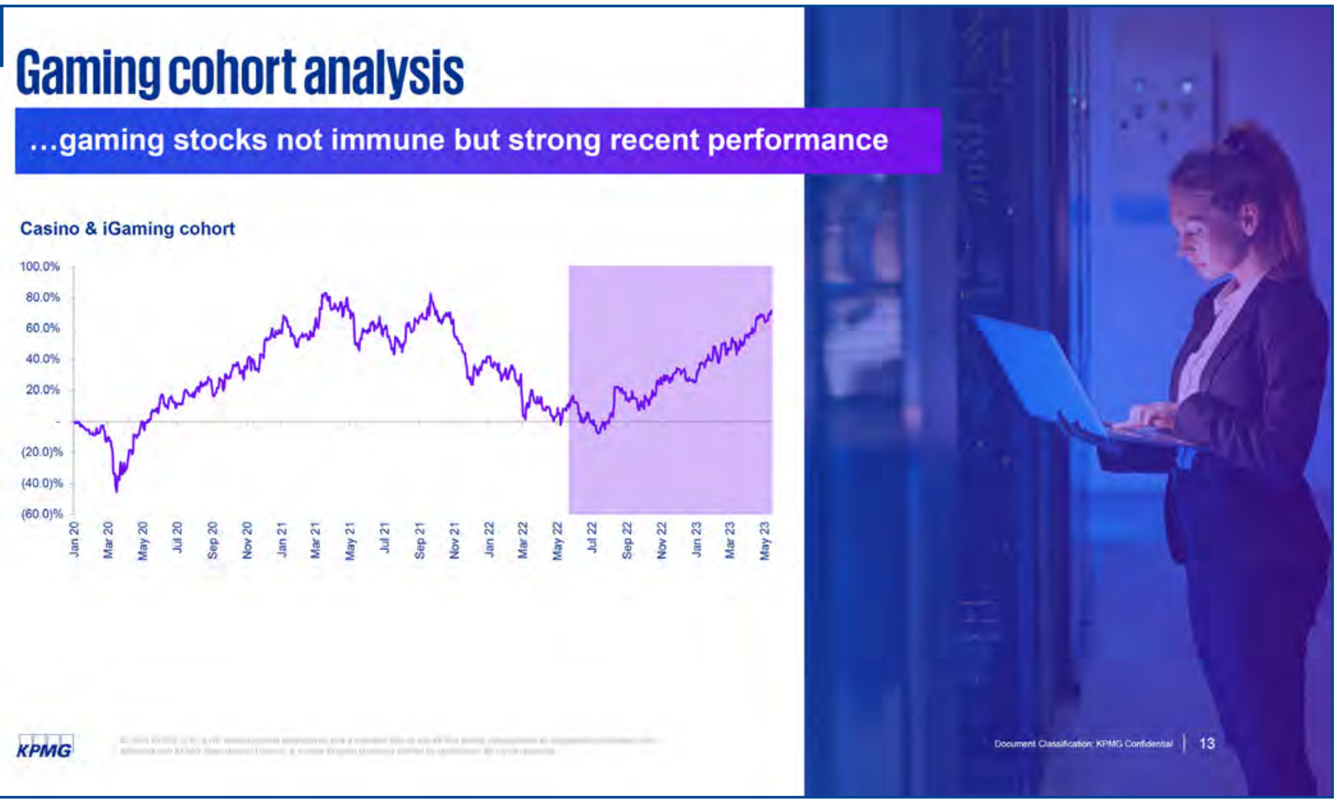
Then there has been a pretty sustained recovery over the last six months. That's something that we've seen translate into our gaming sector, as well. We have proved far more resilient, once again, than the vast majority of other sectors in the market, as we've seen before in previous economic downturns.



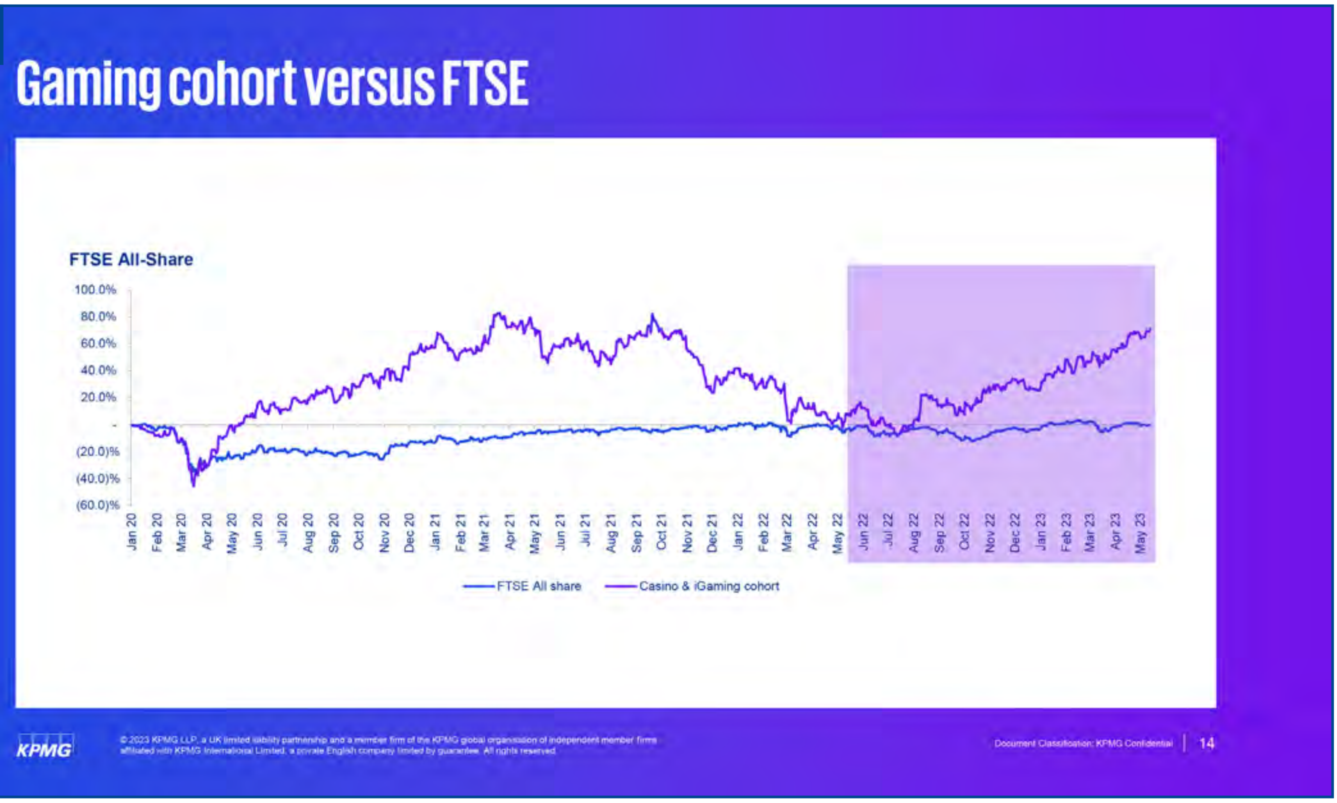

Slide 2
UK M&A activity
UK M&A deal volume and value (US$ bn), 2019-2023
Deal Volume
Deal Value ($ bil)
(42.7)%
Volume
Value ($billion)
Deal value growth % from April to April
KPMG
Document Classification: KPMG Confidential
11


Slide 3
Public markets performance
A volatile year for public markets…
NASDAQ
NASDAQ
FTSE All Share
FTSE100
KPMG
Document Classification: KPMG Confidential
12

Slide 4



Slide 5



Being the accountants we are, we have tried to articulate that by wrapping some numbers around it and the bright young things at KPMG have developed our gaming tracker index. *(Slide 4.)* This is essentially the build-up of 50 leading listed gaming stocks, both in Europe and the US, both B2B and B2C. We've made a few adjustments for some of the land-based operators, and Asian-facing businesses.

The trends are quite unsurprising. Following the drop off in COVID (we've taken this back to January 2020 to show performance through the pandemic), we saw that bull-run through the lockdowns, online migration, and so forth before the correction in late 2021 and 2022.

I want to focus today on the last 12 months. We started that broadly where we were pre-COVID as a sector, in value terms. It's only in the last six or nine months where we've seen this huge value appreciation in the sector as a whole. To the extent that we're probably now 50% to 60%, in value terms, ahead of where we were in pre-COVID times.

Looking at benchmarking against other indices, there are no huge surprises there. Against the FTSE All-Share index, there is significant outperformance throughout before our gaming tracker comes together with the wider market around this time last year. *(Slide 5.)* We've then accelerated right away again in the last six to nine months.

Perhaps a more relevant index is the US TMT. *(Slide 6.)* Again, if anything, I would say there's been even greater outperformance in recent months. It's important, then, to stand back and have a think about why we've seen that level of outperformance. For me, there's probably two things that I want to major on today.

The first is growth. This sounds pretty simplistic but it is key from an investor perspective. The second is diversification.

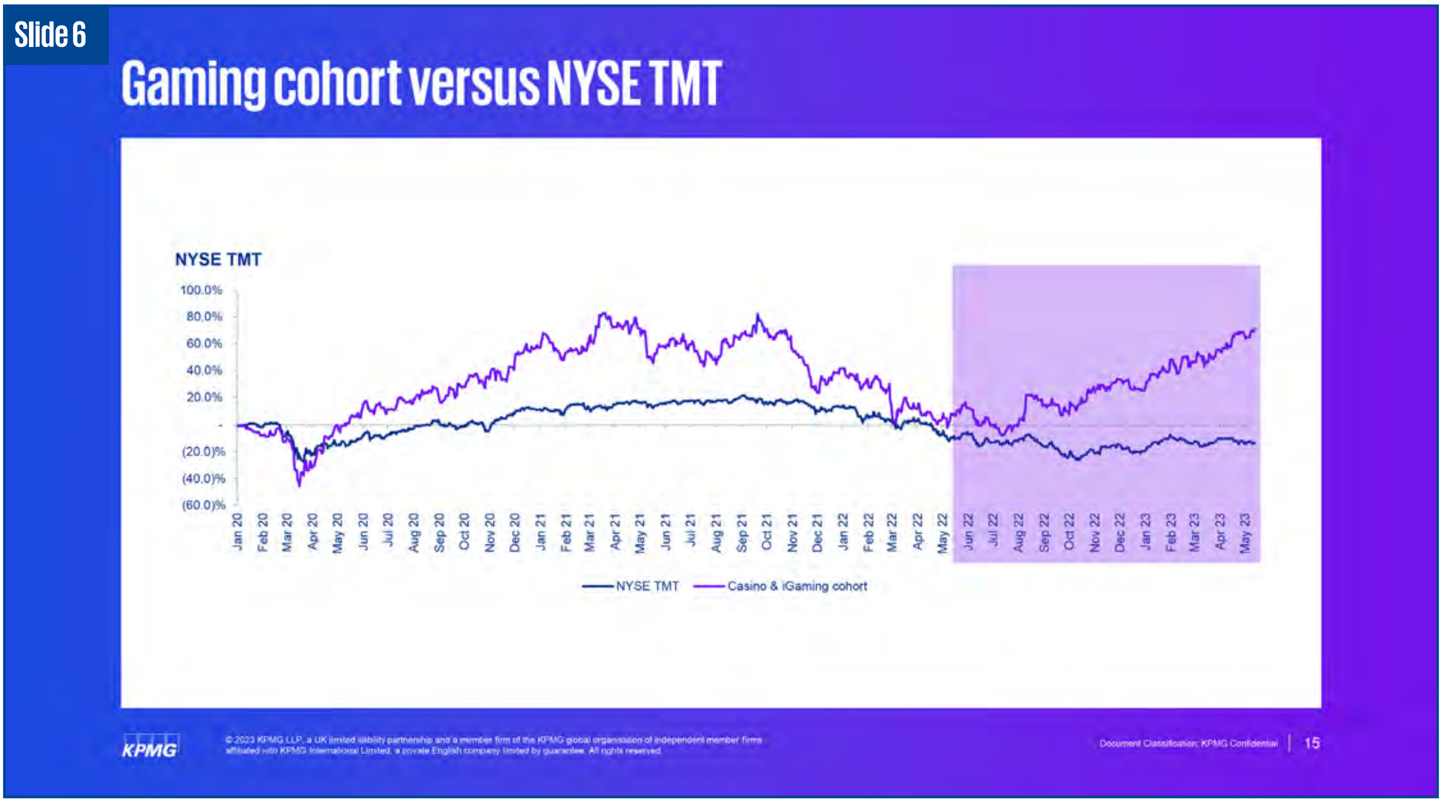
Touching on growth, first of all: is there another sector that has the growth opportunity that we have at the minute? Even if you look at the most conservative of estimates, we're going to have a US market worth $25bn, that didn't exist five years ago.

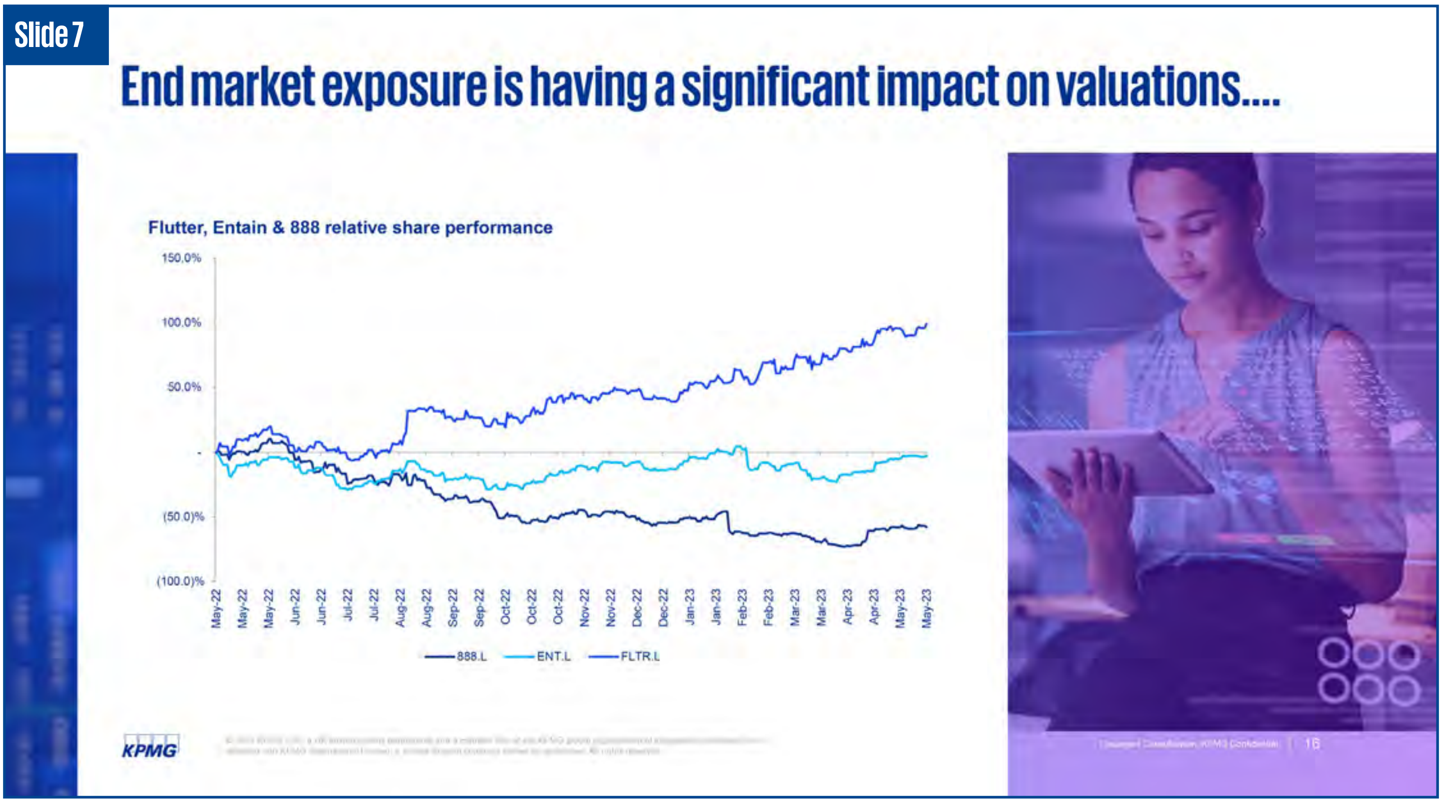
We're going to hear a little bit this afternoon from our LatAm panel about the huge opportunities in Brazil, and the wider region. That's not to mention some of the high growth markets in Europe – Eastern and Central Europe – still at double digit growth and the huge longer-term opportunity in Africa.

There are very few sectors out there that have the scale of the growth opportunity that we have in gaming. Ultimately, investors will chase that growth opportunity.

Again, it's one we have tried to wrap numbers around. *(Slide 7.)* Look at the share price movements of three of our largest European operators, Flutter, Entain and 888, all rebased back. It's no surprise whatsoever that Flutter – the stock with the greatest exposure to that US market – has been the star performer of our sector in the period, particularly the last couple of quarters of FanDuel results, which have been driving that huge share price appreciation.

Then we've got Entain that in itself has a pretty good exposure to that US market, courtesy of the JV with MGM, of course. What Entain has clearly done really well is bolstered that with other bolt-on acquisitions in a re-regulated Netherlands market and in Eastern Europe, as recently as this week. Again, it's a pretty good





performance, given the wider market conditions.

Lastly, we've got 888, and it's probably a little bit unfair of me not to roll this chart into the last few days. It would probably look dramatically different, given recent events. The fact remains that whilst 888, courtesy of that Hills acquisition, has given itself the global platform that the other two have, it doesn't quite have the exposure to some of those high growth markets that Entain and Flutter currently do.

Diversification is something else that's really key to investors at the minute. I no longer mean diversification just in a geographic sense but in a much wider sense. In terms of technology, we are no longer dependent on a small group of large platform providers, for example. In terms of people, we've never had such a deep and diversified talent pool within this sector, and diversification in terms of the customer base, perhaps most importantly, that one, from an investor perspective.

For those that join the earnings calls of the big operators, I'm sure you've heard what has become a bit of a standing dish where the CFO talks about how well they've driven the the recreational customer base, in the last 12 months. I accept a lot of this is driven by the regulatory angle, and the need to get ahead of that affordability curve, but whatever sector you're in, investors have been demanding this for years. Why would I want to invest in a business that is reliant on a small cohort of volatile customers, when I can invest into a recreational base that produces stable cash flows and steady margins over the longer term?

Again, it's something that's coming out in the numbers. *(Slide 8.)* Flutter is a good example: it's been pretty flat, excluding Sisal and the US, for FY 2022 revenues but average monthly players are up a phenomenal 20%. It's a similar story at Entain: pretty flat in terms of online revenues, but, again, active players up 7%. 888, slightly down from an online revenue perspective in 2023 Q1 but, once again, 6% up in active players. That's going to continue to be a key trend that we see in the markets, I'm sure.

Finally, looking at some of the recent activity, while we've probably not seen the level of mega-mergers and large buyouts that perhaps we've talked about in previous years, that doesn't mean that there's not been some pretty noticeable and noteworthy transactions. *(Slide 9.)* And there are some recurring themes coming across that we've touched on before.

The US is still coming in to acquire European tech, and as much as anything, European operational know-how in this space with MGM snapping up LeoVegas. We've seen Flutter probably struggle for a change, in terms of the Italian market, and driving a leading position organically. Consequently, they've turned to the acquisition route and acquired a leading position there, courtesy of Sisal.

Entain, as I've already mentioned, has made a number of high-profile transactions in some of those high growth markets. Perhaps some of the more interesting announcements recently include Fanatics, now starting to make a splash in the space with the PointsBet acquisition, and Lottomatica with the first IPO in our space for a very long time. I'm sure there are going to be wider ramifications for the sector there.

In closing, from a markets' perspective it has been a pretty challenging 12 months for those of us in M&A. I do think the resilience of our sector has been a real silver lining. I would also highlight some of the green shoots that we're currently seeing, certainly, in terms of activity levels picking up in the last two or three weeks.

Slide 8

...and recreational mix is more than a regulatory consideration

Flutter	- FY22 Group revenue +7% (ex US). Flat ex Sisal - AMPs +20% - Revenue per AMP -9%
Entain	- FY22 NGR -1% - Actives +7%
888	- FY23 Q1 online revenue -9% - Actives +6%

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Slide 9

Gaming M&A activity

Evolution Gaming NOLIMIT CITY
MGM RESORTS LeoVegas
ENDEAVOR OpenBet
LOTTOMATICA
888 William Hill
Flutter Sisal
Entain BETCITY
Fanatics POINTSBET

Document Classification: KPMG Confidential | 18

M&A in the sector 1: The Operator Viewpoint

Moderator: Nigel Hinchliffe

Partner, KPMG

Panellists:

James Colburn
Head of M&A, Entain

Ed Ducket
Managing Director, Rothschild

Jon Hale
CEO, Lottoland

Anna Kutsenko
Director of Global Gaming, KPMG

The first of two M&A panel sessions at this year's eSummit analysed current activity and trends from an operator's point of view. KPMG's Nigel Hinchliffe was joined by a seasoned group of experts including James Colburn and Jon Hale, who both have hands-on experience of M&A in their current and previous roles, along with Ed Duckett and Anna Kutsenko who have both spent many years working with operators in an advisory capacity. The discussion took in the changing shape of deals, the impact of activist shareholders, M&A in unregulated or to-be-regulated regions, and other challenges to businesses looking to consolidate or expand.

Nigel Hinchliffe: I touched in my market update on the possible green shoots that we've seen in recent weeks. So as a bit of a temperature test on the markets, is that something that you're seeing at present? Or is it still too early to call?

Ed Duckett: Yes, we are seeing an increase in activity but a very specific type of activity. We've seen the recent deal on STS. This morning, Betsson have bought a company we have been advising, betFIRST, in Belgium. That's quite typical of the sort of transactions we're seeing: local champions, local heroes, if you want to call them that. Operators that are maybe in the top three in their jurisdiction, often with regulatory barriers to entry, if I can put it that way, where it's harder for an operator to come in, especially if it requires a physical presence.

There's been a really clear trend of interest from larger players acquiring businesses of that type rather than the very large-scale M&A that we might have seen in the past with the big consolidation plays. There is a clear theme along that axis, and frankly, some pretty healthy multiples being paid for those types of operators. So, that's probably a good sign of green shoots but it's a certain type of deal.

Nigel Hinchliffe: Anna, you spend a lot of time out in the market with some of those big PE players. What are you seeing on that front? Is there any more encouragement there, given that they've probably suffered more than most over the last 12 months?

Anna Kutsenko: In terms of the private equity world, sponsors took a more guarded approach in the latter part of last year, and Q1 2023. Whilst mid-market has been quite resilient, as you mentioned, and we have seen a lot of activity there, the large cap has struggled quite a lot. This is mostly due to the fact that the syndicated loan markets have been pretty much shut down for large leveraged buyout. We have seen very few potential transactions and not all of them will go through.

In terms of more recent activity, while we've seen a significant uptick in the last couple of months – which is a very positive sign across the board, and our pipeline is looking very strong for the next six to eight weeks – I would say there will be a natural pause for August but we would expect to see a lot more activity in the autumn.

Nigel Hinchliffe: James, Ed has already mentioned the STS acquisition in Poland: yet another blockbuster deal for Entain. I

wonder if you could give the audience a little bit of insight into that transaction, the highlights, and perhaps why it fits well with Entain and its strategy?

James Colburn: Yes, hopefully, most people would have heard that on Tuesday night we announced the acquisition of STS in Poland. We are super-excited about that deal. As Ed mentioned, it is a local market home champion, fully regulated, fast-growing business, with a fantastic management team, that shares our ethos on responsible gambling. So, for us, it ticked every single box that we look for in M&A.

We're excited to see how we can grow STS, alongside SuperSport, the leader in Croatia which we acquired last year and which both form key parts of our CEE business.

Nigel Hinchliffe: Jon, one of the recent trends in our sector is activist shareholders clearly taking a position with two of our large European operators. As an experienced CFO in the space, what are your views on what that means for the sector as a whole, and what it means for a management team as to how you deal with that?

Jon Hale: It's a very topical point. Looking at the valuations of PLC companies, which you kindly showed earlier, I agree with your view on 888, for example, that maybe they haven't got the exposure to the US that the other two have but I also think they are very heavily laden with debt. If you look at their enterprise value versus their market value, there's a huge difference and that's provided an opportunity there for an activist shareholder there.

There are two or three industry veterans, led by Kenny Alexander, who have seen an opportunity to get in at 888 William Hill. There are probably quite a few people in the room who work for 888 William Hill and I have no idea whether they're going to be successful in gaining that.

How do you go about fighting it? I've not, thankfully, come across an activist shareholder. If they were to be successful, I would imagine that Kenny would follow his modus operandi, and be very active in the M&A space.

If you look at Kindred, another business that activist shareholders have had a big say in, most of the board have left Kindred. A strategic review is effectively putting the sale sign up, I think. That's a good business, possibly underformed regulatory issues. Again, there's an opportunity there for these types of investors to get in at a low level, and merely their presence sees the share price grow, as we've seen with 888. They've been up about 60-70% in the last week, as a result of this influence.

If you are those guys, and you've built up a stake at 60p or 70p in 888, and they're now at 120p, it's a no-lose gamble. You either gain control of the company, you can gain long-term benefits, or you end up selling your shares and making a small, quick return.

Nigel Hinchliffe: Yes, I'd agree with that, Jon, it's quite astounding the impact it's had on share price in the last few days. In terms of this as a recurring theme, do you think activist shareholders might be something we see a lot more of? We've seen it in other sectors. Is it something we can expect going forward?

Ed Duckett: I think it's very case specific. Generally, activists are coming in because they can see an angle for them, where they can effect change. That might be disposal of business units, as we've seen in other businesses across the hospitality sector, or it might be trying to push for a change of management, because they think that the strategy is wrong. The gaming sector has always had quite a lot of interest from activists. It will be looking at where those opportunities are.

The other thing that I'll pick up on that Jon referenced, is that by and large, for already listed companies most of the M&A recently has been strategic. There has been an absolute focus on regulated businesses. Where there are operators in grey, or even darker jurisdictions, it is a real challenge to executing any transactions.

That focus is absolutely clear. Take some of the Scandinavian operators, Kindred being one. If there are any question marks around that, whether you reference a strategic review or not, it creates a real challenge to find buyers, and closes out some of the buyer community there.

Jon Hale: On the flip side, some of the most interesting businesses that you want to buy – the fast-moving, fast-growing businesses – are those that are operating in jurisdictions, or parts of the world where maybe there isn't regulation or licensing that you can apply for. Trying to sort out those businesses, and working out which are the good, sustainable businesses, as and when licensing comes into those parts of the world, that is a real test for management.

Ed Duckett: I absolutely agree. There is a stark difference between regulating – or to-be-regulated – and those where it's in the darker shades, shall we say. The LatAm session you have later will be quite interesting on that because there's obviously a lot of focus on when that regulation comes through.

Nigel Hinchliffe: From an operator's perspective, do you feel as though it will become quite binary? Entain has announced that they will move to only regulated, or soon to be regulated, markets. Do you think there are others, perhaps, in the next tier down, that will have to make that decision of going down the regulated route, or some of the other, faster growing markets, rather than perhaps a mix of both, as has been the case in the past?

James Colburn: Yes, I think other operators will have to. Alongside our rebranding to Entain, we decided to exit any market where we didn't see a path to regulation. That is an ongoing exercise but we're the only global operator with I think 100% of our revenue from regulated or regulating markets. I can see other operators having to go down that path, because it's the only way that we can operate.

Nigel Hinchliffe: Changing tack slightly, we always talk about some of the glamorous deals that have completed in the last 12 months. From my perspective, for every one that has completed in the current year there's at least one or two that haven't. Could you give us a bit of insight into some of the challenges that are still out there for the operators that are looking to transact?

James Colburn: Sure. We know that M&A is hard. As you rightly say, for every one that does happen, there's a few that don't. Preparation in any M&A transaction is key. Making sure that if you have legacy issues, you can address them. You know that buyers are going to pick up on it. Make sure that you do your diligence well (particularly around regulatory and licensing matters), and be prepared for everything.

Nigel Hinchliffe: Anna, you spend a lot of your time doing that due diligence. Are there any learnings from the last 12 months, anything that we keep seeing coming up on a lot of gaming transactions, that people could be a bit more proactive on?

Anna Kutsenko: Yes, generally the level of readiness is quite often underestimated. People go to the processes thinking that they have probably done their absolute best but, when we start the due diligence process, there are quite a few bumps in the road. I can call out three most popular areas, where the targets are either underprepared, or certain areas are overlooked, including the business model.

"

We see a lot of examples where there is a disconnect between the historical performance and the assumptions that have been used in the business model. Given that, very often, the forecast period is taken for the evaluation purposes, it's really important to link the two together.

Then, secondly, balance sheet, and net working capital profile, and net debt. While net debt and net working capital are key value consideration areas, very often the analysis that we see is very light, or probably not the most important area of focus. It's quite challenging for management to explain what is happening, explain the profile, the potential normalisation adjustments, and how it may change in the future. We often see that there is no cash flow, because this is not something that they do on a monthly basis. For a potential investor, the cash flow profile and conversion is one of the most important areas to understand.

Lastly, we usually look at the last three years of financial historical performance, and two years 2020 and 2021 are impacted by COVID. It's still a very valid question to understand the performance during COVID. Maybe not from a point of view that it's relevant in the current trading period but from the point of view of how

management is able to address a major issue, a major event, in the most efficient way, and take actions and implement initiatives, trying to stabilise the business and make the business ready for future growth. This is also quite important.

Nigel Hinchliffe: It's probably fair to say that in FY 2021 we saw valuations across all sectors go through the roof. Anything that could be labelled as tech, or tech-enabled, seemed to, all of a sudden, attract a 20x multiple from nowhere. Post that period, it has created this gap between buyer and seller expectations, in our view, which has started to come back together. Ed, is that still a challenge in the market, or do you think buyers and sellers are starting to align again?

Ed Duckett: There is a realignment, as you've seen with two deals in the last week. The auction that we just ran for betFIRST was competitive, right up to the end. It was focused on strategics but there were strategics who were a long way off the value and didn't think the business would trade for the 10x, 12x times that it traded for. The bid-ask spread has closed sufficiently to allow these transactions to happen, but there's still a wide range of bids.

Nigel Hinchliffe: Picking up on one of the other points mentioned earlier, we saw the Lottomatica IPO. Obviously, IPO markets have been largely closed for a period of time now and I'm guessing the Lottomatica one won't go down as one of the most successful in history in our sector. Do you think that will open things up? Jon, you've worked for listed businesses for a number of years: any thoughts on this area?

Jon Hale: I think the IPO market has been shut for 18 months. There was a big listing in the UK that was pulled this morning, a £7bn listing. That's another blow, if you're a business that's looking to IPO. I feel that institutional shareholders are sitting on their hands a little bit and that applies to M&A, as well as IPO. (And congratulations to James and the team for getting the deal done, and raising cash via issue of equity, which is not easy at the moment.) Those that do want to play, they tend to want an increased upside and a reduced downside.

The issue of equity is at a slight discount, not much of a discount, but I don't know whether that was a factor in raising the money. Certainly, when you then flip to the debt side of things, it's a very difficult market. Inflation is still running away, although there was some good news yesterday from the US, albeit they're still playing their cards close to their chest. The cost of debt is very expensive so raising money to do a deal is probably the biggest challenge. If you're a PLC operator, and you can do a share-for-share deal, great. If you've got institutional shareholders that are very supportive, and you can issue equity to raise cash, then all the better.

Nigel Hinchliffe: Any other thoughts on IPO markets or the take private theme? Could we see a little bit of that, given where valuations are?

Ed Duckett: On the IPO side, it's clearly an unhelpful benchmark: for the larger, privately held operators, IPO has always been seen as one of the exit options. One that's often been explored in combination with a sale. We've seen quite a few dual tracks where that's happened, and it's gone one way or the other.

The Lottomatica experience will be making people think again, in terms of the fact that it was priced at the bottom of the range, downsized, and then traded down initially which is an unhelpful benchmark. So, on that side of things, it has likely increased caution around the IPO track for others

On the P2P side, where a deal has not been largely financed by paper or existing cash reserves as part of a strategic combination, it comes down to the financing markets. The economics of a P2P are much harder when there's next to no leverage available to finance that. If you look across the sector, there are some businesses that you would think probably deserve to be in private hands, either because of their regulatory mix or because of a degree of restructuring that needs to happen. Having the capital resources to do that, and then take on the degree of equity risk, when you haven't got the financing there, is making those deals harder to execute.

Jon Hale: Where there is a lot of money is in the private equity sector now. Those guys are sitting on bundles of cash. If you're a private operator, you may look in that direction whilst the IPO market takes its time to reopen. But then you run into valuation issues: those guys want even more value.

Nigel Hinchliffe: They do, indeed. That theme of private equity is one that comes up here every year, and we talk a lot about the usual suspects, the Apollos, the Blackstones, and the likes. Anna, I know you spend a lot of time with these guys: is there any sign that we might get some of the other houses entering the gaming sector and investing in it? It still feels like some of them have a bit of a barrier, in terms of getting gaming transactions through their committees.

Anna Kutsenko: Yes, so in 2021, private equity globally invested $1 trillion. It's a big industry. They are sitting on piles of dry powder, as you correctly mentioned, and they are continuously scanning the horizon for attractive opportunities.

The gaming sector presents this attractive opportunity because of profitability, because of the resilience in the downturn, and strong cash conversion. It provides very good returns. As you said, Nigel, the usual ones are there and they are quite active. They continue building their pipeline for the future.

In terms of the new entrants, for quite a few of them it's quite hard to take on additional risks and the gaming sector is seen as high risk. They cannot go against the general partners' and limited partners' agreement, and invest in those assets. So, it's quite hard. They are more comfortable investing in B2B and services providers, but still quite a few will just not touch gaming, which is unfortunate because they know that they miss out.

Nigel Hinchliffe: It's a recurring theme that we've seen: a lot more investment in the supply chain, rather than perhaps the B2C businesses from a private equity perspective. Do we have any questions from the audience?

Delegate question: Why is it high risk according to PE firms? The industry is now extraordinarily mature, over 20 years. Why do some PE houses find it so high risk?

Anna Kutsenko: It's just the risk appetite, and the structure of an agreement.

Jon Hale: Gaming companies have always been a target, haven't we? It's alcohol and cigarettes, then it's gaming. So, at any point, governments could change their view on taxation, licensing, advertising – and, to a certain extent, we're seeing it. I would agree that we have done an awful lot over the 16 years I've been in the industry to tidy up our reputation. Investors are missing out on a real opportunity to make serious money by swerving it.

Nigel Hinchliffe: I couldn't agree more and this is what we tell the big houses, week in, week out.

Delegate question: What about crypto gambling? How risky is that considered? Is it in-bounds or out of bounds for M&A? Nobody is really licensed in crypto gambling.

James Colburn: Certainly, for Entain, it's not really on the cards at the moment! That's a whole sector in and of itself. Whether that will happen in the future, I don't know. It's not something that we're necessarily too focused on at the moment.

Jon Hale: It's difficult to say. Gibraltar is leading the way again in licensing crypto. It did that a long time ago with the gaming industry, and has done a fantastic job of it, which is proven by 250 people here today in the 12th KPMG summit. It would be nice to think that this would be a centre of excellence for cryptocurrency, as well. That once that's all licensed and regulated, then perhaps as gaming operators, we can look at ways to integrate that into our businesses.

Delegate question: Quick question on the US market winners and losers, on DraftKings, and the future of DraftKings. Who are the winners, and where is there potential? We've got Fanatics and others entering the market. What are your thoughts on that?

James Colburn: It's a good question. You are clearly seeing these top two or three pull away slightly. FanDuel is clearly up there with a fantastic offering on sports. There is then a bit of a gap to the rest. It's a difficult market.

Will we see a bit of consolidation in that market in the not-too-distant future? I'm sure we probably will. At the moment, everybody is fighting for the same players. So, we'll see what happens. It's hard there!

Ed Duckett: I agree with that. There has been a race for those customer accounts. The big players are throwing an enormous amount of money at the opportunity to win share. However, they've actually read it quite well on the whole: that they need to build those loyal customer bases early and get that scale advantage early.

I think it's a positive sign that all of the big three are saying that they're going to turn into profitability in the near term, which creates a more sustainable industry. But, also, it creates a barrier to those challenges. You mentioned Fanatics: it will be interesting to see how they play it, and whether they have a unique angle that allows them to breach those barriers to entry through their connectivity to the US fan base.

I do think that for someone else to break in, that's what they need, rather than just more marketing dollars. They need a new angle. Rubin has never been shy of taking big bets and making big moves. So, we'll watch with interest, to see whether Fanatics can take advantage of that.

Jon Hale: I wouldn't add too much to that, other than the fact I was around when UAGA in 2005 decimated the industry. Probably at several of these conferences, we'd talk about when the US is going to open up - then we stopped talking about it, and now the US is opening up. The genie is out of the bottle and it's not going back in. There's going to be some very big winners in that market.

The sports betting world is tough, it's expensive to get customers, but when the gaming world opens up, which it will, in my opinion, then that's a huge market. Perseverance is the way forward. If you've got an angle in to attract customers at low CPAs and not pay the money that the New York sports betting guys are, then building up a database like that is gold dust.

M&A in the sector 2: The Legal Viewpoint

Moderator: Nigel Hinchliffe

Partner, KPMG

Panellists:

Susan Breen
Partner, Mishcon de Reya

Steven Caetano
Partner, ISOLAS

David McLeish
Partner, Wiggin

Peter Montegriffo
Partner, Hassans

The second of this year's M&A panels looked at recent and potential developments in the markets from a legal perspective. Moderator Nigel Hinchliffe was joined by a highly esteemed and enormously experienced selection of legal representatives for a session that examined the influencing factors in deal structures and how these are changing, the complications, risks and potential mitigations around multi-jurisdictional M&A and some tips for helping deals to progress smoothly.

Nigel Hinchliffe: We've already talked today about some of the challenges out there for M&A. What are you seeing in terms of deal structures and perhaps how they're changing from a legal perspective to try and accommodate some of those challenges, and create greater alignment between buyer and seller?

David McLeish: On the private M&A side, we're seeing increasing use of earnouts to try and create alignment. Earnouts are becoming a little bit more complicated in how they're structured. Traditionally, it was just financial metrics on an earnout. As M&A has developed – and the way people do M&A on a consistent basis as part of buy and build strategies around integration and synergies – we're seeing more operational levers come into earnouts. So, it's often not just pure financials.

They can be pretty difficult for lawyers to draft, and even harder for the business people to explain to the lawyers as to what they're actually trying to get at. There's a real opportunity, especially for the larger trade buyers, to offer up a slice of those synergies, in the way that the earnouts are structured. Certainly, on the B2B side, giving the target management team access to e new distribution channels can really help people hit what would otherwise look like challenging earnout targets.

On the B2C side, there is potential for savings around supplier costs, especially if the buyer has got its own tech, and there is going to be a migration as part of the earnout period. They're the key things we're seeing on the private M&A side.

It's much harder on public M&A, given the nature of the beast. You're still seeing it: the Entain deal for STS and the reinvestment into the CEE JV vehicle by its successful founder, basically aligning him to its future growth. Now he has a chance to stay in that business and help drive it forward.

Steven Caetano: It depends, of course, on a lot of factors: location of parties, how the parties are structured themselves, the objective of the deal, where you want to go, and what markets you want to penetrate.

It's prudent for parties to agree, at the very early stage, on taking advice – including legal, tax and regulatory advice – on a set of key principles, or structuring principles. This is sometimes reflected in a term sheet or framework agreement at the early stage of the deal. Just to avoid any bumps along the way, and try and pre-empt developments in regulated, or to-be-regulated, markets.

From Gibraltar's perspective, we have a recent exit tax that's been implemented into our tax legislation. That bites if, for example, a business is leaving the jurisdiction, and it doesn't leave much residual activity in Gibraltar. So, from that perspective, if you're based in Gibraltar, and then one of your unregulated markets starts to regulate, and you want to enter that market, and that deal is aimed at that market specifically, you should take care in how you structure the deal itself. To try and avoid something like an exit tax if your assets are leaving the jurisdiction because the regulatory requirements, in the new regulated market, requires you to actually deploy assets in that jurisdiction.

Prudency in planning, and also involving tax advisers at the early stage, is very much recommended.

Nigel Hinchliffe: That's very good advice, Steven. I couldn't agree with that more, particularly on getting advice when you're looking at earnout structures. We are getting called back into a number of them now, three or four years down the line, when it's been quite difficult to track something that, in theory, sounded great at the time of the deal, but post-deal can become very complex.

Looking at regulatory developments and, specifically, the impact on M&A in both UK and Gibraltar, we heard from Sarah Gardner this morning about some developments from a UK perspective in the aftermath of the White Paper. Susan, any thoughts in terms of direct implications for M&A stemming from that?

Susan Breen: The UK will be just one of a number of regulatory considerations in M&A. You would have thought, maybe two years ago, that the White Paper and the shifts in the UK market would be where the regulatory debate would be. But if you look at the pan-European situation now, you have an increased risk profile right across the key economies in Europe. Given that most of the players are in one or other of those, you have two things being brought to bear.

The first is increased cooperation between regulators, as Sarah mentioned, and has been presaged by the UK Gambling Commission. Andrew [Lyman] mentioned that this morning as well. So, a reassessment of compliance across boundaries: a focus on risk governance and enforcement as a package. That will bring greater scrutiny on how you do an M&A deal in Europe, never mind Asia, never mind the US, never mind LatAm, and other markets.

Also, whether you're prepared now to do a whole jurisdiction – and by jurisdiction, I mean Europe – M&A deal, and suffer the risks of some of the markets like Germany, Austria, Norway and Finland. I think it will put some buyers off, even on the private side. It's no longer going to be a question, as it has been over the last decade maybe, of choosing between financial rewards and some of the risk profiles. As James says, some operators, the big guys, just won't tolerate the risk/reward ratio anymore, and it will diverge between buyers choosing one market versus a dot-com market.

Nigel Hinchliffe: We had an update from Andrew this morning on the Gibraltar Act, on timings and what we can expect. Any thoughts in terms of potential impacts going forward from an M&A perspective in Gibraltar?

Peter Montegriffo: By the time that the Gibraltar advisors get to look at a deal, most of the cooking and the baking has been done. So, effectively, we are usually slightly behind the curve, in terms of the thinking that's been employed.

What we do see is often increasing complexity. We see the use of structures and of vehicles that were less common maybe five years ago. And we see the regulator more disposed locally to adopt and to accommodate those structures, than might have been the case historically.

Obviously, change of control is the main regulatory interest here but it goes well beyond that, and early engagement is possible. I think the new Act is going to be something that will have to be carefully navigated. Although the new Act codifies, to a large extent, some of the existing practice, it is quite a sea change in a number of areas.

It introduces a wider range of licences. It substitutes the grounds of eligibility for a licence: it's no longer just having a piece of remote gambling equipment. There are going to be other elements in play. A substantive presence test is introduced, which is going to be also a new criteria. Of course, it's going to give the authority much more power, in terms of information gathering, and information requests, and, indeed, enforcement powers, than has been the case historically. So, I would expect much more engagement from the regulator as a result of the new Act going forward.

Andrew [Lyman], very candidly, admitted that they are only a team of nine, so there is only so much stretching the team can do. I think the Gambling Commission resources, or Division resources, here will be increased. We will expect them to be more engaged and to have more detailed questions. I have recently had the need to tackle a particular client who had significant legacy issues: the interests of the regulator in legacy issues, how they might be dealt with in the context of a restructuring, and the context of an acquisition was very evident. We're likely to see much more of that.

Steven Caetano: Just to add, there is also a possible development in terms of B2B licensing. Historically, we've had suppliers being sheltered in Gibraltar, approved on the basis that their equipment is in Gibraltar, and accessible by the regulator, for them to be approved to supply B2C in Gibraltar. With the new Act, it's expected that those operators, who are unlicensed but approved in Gibraltar and sheltered, would need to get their own B2B licence to continue supplying those clients. That, I hope, would lead to enhanced M&A activity, certainly in the B2B sector.

Nigel Hinchliffe: Coming back to the markets, and that increased level of uncertainty that we've seen in the last year, it feels like investors are less comfortable committing all their resources to a transaction early on in a process. From a legal perspective, are there certain early gating items that you're coming across time and time again on transactions that you've been asked to look into?

David McLeish: Yes, the first is probably still the regulatory mix of the business. It's different where you're just going for a local hero – as discussed on the previous panel – where you're talking about one or two core regulated markets. But where the business has got a series of licences around the globe, and dot-com activity, cross-hatching the target's approach to regulatory risk versus the acquirer's is key early on. It's definitely polarising. You're seeing the larger operators taking the approach of focussing only on regulating and soon to-be regulated markets. Any significant revenues which a target business from jurisdictions falling outside this market types is likely to be a turn off. You are beginning to look at what you need to close off, which is going to hit price.

And it's not just price, it's also legacy risk. Look at what everyone is seeing in terms of Germany and Austrian litigation. You need to consider existing or historical activities which could give rise to bad actor issues in the future as happened with the Netherlands licensing regime. That's likely to happen in future licensing regimes so that's key.

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The other early stage, which people always forget about, is the change of control processes. You don't need to get permission in the UK in advance of a change of control but there is generally a preference to, especially if you're not known to the Gambling Commission. That process is typically taking over six months. So, you have to bake that into your deal timetable.

When you're looking at the US, as well, there are some states where you're looking at maybe even more than 12 months to get approval. That's a long time to have a business in stasis, and having people who don't know what the future holds for them under new ownership potentially jumping ship.

Nigel Hinchliffe: You touched there on the sensitive issue of legacy issues, and Germany, Austria and the likes. Susan, are you seeing your clients take a different approach to legacy issues, and what mitigating actions are they trying to put in place, so that they don't become deal breakers? Is it something that can be managed as part of the process?

Susan Breen: The attitude has changed somewhat over the years, just like David was describing how earnouts are used

today, as opposed to seven, 10, or 15 years ago. I think it's going to be very difficult to try and indemnify yourself out of some of these legacy risks. That's why it will have a bearing on the financials and on the appeal of the deal.

We've just done a couple of deals recently where there has been a real misalignment of buyer and seller risk attitude. Not because, necessarily, either of them has been wrong: in their own business, and their own ecosystem, that's been absolutely fine for them. But try and combine that, and you get some real disconnects. Particularly with a large acquisition, across many territories.

The traditional way of doing it has been to do proper DD. Make sure you do an advanced DD housekeeping beforehand. As the previous panel said, look at your target business with much more scrutiny. It's rarely done at the level that a buyer's eye will look at.

The traditional models of maybe doing a reorg pre-deal, or having extensive warranties, backed up by indemnity and cash cover protection, is not enough, in all likelihood, for some of these jurisdictions. The legacy risk is just too high.

Add that to the financial metrics, the reputational issues, and the knock-on that these large acquirers might have issues in US-regulated markets and I think buyers will just not want to acquire certain businesses. You cannot get indemnities that work as effectively with riskier markets and that regulatory legacy risk will affect the traditional model, in my view.

Nigel Hinchliffe: Yes, and does that hold where we're coming across transactions with regulatory enforcement processes overhanging the target business while the transaction is live? Is it similar there in terms of the degree of uncertainty and the difficulty of protecting against that?

Susan Breen: Well, we've seen some huge deals happen over the last two years and it's been well known that there's been regulatory enforcement action. They've taken one, two plus years to come to fruition. I don't think it has actually hindered the deal: you've just built in the price and the time lag on that within a margin, and it may or may not adjust deal value but the deal's gone ahead.

David McLeish: I agree. There is much more sophistication about examining businesses in the regulated markets, especially where there has been lots of enforcement activity, and actually getting under the bonnet of regulatory compliance as part of diligence.

This isn't just looking at what people's financial thresholds are but, potentially, going in and doing something akin to a mock Commission assessment. By taking the approach the regulator would follow you can really see how a business's top customers are being treated, and whether regulation is being adhered to or not.

In various deals, where the target has been in enforcement, we've been asked the question 'what's the fine going to be?' so that it can be priced in. If only it was that simple! We've got pretty good at giving a fairly narrow – but not too narrow – range. It can be covered in indemnities. That's probably more of a quantifiable risk than some of the legacy risks that we've been talking about.

Susan Breen: Yes, there is that distinction between being able to put an indemnity around that, because it's just a money figure, and the unknown, unintended consequences Pricing and future growth prospects are all wrapped up in revenues. Factoring in where your revenues coming from given shifts in regulatory attitudes, whether you're B2B or B2C, and what's the impact going to be of that can be tricky.

Steven Caetano: Could I just add that you can work that out with variables. What's very hard to work out is the potential fallout out of the regulatory action. For example, closing down a particular aspect of your market, changing management, C-level. Those changes, in my experience, are quite hard to quantify.

Nigel Hinchliffe: Coming back to Gibraltar, specifically, the other big issue is the post-Brexit deal, or lack thereof. Any latest views, in terms of how that might impact, from an M&A perspective? And how the pending Spanish elections might play into this?

Peter Montegriffo: I don't think that the treaty negotiations have an impact on M&A activity, generally. Gibraltar is usually one aspect of a much wider situation.

Clearly, there is a business model that works presently in Gibraltar, on the basis of the status quo, and we all know what that is. It involves using southern Spain as a dormitory for a lot of our employees. That has changed, to some extent, post the Spanish Gibraltar Tax Treaty. We have seen a significant restructuring of senior management, and control and management individuals into Gibraltar, to make sure that no tax issue or regulatory issue arose. That trend is likely to continue. In a sense, it would be accentuated if we ended up either with no treaty, and therefore a harder border, or arrangements that don't prove to be as fluid and as beneficial, as we currently believe.

What I see is a lot of resilience in the sector. I echo the comments made earlier about companies restructuring, growing, and the appetite for extra licences. I have no doubt that, if we end up with a Schengen border, it would be no different than in the UK. You can come in and out of the UK, no problem: it would be no worse, or no different. It's just that we're looking forward, aspirationally, to a situation where you could be in Gibraltar, and find yourself in Frankfurt, or Athens, or Paris, or Rome, without any control or restriction.

It's a hell of a prize but, if it's not achievable, we're still a European territory, which will have access to Europe like the UK has. True, we would have cross-border, daily traffic, which would have to be accommodated differently. I have no doubt that would be successfully navigated. So, I think the sector will be resilient, it won't have any impact on M&A, and won't have any impact on the attraction of the jurisdiction as a hub.

Steven Caetano: I agree with Peter wholeheartedly. We've been very resilient since these issues started to arise. The technology that's developed over the years has really pushed back this strong reliance on people crossing into Gibraltar every day.

Of course, there are a lot of workers, as Peter says, who live in Spain, and come in every day to work in gaming. But the delivery of the technology, and the remote capacity that these operators have now has reduced the reliance on the actual land border that we used to have maybe five or 10 years ago.

Peter Montegriffo: Can I add that, as many here will know, we have seen local operators anticipating some of the potential changes by establishing service companies in Spain, that then provide services to the Gibraltar operator. Those are more robust corporate and tax arrangements that have been concluded. A number of companies have done this. No doubt that would be one way in which you would mitigate any adverse effect that might come from a greater difficulty at the frontier.

Nigel Hinchliffe: Thank you. Do we have any questions from the audience?

Delegate: Regarding deal structures for target companies in soon-to-be, or unregulated, markets, it would be great if you could speak to some of the earnout terms. Any of the earnout terms, or protections you've seen, to protect against bad actor clauses in a post regulatory environment, or just any detail you could give on some of the specifics would be helpful.

David McLeish: Sure. So, the buyer is typically going to control the regulatory policy, of the target business going forward. It needs to have a consistent approach on a group-wide basis. As a seller, you can certainly try and build in protections to ensure that your earnout is not being hurt because the buyer decides to pull certain dot-com markets without justification.

There are mechanisms you can put in place to make sure that necessary legal advice has been obtained to support the buyer's position, and that the buyer is doing that consistently, not just for the target, but also for its own group. So, there's a way of keeping the buyer honest around that. But, at the end of the day, you can't force the buyer to keep something open where the logic is that it should be closed.

On the operational metrics, there are a lot of fast growth businesses which are being bought in the sector: you still want those founders, and you want the management team of the target really driving things forward. There's a lot more flex, on the operational side of things, for those people to have control. Where it gets more complicated is around migrations. If a business is going to be migrating onto a new platform, it's not easy to write that at the outset. They are iterative processes. So, some kind of methodology to ensure that planning and updates are happening on a regular basis so everyone knows what they're driving towards. They're probably the two things you see most often.

Delegate: What's the biggest learning or lesson that you've had personally in the past 12 months on a deal in the sector? Is there anything new worth speaking about?

David McLeish: A couple of deals that I've done in the sector in the last 12 months have involved buyers who are really taking their first step into M&A activity. The difference between the way they approach the deal and way the seasoned acquirers do has become more and more stark.

Those experienced companies have got used to doing buy and build strategies, they're really focusing on synergies and on integration as part of the deal. People doing deals for the first time often have no idea on synergies and no idea on integration. That's been the starkest thing I've seen in the last 12 months. It's really coming to the fore.

Susan Breen: I think that can apply to seasoned buyers, as well. I've seen what I would call fairly constructive conversations between those seasoned buyers and sellers, and with those who are completely risk averse or new to the business. In both cases it can change the shape of the deal. It changes the shape of the earnout. It changes the shape of the upfront payment. It changes the shape of the way they want to control management and the business post-acquisition, where they would historically be more flexible within the earnout structure, both operationally and financially.

Also, trying to shape the different structures and operational controls in an earnout mechanism is not so easy. Take for example, options for sellers where alignment evaporates traditional methods of valuing the deal as if the earnout had happened – or looking at acceleration of an earnout payment or even divestment can become areas of greater focus and contention with the risk averse seasoned buyer, or the uninitiated.

Steven Caetano: M&A is a huge distraction for the clients, for operators and personnel, key personnel and less senior as well. So, what have I learned the last 12 months? You've got to try and keep your records tidy. Make sure you're in good standing. Make sure you're in the good books of the regulator. Make sure you address your legacy issues and think like a buyer. Try and pre-empt the bumps on the road in the process.

Nigel Hinchliffe: I like that, Steven, think like a buyer: we will do well to remember that one. Thank you very much to all my panellists.

Power Presentation 1: US Consumer Litigation Update

Presentation by Bill Gantz

Partner, Duane Morris

In the first of four short 'power presentations' featured in this year's eSummit, Bill Gantz brought delegates up to speed with some of the legal developments taking place in the US.

I've got seven minutes to do this: that's about ten seconds per state in the United States, so I've got to get moving! In the United States we have regulated gaming and, more interestingly, unregulated gaming.

Starting with the regulated gaming and the licenced sports books, six states have licensed online. You have your typical consumer lawsuits dealing with bad bonus language in offers. Recently, there was the Damar Hamlin injury that resulted in the cancellation of a game, and that person sued because they were unhappy how their in-play bets were handled. That's what we have going on right now in the regulated space.

In the unregulated space, in the US we have DFS (Daily Fantasy Sports), which is unregulated in 23 states. We have skill games, where people can play golf against each other, or other games of skill, for money. We have sports apps, which are all over the place, including some house games with single player picks.

Most of the litigation, and that with which I'm most familiar, is in the freemium space, and that can be either freemium with or without the sweepstakes components. Freemium itself is at least $8 bn a year, and I think that is underestimated.

There have been no regulatory actions from any Commission or any government, and there have been no merits decisions that any of the freemium products are unlawful. So what do we have, and how do we regulate the United States? Well, it's good old-fashioned class action litigation. It's litigation regulation although it's not really regulation: it's just can you bear the price of doing business in the United States?

We have two types of lawsuits. Some are directed against the platforms or the apps, and some of them are directed against the operators. So for platforms, think Apple, Google, Facebook; and the operators would be VGW, DoubleDown, or any one of the freemium operators. Big Fish is another name that you might recognise.

The most significant case that we have going on right now is what I call the Apple/Google/Facebook MDL (multidistrict litigation). It's pending in the United States District Court for the Central District of California.

This is a lawsuit in which the plaintiffs in numerous class action cases are seeking to recover all of the money that has been paid by people playing over 200 freemium casino apps on Apple, Google and Facebook platforms. That is a staggering number, if they are successful.

They get to go back at least four years under RICO (Racketeer Influenced and Corrupt Organisations). This litigation has now been pending for two-and-a-half years, so that will go all the way on. It's a massive amount of money.

The lawsuit is really premised under California's consumer protection act, which is the Unfair Competition Law or "UCL," and then there's a claim for RICO. These plaintiffs are seeking to certify a nationwide class of all people who have spent money on those games. That's a massive number.

There are defences. I do not have time to go into them but right now the case is into its initial stages, and the big-ticket item is whether or not the ISPs can be liable for the conduct of the developers on their platform. That tests Section 230 of our Communications Decency Act, called the CDA. Basically, that stands for the proposition that ISPs are protected where they act as the publisher of the content which they carry.

The plaintiffs in those cases are seeking to hold the platforms liable for offering the content, for handling transactions with respect to the apps, and then also working together with the app developers. Those are the three theories advanced.

In the District Court the plaintiffs lost on the first and the second theory. They were successful in stating a cause of action – not proving their case – for the handling of the transactions, so Apple taking 30% and handling the actual transactions for the sale of the virtual coins.

Both sides have appealed. It's up on the Ninth Circuit, and the Ninth Circuit has a long briefing schedule – it probably won't be argued until next year – and we won't have a decision, probably, until sometime in the middle of 2024. That's going to go to the United States Supreme Court. So don't expect clarity on that until 2025.

Ultimately, I'll predict that Apple will be successful, and it's not just because I have some of their securities, but you'll want to watch that one really closely. It's a big, big case.

The other types of cases, with which you're very familiar and have heard about, are the Gambling Loss Recovery Act cases against defendants in Washington state. You've heard of the Kater decision.

The Kater decision was premised on the idea that plaintiff had to buy the chips in order to continue playing when she ran out and, under the peculiar definition of the State of Washington, that was found to be stating a cause of action for gambling.

There are some very important things about Kater and misnomers. The Kater decision was not a decision on the merits. There have been no decisions on the merits against a freemium operator anywhere in the United States, and those cases in Washington have all settled, save one. All the defendants in the Washington cases have one thing in common. They did not have a clickwrap binding the users to their terms, so they couldn't bring motions to compel arbitration, and that's why those defendants were there.

Those cases all settled on the premise first that people paid a lot of money. Big Fish paid $155m. DoubleDown and IGT – that was the case I was involved in – that settlement has been approved for $415m. Importantly, the plaintiffs in those cases stipulated that all of the prospective measures, so adopting a continuous play method, and also the responsible gaming information and a voluntary self-exclusion method, turned it into a non-gambling product.

But the industry as a whole has always continued to operate. Big Fish, for example, never stopped selling coins in Washington. They've always sold virtual coins there. They have settlements that have been approved by the court on a nationwide basis.

What we're seeing now in the industry are new theories: theories that the arbitration agreements in the terms of use are unenforceable. We're seeing theories in Georgia, Alabama, and Ohio that are premised on so-called private attorney general-type actions. Then, as the recent Fliff case (a sports app which has sweepstakes) demonstrates, whereas the previous freemium types of cases never implicated the sweepstakes components, in this new case, there are direct allegations that the sale of those sweeps coins was a violation of the Gambling Code.

So there's a lot going on. There are lots of active states, and the message here is that it's not contained to Washington: the entire nation is really at play with respect to apps, or where you have a web presence.

Power Presentation 2: UK Consumer Law Update

Presentation by Laura Bilinski

Senior Associate, CMS

Whilst, in our industry, the Digital Markets, Competition and Consumer Bill has perhaps been a little bit overshadowed by other developments, it's important for operators to be aware of some of the changes that it proposes.

The Bill was published on 25 April 2023, and the biggest takeaway for gambling operators is the planned strengthening of the regulator's enforcement powers.

Currently the UK consumer regulator, the Competitions and Markets Authority (CMA), has no right to directly fine businesses for consumer law breaches. But, if this Bill comes into force as proposed, then it will give the CMA perhaps the most aggressive fining regime in the world for consumer law, with fines linked to the business's annual global turnover, rather than UK-specific turnover.

If the law passes, the CMA will be empowered to fine businesses directly up to 10% of their global annual turnover for infringements of certain consumer protection laws. There are also penalty fines, linked again to annual global turnover, for failure to comply with information notices or for breaches of undertakings or directions which have been issued by the CMA.

More clarity about the CMA's ability to impose these fines will come in the form of a Statement of Policy that the Bill requires the CMA to prepare and publish.

As well as being able to fine businesses, the CMA will be able to direct businesses to take enhanced consumer measures, without having to go to court. This could include businesses having to compensate consumers directly for breaches.

Previously – and currently – it's up to the courts to decide whether a business in the UK has breached consumer law, and it's also for the court to impose the sanctions.

Although, in practice, sanctions on large businesses in the UK for breaches of consumer law are relatively rare at the moment, under the new enforcement regime the CMA will have the power to decide for itself whether there's been a breach, and impose the GDPR-style of penalties that I've just mentioned.

The new regime could lead to quicker enforcement action for breaches, and the impact of the fines could, potentially, be devastating. They are very, very large if the Bill comes to into force as proposed.

It remains to be seen whether the sanctions that have been proposed will be sufficient on their own to deter breaches of consumer law. Like many regulators, the CMA doesn't have unlimited resources so it won't be able to take enforcement action, perhaps, in every case.

The Bill itself is currently at the Committee stage. It's being reviewed by a Public Bill Committee, and they're due to report back to Parliament next month, so we will see.

Turning now to the White Paper, which I'm sure you're very familiar with. There are some points there that operators should be aware of from a consumer law perspective as well.

In particular, Chapter One of the White Paper on online protections talks about operators sometimes putting in place artificial behavioural barriers that can get in the way of consumers being able to do what they want to do, or do what they want to do easily.

This was a concern that was picked up in the call for evidence responses from consumer groups and from individuals. Some respondents pointed out that some operators make it easy for customers to take certain actions, often those that benefit the operator, for example, like depositing funds, but then it's not so easy to take actions which might, arguably, benefit the consumer more.

One example, which you're probably all quite familiar with, is that there's rarely an easy way to close an account without speaking to a customer service operator, whereas opening an account is much easier.

The White Paper specifically refers to online choice architecture often making it difficult to access tools or information which is intended to support customers to make informed and safer decisions about their gambling. Choice architecture refers to the design of the platform, and it's also a current area of interest for the CMA.

It's worth noting that choice architecture can be used to help customers, but sometimes it can be considered by regulators to be perhaps a bit confusing or misleading, and potentially could cause consumer harm.

The White Paper also refers to a report produced by the Behavioural Insights Team (BIT), otherwise known as the 'Nudge Unit', which was set up in 2010 by the UK Government to inform policy. It is now owned by the charity Nesta.

To form its report, BIT's gambling policy and research unit, which is funded by the Commission from regulatory settlements, undertook an audit of 10 gambling websites between March and April 2022. The report was published in July 2022 but, given the White Paper states that the findings could inform future steps in this area, it's worth reminding ourselves what the main outcomes of that report were.

Firstly, they found that it took longer and was more difficult to close an account than it was to open one. Gambling management tools were often difficult to find. Several websites had a minimum account balance needed to withdraw money. Customers often received no feedback about the time or money they spent gambling during gameplay, and websites often used defaults that were not in the consumer's best interests.

Following the report, BIT held workshops with various stakeholder groups, including operators, in order to devise a shortlist of policy recommendations. In November 2022, BIT published five recommendations for immediate action, which are designed to address the findings in the report:

- Customers should be able to unsubscribe from marketing in one click, and not be signed up to additional products or sister companies.
- Customers should be kept informed of their account activity, to reduce the risk of fraud.
- All gambling management tools should be easy to locate, evidence-based, and without visibility of adverts.
- It should be as easy to close an account as it is to open one.
- Operators should be required to contribute to testing what works, and sharing those results publicly.

The White Paper doesn't suggest that any new requirements will be added to the licence conditions in respect of online choice architecture. But it's likely to be an area that the Commission will continue to monitor, and if needed, perhaps take enforcement action against operators that don't design their platforms with customers' interests in mind.

Given the funding that BIT receives from the Gambling Commission, it's perhaps safe to conclude that the Commission will be considering these recommendations carefully, and it's likely at least some of these issues will be given focus in upcoming compliance assessments.

Power Presentation 3: AML Perspectives

Presentation by Rachel Armitage

Head of Compliance, LeoVegas

Today I'm going to talk a little bit about UK AML, the challenges faced by the industry, and what we can do about them, especially using AI.

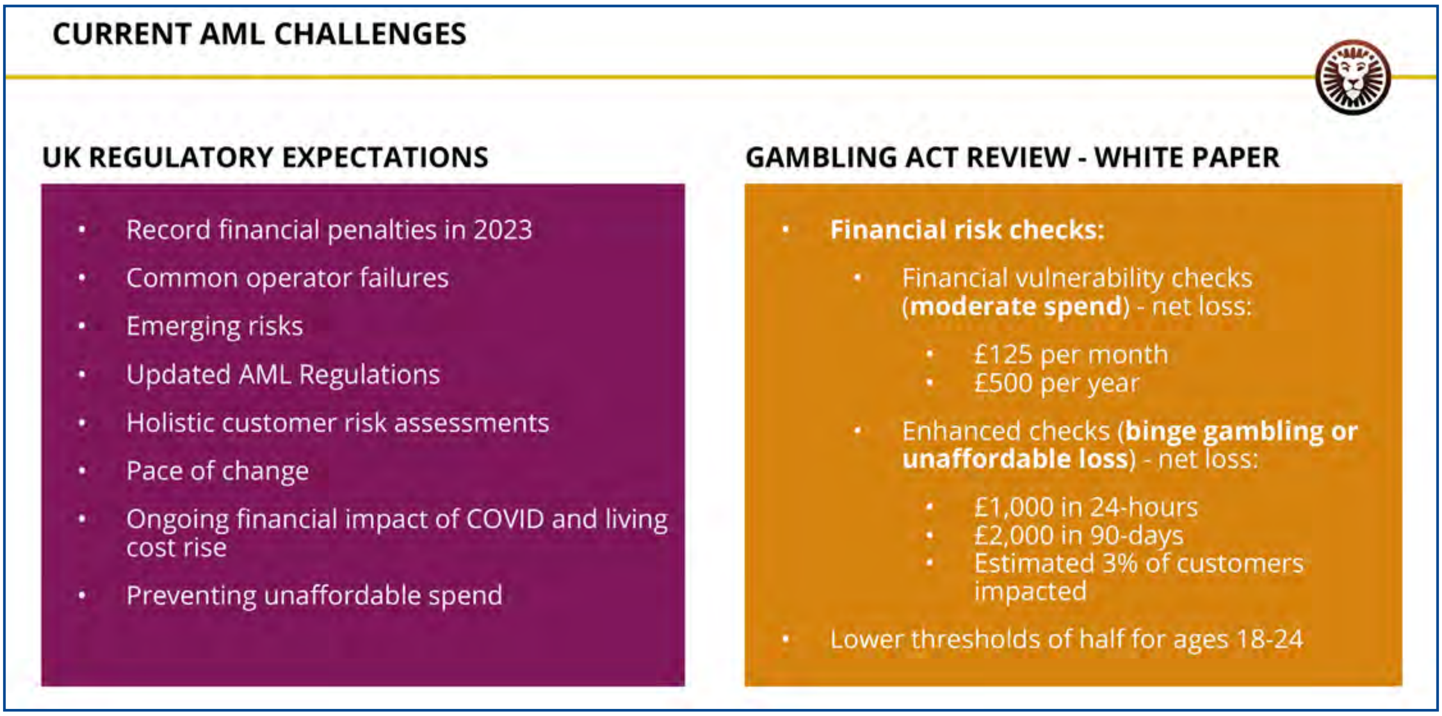
So, what does the regulator expect? The regulatory landscape is constantly changing, and the pace of that change is really fast. If anyone is slow to react or we don't do enough to implement the change, we will most certainly find ourselves in an enforcement situation with the Gambling Commission, as a lot of operators have seen over the last few years.

Looking at the fines that have been given out, although they are related to historic failures, it still drives the need for change in the industry, and it's something we need to consider.

Although we're no longer in a pandemic situation, COVID changed the world. It changed the way we all do things, and that was no different for criminals. Criminals got more sophisticated: they changed their techniques, and a lot more criminal activity started being pushed online. That has impacted gambling operators, as well.

Over the last 12 months, we've seen a lot of other changes. The UK Government published a UK National Risk Assessment; changes to the AML regulations took place; and, more recently, the Gambling Commission updated their own AML guidance.

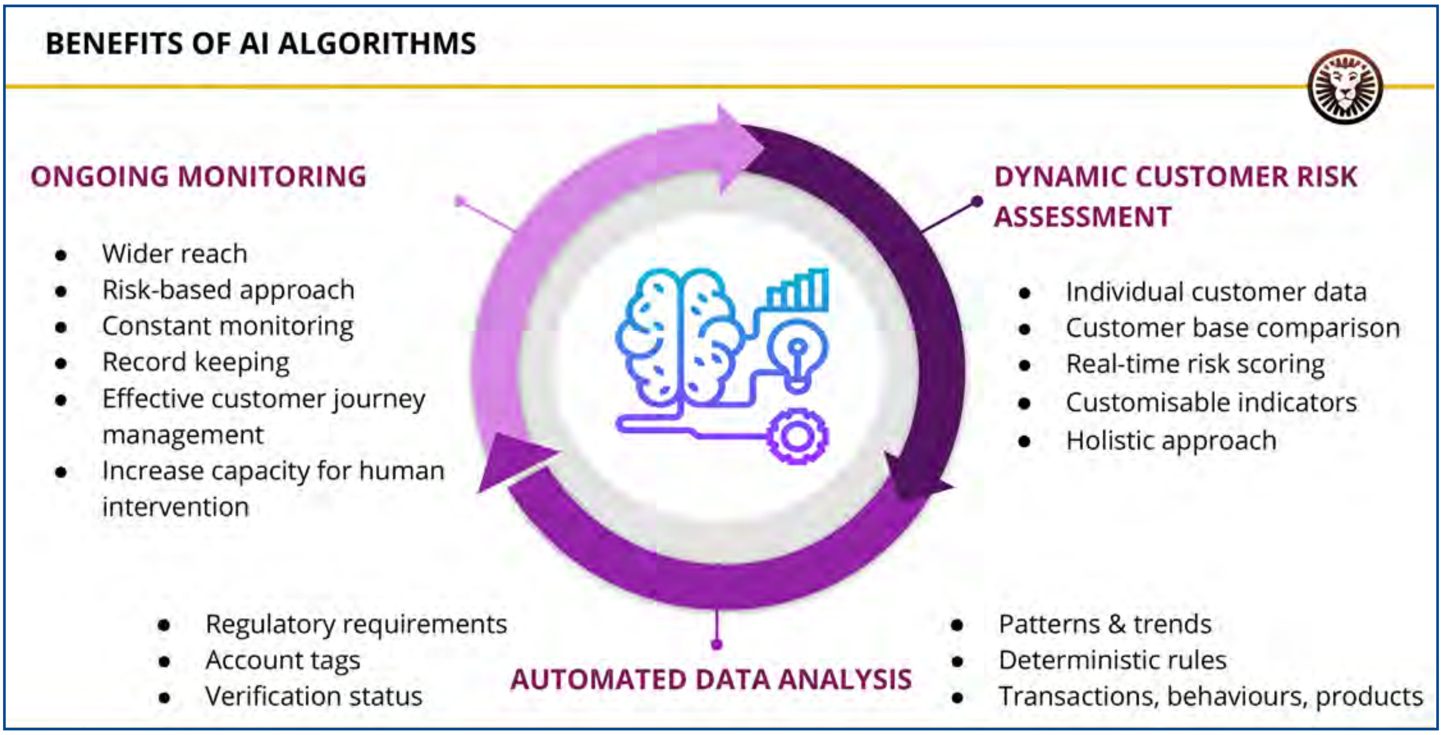
Finally, the long-awaited White Paper came out, and although it was very slim on direct AML measures, it does bring some much-needed clarity to the industry around affordability, both from a threshold point of view and from an alignment point of view. Up until this stage, not every operator knew how to do it, or knew if they were going to get in trouble for the approach that they thought was okay.

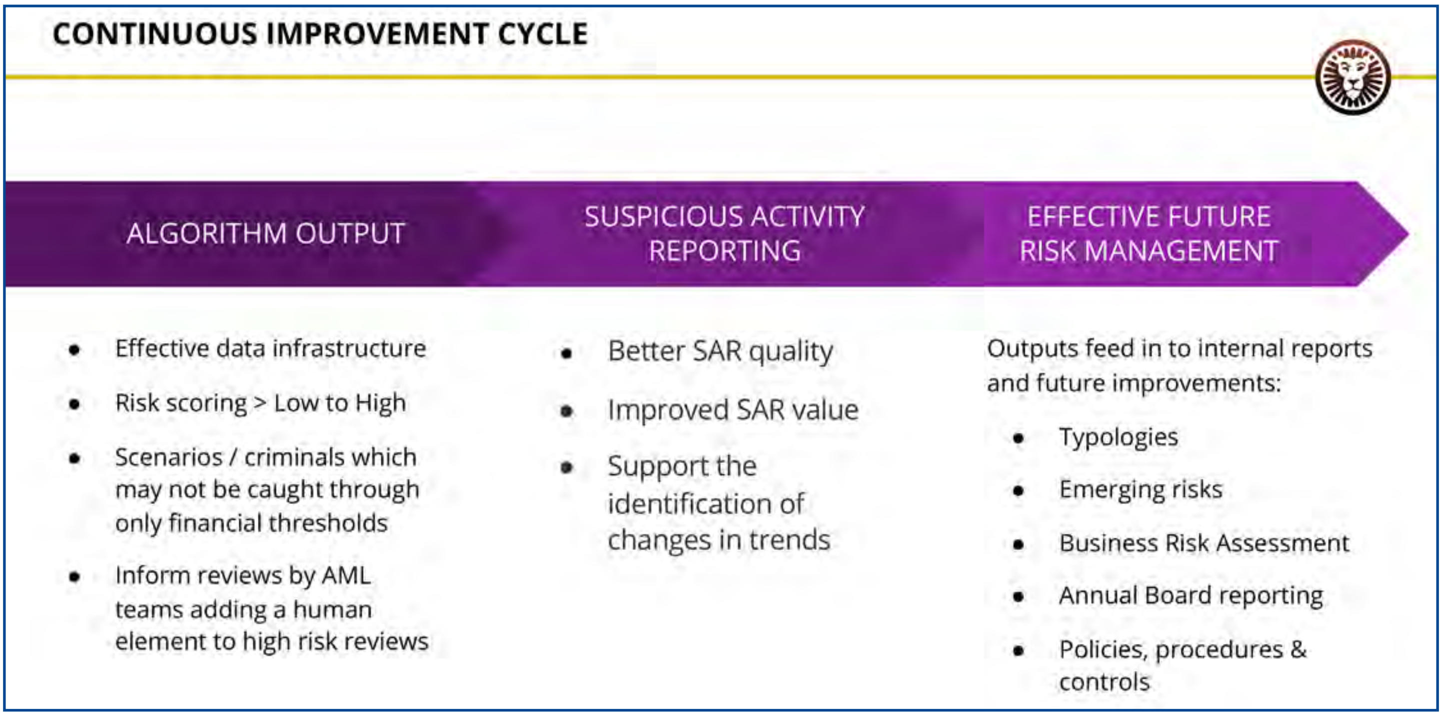


The numbers are subject to consultation still, and I guess we're all looking forward to seeing that consultation from the Gambling Commission, but the Government have recommended some values. (Slide above.) There is a two-step approach with moderate spend requiring a less-intrusive check, and then, when spend or loss is at a level which suggests binge gambling or unaffordable loss, something a bit more enhanced. For people aged under 25, those thresholds are going to be cut by 50%.

The industry is growing nearly as quickly as the change, especially online, and I don't think that's going to slow down either. That is going to bring with it more scrutiny from the regulators, and we need to work better to keep the industry free from crime.

There is a lot for operators to do, especially when they've got their day-to-day stuff, and all of this change keeps coming. It's really hard to keep pace with it. So, how can AI algorithms help? *(Slide below.)*





Fixed thresholds for AML risk detection are great and they work, but we can't use those as the sole reason to identify risk. We need to take more of a holistic approach, and automation is probably the answer. The fight against financial crime is definitely more effective when it's combined with good data and analytics.

At LeoVegas, we've introduced an AML risk-detection model. I'm sure we're not the only one to do it but it really helps us to monitor our full customer base whereas, when we relied on fixed financial thresholds, there could have been a lot of players who were low spenders, but also criminals, which we missed.

The model has a huge number of parameters in it, and those indicators are taken from our business risk assessment, and other industry trends. The model starts from the very first transaction, so no matter what the customer does on the site, that activity kick-starts the model to start monitoring the activity, and it monitors the transactional stuff, the behaviours, any rules and information that we ask it to consider, even down to a small status tag on the account.

Deterministic rules are what we call our fixed thresholds and rules, so we still have those fixed thresholds. This means that if a customer hits them, regardless of what else is going on, that account will be flagged for a review by a human member of the AML team.

It's really helping us to improve our risk-based approach, because we have ongoing monitoring on all of the accounts that are active with us, and it allows our AML team to focus on those higher-risk customers.

Essentially, the first part of the customer risk assessment is automated: it does all of the data gathering for us, and it really helps the analyst analyse it, rather than having to gather the data. Some practical examples of the parameters are that if a payment method is registered on the account, and the ownership isn't verified, that will be weighted at more of a higher risk. It will drop down once the payment method is verified. Also, a customer who is placing low odds on sports bets to try and guarantee a return would be weighted as a higher risk.

All of the risks are looked at holistically, rather than having a barrage of multiple reports that need to be looked at individually. So the model is really wide-reaching.

There is a risk score from between zero and 100, and that's mapped over to a low risk, medium risk or high risk category, which allows the team to pick up the higher-risk accounts. As I mentioned earlier, we're seeing scenarios that we might not have seen otherwise: those low-spending customers that might have flown under the radar. *(Slide above.)*

This approach is not only helping our risk assessments, it's also improving a lot of other things in the operations, such as our suspicious activity reporting (SAR). Because all of the data gathering has been done, we have better quality SARs, and we're improving the value of what we're putting into the Financial Intelligence Unit.

We have identified quite a few new trends though this AI technology, and this feeds into all of our internal reporting, such as our business risk assessments, our annual board reporting, and our policies and procedures which, in turn, can then identify other things which we feed into the model, and the cycle starts again.

If this is what technology can do for us now, imagine where we could be in five years' time!

Power Presentation 4: Making Compliance Work for the Customer

Presentation by Liam Smith

Director of Customer Operations, Rank Interactive

Remember when gambling used to be fun? That was a real quote from one our customers recently, as part of a customer interaction where we were asking about his affordability for him to be able to gamble.

The truth is that most customers, probably all customers, don't care whether we're compliant with Social Responsibility 3.4.3. The reality is that compliance has actually made it harder and made the experience very different for customers, certainly over the past few years. Arguably, also less enjoyable for some of those people who perhaps want to gamble a little bit more, and who are able to.

We've talked a lot today about the White Paper the Government recently published. One of the main changes proposed in it, of course, is to make customer affordability and financial risk checks frictionless, or, in other words, with less customer involvement.

As an operator, we welcome this. The ambition for it is great. Less interruptions and barriers will improve the customer experience. However, as we all recognise, that's more difficult to achieve in practice. Certainly currently.

Over the past three years at the Rank Group, we've developed a platform called Hawkeye, which monitors all customer transactions and behaviour on the platform, across all brands, all of the time, in real time. This allows us to build a risk score dynamically in real time, based on 19 behavioural markers, or as we call them, markers of harm, such as session length, time of play, accelerating stakes, chasing losses. That allows us to build a much more rounded view of customer risk, as opposed to relying purely on just financial thresholds. Of course, we do use those as well.

What that dynamic score allows us to do is to be quite clever in automating and tailoring appropriate customer interactions in real time. And, most importantly, at the right time. We know from our experience that, following a safer-gambling interaction, that customer risk score, on average, reduces by 45%, so we keep more of the customers in what we call the green zone, and playing safely.

In summary, there are four key ways that we can make compliance work for the customer:

1. Use technology. Rachel just spoke about AI and predictive models, and we have those ourselves, of course, but I'd say use the data and technology that you already have. Use transactional data: use it in real time and automate as much as possible as you can, to create a better experience for the customer with less interruption.
2. Push as much as possible into the background. Automation is the key, and we've heard that word a few times today. Use risk scores from transactional behaviours to automate customer interactions as much as possible, and build customer assessments on the go. Don't wait for an event to happen and then start building an assessment through due diligence and investigation: build that audit trail as you go, in your system.
3. If you can't push it into the background, try and make whatever needs to be in the foreground part of the natural customer journey. Where you do need to involve the customer, try and make sure that it's in context so it becomes a bit more natural for the customer: it's at the right time, and it's not using one of the traditional more offline interactions like email or phone call to the customer, which are often after the event and out of context.
4. Probably most importantly, where the customer does need to speak to you, be more responsive. I know it sounds like common sense – and it's a lot harder to achieve operationally sometimes – but if you can reduce the friction when the customer does need to speak to you, so the actions they need to take are clear. So customer services or your player protection teams are knowledgeable enough to be able to resolve it for the customer and give help where it's needed.

I think that's probably the most important tip I could give you from our experience.

UK Market Update

Moderator: Adam Rivers

KPMG

Panellists:

Tom Banks
Head of Gaming Business Development, Kindred

Alasdair Lamb
Senior Associate, CMS

Nick Nocton
Partner, Mishcon de Reya

Brigid Simmonds OBE
Chairman, Betting & Gaming Council

Yanica Sant
Group Legal Director (Regulatory), 888 William Hill

Unsurprisingly, the content of the UK Government's White Paper was a recurring theme at the eGaming Summit. In this session, moderator Adam Rivers invited five key industry figures, including a former regulator, to join a wide-ranging discussion that sought to look beyond the initial headlines to prise out less well-publicised facets of the document, as well as to consider what the industry should be wary of and what approach it should take in response.

Adam Rivers: I'm sure many of you are LinkedIn users, and you couldn't move on in recent weeks for the volume of commentary on what's in the White Paper. A lot of that has focused on affordability. My first question to the panellists, though, is what has been in the White Paper that has gone under the radar? What is it that everyone's missed?

Nick Nocton: By the time it was eventually published, there wasn't much that was in the White Paper that was particularly surprising, in terms of high-level policy. Some of the things that are most likely to have a bigger impact than might first appear – depending, of course, how the industry responds to the consultations – are likely to be around marketing: the variety of marketing consultations and how, in aggregate, they could impact customer acquisition and retention. That is against the background, of course, of there being plenty of advocates for prohibition.

So I wouldn't say there's anything massively surprising in there, and plenty of opportunity to make a real difference in the next few months.

Tom Banks: Yes, as Nick says, it's the aggregation of the changes, particularly around cross-selling and the opt-in of that. Clearly, as operators, the ability for us to offer multiple products to our customers is quite important, and that journey of sports to casino, and vice versa, is critical. That's going to be important.

The other thing that maybe won't impact day-to-day operations, but that is important is the health messaging. If that heads in the wrong direction – and the sector's perception problem already is apparent – if that heads in a tobacco-style, 'This is going to kill you', 'You'll lose your house', or 'You're most likely going to lose, you'll never win', etcetera, that will prove a longer-term perception problem, rather than something that's a day-to-day operational marketing issue.

The construction of that process is going to be key, and I do have some concerns, given the make-up, or the potential make-up, of the organisations involved in that.

Adam Rivers: There's an interesting piece in the Commission's advice that went to Government around the lack of evidence on the efficacy of a number of those public health campaigns, regardless of sector. So how they're going to square that circle is going to be really interesting.

Yanica Sant: I would say that with all the commentaries, there weren't many stones left unturned. The truth is that the devil will be in the consultations, and the amendments, and how the operators and all the stakeholders reply to those consultations. It was really good to hear the Commissioner earlier, being so encouraging towards everyone about what to expect in those consultations.

My experience, when I was a regulator, is that often an operator would reply to a consultation is very affirmative yes or no way, but I think there is a lot of scope for all of us to give a lot of detail in these consultations, and that is what's going to shape the way this goes.

There won't be many opportunities like this one, so it's good that we make the most of it.

Brigid Simmonds: I recognise the enormous amount of work that went into the 250 pages of the White Paper and it was actually more balanced than I expected. It recognised the 80-or-so safer gambling standards which the Betting & Gaming Council and our members have introduced. It was more balanced in looking at advertising, for example, and marketing. We've talked about the changes we've made: the whistle-to-whistle ban, the 97% reduction in the number of adverts seen by children, the changes we've made with social media, which means that you can't advertise paid-for to anyone under the age of 25, unless you can convince the BGC that your age-gating for 18 is absolutely there.

We did raise this issue about tobacco in a recent meeting with the Minister. He was quite clear that he saw it much more akin to alcohol, which is where we would be on this, and also that the new messaging is not the main priority for DCMS at the moment, which is also important.

Adam Rivers: Alasdair, any surprises that the four others have missed?

Alasdair Lamb: Likewise, I was going to mention advertising, and in particular around the Gambling Commission consulting on potential restrictions to the way in which you run bonus and free-bet offers. There is talk in the White Paper about introducing limits on wagering requirements and expiry periods for bonuses which could, effectively, make a few of the more popular offers which are used for customer acquisition and retention unfeasible in the long-term.

Another area that's gone under the radar is the changes in respect of fees for the Gambling Commission. They are going to be able to set their own fees in the future, once the relevant changes to the legislation are implemented. So, whereas in the past fee increases have been kind of relatively few and far between, I think that's going to be happening a lot more frequently. For the smaller operators, that's going to be a bit of a squeeze.

Adam Rivers: What about where things could go wrong? We spoke before about there being a few banana skins laying around. Where do you think there could be an issue for somebody?

Yanica Sant: The obvious answer is in terms of time, timelines, and resources, and that goes for everyone involved. There has been so much anticipation for this White Paper, that now everyone's firing on all cylinders to get this moving and to answer the consultations.

From the industry side of where it can go wrong, I'd echo what I said earlier: it's not putting enough effort into the consultations. I don't think there will be another chance to do this the right way, and to say what we want to say in-depth, with enough evidence from our end as to why we think something is the way it is, or should be. That's where it could go wrong: not giving enough effort to our replies from the industry side.

Brigid Simmonds: One of the most important parts about this is definitely to do with the Gambling Commission and how long this is going to take to actually implement. The 200-plus pages of statutory advice which was given by the Gambling Commission to DCMS was published on the second day, and it so happened I had my meeting with the Chairman of the Gambling Commission on that day. He was quite clear that the White Paper is the ultimate decider here. The Gambling Commission has put forward their view, but the White Paper has taken that view into account and published its decision. From all of our perspectives, yes, we've got to have consultations – it's important they follow best practice in terms of consultations – but we then need to get on with it. We're quite clear what the Government has said what it wants to do.

We also need to make sure that some of the positive changes that were going to be made happen, for example, for the casino sector – and this is land-based, don't let it be forgotten. Let it not just be about the punitive measures that everyone wants to introduce for us. Let it be also about some of the positive things which will be helpful to the industry.

Nick Nocton: The biggest risk is around channelisation, and losing the value of a well-regulated market for the most vulnerable people.

I appreciate there are measures in the White Paper that are going to be addressing the potential growth of the black market, and empowering the Gambling Commission to work with ISPs, etcetera. But if you're going to regulate a relatively low, moderate spend, you are likely to not only drive some people eventually to a black market, but each operator will have less connection with the customer. So then we're moving away from risk-based analysis: the lower the figure at which you have to limit them, the less you're going to know the customer.

Whilst I understand the principle, and Sarah Gardner's analogy about not having taxis driving around with bald tyres, ultimately, there is a risk that the most vulnerable consumers are exactly the ones that are going to find a way out of the regulated business and be preyed upon. So that's a risk, that's a potential banana skin, and it's one that we should work very carefully in that critical consultation to try to address.

Adam Rivers: It raises an interesting question for Brigid, because quite recently the Commission were very critical of the BGC's estimates of the black market. If you look at the data and evidence strategy, they're quite clear that they've got work to do to uncover their view of the estimate. So when they do that, are they going to get a different answer to you?

Brigid Simmonds: No. First of all, the taxi analogy: there is no suggestion from the industry that we are trying to suggest that the black market is a reason why we shouldn't be well regulated. We have never ever said that, and that needs to be absolutely clear.

What we have said – and where we've given evidence from the football World Cup, where we saw a huge increase in number of people using the black market and also from the work that we've done with PwC – is to estimate that the number of people who use the black market in the UK is low, about 2.3%.

But look at what happens where you've got over-regulation. Look at other countries such as Norway, France, Bulgaria, and Italy, where they have got much stronger regulation. They've got numbers between 23% and 66% of customers who use the black market. So it's making sure that the regulation is properly balanced and does not drive customers to the black market.

We also know from racing that when customers were asked to produce evidence that they had affordability in terms of bank statements, or, dare I say, your tax return – who on earth would ever give up their tax return? – around 90% just moved away. Where do they go? They go to the black market.

People suggest that we can eliminate the black market, but all that happens is people have black market sites, they get closed down, they contact all their customers on WhatsApp, and they reopen the next week under something else. It is a real threat.

We haven't got an argument with the Gambling Commission about this. We need to work with our regulator, that is really important, but the unintended consequences of getting this regulation wrong could lead to a huge growth in the black market. Look where that growth has been in other countries, particularly around Europe.

Adam Rivers: There's much talk that all of these consultations need to be evidence-based, and it was great to hear Sarah [Gardner] earlier on really emphasise to the industry about getting involved, and that you will be listened to. That being said, if you look at the data and evidence gaps priorities framework that was published just a few weeks ago, it's quite clear that there are a lot of gaps, and that's a three-year plan. How do you think that gap gets bridged, so to speak, if we've got only six months or so to run a lot of these consultations? What is the industry going to have to do?

Tom Banks: That's where it's vital that we play a proper role. The Gambling Commission has been clear that they're willing to listen, and now the onus falls on us to properly let the Gambling Commission and others under the bonnet to see what we have.

Through Kindred's own journey towards zero, we do that publicly with some of our data every quarter. There's a lot more

that we could do. So when it comes to filling in consultations and submitting evidence, the approach we will be taking is to really show the evidence. For example, take stake limits for online slots. We've already been trialling that across our 32Red platform. That's been running for six to 12 months now and it's absolutely vital that we provide everything in terms of data and evidence that that trial has shown, because that will help inform the future of that policy.

It's similar for the affordability frameworks. Where the gaps are, it's on us to really show and let people under the bonnet as best we can.

Brigid Simmonds: Put it like this, there will be a consultation, the Gambling Commission will be able to require us to give more information. I do think the relationship with the Gambling Commission has settled, to the extent that we are having many more meetings with them about how they're regulating, about consistency of regulation, about enforcement, and how the inspections are going. We are also having meetings at a pretty senior level on a regular basis about some of these issues. As Tom rightly said, where this information exists, we need to share it, and we need to provide the right information. If we don't do it - in the fullness of time the threat is definitely there, that they will have the power to demand it of us.

Nick Nocton: Where there is an evidential gap, not only should the industry be seeking positively to fill it for the purposes of responding to the consultations – because they should be principally focused on the questions at hand – but there is a persuasive argument that the detailed steps that come out of these consultations should be all the more proportionate and incremental. If it goes too far and the evidence comes too late, we probably won't be able to backtrack.

There's a strong basis to argue for a more proportionate approach, but that doesn't excuse the industry not coming up with the evidence to support the proposition in the first place.

Adam Rivers: Have we got any questions from the audience at this stage?

Delegate question: When Labour takes power, what impact do you think that's going to have on the BGC and the lobbying efforts that you're undertaking? Do you think, given the two pieces in *The Guardian* today, that there is going to be a growing campaign to target advertising amongst operators by a new Government?

Adam Rivers: Yes, so a change in Government and some thoughts on advertising. I believe Guardian Media Group has announced a global ban on advertising for gambling.

Brigid Simmonds: We're very conscious of that. We have continued to work with opposition parties and that work will increase over the next few months as we move into election territory.

The main complaint of Labour, when the White Paper was published, was that it's taken so long to get to that stage. There are very polarised views about gambling, as we all know, and that does exist among politicians. But, if you're a new Government coming in, gambling is hardly likely to be at the top of your agenda. You're going to have lots of other things that you want to do.

It is interesting that, on the day of the publication of the White Paper, I went to see the Secretary of State. I was concerned about the tone of the article that appeared on the day in *The Times*. Of course, what she said is that marketing, or advertising in particular, is something that everyone complains about. But where the DCMS and the Government have been good is that they have looked at the evidence.

The evidence doesn't demonstrate that advertising is actually causing the problems. There have also been comments about what's happening in Australia, for example, they are perhaps where we were 10 years ago. We've made massive changes in the UK to restrict the amount of advertising but there is more pressure.

Some of you will have seen that the BGC called on the Government to get the big platforms to work with us, because there's only so much we can do. The big platforms really have to play their part to make sure that vulnerable people are not seeing advertising, and that we are protecting people as much as we can.

Adam Rivers: That's a wonderful segue, because you mentioned Australia there. Two people from the Commission were speaking at a virtual panel with the University of Sydney a couple of weeks ago on how potential changes in the UK from the White Paper could impact Australian regulation. We often see the UK mentioned as being on the forefront of the global stage. To what extent are the changes that are going to be coming in over the next 12-18 months in the UK going to play out internationally? Yanica, as a former regulator, how did you look at other jurisdictions?

Yanica Sant: Without a doubt, a stone thrown in the UK has ripple effects within every industry-regulated jurisdiction. When I was regulator at the Malta Gaming Authority, we were going through a legal overhaul too. I remember very clearly looking at what the UK was doing, what the UK did on certain aspects, and being inspired by what the UK did. For better or for worse, that is what happens.

It's great to see the Commission being so active in regulator forums, but what that means is it's going to have more of a ripple effect within other regulated jurisdictions. I feel like I'm repeating myself, but that's why we really need to get this right. As an industry, all stakeholders need to make sure that we say what we need to say, give our evidence, let them look under our bonnets. It's very important to make sure that this is right because, inevitably, it's going to inspire jurisdictions around the world.

Adam Rivers: Alasdair, do you see that playing out?

Alasdair Lamb: There will certainly be some international impact. It's going to vary territory-to-territory, because, let's not forget, it's a relatively particular set of circumstances that have led us here. It's the review of a UK piece of legislation which has been in place for a reasonably long period of time, and there are certain political and cultural and social drivers in the UK that have pressurised the Government to kick off, and eventually publish, a White Paper.

But it's clear the Gambling Commission are very keen on international collaboration. There are various issues behind the drive for the review in the first place, which are universal and can translate to different territories. But if you've got a territory that has implemented licensing relatively recently, or it has far more stringent regulation already, is it going to translate there? Probably not so much as somewhere that's got a similar set of circumstances to the UK.

Nick Nocton: Echoing Brigid's earlier comment, effectively, we are a mature jurisdiction. The questions in the White Paper and the regulatory risks are challenging, but they're very insightful and intelligent questions that are being asked. People will look again at the UK, and learn from the outcome of these consultations because they're asking questions that haven't been presented in quite the same way in most of these other jurisdictions. It will be very influential.

Delegate question: The figure of 90% as the refusal rate of customers not wanting to provide the likes of bank statements, or payslips, isn't surprising. That's broadly what we see in rest-of-the-world business as well. But, linking this to Single Customer View, if 90% of customers refuse to provide bank statements or payslips, are they going to end up on a database badged as problem gamblers?

Brigid Simmonds: The trial of Single Customer View, at the moment, involves only a small number of companies, and it's very specific circumstances, which are health-related, that can be put into that 'basket'. We need to review how that has worked, before we look at what else we might put into that basket.

Single Customer View, or GamProtect as it's now called, has been a really good thing, because there is no point in Kindred, for example, banning someone from one of their accounts, and them moving to William Hill. That just doesn't work. We need to be able to share data, and we need to do it within the privacy laws. In the fullness of time, I think we can do that.

There are limited circumstances in which you can launch an appeal against being put in that basket. But it is a very complicated, complex subject, and we need to see how we can expand it in the right way, which will help the operators and will protect vulnerable people. I cannot see how it would work in the circumstances you mention.

Tom Banks: Single Customer View, and probably the ombudsman as well, are two of the areas that the industry has been trusted to crack on with and get right. It's really important that, as a sector, particularly on Single Customer View, we take it seriously and approach it in the right way, because at the moment, we've been entrusted with that.

The Government was clear in the White Paper that they would continue to look at how we're getting on, and they won't be afraid of stepping in if they feel like we're not making enough progress. So it's vital that we get it right.

Brigid Simmonds: If I can briefly comment on the ombudsman? This is something we are very much working on with the Government. We have put forward proposals already and gone back to them with some suggestions. We need to make sure that the Ombudsman Association is also happy with this. Many of you will know that there are many ombudsmen, in rail, airports and everything else. Not many of them deal with social responsibility, and this is going to be the absolute crux.

I have some experience of this through pub companies and their relationship with the companies that own them, where we had a voluntary scheme which then became statutory. The Government have been absolutely clear that, if we don't get this right, they will make it statutory. So the industry has got to make it right. We've got to come to an agreement with Government. We need to be absolutely clear as to what the circumstances are in which you can make a complaint, and in what circumstances does it have to go beyond that, to the ultimate sanction, which is taking it to court.

Adam Rivers: Does anyone else want to say anything else?

Nick Nocton: Please engage positively with the consultations. It's absolutely critical. Clearly the BGC is going to have an incredibly important role, but, personally, I think there needs to be numbers involved in submissions. Brigid?

Brigid Simmonds: Yes, but we need consistency. The worst thing that could happen to us is if we all say something different. I'm not saying you shouldn't all put in your own submissions, but please work with the BGC. We're very happy to share where we've come to a view, and that's going to be vital to getting this process right.

Nick Nocton: I would completely agree with you, but the Commission cares about numbers and balances.

Brigid Simmonds: It does.

Nick Nocton: So it adds up the numbers who are in support and who are opposed, so numbers are important, but consistency equally so.

Brigid Simmonds: Yes, sometimes it's qualitative, and sometimes it's quantitative. I think quantitative will be really important here.

Adam Rivers: Thank you all for your comments.

Latin America Focus

Moderator: Santiago Asensi

Managing Partner and founder, Asensi Abogados

Panellists:

Chris Dougan
Chief Communications Officer, Genius Sports

Crispin Nieboer
Partner, Tekkorp

Pierre Tournier
International Director, Betting & Gaming Council

The Latin American market is perhaps only second to the United States in terms of potential interest for the eGaming industry. Santiago Asensi, who previously helped advise Coljuegos, the Colombian regulator, in the very first regulated regime in Latin America, led this panel discussion on the prospects, the politics and the possible pitfalls for operators looking to get into the region. He began by asking the panellists to explain their current interest and involvement in Latin American countries.

Pierre Tournier: The BGC is primarily a UK-focused trade group, but we have an International Committee, for which I am responsible – I am the international director of the BGC. Within that Committee there is a core group of operators and BGC members who are interested in pushing for regulation in new emerging markets. Effectively, this is the legacy of the Remote Gambling Association, which no longer exists: when we created the BGC, we decided to pick up the baton and continue the good work that was done by the RGA up to then.

Our mission is to push for workable, sensible regimes in new countries, such as the LatAm region, in order for our members to be able to apply for a licence and thrive in the long-term.

We have been involved in a number of countries across LatAm including Argentina, Peru and Chile. But by far the biggest project of ours has been Brazil: we have been working tirelessly since 2017 to push for the regulation of the entire online gambling market.

The start of our journey in Brazil was the publication of the KPMG report, which gave us an estimate of the potential size of the Brazilian online gambling market, if it were properly regulated and on three conditions. The first, that it should be an open licencing regime, open to all operators. Secondly, operators' revenues would be taxed under a 20% GGR tax system, and the third condition was that all the main verticals – sports betting, casino games, poker and bingo – would be regulated.

That report was a massive piece of work and, at the time, it triggered the conversation that we have had with Members of Congress, as well as the Government, and it has served as a basis for our conversation ever since. That was the start of our journey.

Crispin Nieboer: Tekkorp is an M&A advisory and consultancy practice, and we spent the last two to three years embedding ourselves specifically in LatAm. The three markets where we've spent the most time are Brazil, Mexico, and Peru. So we've spent a lot of time talking to most of the large operators in all three territories, and also building relationships with stakeholders, regulators, media owners, and so forth.

Chris Dougan: As Chief Communications Officer, I deal with government affairs for Genius Sports. We are a B2B supplier to sports books around the world. We provide data, content, trading and marketing services to the sports betting industry, and partner with sports leagues federations around the world including the NFL, the Premier League, and global basketball federations – you name it, we've probably partnered with them in one form or another.

In the case of some of our largest customers, like Flutter, 365, Entain and DraftKings to name a few, we provide various pieces of those capabilities to them as they require.

We have a LatAm headquarters in Medellin dating back to 2016 where we employ hundreds of local people. Colombia was the first LatAm country to regulate. It's a cliché but it is generally seen as a gold standard in the region. My team particularly advise Coljuegos regarding integrity policies and best practices in regards to their regulation.

When you're looking at emerging markets, I'd particularly like to highlight Brazil, because it has been viewed historically as the sleeping giant of LatAm: we're looking at an estimated US$1.5bn to $2.5bn GGR at the moment, with a growth rate of 40% a year. In contrast, within the European regulatory system, we're facing greater regulatory challenges and increased scrutiny as a sector, but for the industry we see a huge upside in emerging markets like Brazil.

I was in Brasilia a few weeks ago when we hosted Brazil's second Sports Integrity Summit which was a huge success. The Ministry of Finance (Fazenda), which has drafted the regulation, attended and we are now training and working with the Ministry of Finance and the Ministry of Sports, who are key stakeholders in what's called the Provisional Measure. This was issued by the Ministry of Finance, under Minister Haddad, the day after we held our Summit. So I would say we're close to the regulatory process in that market.

Santiago Asensi: Crispin, what's the size of the opportunity in Latin America, and what are the main challenges in the region?

Crispin Nieboer: Chris has just given you one of the best estimates you'll get on

Brazil. Be careful looking at sources like H2 Gambling Capital. They have a very tough job. They try and predict market sizes for every product in every country in the world. There is no disrespect meant here but we know of three operators in Brazil that are doing US$1.5bn GGR between them. H2GC have about $900m as the total for sports in Brazil at the moment, so the numbers are bigger than perhaps the industry expects.

Brazil is bigger than all of the other markets combined. Mexico is a close second. Mexico is more of a casino market, a 50:50 mix of casino and sports. Brazil is much more a sports betting market, but the growth rates are eye-watering. Brazil is well rumoured to be Bet365's largest market. They are a smart and canny bunch so Brazil is the market to look at, but it's also important that we talk a little bit about Mexico and Peru. Colombia is a more mature market, so the growth rates are less attractive. Also, the incumbents have established themselves. There is more to play for in those first three markets.

Hopefully, that gives you an indication of scale. I see Brazil as a US$2bn GGR market, and Mexico as a US$1bn GGR market. In Brazil, in terms of its operators, Bet365 is there. Betano only launched there in 2020, and is probably the number two in the market already, very sizeable.

In terms of challenges, we always say that for Brazil, and other local territories, it's about payments and politics. I'll let the others talk about politics more but, on payments, it's important to understand that, in Brazil, most operators don't have their own payment gateway. If you have your own payment gateway in Brazil, it is a huge differentiator.

A case study, if you like, is Betnacional. They have their own payment gateway. It's approved by the Central Bank, it's approved by the tier one banks. It makes a huge difference.

At the moment, if you make a bet in Brazil, the operator is considered the proponent, and the customer is on the other side of that contract. The law that is effective is the one where the operator's hosting country is involved. What this means is that you cannot have funds held in a bank account in Brazil.

For a lot of operators, the payment costs are eye-watering because they're paying for very heavy transaction conversion on the currency if they're holding the monies abroad. So on all withdrawals and deposits there is a big transaction fee and in some cases that's 40% of your revenue. For those with their own payment gateway, it's sub-10%.

Post-regulation, this is obviously a big upside for the industry as these costs will come down. You will be able to have local banking.

Santiago Asensi: Pierre, would you like to add something about opportunities and challenges?

Pierre Tournier: Starting with the estimates, it is quite difficult to trust all the different sources. One source we have used was the KPMG report that was published back in 2017, and that's fairly consistent with what you guys have set out.

Today, the online sports betting market could potentially generate somewhere between US$1.5bn and US$2bn a year. That is a reasonable assessment. Of course there are other verticals and, potentially, the whole online gambling market could be twice as big as the sports betting market. That's the potential that we believe Brazil has, at the moment: this is what we believe the regulated market would look like.

The whole offshore market could be bigger than that, but we know that some of those operators will not move into the regulated market once licences are available. So there might be a massive difference between the whole offshore market and what we believe the regulated market is going to look like if it is properly regulated.

Chris Dougan: That's a very good point. With regards to politics, Brazil is an extraordinary political environment. In December 2018 sports betting was legalised, which meant that all the big boys stepped up and they thought land grab time. But still as of today the market remains unregulated. So you go from Flutter, Entain, 365 through the big guys, and then all the way down to operators that have emerged from "jogo de bicho" (a kind of animal game which is very popular in Brazil, but has often been associated with some nefarious activities) and you've got quite a spectrum. You've got a market that's legal, but not regulated, and you've had a prior president, as in Bolsonaro, who had something of an open window to regulate.

Then we had the 2021 Presidential election. During the campaign, Bolsonaro had to form a coalition with the evangelicals, who were solidly opposed to him signing any kind of regulation associated with gambling at all, even though sports betting was regulation is completely separate from iGaming and casino legislation which has not been passed yet. So we had a freeze, and the actual decree itself under the prior Finance Minister expired.

Enter stage left, President Lula from the Workers Party, who appointed Haddad as his Finance Minister. Haddad welcomed the sports betting regulation, because from the Workers Party and a leftist point of view they saw a tax revenue opportunity. I can't get into too much detail about what I heard in our sessions with the Ministry but when you hear politicians pointing to a prior administration and saying 'this mess is their fault and we are going to clean it up through regulation', you know that there's a window of opportunity.

This is a vibrant market with a young population of over 220 million people. You get off the plane in Sao Paulo, Brasilia or Rio and everyone's connected by a mobile phone. They are sports mad. Think about Brazilian football, it's on 24/7. So, you have an incredibly welcoming environment, but you have huge political stakeholders who, at the moment, are fighting between the Ministry of Finance and Lula on one side, as the executive, with the legislative branch controlled by the Centrão under speaker of the Chamber Lira, who is now trying to wrestle control of the Ministry of Finance's regulation.

I would say it's going to be quite a fractious process, but my view is that we're closest now than we've ever been to a regulated environment where licences are going to be anywhere between US$4m to US$6m. The current thinking is about 22.2m Brazilian reals, which boils down to about US$4.3m per licence.

But our main focus right now, working with the Ministries, is to make sure that the integrity of sports is protected: that monitoring, education and the foundation of any sports betting market must be for protecting sports betting. If they are

not protected, and they are not treated in a way that they can benefit from the ecosystem, then you are going to find it a very challenging, unsustainable environment. So it's a huge opportunity, but a political labyrinth.

Pierre Tournier: I would be more nuanced as to the prospect of the present and coming market. Had we had that conversation a year ago, I could not agree more with everything you said.

Last year we were in a very good position to have a sensibly regulated market, and there were a number of reasons for that. The first one is that finally – in 2021 – the Finance Ministry agreed to put forward an element to the sports betting law to replace the turnover tax with a tax on GGR, so that was the first major positive development.

Secondly, the House of Representatives, after 30 years, finally approved the Gambling Bill, which regulates all other products, including online casino games. Of course, the Senate has yet to approve it, but at least the House of Representatives did, after 30 years. It took them 30 years which is unbelievable when you think about it.

The other point that made the prospect bright at the time was the draft decree that was leaked from the Ministry of Finance that set out a very sensible, workable regime for our members. There was a consensus around that document: everybody agreed that they could work with it in the long run. Unfortunately, as my colleague said, Bolsonaro had other political problems and was desperate to get the support of the evangelists and, of course, they are strongly anti-gambling. They have a strong anti-gambling caucus in Congress and there was nothing we could do about that. So the prospect has changed.

Unfortunately, under President Lula, the situation has become increasingly frustrating for a number of reasons. The first one is that those guys believe that the potential of the Brazilian sports betting market is way bigger than it actually is. They have been fed with figures that are, in my view, completely unrealistic. Just to give you an example: two months ago, they wanted to use the revenues that they could generate on the back of the sports betting market to make up for the loss that could be incurred as a result of a reformed personal income tax. Income tax is the largest tax in the country, and they think that they can make up for the loss incurred as a result of that reform with sports betting tax revenues? I'm sorry, but that is a bit ridiculous.

The second reason is that, for many years, sports integrity was not a major political issue. This year, it's all over the place. You have a Congress investigation, everybody speaking about it, and I don't know why. I don't know what the hidden agenda is behind the major political issue that is being made out of sports integrity.

Santiago Asensi: Crispin, what do you recommend to a newcomer that wants to enter into Latin America? Do you believe that an acquisition is better than an organic entry?

Crispin Nieboer: Both are applicable. If you want a podium position, organic entry into Brazil is not a cheap option, though. You have to be realistic. I was speaking to the country manager for Betano recently and he said anyone considering organic entry would need hundreds of millions on spend, and hundreds of local staff. So it's not an easy market now to enter organically if you want a podium position, just because there's been so much growth.

Another point is that, regardless of which route you go down, a lot of the key assets have been tied up on the marketing side. For instance, on Premier, on Serie 1 and 2 football, all of the stadium rights have been sewn up by three of the operators – I think it's Betano, 365 and one other. So, when you're entering this market, it's not just payments and politics that are important. On the marketing side, where are you going to acquire your customers and how, given where these operators have built themselves?

When looking at M&A, all those three points apply, but there are some extra things to consider. Forgive me if these are obvious to some of you, but some of the very successful operators there are still quite casino heavy. A company like Pixbet – that shares its name with the successful payment platform there, which is linked to your national ID and is used for most forms of payment – they are quite casino heavy. We don't know which way it will go, but it looks very likely that casino won't be allowed, if and when regulation happens. So is the target casino heavy?

Another point is that a lot of the operators there are Curaçao-licensed. If they are Curaçao-licensed, are they really a clean business that you can get comfortable with, or are there back tax issues?

We've heard a little about the regulatory setup in Brazil. If, and when, licences are issued, our expectation is the resources behind those licences being issued won't be excessive and, therefore, the licences will be given out either individually and consecutively or in batches. In either scenario, you want to make sure that the company you're buying has a very good chance of being in the early releases of those licences, i.e. they are reputable with the regulator, they have a good relationship and they're highly-regarded.

Those are some of the points I would make when you're thinking about M&A. Both routes are applicable and there are some very nice assets there if you're minded.

Santiago Asensi: Regarding regulation: Colombia was first, then Argentina, Chile and Peru. Brazil, of course, has announced regulation but why, in general terms, does it take so long to regulate in the region? I was in one of the first Brazilian Gaming Congress meetings back in 2013 – I even played poker with Ronaldo Nazário – and it seemed at that time that gambling was going to be approved. Ten years later, we are still talking about it being about to be regulated. Why do you think it takes so long?

Pierre Tournier: I've got a very simple word for you: politics. Politics can be messy at times in those countries, and everything takes time.

Crispin Nieboer: In Peru, there was one week in 2020 where there were three presidents in five days. Then, in December last year, the President was accused of a coup and he was impeached and detained. So it's unstable. Mexico is interesting. In Mexico, you have one big dominant player, Grupo Caliente. There are licences, but they're not all of the same standard: there is a Rolls Royce licence and a Morris Minor, but in that territory the Government isn't hugely supportive.

Santiago Asensi: The Gaming Act in Peru comes from 1947!

Crispin Nieboer: It's not the same for every region. We talk about politics, and Peru and Brazil are big examples. In Mexico it's less about the instability, it's more that there just isn't that big enthusiasm to introduce a modernised iGaming framework.

Chris Dougan: I'm just going to turn it on its head a bit there. When I first took the job at Genius, I was based in Washington DC and I would call round people in the States about sports betting and they would say that's never going to happen outside of Nevada. These were law firms and investment banks. These are all the same people that I know today and it all changed just like that. Suddenly, everyone was "in" because they could see the dollar signs. The sports leagues were in. The operators were in. The law firms, the banks and the rest is history.

That's what will happen in Brazil. Everyone will go from 'We've been waiting for 50 years' to it changing in a moment. And, if you're not there, and you don't know the right people, then you're late to the party. Brazil more than most cultures is very much built on relationships.

Santiago Asensi: Thank you all for your fantastic contributions today.

Research Insights to Inform Regulation

Presentation by Adam Rivers

Head of Betting and Gaming Consulting, KPMG

Charlie Leach

Associate Director, KPMG Gibraltar

The need for more research and evidence to support good policy-making was a familiar refrain throughout the 2023 KPMG eSummit. Fresh from attending a conference on gambling and risk taking at the University of Las Vegas, Adam Rivers and Charlie Leach used their learnings to highlight some of the research that is already taking place whilst highlighting key areas of focus for the Gambling Commission as published in their Evidence and Priorities 2023-2026 document.

Adam Rivers: There have been a number of key pieces of UK documentation published in recent months – and, whilst this is a UK-focused presentation, the large majority of everything we're going to be speaking about is very much global in nature. In fact, most of the papers themselves are set outside of the UK.

We have had the White Paper, and we had the corresponding Advice to Government. We're not going to go through that in any detail. Something that didn't necessarily go under the radar per se, but I don't hear about spoken about too much is the Gambling Commission's Path to Play document. We really enjoyed reading it. It was a great characterisation as to the consumer journey itself in gambling and has given the Gambling Commission a platform to keep going back to when it thinks about certain elements of policy going forward.

What we're going to dial into today is the document from a few weeks ago, the Gambling Commission's data and evidence strategy over the next three years. It's called Evidence Gaps and Priorities 2023-2026 and it covers six main areas:

- early gambling experiences and gateway products;
- the range and variability of experiences;
- gambling-related harms and vulnerability;
- the impact of operator practices;
- product characteristics and risk;
- and, illegal gambling and crime.

Now, it's worth noting that the Gambling Commission is quite clear that whilst it's going to take the lead on a number of those areas in terms of filling in those gaps, it's expecting to hear from lots of other parties.

The point that Sarah Gardner made earlier still applies: that if the evidence is not forthcoming and there is a potential or significant potential for a degree of harm to be present in a market, then the precautionary principle will apply. So we are really lighting a fire under everyone in this room to get that evidence in as soon as possible.

Who is the Gambling Commission expecting to hear from? It's a whole wheel of stakeholders in the public sector. It will expect to hear from public health. It's also going to work with and hear from other regulators, people like the FCA, the CMA, etc. The third sector needs to be involved, such as GamCare. Academic research, which is most of what we'll be speaking about, is included.

With regard to consumers, the Gambling Commission has started a new consumer voice survey using a new external agency, not just to get lived experience but also to get experience from the everyday gambler – the everyday voice in the room – that the industry, for a long time, has said just simply isn't heard from enough. And, finally, the gambling industry. It is vital for us all to come together to put forward this evidence.

Charlie Leach: For each of these gaps and/or priorities, we have looked at what the Gambling Commission is wanting to understand, at the questions that will be asked, or examples of them, and the initial focus areas. For each of those, we'll then go back to when we were in Vegas a few weeks ago – just to prove we weren't there just for a jolly – and run through any papers that might help to plug some of those gaps.

Starting with the first one: early gambling experiences and gateway products. (Slide 46) What's the Gambling Commission looking to understand? This is behaviours and gambling journeys for young people split into: children under 16; young people who are 16 to 17; and young adults 18 to 24. Also the gateways and gateway products into gambling for adults, including the vulnerable, and how consumers engage with products that aren't gambling but might have certain similarities to gambling. There are certain example questions about what prompts people to start gambling. How does gambling behaviour change as people age? What's the impact of major sporting events on new gamblers as a gateway?

The initial focus is going to be on the early gambling experiences. In terms of research on this, we saw two papers in Las Vegas. The first was a poster presentation of a study on loot boxes (Palmer, Brooks & Clark). It conducted a longitudinal study of gamblers and non-gamblers, and looked to test the usefulness of loot boxes and micro-transactions as a predictor for gambling behaviour.

The findings are that loot box spend predicts gambling migration, but it also

predicts gambling spend. So the more you spend on loot boxes, the more likely you are to gamble, and the more likely you are to spend on gambling. The key thing here is that micro transactions more broadly did not have the same effect.

Micro transactions are all in-game transactions, generally in free-to-play games, so anything that you would purchase in the game. Loot box is a specific subset of this that is purely randomised: what you get is a random outcome. Clearly, loot boxes have a bit more of a gambling element because you're not quite sure what you're going to get, which probably explains why they're better predictors for gambling.

Further considerations on this would be for more detail on correlation and causality between loot boxes and gambling, but also from a time-based point of view. For example, if you started playing loot boxes when you're 14 or 15 and then you're going to gamble when it becomes legal for you to do so, that would be something of interest, although it is a bit harder to conduct tests on that. Also the magnitude of problem gambling as opposed to just gambling.

The other research paper we saw presented was on free-to-play games and their impact on time (LaForge, Kairouz & Savard). Methodology was several semi-structured interviews that were thematic in nature and touched upon people's experiences of playing free-to-play games.

There were three key dimensions that came out. These were:

- the free-to-play characteristics, so things like stickiness and slickness, stickiness being how much you want to actually pay to continue playing the game. Slickness being how well the game fits into your daily routine.
- Mobile technologies. These are more applicable to gambling in terms of the use of the mobile, how versatile it is, the fact that it's portable rather than fixed in a position; connectivity, that you're always connected; and polychronicity which is where you can use your mobile while doing other things at the same time i.e. watching TV, doing work maybe.
- The final one was temporal disposition. This is probably the key one, looking at how time impacts on gambling and vice versa. So fitting your gambling sessions into little interstitial periods throughout the day. Maybe between your lunch break and starting work again, maybe while you're on the toilet, who knows?

Further considerations are the fact that games can become embedded in players' daily routines. So there could be some game design elements in that, about how you might design a game to do that or maybe not do that.

Also the importance of time and understanding gambling and gambling addiction. We hear a lot about affordability being one of the key markers for safer gambling, but it's also thinking about usage of time. That's quite an important facet.

Adam Rivers: The second priority for the Gambling Commission is the range and variability of gambling experiences. Taking that end-to-end journey and thinking about why it is that people are engaging in activities; the spectrum of activity that people undertake; how behaviours change over time; and then how gambling fits into wider life. (See slide above.)

In terms of how they're going to start the search for that evidence, there's the new Gambling Survey for Great Britain. I know many of you will have responded to the consultation. We saw the near-final version of that a few weeks ago. There are some specific areas that they are now focusing on, and some specific questions, for example, on in-play that didn't used to exist in the survey. They're going to zoom in on these different aspects of that Path to Play framework and they're going to start a programme of longitudinal research, something that, for a long time, many of us in the industry have been calling for.

At UNLV, I presented a draft paper that I am co-authoring exploring gambling behaviours that go beyond just the normal harm prevention literature. This is something we really wanted to put across in the presentation. The view from many in the industry is that there is a real lack of study of gambling outside of harm. So we worked with an operator on getting some granular data on football accumulator betting over a four-week period. We've got hundreds of thousands of bets which we've started to explore.

We are trying to look for the existence of a particular behavioural bias, something called the disposition effect. This occurs in financial markets. It's where, when you buy an individual stock or share, you have an over-tendency to hold onto the position when it's losing and the reverse when it's winning, when it's gaining money. You end up wanting to trade out of that position and crystallise the gain.

It's often cited back to something called prospect theory, which emerged in the late 1970s. We're transposing that into gambling and using this data to work out whether or not you see the same thing when it comes to cash-out betting. Are consumers more likely to cash out a bet when it's in a winning position versus a losing position?

Our initial econometric analysis, which is based just on singles and will be expanded upon later, finds a couple of key things. First of all, we find that the primary motivator for cash out is salience of things that bring it to mind. So big major events that happen within an individual game, something like a goal being scored, or a player being sent off.

Further, the propensity to cash out increases significantly over time. So as certainty narrows, as the consumer or the gambler gets a bit more certainty in their own mind as to where this outcome might be heading, they're more likely to trade out of their position. Then we do find some evidence of the disposition effect within gambling markets, something that hasn't really been seen in this way before. Bets that are performing well are more likely to be cashed out than the bets that are performing poorly.

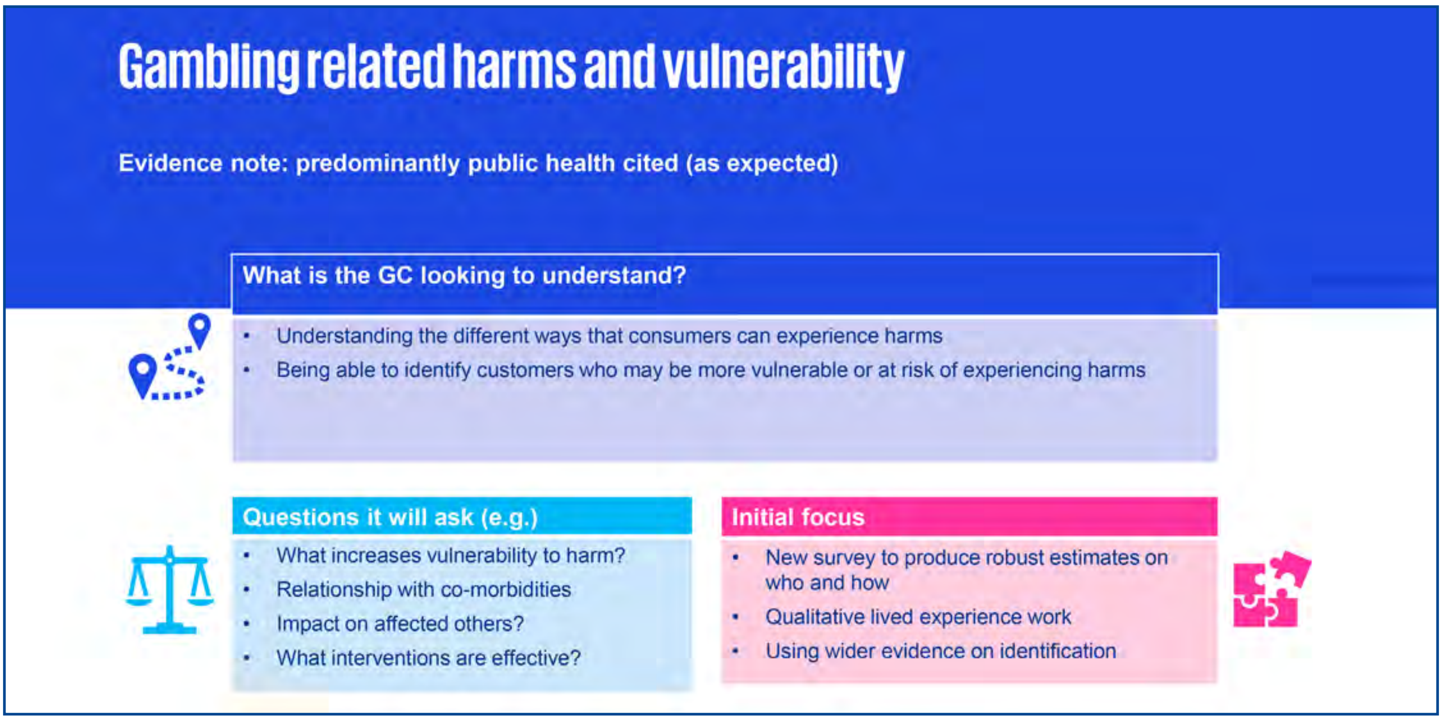
There are some interesting behavioural biases to test on top of that, which is a work in progress for us. One is the impact of bet complexity. I'm sure many of you are aware of behavioural economics literature around cognitive limitations: the fact that as situations become inherently more complex, we rely on simple heuristics to make decisions. Our hypothesis is on trebles and fourfolds etc., where it's harder for you to work out whether or not you're going to be a winner given the number of variables at play, perhaps this bias increases. We're also going to be able to test whether or not consumers learn over time. We'll be able to see if a consumer cashes out in one week but was wrong to do so because it would have gone on to win, does that change their behaviour in subsequent weeks and vice versa?

Finally we'll be looking at recency: if customers are on a bit of a losing streak, does this change the impact of the bias? Or indeed, a winning streak, given things like the house money effect are well studied in gambling. So work outside of harm prevention is happening, you probably just don't know about it.

Charlie Leach: Moving on to harms and vulnerability. What is the Gambling Commission looking to understand here? The different ways that consumers can experience harms but also how to identify customers who may be more vulnerable than others. (See slide below.)

There are certain example questions around what increases vulnerability to harm; relationship with other comorbidities alongside gambling harms; the impact on affected others, those who might be relatives of those suffering from problem gambling; and what interventions are effective.

Initial focus is going to be using the Gambling Survey for Great Britain to produce robust estimates on who is actually experiencing harm and how. Also conducting qualitative lived experience work and using wider evidence that's already available on identification.



One of the research examples we've picked out here is on big wins (Edson, Louderbeck, LaPlante, Philander, Tom). This didn't go into quite enough detail to be used as evidence for problem gambling. We see that as a limitation. The methodology was essentially assigning a couple of big win characteristics: either a large amount based on discretionary income, so a win of €1,000, or a large multiplier, which they categorised as 3.7x. (We are a bit dubious about whether that actually could be classed as a big win.) Big winners were then matched with customers who had similar profiles but hadn't experienced the big win to see what the effects were.

There were several findings. A quite straightforward one was the fact that big winners did place more bets at higher stakes with greater net losses, less so for the large multiplier winners. Also the effect dissipates over time, again, less so for large multiplier winners, probably because the large multiplier isn't big enough. The timing of big wins has little effect – whether it takes place straight after sign up or maybe a few months, or years, into the customer journey. Immediate withdrawers exhibited less persistence.

The next steps on this are looking at the size of the big win, where a bigger win might have more of an impact and make customers more vulnerable, but also how big wins affect problem gamblers. So we've seen the behavioural impact, but how does that affect problem gamblers themselves?

Adam Rivers: It's just worth reflecting on this one in particular. We know big wins is an area of contention at the moment in a number of different cases and this research is quite straightforward to do in-house with your own data. I'd encourage you to take a peek if you can.

The other paper on harm prevention literature was by Michael Auer and Mark Griffiths and that came out just a few weeks ago. The preceding paper to this, from last year, was used by the Gambling Commission in its evidence review that formed this strategy, looking at the variables that can help identify potentially problematic behaviour.

The hypothesis here was whether or not we can identify risky play in a very short time window, something we know that doesn't always happen, and indeed some of the original machine learning algorithms needed quite a bit of data to start making some of these predictions.

They find, first of all, that it's possible and the four key variables that matter are the total monetary value of deposits, the total number of deposits, total net losses and then the number of deposits within a session. The 'within a session' metric was quite important because that's also an indicator of potential loss chasing from another paper that they've developed.

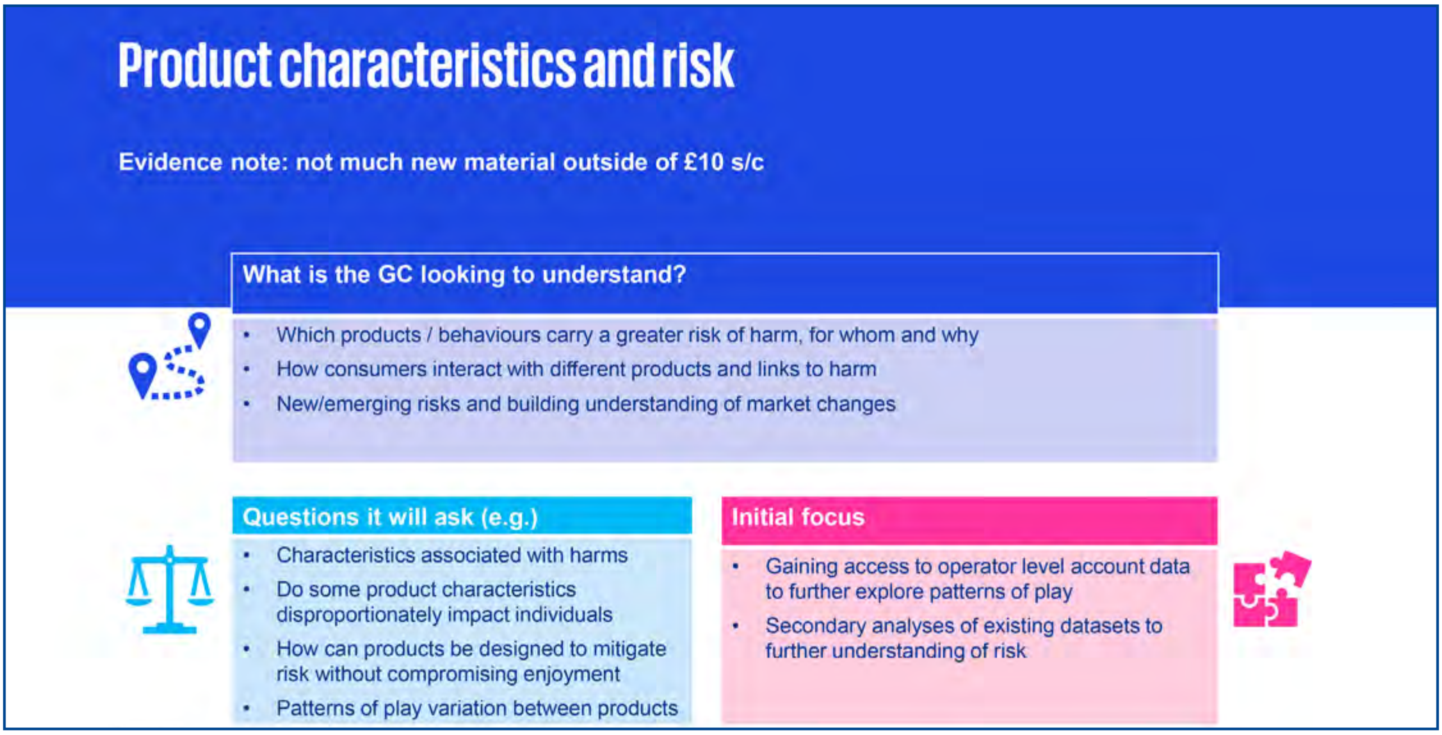
This broadly supports some of these threshold and limit types of approaches, in the early stage of customer journeys and velocity, and the methodologies seem fairly robust.

The fourth area of evidence gap is the impact of operator practices. This is the first area where the Gambling Commission and operators have a significant information asymmetry. The Gambling Commission is going to be looking at how your practices impact consumer behaviour and the effectiveness of the interventions that you put in place.

They will also be looking at things like customer understanding when it comes to products and around fairness. This is the first area where the Gambling Commission is explicit. It will be coming for you in terms of your granular account level, spin level, that type of data. It's an important one to get on top of from the start.

Hopefully, you were here for Laura's excellent presentation earlier on consumer law in which she mentioned choice architecture. That's a key element of what the Gambling Commission is looking at here from an evidentiary perspective. As Laura explained, BIT put out a whole range of work on behavioural audits and then associated recommendations. We've also seen the first CMA enforcement cases in this area specifically around pressure selling, and there is new EU legislation coming in, too.

Considerations for you in this particular area are around that substantial asymmetry between the information you currently hold and what is provided to the Gambling Commission. Make sure you use it, and remember that online choice architecture is also a tool for good. There



are a number of very good features that you can build in to create better outcomes for customers.

The next evidence gap is product characteristics and risks. Here they are looking to try and understand the types of products or behaviours that carry a greater risk of harm; why that is; and how some new and emerging products could be riskier than others. (See slide above.)

Questions they may ask include whether some of these products disproportionately impact some members of the gambling community compared to others, and about new work in product design to help create products which are still fun to play but do mitigate some of those risks.

Again, this is an area where they are going to be taking operator-level account data from you as well as doing the secondary analyses of existing data sets. How they'll discharge that is to be confirmed but one trend we are seeing in academic research now is that many papers are published alongside underlying data from a transparency perspective.

In terms of research papers for this, there were two great examples of papers that are seeking to prove, or test, one hypothesis which can be very helpful to inform broader parts of a policy debate. Both are working papers, so not published yet.

The first, by Gooding and Williams, was a cross-section piece of work that looked at the level of problem gambling in individual customers against the type of products they were playing. In short, it came out with findings that are broadly similar with some of the work we've seen done in the UK before. So things like lotteries and instant win game products are correlated with the lowest risk of potential harm or correlation with problem gambling. Products like electronic gaming machines and table games are on the higher end of that. That being said, once a consumer is playing four or five products, those rates tend to converge.

There were interesting logit findings: this is a predictive econometric model. First of all, they control things like a consumer's impulsivity. So more impulsive people are more likely to suffer from problem gambling. Also, a measure around cognitive biases when it comes to gambling behaviour and gambling biases. If you were a worse gambler, as in you didn't understand certain things, you were more prone to gambling fallacies and you were also more likely to have potential issues. The other point I'll bring up – and the black-market debate has raged on today – is that there's a strong and significant finding that it was more likely to observe problem gamblers playing on offshore sites than on onshore sites.

The second paper was on positive play and gambling literacy (by Connolly and others). The Positive Play Scale came out from Kahlil Philander and others a few years ago. Basically, it tried to test with individual gamblers how positive their play is. Are they honest with themselves? Do they have pre-commitments that they stick to, budgets, etc. Are they gambling literate? Do they really understand the products they're engaging with?

There were a couple of key findings here. First of all, that gambling literacy – your ability to fully understand this sector – materially impacts betting types. So those that were highly gambling literate were far more likely to bet on things like money lines, 1x2 markets. Those that had lower literacy were more likely to bet on things like player props or parlay betting, wager types that have a higher margin and potentially poorer value for the customer.

The second finding of note – and this is a US study so the regulated/unregulated debate is a bit different – is that those with a really high gambling literacy, who understood the markets, pricing etc., were far more likely to be using offshore alternatives compared to those with lower literacy.

That's also observed for pre-commitment betting. Those customers who wanted to place large wagers, say pre-match, again were more likely to use the offshore books. These were quite material findings from a statistical significance perspective.

Considerations here: of course, the US and UK are quite different markets but it's another great example as to where, when you start researching one thing, if you're properly controlling for confounding factors, you can end up with insights that really help broader policy debates.

Charlie Leach: The final evidence gap and priority is illegal gambling and crime. What is the Gambling Commission looking to understand? It's links between gambling and criminal activity. Also, crimes as a dimension of gambling harms, and improving the knowledge of the extent and impact of the unregulated market and illegal betting.

In terms of the initial focus, questions are going to be around researching consumers' use and understanding of illegal operators, using the new Gambling Survey of Great Britain to understand how people commit crimes and become victims of crimes, as a dimension of harm. There weren't many papers on this, which is an indictment on the direction of travel: in terms of research at the moment, everyone's talking about safer gambling. Around 61% of the 193 papers at the UNLV conference had some form of safer gambling element. In terms of crime and illicit gambling, there were four papers.

Out of those four, one of them was about expert witnesses on gambling in Malaysia, which isn't really applicable to the UK, or any other jurisdiction. The analysis of use of offshore online gambling sites in the US would have been quite interesting, but unfortunately the author wasn't able to present. Having read the paper, it provides an explanation of structural and operational characteristics of illegal sites, how people go about finding them, particularly focused on the use of reviews to guide people towards which unregulated sites are dodgy and might not give you your money back, and which ones are not too bad in that sense.

The third one was the house doesn't always win: a discussion of Australian market failure with the massive fines for Crown and Star casinos in Australia, talking about regulatory failure and an operator failure. The fourth one, on monetary limits for AML and safer gambling, you can hear about in about 50 minutes if you make your way to the breakout room because I'm going to be talking about it there. Adam will now wrap up.

Adam Rivers: So, there are three key takeaways from our session today. First of all, it's really important to understand the breadth of research that's happening. There is probably more than we all realise: it's just that it can sometimes be in some hard-to-reach places. It's important to recognise as well how much it does inform policy going forward. If you look at this Evidence Gaps and Priorities document, you'll see a whole range of sites with a number of these authors mentioned.

Second, whilst the academic debate is very much weighted towards harm as it stands, our view is that building an understanding of the gambler is vital, if we to inform policy and policy-making in a more proportionate way. One thing mentioned earlier on was about the industry often being very assertive in the types of evidence it gives. If you think about some of these studies, they allow you to make assumptions of consumer behaviour that are backed up with robustness. When you're transposing those onto why you think a policy change is potentially disproportionate, you're able to model it with a far more informed set of assumptions, and something that I would hope is more likely to be believed by the Gambling Commission.

Finally, the point around asymmetries. The information asymmetry between many of and the Gambling Commission, as it stands today, is substantial. Whilst that's going to narrow over time as regulators request detailed data, one thing we find that works incredibly well is making sure you know exactly what that data is going to say before you start handing over the keys.

Wrapping up

Important to **understand the breadth** of work out there and how it will **inform policy going forward**

While **weighted towards harm**, building a **broader understanding of the gambler** is vital and also helps to inform that debate

Information asymmetry is substantial – the **regulators will be requesting detailed data**, understand it now has benefits

KPMG

Evolution of the Industry, powered by Continent 8 Technologies

Moderator: Micky Swindale

Global Head of Sales Enablement & Partner, KPMG Global Gaming Team

Panellists:

Shimon Akad Chief Operating Officer, Playtech

Julie Allison Chief Revenue Officer, Games Global

Mark Kemp Chief Executive Officer, DAZN Bet

Kane Purdy Director, Bally's Interactive

Phil Walker Managing Director, 888 William Hill

The operator's panel – also colloquially known as Leaders and Legends – is the traditional finale to the Gibraltar eSummit with delegates keen to hear news and views from some of the industry's key players. This year's panel was supported by Continent 8 Technologies, who have sponsored every edition of the KPMG eSummit reports, and who were celebrating their 25th anniversary in business. The session was broadcast by C8 as an EGR Global webinar. Moderator Micky Swindale, the driving force behind the eSummit series, took the opportunity to ask for reflections on the major changes the eGaming sector has experienced in its own 25-year evolution as well as current and future challenges and opportunities.

Click here to watch the Continent 8 Technologies Evolution of the Industry session in full.

Micky Swindale: The industry has certainly changed quite substantially over the past 25 years. What do you consider to be the area of greatest change and what kind of impact has that change had on your organisation?

Kane Purdy: I've been in Gibraltar with various operators over the past 18 years and the biggest change I've seen is the customer protection overlay across our business now.

There are probably a few long-serving operators here that might remember a time where large customer losses were celebrated the following day. It's very different today. We have to know every detail about the customer before we accept those sort of days.

If you're just bolting on these overlays, then you've missed the message completely: it's root and branch change through your product, and your operations, to make sure that overlay works for the customer, that the journeys are coherent, and the customers still have an experience that's enjoyable.

Mark Kemp: The catalyst for change has fundamentally been mobile. I joined the industry about 12 years ago from the travel and leisure sector, but the history goes back to 1998 in terms of tele-betting with the migration of Victor to Gibraltar. Ironically, it is the phone that has changed everything over the last 25 years, culminating as Kane says, in a much more professional business, particularly around safer gambling and responsible gambling.

The mobile phone has driven a lot of the changes of the industry: it's driven globalisation, it's driven mergers and acquisitions; it's driven the ability to manage data in a very different way over the last 25 years, culminating at the moment on the start and progression of a journey around safer gambling, but also around marketing technology that can be linked to that mobile journey we have had.

The consumer world has embraced mobile over the last 12 years. The first iPhone was 2008. The QUERTY BlackBerry was 2002, and 25 years ago we were all on the Nokia 3310. The mobile device, and how consumers have interacted with mobile, has underpinned a big global change in data technology for the industry. The industry has embraced that and certainly tried to maximise that as much as possible in terms of its growth opportunities that have led to globalisation, mergers and

acquisitions, and also marketing use of that data and technology. But also, now, a very positive consumer use of that data going forward.

Julie Allison: I'd add regulation as well as technology. We've had a lot of movement in regulation, and we continue to have more. From a Games Global perspective, we've really had to focus on our technology in this area in terms of how we're adapting to the pace of regulation for cost efficiency and effectiveness in what we're doing.

When we look at companies across the industry and how they're progressing in this area, there are definitely advantages when it comes to the pace and change in regulation, and how companies are adapting their technology to support that.

Shimon Akad: I have to agree with both of you on how the industry has materially changed in the last 25 years. The first thing was the move from dot.com to something that's much more regulated and unique per jurisdiction. So there's a huge challenge there.

The second biggest thing, as Mark said, is the industry moving from a product which, from a customer perspective, has this annoying, screechy noise, that moves really slowly, and needs a PC stashed somewhere to get it to work, to something that's very fast, literally in the palm of your hand, and is always available wherever you are, wherever you go. It's a material change to the product, to the perception, to the customers, and it puts us in a very high-paced moving – and growing – market.

Both of these things working together is what has brought the industry to the huge size that we see today and that probably no-one imagined 20 or 25 years ago.

Phil Walker: I have the privilege of being in a newly-merged company with, on one hand, a 90-year-old brand that started off with no internet and only telephone betting much later, and the 888 brands which were invented in 1999 with Casino-on-Net. While those two businesses have ended up in a very similar place now, driven by technology and regulation, localisation, and changes in consumer trends, it's been very interesting to see their journey over that time. How innovation in technology has driven the 888 brands forward, whereas with William Hill there's been a constant entertainment value to the product, but it's had to go through many years, and many iterations, of that technology.

I've been in the business for 15 years, and the last two or three years have seen the fastest change in consumer perception, in consumer demand, and what they expect. Whether that's because of smartphones, their expectation is that everything is instant, everything is now frictionless, everything is simple; we now have an even bigger obligation to deliver those experiences to consumers in that way.

You could be a little bit more complacent 10 years ago, or 20 years ago, but now consumers are king. So technology and regulation has probably changed the industry most, but what we need to keep pace with is consumer change.

Micky Swindale: Julie, you referred to the pace of regulatory change and, for all of you, I can imagine that given the different aspects of regulation – where it's going, both in new and emerging markets, and keeping on top of established markets – must keep you awake at night. How do your organisations go about staying ahead of the curve on regulation?

Julie Allison: Games Global is a very new organisation and when we were structuring our business, we made sure to put market strategy right at the core and in the centre. For me, personally, that was very new compared to businesses that I had worked across previously.

The need for understanding what's coming up, how to react to it, and how to be ahead of it is really critical. So those teams work very differently: they work in a way that we've got market leads anticipating and responding.

We also have what we call 'boots on the ground' – local knowledge feeding back in. That's for existing markets and also for markets that are yet to regulate, where it's really important to build those relationships and to have that knowledge.

So we're ready and we're prepared. It sounds very easy but it's not. A lot of work goes into it because, as we were saying, the pace of regulation continues to increase.

Phil Walker: From an operator point of view, we have an international business which is in 40 countries. Ten of them are priority markets, and we've had to embrace that local approach to consumers and to regulation, and there is no substitute.

Shimon talked about moving from global into a more localised way of working. The organisation has to adapt to have those local teams, 'boots on the ground', who really understand why the regulation exists, the spirit of that regulation, and how we use that regulation to provide those great customer experiences.

That's very difficult to do in a one-size-fits-all way. Our organisation is continuing to shift towards a more local model from that global model because we can see the utility it provides.

Kane Purdy: I'd agree with what both Julie and Phil are saying but it's about having flexibility within your organisation as well. When we talk about localisation, getting down to platform level, there will be more mature regulated marketplaces that you'll need to have the all-singing, all-dancing platforms with lots of modules in there that you can drop in and pull out, but you need flexibility in some of the pre-regulated marketplaces, or the marketplaces in early regulation. You need to have flexibility with your platforms, your products, your offerings.

Mark Kemp: That's right. The drive of the business model is diversification because of the amount of change in individual markets, and not needing – or being able – to be exposed necessarily in those individual markets.

Although diversification spreads risk, it also has to be localised, and there aren't always the synergies of expectation within that, because of the local regulatory rules, and the change of those local regulatory rules on a frequent basis, which could be political, or could just be the evolution of that particular market.

Having local knowledge, as the panel have said, is crucial but it means you can't necessarily have a single global team. You need to seek synergies where you can in terms of efficiencies in the technology platform and make sure the architecture of your technology platform enables flexibility for change. So, for example, a critical change for the DGOJ in Spain does not impact on another market that doesn't necessarily need to go through that same process. Otherwise you start to inhibit markets through globalisation.

There is definitely a move for diversification of markets. Balancing localisation with that is where competitive advantage is for all of us.

Micky Swindale: Just before we move away from regulation, another of the themes that has come out, particularly as we've looked across different jurisdictions and the approaches that different regulators are taking, is that there seems to be a sort of conflict, or tension, when it comes to finding the right balance between regulatory oversight versus consumer choice. How do you navigate those two pulls as suppliers and as operators?

Mark Kemp: It's very different by market and we're often dictated to in some ways, certainly in terms of minimum regulatory requirements.

As a new business, or as a challenger business, it's much more difficult to go into multiple markets in an efficient way. For example, we operate in Spain, Italy, the UK, and shortly Germany, all with very different regulatory regimes, and all needing very different regulatory focuses in order to be compliant and to be positive for consumer choice.

In our business we're operating with a media company as well and the regulator for media as well as a gambling and betting regulator. They have different positions in terms of consumer choice versus safety, and so on, at a local basis. This can inhibit competition potentially where you're trying to diversify across multiple markets, but you haven't necessarily got the power of the mature brands in order to spread across three or four markets at the same time. The resource is just spread too thinly. It's very important to put in the local resources in order to achieve that.

Shimon Akad: As managers and leaders of businesses, it's our responsibility to always grow the business and to deliver better and better results every year. One of the ways to do it is by going to more jurisdictions. More jurisdictions mean more opportunities, and more money for the business.

On the other hand, you get the challenge that Mark mentioned and for us, as a B2B, as to how do you make sure that you can actually support all those new jurisdictions? All of them come with different requirements. Then it comes down to the platform, and how smart is it, how agile is it, how efficient is it to allow you to expand faster than your competitors?

This is exactly where we need to invest as businesses. We need to invest in technology that's flexible and smart enough to allow us to expand at the rate that we

want to expand the business. This is probably the biggest challenge that's come out in the last 10 years when there has been so much more regulation coming into the industry.

Julie Allison: I would also add that there's a huge amount of consolidation in our industry. We were talking about platform and technology, and making sure that they can really support in terms of the advantage of market expansion. As we're adapting and growing as businesses, those challenges change and they continue. It's a growing challenge, for sure.

Phil Walker: What we're seeing in the UK, particularly as the White Paper now creates potentially more of a level playing field than there was there before, is that as the regulation tightens and becomes more specific, consumer choice – and being the first choice for customer experience – becomes even more important.

As everybody has to do the same thing in roughly the same way, doing it in the way that's the most seamless, the most frictionless, adds that value to customers so that they recommend you as the best. So if you have to do something you don't necessarily want to do, make it the easiest it can be.

The battleground is shifting away from how you interpret regulation, and having quite a lot of manoeuvring room, into a situation where we all understand what the regulation is and we have to fight on providing those excellent experiences. That's quite a shift – and it's probably true in each different territory at different stages of maturity.

Our businesses are becoming more and more complicated as to how you navigate through this. If I take something like Ireland, for example, which looks like it's regulating on a UK style, it won't be exactly the same. We'll need different propositions and experiences in the Irish market to the UK. You can no longer assume that one thing fits everywhere.

Mark Kemp: It goes beyond technology as well. It's about people, operations, training, and knowledge around the individual rules in order to offer that customer service. Not just the definition of what the technology needs to be. Those things go together and require either teams that understand and can operate across multiple jurisdictions, knowing those individual regulations and the customer proposition service for those individual regulations, or a real deep focus in on a particular market where you're able to drive differentiation and potential competitive advantage through that service.

Micky Swindale: I have heard it said that if you want to find gambling regulation easy then start dealing with broadcast and media regulation and you'll know the difference! Shimon, you talked about an important source of growth being new markets, and new markets have been springing up with astonishing regularity over recent years, some of them exponentially, others much more slowly. Of all those markets that have opened up, which do you feel has had the greatest positive impact on the industry and why? On a counter point, have any of those markets failed to meet expectations or disappointed you in some way?

Shimon Akad: The obvious candidate for this question is probably the US, for its sheer size, and the continuous prospect going forward. The effect it has on the industry is much more than just the numbers – around US$6.6bn I last saw in terms of size of industry, half of it in gaming and coming mostly from only three states. That is just the beginning of how big that market can grow.

But it goes beyond that because the big operators in the US are buying almost all the other B2Bs which doesn't leave a lot of other options. It's creating a very special, unique place where every B2B is trying to buy all the others, and sell itself to a huge US business. It materially changes the landscape, and the opportunities for operators to work with B2Bs elsewhere in the world.

Apart from that, it's not only the US. Everything is moving forward. Everything is growing. The whole Americas are advancing greatly: South America, Latin America. Africa is moving very nicely forward. Even in Europe, where you might think it is at the end of its super cycle of regulating markets, we're expecting at least two more very big markets in the next two to two-and-a-half years to regulate gaming and then boost our numbers over again.

We've seen significant growth in the last five to 10 years, and we'll continue to see growth at least for the next five years. So if you're in this industry, don't move, you're doing good!

Kane Purdy: I'll give our experience in the US. We signed up with Pechanga back in 2013 with a view to impending regulation in California in 2013. Clearly the growth opportunity is there, the opportunities of the States are there, but the pace of change across the various marketplaces has got to be seen individually. Some of them are glacial.

Micky Swindale: One of the themes of this year's conference has been ESG. Certainly, that's the main area where I'm having conversations with operators these days, exploring the demands on business to provide greater transparency and accountability. It's a very rapidly moving field. So how is your company committing to ESG?

Kane Purdy: It's essential for us at the moment. We're going out to the capital markets and our ESG approach has been looked at pretty seriously. It's a key decision-maker when looking for money on these things: you need to demonstrate that you're taking it seriously.

We've always seen the value in the governance and diversity approach, having diverse voices in the room. We don't create the echo chambers. We talk about customer-centric viewpoints and we need the voices of our people to be reflective of the voices of our customers. So we're delivering that.

It's non-negotiable these days and part of the fabric of our business.

Mark Kemp: I agree. As a new business, it's starting off on the right track, and making sure that it's embedded at the very start.

It might not be as structured as some of the larger businesses, or more mature organisations, but it's there at the start to then build on in terms of the strategy. As you go forward and need funding in the capital markets, it's important that you've got a track record of doing it over the long-term, not the short-term.

Micky Swindale: Yes, we probably all envy you that a little bit: the opportunity to inculcate that culture right from the start is a really nice opportunity to have.

Phil Walker: Taking two strategies and merging them together has given us an opportunity to be a kind of start-up in that sense. A chance to refresh the thinking, and bring together two quite different cultures, and quite different approaches, into something that's more than the sum of the parts. That's certainly helped.

The other benefit that William Hill has is its 7,500 colleagues and lots of physical premises. Looking after the planet and sustainability has been a priority for a number of years, and becoming carbon neutral in our retail estate has made a big difference. Our people are very proud of it, it's a big marker.

We've been able to take those things from historical positions and now merge into something more powerful. It's certainly front of mind. We talk about it on a monthly basis throughout the management teams in every division. The board are far more active in driving change, and challenging how far we can go so that it's not just a tick-box exercise or something that's conservative but that we try to be a bit bolder and make statements that are more far reaching, more aspirational, to aim for.

We've found that by being a bit more aspirational, and setting longer-term targets, we are making more progress. Momentum has improved by being bolder and almost more commercial about it.

Micky Swindale: That's really good to hear because someone very senior, and very well qualified in the industry, recently reflected to me when we were talking about ESG assurance that there is a danger that boards start to focus on what can be quantified as opposed to thinking what really drives positive outcomes. You've got an interesting opportunity there to really get people to focus on what matters.

Phil Walker: That very conversation does take place.

You need to be realistic. If you set stretching targets that are so long-term, they can't be measured, colleagues start to lose faith in that. There needs to be a blend between the level of ambition, and some quick wins, and some significant wins that can be measured. Getting the balance right makes the difference: the combination of boldness with measurability.

Micky Swindale: Taking the diversity element further, I've been party to many discussions since KPMG started the #WeAllWantToPlay initiative in 2016, but progress to concrete change has been really slow, and not just in this industry, to be fair. What do you think it takes to drive positive lasting change in the area of inclusion and diversity and what are the pitfalls we need to avoid?

Mark Kemp: It's got to move from best endeavours to a corporate strategy. As Phil said, making it commercial almost, where you have clear objectives within the business, you have clear strategy and tactics that support those objectives, and you then have clear measurement of those outcomes.

It's a competitive advantage to have diversity of talent and thinking within the business, and it needs to be seen as that in terms of a corporate strategy that will drive advantage for investment, drive advantage in the long-term sustainability profile of the business, and drive a much better culture that will increase innovation because of that diversity of thought coming from that strategy.

Moving from a best endeavours approach to recognising the strategic commercial benefit is the material change that needs to be made.

Julie Allison: I couldn't agree with Mark more. I'd just add that it has to be really authentic. It has to come from an authentic place across the whole business, top, bottom, medium, across. My own experience has been fantastic, even though I agree the change has been slow. But systemic change is slow: it takes time for real change.

When I joined the industry about 13 years ago, I walked into different businesses and didn't see women in director or C-level roles. It never dawned on me that was a

path for me at that stage. It's crazy to think about that now. It has really changed in certain areas. We have still a huge way to go and we're only talking in this example about women in the workplace.

We have a huge way to go for the wider diversity and inclusion conversation and, as Mark said, we need to measure it. We need to hold ourselves accountable.

Shimon Akad: For me, it started with my daughter. When she was about 15, she came to me and said, 'Dad, I've just realised you're a manager in a big company. What do you do to make sure that there's equality for women in managerial roles?' That's when you get that personal commitment because then you go to work, you realise we're doing good with the business, and that we have the privilege, and the duty, but definitely the privilege, to make sure that we also make this world a little bit better.

When you do DEI better, you will get the business to do better, because when you look at those mixed teams, you see that eventually they are better, they are more resilient, they are smarter, they are much more creative. You will see things working better for the longer term.

We've embarked on a five-year plan that comes with those tangible, committed milestones. So far I'm happy to say that we've met all of them, and even exceeded them, but it is a slow change. It's something that starts with awareness. It doesn't matter how awareness comes to you but you realise this is the right thing to do. It's our responsibility to do it, but actually it's our privilege to do it. If we can achieve all those goals that we've set ourselves, I will be very proud.

Phil Walker: Mark touched on talent before, and how difficult it is to get talent. DEI has definitely become something that candidates for our business want to talk about. They want to know what are you doing, what you have done and what it will feel like for them when they join your company.

We have huge diversity across our retail business but we have been too slow looking at senior management positions. There is a lot of work still to do.

The other important thing is to talk about it a lot more. We host regular events across all of our sites globally just to highlight that this is something that we should be talking about. We should be thinking about it, talking about it, doing something, making commitments to do something different.

In 15 years in the industry, that's definitely changed: the level of authenticity about people wanting to talk about it, making it important. That's coming from colleagues and managers and recruiters. So we are making progress. It is slow, but we are making progress.

Kane Purdy: From our perspective, we've imported talent at top table. We've done a top-down approach: 50% of our board at a group level is diverse ethnic minorities now.

We've got to create the pathways, the bottom-up approach where we're recognising talent as early as possible there, putting them on fast tracks, listening, hearing those voices there.

The reverse mentoring I heard about yesterday [at KPMG's DEI mini summit] was incredible. Understanding the privilege that I've experienced through my life to be blessed to be in the position I'm in now but understanding that other people have not experienced that. A little more empathy will help create the pathways for that talent to bubble up.

Micky Swindale: I couldn't agree more. If we manage to build a better world, you guys have to operate across all of it. As a truly global sector, that comes with its challenges. How do you navigate those challenges of operating increasingly global organisations?

Phil Walker: I used the phrase 'globally local' before to talk about commercial businesses, business units, and brands in a particular market, but that also applies to campuses around the world. We have 16 campuses around the world. Each one has a unique culture and unique values, and we need to cherish those values.

At the same time, as a newly merged company, we need to have our own identity that's top-down, but something that we can share. So we're trying to strike a balance of embracing both the local uniqueness, and having a core that matters to everybody.

It takes work, it takes a lot of thinking. It's very easy to apply our own Gibraltar campus view to our Sofia office, or Tel Aviv office, or New Jersey office. You have to train yourself, discipline yourself, not to expect the same thing everywhere except perhaps those common core standards that you're prepared to stand behind.

Kane Purdy: It's been a tough nut for us to crack as well. Blending a land-based, American culture, with a pretty fast-paced, legacy Gamesys culture: that's been really difficult. We've ended up with a lot of local cultures dotted around without that overlay yet of what it means to be part of Bally's. That's a real challenge.

It's a point that we're taking quite seriously at the moment to see what we do represent. Yesterday we talked about if we were a person, what would we look like? What would we be? We've not got to that final destination yet, that's still evolving; the local viewpoints are those dominating at the moment.

Mark Kemp: Strong leadership in each of the local markets is important because it joins everything together. If you've got a strong leader who is operating in that market, they will do it their local way. They're the local expert in doing it, but they can interpret effectively what that means then to the wider organisation or the wider brand. So having that local leadership and putting those people in place is absolutely crucial to being able to achieve that balance between local and global.

It is also incredibly motivating as well, and stimulating. When you talk to an Italian leader versus a Spanish leader versus a German leader: they run their businesses in different ways, with their different cultures, and that's fantastic. You can learn from each one of those as well in terms of the overall business, which is great.

Julie Allison: It's very similar for Games Global but for a business as a supplier in the industry, our operators are obviously global as well. Something I know that we have additional challenges on – and we've already talked about markets, regulation, jurisdictions etc. – is the need to adapt products, adapt customer relationship strategies, and commercial approaches to something that you can understand from a local perspective. But also to bring that together from a global perspective as well.

Micky Swindale: Today's panel theme is the Evolution of the Industry over the past 25 years. What would you see as the biggest lesson that our sector has learned from those past 25 years, and how can we use those learnings to ensure responsible, sustainable growth into the future, a healthy industry for everyone?

Kane Purdy: When I first came to Gamesys, now Bally's, I had a brandy with Noel Hayden. He's an industry legend. A line of his that resonated with me was: 'We're the good guys and we'll win in the end.'

That's a pretty important lesson. If we remain customer centric wherever we are, focused on what works for the customer – we talk about being frictionless as we go into the UK market – focused on products that resonate with them, operational touch points that resonate with them, then we'll be okay.

Mark Kemp: We've got to be very cognisant of the big world, not just our own world. It will be those changes, and how we adapt to and adopt those changes, that will be most important to us going forward. AI is the obvious area right now in terms of how that progresses, but also just consumers.

Our children are getting older and their different perceptions over the next 25 years are what will matter. How they consume anything across the planet is what's going to matter. So we've got to stay connected to the outside world and then understand it, understand the politics of it, and then adapt the industry and our strategies to it.

Julie Allison: We've really changed over those 25 years. I remember sitting in a room about 10 or so years ago, where people were talking about mobile and saying it's going to be important, but it's not going to really take over desktop. One of my biggest learnings is that flexibility and openness. Also, that change comes at a pace, and it only continues. Compared to 10 or 25 years ago, we're a lot more open now to understanding what all the possibilities could be and how we're going to achieve them.

Shimon Akad: For a business to really thrive through the decades, to go to 25 years and even more, especially big businesses, the one thing they always need to make sure they are there tomorrow is the appetite to learn. So, every day when you wake up, do you have this curiosity, this appetite to learn? Or do you feel like that you've learned everything and that's it? You're number one, you're leading the market, you're complacent.

If you wake up every morning and ask 'what's the new thing I'm learning today', and make sure that everyone comes with this attitude, then you will always stay ahead.

Our industry is heavily dependent on technology, and technology is moving in a very fast pace. AI is coming. We got used to the phone; we're going to get used to some kind of mixed reality, VR, in the next couple of years.

Things will change. That's the one given. If you wake up in the morning and you say, what am I learning today, bravo. If you're not, if you're complacent, maybe you should go to the board – maybe it's time for you to step aside a little bit!

Phil Walker: I'm going to shamelessly plagiarise. The big drive is customer centricity. Change is constant, as Mark said. Be adaptable and flexible to that change. As Julie and Shimon said, look, always be curious, be brave, innovate. We've done a brilliant job of that as an industry in the last 25 years. In the next 25 years, we're going to have to be even better at it.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