Gibraltar eSummit

23 June 2022

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A word from the sponsor

Continent 8 Technologies is delighted to bring you this report from the 2022 KPMG Gibraltar eSummit, keeping you up to date with the latest developments and thinking in the eGaming sector in Gibraltar and further afield.

David Black

Managing Director EMEA
Continent 8 Technologies

It was great to be back in Gibraltar and to see the event busier than ever. It continues to be a key date in the calendar for sharing knowledge and exploring critical issues for the industry, and we have proudly supported the eSummit on this mission since the first event took place in the Isle of Man in 2010.

This year we showcased the latest iteration of our Leaders & Legends panel. The session, expertly chaired by Micky Swindale of KPMG, featured some of the most well-known and respected names in the industry, and topics discussed included expectations and preparations for the UK Gambling Act Review, M&A activity and approaches to equality and diversity within organisations. I hope you will find the session transcript later in the report informative.

Continent 8 is the global infrastructure partner of choice to the eGaming industry, with almost 25 years of experience in powering the world's biggest gambling brands. We provide managed hosting, connectivity, cloud and security solutions. At the time of writing, we have data centres and points of presence in over 85 connected locations spanning Europe, the Americas and Asia.

This includes our state-of-the-art and unique data centre deep in the Rock of Gibraltar, the most secure and well-equipped hosting centre in the jurisdiction. We power many iGaming customers, and are the hosting provider of choice to the Government of Gibraltar, which recently signed a new contract with us for the next five years to June 2027.

We have expanded significantly in recent years, serving new iGaming markets, including the burgeoning United States, having made an ambitious commitment that we will enter every important regulated online gaming market across the US. Not only that, but we aim to be the first to market in each one.

We also continue to develop and enhance our product offering, particularly within our Secure solutions to defend customers against a growing number of cyber threats, as well as expanding our Cloud services.

It's an exciting time for Continent 8, and next year we celebrate 25 years in the industry, an important milestone for any business. We look forward to delivering many more technological solutions to the ever evolving eGaming industry, and we look forward to partnering with you on this journey.

Finally, a sincere thank you to our customers, partners and team for their support throughout this last year. We look forward to meeting again at the KPMG Gibraltar eSummit next year, if not before.

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KPMG
KPMG Welcome & Opening Remarks
Stephanie Beavis & Adam Rivers,
KPMG

Contents

KPMG eGaming summit welcome address

Minister Isola opened the 2022 eSummit with his customary address to delegates on the gaming sector's place in Gibraltar's economy. With the eSummit taking place within days of the unexpected announcement that Gibraltar would be subject to enhanced monitoring (so called grey-listing) by the Financial Action Task Force (FATF), Minister Isola reflected that Gibraltar had experienced many other challenges over the years but had risen to meet each one. Gibraltar's resilience would prevail again, he vowed.

"Six years ago today the United Kingdom voted to leave the European Union. I know how we felt at the time in Gibraltar. It was the end of the world.

Where were we going to be? What was going to happen to your industry? They were seriously challenging and critical times when we really had no answers. We had done a huge amount of work but nothing could prepare you for the actual event as and when it happened.

What did each of you do? Well, you did what you do best. You got on with your jobs. You acted professionally. You responded by working with us to ensure that we gave you what you needed to enable you to continue working and working profitably. You adjusted, you restructured, and today you're stronger than ever.

Your numbers are strong, new applicants are coming through and the gaming sector is in rude health – despite all the challenges that you face and continue to face. There are headwinds – the UK Gambling Act Review, our own Command Paper – there are challenges ahead and none more so than we were presented with [by FATF] last Friday.

But when you look at where we've been, what we've done, and where we are, and by continuing to be professional, responsible and serious business people, I believe that the future continues to be bright.

Hon. Albert Isola MP

Minister for Digital, Financial Services & Public Utilities

Many of you will already have experience of working against an action plan and against that greylisting background because many of you have offices in Malta. So for the past 12 months you've been working under a similar regime.

I am pleased to say that I have given my commitment and my promise to Moneyval that within the 12-month period, we should be able to deal with the simple, two action points that are pending: that we will be back and removed from that list.

Is it disappointing? Of course it is. Would I rather we weren't there? Of course. But getting on with business is what we all do so ably – and we have proven that over the past six years. We learn to identify what the risks are. We learn to identify what the work is.

Are we going to have to work harder to stay still? Unfortunately, I believe we will. But do I believe that, in the time that we have been given, we will be able to overcome and surpass this? Absolutely, yes I do, and we have already taken steps.

I have been in London this week meeting Treasury to see how we can work closely with them. I have a letter from the City Minister, John Glen MP, from Treasury, congratulating me on behalf of Gibraltar for the quite extraordinary work that we've done in our MONEYVAL evaluation.

I was disappointed because I honestly did not believe we were going to be anywhere near where we ended up last Friday as the first jurisdiction with only two points to be listed. But I don't think that disappointment should cloud the incredible work that's been put in to do as well as we did.

I have to commend in particular Andrew Lyman, David Walsh and the team at the Gambling Commission here in Gibraltar. When I look back two years at where we were in respect of all of our AML processes and I look at where we are today, we've got better. The process works. The process improves how we deal with the kind of criminals that we don't want anywhere near our shores. From start to finish.

From filing a SAR to how it's processed, to whom it's shared with, to whom it's investigated with, information coming from across the frontier and further afar, and organised crime groups: today we are so much better than we were two years ago. I cannot begin to tell you what that difference looks like. We've restructured GFIU (Gibraltar Financial Intelligence Unit). We've added more resources to the police, and to accountants to help them with their forensic investigations. We've added more resources to customers.

Each of the regulators is now far better equipped and ready to engage in working towards the future.

So, however difficult it is – and it is difficult and it is unwelcome – I have no hesitation in telling you that in 12 months' time we will be off that list and we will be in a far better position.

My commitment is to work with you: to understand the problems that you have, and to work with you in getting through them. To ensure that at each step of this process over the next 12 months, we work together as we have done in everything else. My door is open.

I work very well with the GBGA and I'm grateful to them. I briefed them on Friday morning before the announcement was made. I briefed the Finance Centre Council before the announcement was made. The response I've had from both associations is what I've learned to expect from them this past nine years in this job: totally professional, totally understanding and totally committed to moving forward.

Looking at how we will continue to work, for me, it's very much business as usual. We will continue the good work that we started in respect to the Gambling Review and I'm expecting responses from you all in respect of your thoughts in respect of that legislation. Does it need more work? Have we got it right? Do we need to make changes? Because if we do, we will.

My engagement with you, and that of Andrew and the team at the Gambling Division, will continue throughout. I'm especially grateful to the three Peters [Carauna, Isola and Montegriffo] who have assisted us in finalising the Review document that was started before Brexit and then COVID held us back.

We have continued to work extremely hard on the Treaty [between the UK, EU and Gibraltar] and I know that is important to you also. I believe that during July we will make significant progress. The Treaty has been drafted and we understand fully how important mobility is to your industry in particular.

The Centre of Excellence in Responsible Gaming (CERG) and the work at the University of Gibraltar continues at pace, that's also important and I believe will become even more important against the backdrop of the UK Gambling Act.

I believe our approach and attitude towards responsible gambling – and how we need to respond – is going to become more and more relevant and important.

I would like to close by saying that we've never shirked from acting responsibly. There are times when it's frustrating, there are times when it's difficult. The truth is, with respect to the next 12 months and the FATF proposition, we are singularly determined to work with FATF, to work with the MONEYVAL Working Group and to ensure that we meet all of their criteria and more.

I have no doubt that this process will continue with many more jurisdictions joining. I can't begin to tell you how intrusive, how detailed, how thorough the process is. Our progress report alone was 249 pages long, full of detail, full of assessment and full of very valuable information.

As I said at the outset, I am hugely proud of the work that all of our MONEYVAL team put in towards this process. I sat through five hours of questioning in Paris some five or six weeks ago and I was impressed by the preparedness, the thoroughness and the professionalism of our team.

So I must thank them again, and I look forward to working with them all to ensure that this time next year when I'm back, hopefully, I'll be able to share the good news with you and our journey moving forward after that.

"Put it into the context of where we were six years ago at death's door with Brexit – and how we've come such a long way with stronger numbers than ever before, with more licensees coming through our door. It's just a matter of working with what we have. Yes, it's a little bit more work but we will get there."

Gibraltar Gambling Act Update

Presentation by Andrew Lyman

Gambling Commissioner and Executive Director at Government of Gibraltar

Never one to beat about the bush, Gibraltar Gambling Commissioner Andrew Lyman was ready to address the FATF grey-listing issue head on in his address to eSummit delegates and to share his conclusions and the likely implications for the gambling sector of the work required to remove Gibraltar from the list as soon as possible. He also updated the audience on the progress of the new Gambling Act and the trailblazing work being carried out by the Centre for Responsible Gambling at the University of Gibraltar.

My address this morning will deal with three issues: the consultation process leading to a new Gambling Act in Gibraltar; the issue of the Gibraltar gambling industry supporting our newly opened Centre of Excellence for Responsible Gambling (CERG); and then the more difficult subject of the FATF "grey listing" and how that relates to the gambling sector.

Before I go any further, I would just like to thank my great team who are sitting here for their continued work and support. By August, we will be in a new office to accommodate a marginally expanded but properly resourced team. We have a great deal of work ahead in terms of bringing in a new licensing regime, modernising and digitalising systems, and bringing much more of our due diligence process in house.

Public servants often get a bad "rap" in Gibraltar but I have a small team that really does some heavy lifting. They are loyal and hardworking, committed to change, and they deliver significant value for money. They also bring organisation to the chaos I create and upwards manage me; understanding that my bandwidth is often over-limit and occasionally my wires fall out.

They know my weaknesses and I have great professional pride in seeing them question policy, work independently and often suggest better solutions than the ones I come up with. Having great people around makes my job easier and very rewarding.

We are now in a consultation period. There is no gambling law teach today but I wanted to outline the consultation framework. The Command Paper (which is the Bill and Explanatory Note) are on the Government Law website and also our own.

The Minister and I have been engaged in operator meetings on a one-to-one basis and the initial feedback we have had suggests that the new legislation is welcome and causes few difficulties for our licensees. We are arranging consultations through the GBGA, and will do that in a structured way, but we are also happy to have bespoke meetings with any other stakeholder.

By the middle of July, I am going to put out a further document for consultation that will articulate proposals for a licensing framework and fee structure. This is not about securing additional fees from our sector overall but there will be some tweaks and the introduction of a personal licensing regime for key personnel. I expect the fee for a five-year licence to be somewhere between £300-£500.

The Act is founded on flexible substance and the licensing objectives include maintaining confidence in the markets and protecting the reputation of Gibraltar, as well as protecting minors, problem gamblers and consumers in general.

It is a modern and flexible Act for a new era in which, despite bumps in the road, I expect to secure growth for the sector. It is a genuine consultation with the policy objective of Gibraltar remaining an established gambling hub, but also attracting new business in a changing gambling landscape, which includes multi-jurisdictional location. We will listen to all of your views and flex where necessary.

Regarding the CERG, this is now up and running at the University. It is already doing great work and establishing a reputation in the international research community and has hosted key conferences in Gibraltar.

I'd like to take a moment to emphasize the importance of participating in the Needs Assessment study being conducted by the CERG. You may be surprised to find this will be the first assessment of this industry's responsible gambling needs – for education and training, research and services - to support your employees and your customers. The 25-minute online questionnaire and 30-minute follow-up interview may seem like a big ask in your busy schedules, but the results will provide

a roadmap for the CERG, the local industry and stakeholders in other jurisdictions.

The CERG has invited leaders in responsible gambling from companies licensed in Gibraltar and sent a link to the questionnaire. Many companies have already completed the questionnaire and scheduled their interviews, which is highly appreciated. Those who haven't yet, please do so.

The industry here should be fully engaged with the CERG and I would go as far to say that you should be looking at how in the future you can support that organisation from the generous budgets you are setting aside for your social responsibility foundations and your developing ESG programmes. Make sure your company's voice is heard.

Now I want to turn to the issue of MONEYVAL/FATF. I want to make clear that the remarks I am about to make on the FATF grey-listing are my personal views and not those of the Government of Gibraltar. Nevertheless, I make those views known in my capacity as a statutory appointee as Gambling Commissioner and with an insider's view of the MONEYVAL and FATF process.

I am highly committed to gaining a positive result for the Jurisdiction in terms of getting Gibraltar off the grey list in the fastest time possible and I welcome this opportunity today, so close to the decision, to provide you, as much as I can, bound by the mutual and confidential nature of the process, about the facts in issue.

To be clear there are only two action points to address. One relating to successful confiscation cases (and that is really an issue for the police and the law officers) and secondly supervisors imposing proportionate and effective sanctions where appropriate.

The FATF Plenary decision to put Gibraltar on a list of countries subject to enhanced monitoring has brought into question the efficacy of gambling supervision in this

jurisdiction in respect of one issue only: the imposition of a range of appropriate sanctions.

Had the FATF accepted the range of sanctions imposed by the Gambling Division in the post-observation period were effective, proportionate, and dissuasive then, all other issues considered, and applying the principle of proportionality, it may be that Gibraltar would not have been placed on the grey list at all. That is my perception. Now we are exhorted to move "actively and successfully" to impose sanctions where appropriate.

Lurid and potentially skewed media headlines often leverage a particular handle, in this case the FATF press briefing, but they rarely provide an exposition of the facts, which is what I propose to do here. I would be as bold as to say, that there are no fundamental, systemic AML/TF weaknesses in this jurisdiction and Gibraltar now has a strong AML and TF system which makes the grey-listing decision more difficult to cope with.

This is the shortest action plan for any grey-listed jurisdiction and a different outcome may have been to return Gibraltar to MONEYVAL enhanced monitoring, as happened with the Isle of Man. This alternative was not adopted.

Nevertheless, Gibraltar strived to be admitted to the MONEYVAL/FATF process and must stay committed to the process. Therefore, I will deal in the facts.

Before the MONEYVAL inspection in 2019, the Gambling Division was already transitioning to a more structured site visit programme. Since the report, we have established a transparent risk assessment process, a structured site visit programme, revised our guidance on AML and TF and committed to professional development in this area. Internally we are not seen as a weak point in the supervisory structure.

What is clear is that the recommendations made in the first MONEYVAL Mutual Evaluation Report, in respect of having more structure in our supervisory regime, were very useful and we fully embraced them.

In the recent round of operator evaluations, we have conducted extensive site visits to 100% of B2C operators, finding only one to be below the line and that is being actively addressed by the firm's management. Our constituency is small but most gambling regulators would struggle to have assessed all of their relevant licensees because of the size of the task in dealing with all their larger regulated communities.

Where we have identified issues for improvement, we have flagged these in operator communications, and I am struggling to think of an incident where we have avoided putting a case over the enforcement threshold.

We have formally recorded site visit letters and internal detail from each site visit. In the relevant evaluation period (2020-22) we have reached six regulatory settlements (with five operators) including financial elements totalling £3.7m. This is one-third of our total B2C population that has been sanctioned.

Financial settlements have been accompanied by other requirements such as third party or internal audit reviews and requirements for senior management consideration including victim compensation. Five settlements were the subject to public statements.

What we are struggling to rationalise is that in setting out to achieve the action point set for us relating to sanctions, the six cases in the post-observation period were not considered to be positive and tangible progress. Particularly as there are no criteria provided as to what would have been deemed sufficient. There has been no criticism of the quantum of the sanctions; so we must assume the issue is frequency, range, consistency and/or proportionality in the context of the FATF's perception of risk posed by this sector.

The system of evaluation allows for structured subjective evaluation of effectiveness and as the FATF is an international governmental body without legal form, there are no grounds for judicial or quasi- judicial appeal; if this was even contemplated which it has not been.

For the avoidance of doubt, none of these sanctions were imposed because of MONEYVAL pressure. They were imposed for good reason because the circumstances and regulatory shortcomings had reached the enforcement threshold. The enforcement cases were driven out of a more structured approach and our close relationship with the Gibraltar Financial Intelligence Unit.

I also firmly believe that the imposition of these sanctions has raised standards. We have seen this on subsequent site visits, in particular to those operators that had been subject to regulatory settlements. This adds a certain degree of difficulty as enforcement cases may be less not more frequent due to their dissuasive effect.

We presented this evidence to the FATF during the evaluation process and believed we had dealt with any reservations. At various stages, we felt we had countered concerns about this single issue relating to these sanctions and the proportionality of sanctions against gambling firms (not least because we were the most active domestic supervisor on sanctions). However, the decision has been taken and we must abide by the determination.

What is clear is that we have, as both a jurisdiction with a significant gambling sector and as a financial centre, been held to a standard that is exacting. Any offshore jurisdiction going into the MONEYVAL/ FATF process in the future must understand that. This has been a significant and difficult learning experience for us all.

Certainly we present zero risk to the UK, our biggest gambling market, as our UK-facing firms are dual regulated. EU business, in terms of licensing, is not conducted from Gibraltar and rest of the world jurisdictions are protected by our developed regulatory regime, where their domestic digital gambling supervisory regimes are either under-developed or non-existent.

As I have said, there is no question of a case that has been identified for enforcement action that we did not pursue and we have carried out AML/ CFT assessments on the entirety of the established B2C regulated sector.

Where do we go from here? The required action talks about imposing sanctions "where appropriate". Those final words are important. We have to prove that our regime is robust. Something we must accept we did not manage to achieve in the current round. We must assault the summit again.

In order to achieve this, it will be necessary to continue our supervisory programme as well as to bring forward some onsite visits which may not have been anticipated until a later date. They will be thorough and exacting. We will prove again that 100% of our regulated community deal with the risks satisfactorily, or if they have gone backwards, we will deal with that through the enforcement route, where this is appropriate.

What we will not do is artificially adapt our standards to accommodate enforcement cases. That is not the Gibraltar way. I do not believe for one moment that the FATF are asking us to do that - and they are not critical of our risk assessment process and standards per se.

Operators will need to be tolerant in the next few months with our regulatory interventions and calls on their time. We may also need to call for more data and to conduct effectiveness surveys. I do not see the objective as imposing more sanctions per se, but proving out the overall effectiveness of our regime and imposing sanctions where necessary and in a proportionate manner.

Even after our difficult experience, I believe that the work of the FATF and its regional bodies is a force for good and the people that work within it are well-meaning. Overall standards have been raised due to our engagement with their processes, but there is no getting away from the fact that we are left with a sense of injustice on the sanctions issue as we thought we had presented a strong case on effectiveness and proportionality within our broadly endorsed risk framework.

We must just get over that otherwise we will not be in shape to drive a positive outcome.

I am reminded that the measure of leadership is how one inspires and motivates in difficult times; not being dragged down by the doomsayers and those who would seek to take advantage of this situation. You may be left at the end of this address thinking that there are unexplained anomalies or something left unsaid. In terms of the facts, there is not. We cannot disclose the private exchanges between the jurisdiction and the FATF on how they should treat and particularly weight the evidence presented to them. We can only respect the outcome and find reference points to determine what is required.

The best reference points are the outstanding action points that we have been left with, which apply to all supervisors as well as the views expressed at the press conference. When you heard the content of the press conference, we were also hearing it for the first time.

There will be those who question whether the Government, or its agents in this process, could have done better or presented the case better. All I can say, is that because of the professionalism of the core team that has worked tirelessly on MONEYVAL/ FATF issues, Gibraltar is far from bearing the hallmarks of an archetypal "grey list" jurisdiction for the way it has massively improved its AML and TF systems in a difficult period for all jurisdictions.

I am sure we will be off that grey list in 12 months at the re-evaluation stage. I am determined to see a successful outcome in this area over the line, but in a fair and balanced way. This is a mutual evaluation process and we would expect the FATF to be as equally supportive of Gibraltar as we are of it in difficult and challenging circumstances.

Where we have identified issues for improvement, we have flagged these in operator communications, and I am struggling to think of an incident where we have avoided putting a case over the enforcement threshold.

Sector Resilience & Vulnerability: Pandemics, Inflation & A Cost of Living Crisis

Presentation by Bill Robinson

KPMG Senior Advisor

With an unstable geo-political situation, rising energy and food costs plus the legacy of the pandemic, KPMG Senior Advisor Bill Robinson gave delegates his view on the current economic environment and what it may mean for the industry. A founder member and ex-Chairman of the KPMG Economics Practice, Bill spent his early career in the 1970s as a macroeconomic forecaster at HM Treasury, the European Commission and London Business School and reminded the audience that he had lived and worked as a forecaster through the last high inflation era – unlike many of those now in charge of monetary policy! While comparisons with the 1970s were very much in the news, it was important to keep a sense of perspective, he said.

"Let's start with the consensus forecast from the Treasury. *(See Chart 1.)* Their most recent forecast has output falling from 3.8% growth to 1.8% but still rising. More importantly for a consumer sector, household consumption is falling from a growth rate of 5.4% to 1%.

If you look at KPMG's own house forecast, GDP is 3.9% down to 1.1%, with inflation possibly getting as high as 7.9% this year. A bit higher than the official forecast of 7.4%.

My story today is that it's going to be worse than that. Inflation is going to go on for longer and the inflation will, I believe, almost certainly lead to recession.

It's very important in this particular instance to look a long way back. We haven't had inflation for 30 years *(See Chart 2)* and the question people are now asking is 'Are we in for another 1970s?' Inflation peaked then at 25%, at the time of the breakdown of Bretton Woods and the Vietnam War, and that was the worst peace time inflation ever seen.

It was almost as bad as the inflation that accompanied the First World War and worse than the inflation that we had at the start of the Second World War. So going back to the 1970s would indeed be very bad.

We are now at the same inflation rate as we were with the Korean War. Inflation does tend to follow wars, it tends to follow

Chart 1

The economic forecasts from HM Treasury and KPMG

		Forecast	
	2021	**2022**	**2023**
GDP growth	**7.5**	**3.8**	**1.8**
GDP growth per capita	**7.4**	**3.5**	**1.5**
Main components of GDP			
Household consumption[2]	6.1	5.4	1.0
General government consumption	14.5	2.6	1.2
Consumer Prices Index (CPI) inflation	**2.6**	**7.4**	**4.0**

Source: H M Treasury

Table 14: KPMG forecasts for the UK

	2021	2022	2023
GDP	7.4	3.9	1.1
Inflation	2.6	7.9	4.1
Unemployment rate	4.5	3.9	4.3

Source: KPMG Global Economic Outlook:

The government predicts slower growth this year than last, slowing again in 2023.

Inflation is expected to average 7.4% this year and fall back to 4% next.

KPMG is a bit gloomier about inflation this year and growth next year.

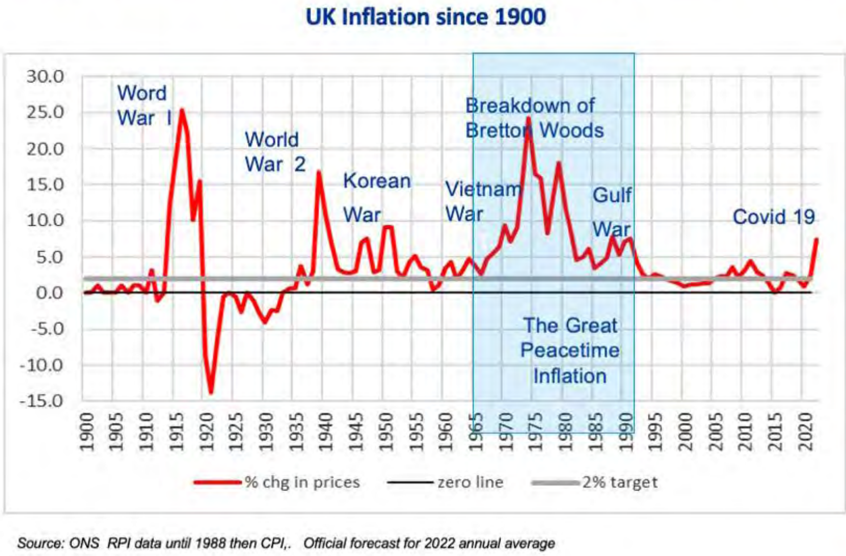
These forecasts are both close to the consensus.

But the consensus has been consistently wrong since inflation started to overshoot targets in May 2021

So here is an alternative scenario

Chart 2

Why inflation happens: caused by shocks, often linked to war



Each World War led to a massive expansion of public borrowing, leading to a rapid increase in the money supply.

Local wars have had a smaller, but visible, effect.

The breakdown of Bretton Woods was another shock

Every one of these shocks was global and led to high public borrowing, rapid monetary growth and inflation in many countries

Covid 19 is another global shock, set to have similar results.

major disruptions. COVID was a major disruption and inflation has followed. It's not just what you read in the papers all the time about high gas prices, high oil prices and the Ukraine War. Those events have provided a fig leaf for the forecasters.

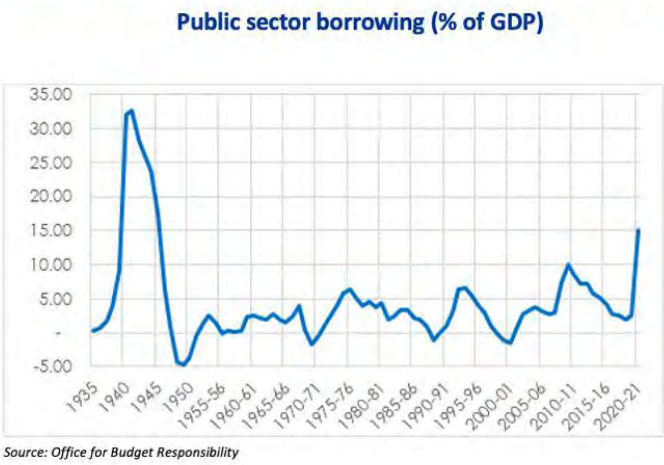
The most important thing that happened was that in 2020, quite rightly, in response to edicts by the government saying, 'Stay at home, don't go to work,' the government decided to pay people furlough so that they didn't starve. I have no objection with that at all, but it did raise the public borrowing requirement by 15 percentage points. *(See Chart 3.)* The rise in public borrowing in 2021 was the biggest since 1938. It's been nothing like as high as 1938 but it has been a very, very big increase and public borrowing does lead to price increases.

Let's just think for a second about why we have inflation in wartime. The famous economist John Maynard Keynes wrote a pamphlet about this *How to Pay For the War*. In wartime you pay soldiers to strut about and to learn how to shoot. You pay people to make munitions. And because you are paying them, demand is unchanged but the supply of consumer goods, obviously, is greatly reduced.

We did something very similar with the furlough scheme. We paid people to produce nothing, basically, for a while. That is inherently inflationary. But you'll say,

Chart 3

Covid created excess demand, just like mobilisation for war



Paying people who are not producing consumable goods and services is inherently inflationary.

The furlough scheme creates a problem of excess demand just like in wartime when we pay soldiers who produce nothing.

The rise in public borrowing in 2020-21 was the largest since 1939-40 and is inherently inflationary.

In WW2 inflation was kept down by rationing and price controls – not desirable and not present today.

Chart 4

Lockdown meant excess money was not immediately spent

Source: ONS

The savings ratio rose briefly to an all time high but:

- Not because of a loss of confidence (genuine recession); but
- Because spending opportunities were temporarily withdrawn

Deficient demand caused a fall in inflation to 0.8% in 2020

But there remains a monetary overhang, and as lockdown came to an end, this money was spent and inflation started to rise.

'There wasn't any inflation in 2020, on the contrary, inflation actually fell.'

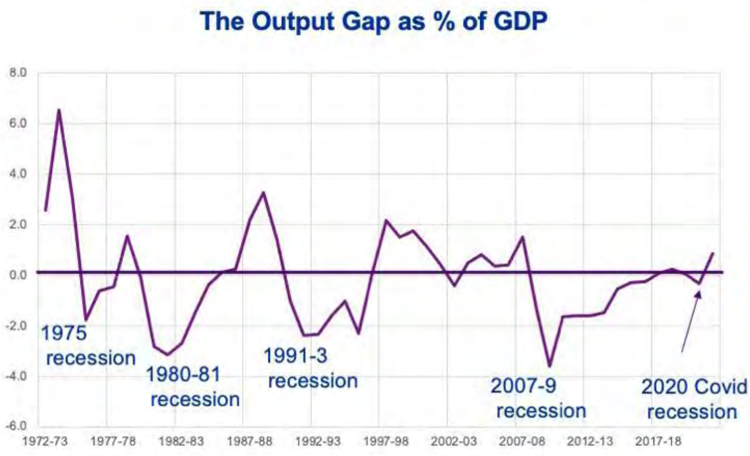
The reason for that is the proportion of people's income that is saved tends to go up in a recession. *(See Chart 4.)* It was high in 1975 and high in 1980. It was higher than it had ever been in 2020. We paid people who weren't working but then we said, 'You can't go out to the pub either,' and so they couldn't spend. That's why there was no inflation then but, as we have lifted the restrictions, people have gone back to the pub and to the gambling halls, thank heaven, and we have seen inflation start to take off.

Economists also look at what is called the pressure of demand, which is measured by the output gap. *(See Chart 5.)* This is the difference between the amount the economy could produce and the amount that's being demanded of it by consumers.

The output gap in 1975 was negative, in 1981 strongly negative, and in the 1991-1993 recession negative again and in the financial crisis 2007-2008 also negative. In all those genuine recessions brought about by lack of demand, there was a lot of spare capacity. In the COVID recession – which wasn't really a genuine recession – demand also fell but so did output. There was very little spare capacity.

Chart 5

The Covid recession was unlike any other....



Source: Office for Budget Responsibility

"[there is] only a small margin of spare capacity since the start of the pandemic, reflecting our judgement that most of the fall in output during 2020 should be thought of as a simultaneous contraction in demand and supply."

OBR March 2021

"It is far from clear that an additional monetary stimulus was required either last year or this."

Mervyn King, former Governor of the Bank of England, Oct 2021

KPMG

Chart 6

The same story is being played out across the Western world

		Canada	France	Germany	Italy	Japan	Spain	UK	US
Inflation target		2	2	2	2	2	2	2	2
Consumer price index (latest 12 month % change)		6.7	4.5	7.3	6.5	1.2	9.8	6.2	8.5
Money supply growth (% change from Q1 2020 to Q4 2021)		17.7	17.2	17.2	17.2	10.6	17.2	18	36.5
Government deficit % GDP:	2020	-11.4	-9.1	-4.3	-9.6	-10.3	-11	-9.2	-15.3
	2019	0	-3.1	1.5	-1.5	-2.9	-2.9	-2.2	-6.4

Source: OECD

In all the major economies except Japan (which had a far smaller pandemic);

- Measures to deal with the pandemic **led to public sector deficits and rapid monetary growth**.
- Inflation over the past 12 months has **been well above target.**
- **The US leads the way** with the biggest deficit, the fastest money growth and the second worst inflation problem despite being sheltered from the high gas prices afflicting Europe.

There were similar widespread policy errors in the 1970s, led by the US, with dire inflationary results

So we have this recession that isn't really a recession. We're paying people even though they're producing nothing. I've got nothing against any of that but we should have taxed or we should have borrowed. We should have sold gilts to pay for it but we didn't. We borrowed money from the Bank of England i.e. we printed money to pay for it.

We used a monetary stimulus that was as great as the one successfully used to get out of 2007-2008 recession (which was a genuine recession). We applied that same amount of monetary stimulus where it wasn't really needed. And it's not me saying that, it's Mervyn King, former Governor of the Bank of England, in a speech he made last November.

So this recession that wasn't one was treated like one. We had monetary expansion: the money supply – all our bank deposits – increasing very sharply, well above what would have happened had we not had the furlough, and then we used quantitative easing (QE) to pay for it. The money supply increased by 16% at a time when output only grew by 4%. So there's 12% of inflation there in the system.

This wasn't just happening in the United Kingdom. It happened almost everywhere around the world. *(See Chart 6)*

The inflation target everywhere is about 2%. At the time I compiled this chart a couple of months ago, inflation had got to 5% or 6% all around the world and that was considered already quite shocking. The money supply in double digits: 17% in the Eurozone, and an astonishing 36% in the United States. Government deficits are in double figures, with the United States leading the way with the biggest deficit and the biggest growth of the money supply. This bears a strong resemblance to the 1970s.

So, are conditions in place for a rerun of the great inflation, when inflation in the UK and Italy did hit 25% or thereabouts and when Germany had, for them, very bad inflation, about 5% or 6%?

Policy differences at that time led to very different out-turns and I think the same is going to happen again. I think we are going to not have the right policies and we will have among the worst out-turns.

But let's talk about the similarities. Then we had a large government deficit in the United States caused by the Vietnam War. We had global policy errors. Every country thought they could grow faster than they really could: they had been used to 5% growth, which was post-war catch up but it was coming to an end. They went on trying to get 5%, they couldn't and inflation was the result.

Then, of course, everyone remembers there was a massive increase in the price of oil at that time and that was very inflationary.

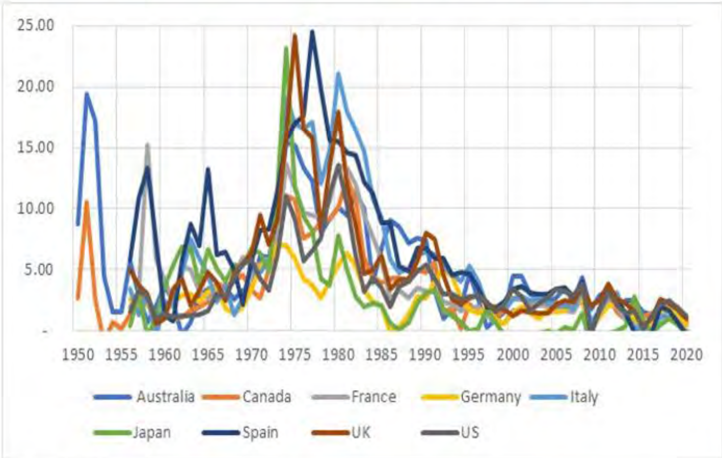
All those things are present today: policy error, a big US deficit and big energy price increases. But there are some very important differences, which is why I don't think we're going to 24% inflation.

Policy makers then were completely baffled by the move to floating exchange rates: they're used to them now. Inflation expectations have been pretty well anchored for 30 years: they're drifting away from the anchor but they may come back. And, perhaps most importantly, we do have independent central banks now committed to fighting inflation. Back then, it was politicians setting interest rates in order to win the next election. So those are three very important differences.

Looking back at nearly 60 years of data, it is possible to predict inflation by looking at

Chart 7

So are conditions in place for a re-run of the Great Inflation?



Source: OECD

We can use regression analysis to assess the relative weight of these factors

Similarities:

Large US government deficit injecting money into the system

Global policy errors leading to excess demand in many countries at once

Huge rises in energy prices pushing up inflation everywhere

Differences:

Policy makers accustomed to floating exchange rate, unlike in the aftermath of the breakdown of Bretton Woods

Inflation expectations may still be anchored by targets, which are still in place

Independent central banks more likely to take corrective action to hit inflation targets compared with the 1970s

the key drivers *(See Chart 7)* and calculating their impact alongside the things that kept inflation down. These include inflation targeting but also the rise of China and cheap imports from China. The rise in immigration and cheap imports of labour were also very important in holding inflation down. Of course those are less in play now which is another reason to worry.

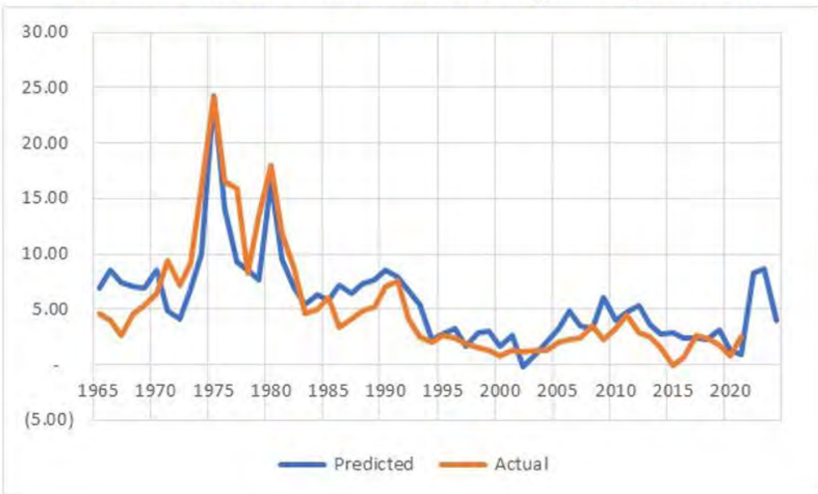
How does this equation predict the past you will ask? It's not bad *(See Chart 8)*: For a rate of change prediction, explaining 70% of the variance is quite good. I won't hide from you that the margin of error is about two-and-a-half per cent: it is a very imprecise task trying to predict inflation.

And what does this equation predict for the future? *(See Chart 9.)* 8.5% this year which is now turning out to be pretty likely to be true. It's practically in the numbers already but the official forecast still has it coming

Chart 8

Higher inflation both this year and next?

Consumer price inflation from 1965 to 2023 (percent per annum)



Inflation forecast to average

- **8.25% in 2022**; rising to
- **8.7% 2023 then** falling to
- **4% in 2024**

That assumes:

- **energy prices in 2022 and 2023 are on average unchanged from 2021; and**
- **that the OBR prediction of falling public borrowing this year is not invalidated by new government measures**

Chart 9

The start of a new wage-price spiral?

The UK labour market is tight, with more vacancies than people available for work

Competition for scarce labour is driving up wages.

The current increase in wage inflation is the sharpest since 1976

Companies cannot afford to absorb these costs and banks certainly won't lend to fund them

So higher wages lead inevitably to higher prices.- and hence to the next round of wage demands.

Source: A Millennium of Macroeconomic data for the UK

Source: ONS

This year's wage increases are an important reason why inflation is unlikely to decline sharply next year

down next year and I don't think it will. It will be, I think, slightly higher next year.

If we don't have any more terrible shocks and no more big borrowing splurges to try and win the next election, you could see inflation come down to 4% in 2024. That's not a given: that's a best outcome. That assumes that energy prices are unchanged and that the public borrowing comes down.

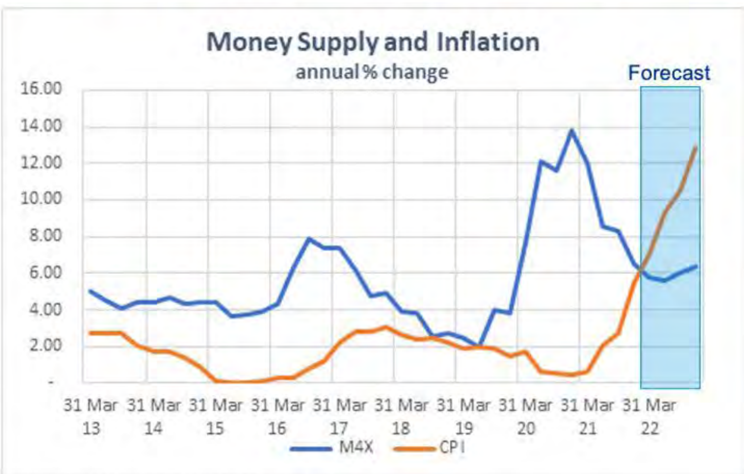
So, the first bit of bad news is that inflation isn't just going to go away next year. It's with you for a year or two. The second bit of bad news is that when you have inflation it does very often lead to recession, and there's a catch-22 here. The wage-price spiral *(see Chart 10)* shows a spike that it is already the biggest increase in wage inflation since the 1970s. The catch-22 is that, if wages don't keep up with inflation, then we have very strong negative wage growth.

This is the real income crisis that's in the news all the time – and, of course, it is inherently recessionary. You can't get growth of consumer spending if incomes are falling in real terms by 5% or 6%. So that's bad for your business potentially.

Or, the strikes work, they do get the wage increases in which case we are into a wage/price spiral and a much longer period of high inflation and, I'm afraid,

Chart 10

Monetary growth rate now well below inflation



Money growth was boosted by QE in 2020, but has been slowing sharply as QE ended.

Inflation has risen sharply and will continue to rise this year.

So monetary growth now inadequate to finance new transactions

In real terms monetary growth is now minus 6%.

Strong downward pressure on economic activity.

Source: ONS and Bank of England

therefore, a much later recession but a much deeper one.

None of us knows which of those two things will happen but both outcomes are fairly bad. Every time we have had high inflation it has taken a recession to get rid of it. We are into this phase of having high inflation: it is going to take a recession to eliminate it.

The recession is going to come about like this: we have this famous monetary growth rate, which is now falling because we have stopped the QE so the money supply is no longer growing as rapidly as it was but, meantime, inflation has risen very sharply. If you don't have enough money to finance transactions then you have to borrow. If the banks won't lend to you, then all sorts of quite bad things happen. With negative monetary growth in real terms, meaning the money supply is rising less fast than consumer prices, you have a recession. It's inevitable. I think next year is going to see negative output growth.

So that's the bad news: more inflation than people are saying and a worse output outcome. But I am reminded that, in 1982, I gave a talk to the Association of Food Manufacturers, a trade organisation for food. The year 1982 was the deepest point of the first big Thatcher recession and the chairman stood up and his first words were: 'Thank God we're in food!'

By that he meant food is a product which is very resilient in downturns because

you've got to eat. So although there was disaster all around the place the food manufacturers, and indeed the food retailers, didn't partake in that disaster.

Thinking about your industry, I didn't see that as much comfort because surely gambling is not at all like food? I thought gambling would pass as recreation and leisure but when I looked at the numbers I was astonished to find it didn't. Gambling payments have been virtually unchanged. So gambling is something that people feel they like to do even in hard times. It does have that rather special characteristic which I was astonished to find.

Why is that relevant? Let's look at the income distribution *(see Chart 11)* and what happens through time if income falls. We do know as a matter of fact that through time when output falls

Chart 11

Is gambling recession-proof?

The recessions of 1991, and 2007 had no visible effect on Betting and Gaming duty. There were some offsetting factors in 2007-9.

The Covid pandemic did hit gambling but that was due to government measures which directly impacted much gambling activity:

- Lockdown
- Social distancing
- Cancellation of sporting events

Source: HMRC

What is true across the income spectrum also appears to be true when income falls over time

Chart 12

A simple message: more to fear from inflation than recession

Illustrative accounts of typical large gambling company in a normal year

	Base case		10% higher inflation and recession	
£m	*Retail*	*Online*	*Retail*	*Online*
Revenue	720	740	720	740
Duties and cost of sales	-160	-200	-160	-200
Gross profit	560	540	560	540
Administrative expenses	-420	-370	-462	-407
Depreciation and amortisation	-70	-50	-70	-50
Operating profit	70	120	28	83

"Average total pay growth for the private sector was 8.2% in January to March 2022, and for the public sector was 1.6% in the same time period; the finance and business services sector showed the largest growth rate (10.7%), partly because of strong bonus payments"

Source: ONS Average weekly earnings survey, May 2022.

consumption of food doesn't, or not very much. So I looked at time series data for gambling going back as far as could to 1986 and based on gambling tax revenues. Again, this is the dog that didn't bark. If you look at the recession of 1991, or the Great Recession of 2007, gambling revenues are almost unchanged.

So there's an element of good news which is that, come the recession, your top lines are perhaps not going to be affected as much. But the question of inflation will remain a serious issue for you and I've invented some numbers which I hope are not unrepresentative of a large gambling company. *(See Chart 12.)*

I've given retail and online more or less the same treatment, and the administrative expenses – the wages and salaries of your employees mainly – I've flexed for 10% high inflation. (Assuming that we do have 8% or 9% inflation for a couple of years, it's going to be hard to resist wage claims of that order.)

Again, it's not a total disaster: we're not looking at negative profits. But we are looking at a pretty severe diminution of profits if what I am saying is true.

I hope I haven't depressed you too much because you are in a very resilient industry but one which, I think, will face pressure on wages. That's going to be the big subject in board rooms over the next couple of years. Thank you for listening.

Delegate question: Would you talk about the impact of relatively full employment and high vacancies in relation to what you expect for the recession?

Bill Robinson: You've gone straight to the most interesting thing I didn't discuss enough, so thank you! It's clear to all of us from our daily lives that we have excess demand for labour and we know why. A lot of people went home in the pandemic and some of them haven't come back. A lot of EU workers have felt unwelcome. They have gone home and haven't come back and they're not coming in. So there has been a reduction in the labour supply.

We've also had "the great resignation": people working from home for a bit and then thinking do I really want to work at all? So there's been a diminution of the available labour supply. We can see that. You can't get seats in restaurants. Flying out yesterday, I had to queue for an hour to get through security because there weren't enough baggage handlers.

Of course, if you have shortages of labour – and demand for labour is greater than vacancies at the moment, which is unusual – that is a recipe for wage inflation. That's why I am quite gloomy about the wage inflation situation; I think we are going to see wages doing their best to catch up with prices.

But there are mitigating factors. The rail strike might be demonstrating this. Compared with the 1970s, we have a far smaller unionised workforce. Secondly, in the modern world where working from home is an alternative, a rail strike is a much less potent weapon. Also, some of the other the big strikes back in the bad old days, like the power worker strikes, can't happen because we've privatised.

You're absolutely right to draw attention to the really very taut labour market and there is that pressure. I think I am right in my prediction that it's not going to be as bad as a full-blown rerun of the 1970s: some labour may come back from abroad because people do want jobs. The recession will be a very effective cure reducing the demand for labour and getting the pressure off wages in that way.

Delegate question: Where do you think interest rates are going to go in the UK and in the rest of the world?

Bill Robinson: I have a very strange perspective on this because I grew up and bought my house in a world in which interest rates were in double digits. So when people get worried about interest rates of one or two per cent I find it difficult. But of course I'm wrong. If you borrowed money on the assumption that interest rates were going to be about 0.2%, and it's 1% or even 2%, that's a lot more monthly outgoings than you were expecting. So interest rates remain a very potent weapon and a very important way of getting inflation down.

How high will they have to go in order to cure this bout of inflation? My answer is of course I don't really know, but here are a couple of thoughts that I hope you'll find helpful.

The first is that monetary growth is already well below the rate of inflation so there's a sense in which monetary policy has already been tightened quite a lot without having to do anything to interest rates. If the recession comes as I am predicting next year, I don't think you'll find the central banks will feel the need to go on raising interest rates.

My prediction is that the peak of this interest rate cycle is going to be nowhere near what I used to regard as a normal level of interest rates like 3% or 4%. So in a sense there might be quite good news on interest rates, they're high compared with what we're used to, but I don't think they'll go very much higher because the recession will do the work without the need for the interest rates to go up so much.

Delegate question: You mentioned that you had concerns about the UK Government's approach or policies and that they may result in poorest possible outcomes in terms of the inflation over the next couple of years. Can you articulate what you mean by that, and what they should be doing that you don't anticipate that they will do?

Bill Robinson: I'm hearing occasional noises from Rishi Sunak in particular, saying; 'There's a cost-of-living crisis but we can't just give money away to cure that.' The Treasury is obviously briefing him very strongly that he can't do that. We have too much public borrowing by a country mile already.

Boris [Johnson] has made one or two remarks which suggest that he likes to think of himself as the heir to Thatcher; and "sound money" is a very conservative principle. So that's one half of the argument, which gives me some hope that they won't do anything very silly.

On the other hand, there's an election to come quite soon and Boris only ever does what he thinks might help him to win another year or so in power. That's the reason why I worry because spending money is always popular, short term. You get the electoral benefit probably before the inflationary consequences come through.

So, although we have in some sense made inflation safe by putting interest rates in the hand of an independent body, the Bank of England, we have got a fiscal watchdog, the OBR, they don't make the decisions. So this government could still seriously screw it up by embarking on silly policies to get us over this hump.

I suspect for most of us in this room, the cost-of-living crisis is annoying but we're well enough off that we can survive it. We might have to cut down a bit of that discretionary expenditure but that's about it.

For the bottom 10%, possibly the bottom 20%, you hear almost daily now on the Today programme of people using food banks, of having to decide whether to keep warm or buy food. Those stories are true: I believe them.

We have a mechanism in this country to deal with that. It's called social security and it's surprisingly cheap to make sure that the bottom 10% or 20% don't starve. It's surprisingly cheap but the Conservative governments on the whole don't like doing it because these are not Tory voters.

So what I regard as the sensible policy, I think, won't happen. The less sensible policy is generalised tax cuts, which is ridiculous in my view. It alleviates the pain a bit, it gives far too much to those of us who least need it and will increase borrowing. I think it will make inflation worse, so that is my continuing worry.

Capital Markets Update

Presentation by Ivor Jones

Equity Analyst, Peel Hunt

Ahead of the panel session on mergers and acquisitions, Peel Hunt equity analyst Ivor Jones gave delegates his latest thoughts on the capital markets in the gaming sector. A former Head of the European Leisure team at Citigroup, Ivor has also worked for Panmure Gordon, Evolution Securities and Numis Securities, and on the IPOs of William Hill and Betfair. With 25 years' experience in writing equity research in the leisure and gaming sectors, Ivor began by reflecting on developments in the hotel industry to compare where value is created and held.

Slide 1

When we're talking about M&A, we're often talking about what is happening but I wanted to start by talking about why it's happening. The objective must be to create value for buyers and for sellers.

It's worth discussing where that value is created in the first place. To do that we're going to look at the hotel sector and the market capitalisation of four large, listed hotel companies, Marriott, Hilton, InterContinental, and Accor, in US$ bns *(slide 1)*.

This is not the hotel industry in total but these companies perhaps own around half the hotels in the world. You'll see a nasty dip for the recession and then a recovery. I've shown this graph because I wanted to talk about value within the hotel industry and then come on to some parallels about gambling.

On the next graph *(slide 2)*, you'll see the big red section at the bottom that adds in Booking.com, the main online travel agent, particularly for accommodation. Look at the relative values the market attributes to the industry and its service provider.

This is because Booking.com has got global reach and massive scale. It's now at 28m listings. Marriott has about 1.4m hotel rooms by comparison. With the brand, the

Slide 2

domain name Booking.com, it's got the key bit of online real estate.

It was an early adopter in that space, and with that domain name it's the top of the funnel, it's the acquisition of the customers. This is not entirely a fair representation of what's happening because Booking.com is typically taking value from the smaller operators in the hotel space, and less in relation to the larger ones.

But the point is that with this business Booking.com has created tremendous value by focusing on just one part of the value chain. Of course hotels try to direct traffic directly to themselves to avoid using this intermediary, using their own brands.

Gambling companies also focus on having high levels of retention of their customers. Part of that is achieved through a high-quality gambling product. Picking parallels from the hotel industry again, in its full-year results presentation InterContinental showed that they are nearly at the end of a process of adding attributes to their entire hotel estate.

This includes things such as whether a room is near the car park, near the lift, and what facilities it has. If you have over 30 attributes for each room, you've got different price points for all of those different attributes, and you can maximise yield. You can give more value on your own website than through an intermediary.

Whitbread's Premier Inn business make a point in their presentation that they only have 1% of their rooms booked via online travel agents. They don't give their inventory to third parties; they capture all of the value themselves.

They are very interesting when they discuss their use of online travel agencies (OTAs). They see that relationship as value destructive because if you give a third-party access to the inventory of the Premier Inn in Sheffield, and then the competitor bids on Google for search terms around hotels in Sheffield, you're driving up the price of your own search, by making that inventory available.

You're leaking value in two ways by paying the commission and driving up the price of marketing. Here the gambling industry equivalent may be the use of games content by operators. Is the operator the beneficiary of the games content, on which it generates revenue, or is it an advertising platform for disloyalty?

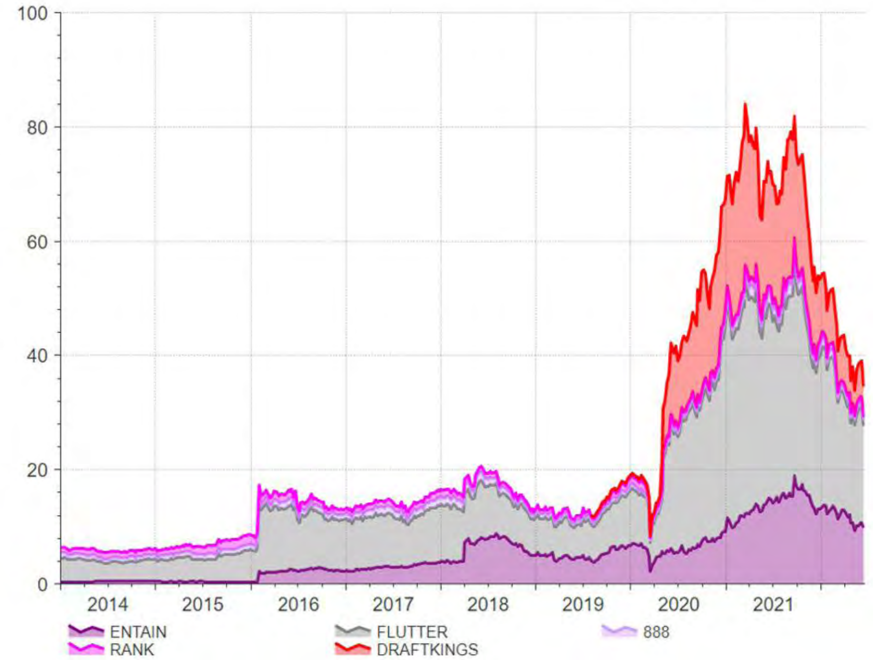
If the same games appear on all of the operators, does it make it easier for the customers to shift between operators in search of the games they like because they have primary loyalty to the game rather than to the operator?

Given the scale and profitability of some of the games providers, you have to ask between the operator and the content provider, who's providing a service to whom? It's evident in the split of the economics more than it is in the commercial relationship.

Let's look at the gambling sector specifically and Entain's market value graph over time. It's the poster child for successful M&A in the sector starting with bwin.party and Ladbrokes Coral, deals that themselves had rather failed, and then adding in the BetMGM joint venture.

Then there was Flutter, a particular success with the FanDuel acquisition and then Rank and 888 – the two FTSE 100 companies much bigger in the context of the gambling space overall. Add in poor old DraftKings with its declining market cap latterly and you see a picture build up *(slide 3)* of how much value the market attributes to the operators in aggregate.

Slide 3



So that's perhaps a picture of operators. What about the service providers? What about the equivalent of Booking.com in this graph?

Add Playtech, Genius Sports and Sportradar (in the US), and it just doesn't change the graph in terms of the shift in value. Half of Playtech is Snaitech, which is a B2B business anyway. So it appears that the B2B providers don't really appear until you add Evolution *(slide 4).*

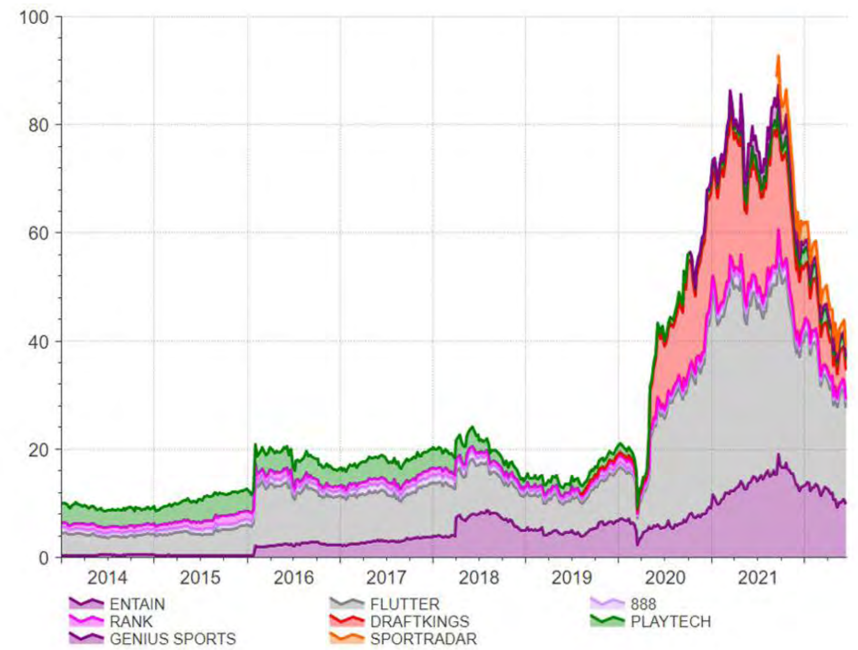
By adding it in market cap terms I can make the point that the graph is similar to Booking.com against the hotel industry space. Look at the quantum of the value that's being captured as far as the market's concerned by the Evolution business.

Of course, there is a problem with using listed companies as a lens for this discussion because there is no Bet365, no SBOBET no Dafabet on this graph. No Pragmatic and no Skywind, or the long tail of other content providers.

So it is imperfect but it does let me raise the question of the balance of value between the suppliers – back to who is working for whom. And, in M&A terms, therefore who should be buying what if they want to grow value?

What about businesses that are much more directly equivalent to Booking.com, the drivers of traffic? What about the

Slide 4



affiliates, a sector that is really interesting? There are about eight listed operators in the affiliate space, about $1.8 bn of total cap if you add them all together, so not huge. Better Collective and Gambling.com are quite aggressive acquirers.

If you now colour the graph so that all the operators and B2B suppliers are one colour, then add the affiliates *(slide 5),* you can barely see the amount that we've added so far.

But the sales pitch from affiliates is that if the marketing budget of operators is 30% and affiliates take 30% of that, then they've got an addressable market of 10% of the revenue of the whole industry, and high margins to drive cashflow to allow them to compete more aggressively with the operators.

This is a crude segmentation of operators, game providers and affiliates; clearly, it's vastly more complicated than that. But, to be sure that M&A creates value, you have to know where value is created in the first place.

To finish, let's look at a couple of companies where it's not really clear where they sit in the value chain. Spotlight is the Racing Post, it's the evolution of the Racing Post on their own website, and it lists loads of companies – including bet365, William Hill, Ladbrokes and Kindred – as their partners. How is that partnership playing out?

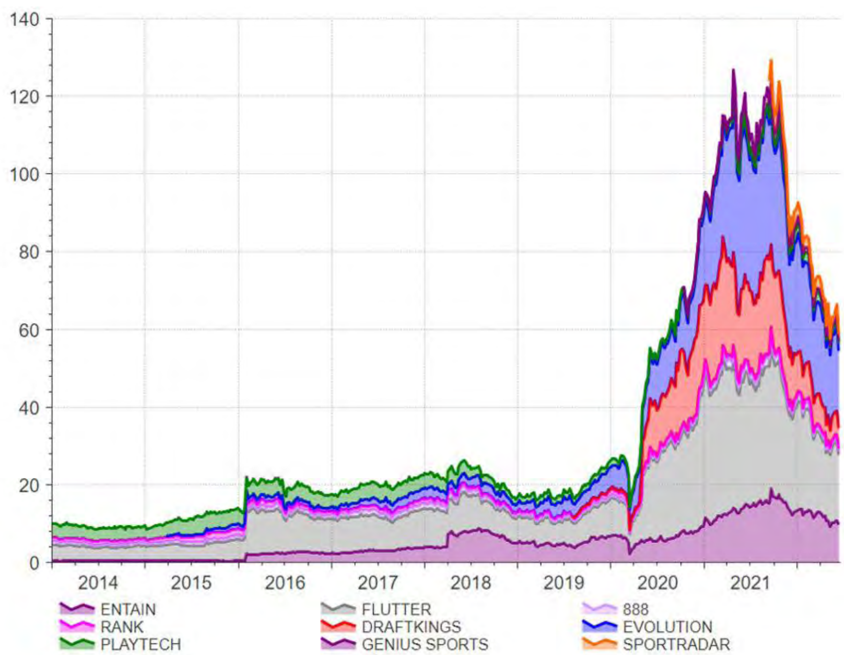
What about LiveScore? LiveScore is the place you go for sporting results and it has some adverts on its website. So what is LiveScore Bet, or for that matter Virgin Bet, doing sitting on the same platform? How is that moving down the food chain?

Then what about Fanatics? Well worth a look at as a company, it's an extraordinary retailer of clothing. Now there is Fanatics Bet and where will that end up? They're certainly putting money into it.

Sports Illustrated, part of the Authentic Brands Group, is a really interesting business in its own right. It now has Sports Illustrated sportsbook, using the traffic that it generates through an entirely different business model to monetise it in gambling.

The gambling space has a value chain like any industry. That value shifts around between components over time but if you're not sure whether a business is a partner or a competitor, then you should apply the duck test. If it looks like a duck, and it quacks like a duck, it's probably a duck.

Slide 5



M&A Activity in the Gambling & Betting Sector

Moderator: Ivor Jones

Equity Analyst, Peel Hunt

Panellists:

Steven Caetano Partner, ISOLAS

Anna Kutsenko Director, KPMG

Vaughan Lewis Chief Strategy Officer, 888 Holdings

Stuart McMaster Partner, Mishcon de Reya

Andrew Montegriffo Partner, Hassans

Following on from his update on capital markets, Ivor Jones welcomed a diverse and highly experienced panel of commentators to reflect on M&A developments in the gambling and betting sector. This included KPMG's Anna Kutsenko who has worked on transactions from B2B providers such as as Playtech, Sportradara and Genius Sports, as well as gaming operators such as William Hill; Stuart McMaster from Mishcon de Reya who acted on the Jackpotjoy acquisition of Gamesys and the Aristocrat bid for Playtech; and Vaughan Lewis from 888 Holdings who was mid-deal with William Hill at the time of the eSummit. They were joined by Steven Caetano of ISOLAS and Andrew Montegriffo from Hassans who are both highly practised in advising on M&A deals and associated regulation in Gibraltar. Ivor began by asking Anna Kutsentko to set the scene on recent M&A activity.

Anna Kutsenko: Last year we saw incredible, unprecedented levels of M&A activity in the sector. We saw a lot of interesting transactions, a lot of multi-billion dollar transactions, particularly in the US involving very large players such as DraftKings, Caesars and others. Obviously, the US remains a very interesting and large opportunity.

Then we saw rise of SPACs (Special Purpose Acquisition Companies), including Genius Sports. Sportradar explored that option but then decided to drop it and go down the traditional IPO road.

We saw a lot of cross-board activity: a lot of large players were looking everywhere in the world for interesting targets. Notably, once again, the US market was one that continued to attract a lot of interest for the European players. Obviously it's one of the strategies that proves attractive because when you buy rather than build, you get scale, you get access to markets and licences, to technologies, to people and to customers. You can operate at a base that would allow you to develop your business and compete with your large competitors.

Then we saw a lot of activity from the US in the direction of Europe because European markets are very attractive for the US players: they are stable, mature, resilient, and there is a lot of accumulated experience and expertise within sports betting. We have seen a lot of interest from private equities as well.

So the question is where are we now? Where are we heading? Was it just a one-off experience and is it slowing down? It doesn't feel like that. As a team, we remain very busy. We're currently working on a couple of live transactions. There are a few more in the pipeline, so the outlook is positive.

It's a resilient industry so we are expecting a lot of activity over summer and we continue to monitor all the market sentiment closely. I would say we have these discussions within our deal advisory on a weekly basis.

What about economic headwinds, inflation, interest rates, availability of debt? Will transactions continue because how you fund it is one of the key elements? I think we remain positive for now! And nobody will be able to answer that question, what is going to happen next.

Ivor Jones: Thank you for ending on a positive note. You just can't keep the gambling industry down! Steven, we heard from Andrew Lyman (Gibraltar Gambling Commissioner) about the Command Paper. What might be the significance of that for M&A?

Steven Caetano: What does the new Act mean for M&A in Gibraltar? It's early days, as you know. The consultation period has only just commenced. The Command Paper was only published a few weeks ago and the industry has been invited to give their feedback to the Government as soon as possible on what they think the Bill means for them.

There are various competing interests in the industry having different opinions from different stakeholders. For M&A specifically, for people like myself in Gibraltar, it'll probably provide more work. Certainly, it's going to formalise what's already been the practice in Gibraltar for around 15 years, certainly with thresholds for change of control, whether you're listed or you're private, for change of ownership, and change of key personnel.

Effectively, substantive presence is given codification in the Act where it's never really been recognised in the current Act but we've been practising on that basis for years. What the operator brings to the jurisdiction in terms of substantive presence – employees, technical infrastructure, C-Level commitment to the jurisdiction – will be set in statute.

There will be a regulated person's regime which, again, has operated in practice for many years, ensuring that key people in key posts are pre-approved by the gambling authority before taking those posts. This process sometimes can be delicate but practitioners like myself have been used to dealing with this for a long time.

Hopefully, this will now bring certainty to advisers taking advice from us, for

example in London or other cities, when we can point to the statute book, and direct them to a section or schedule of the Act. Rather than hope that they trust and have confidence in what we're saying, they can see that what we're saying is actually the position in Gibraltar in terms of regulatory practice.

Overall, it's going to modernise and it's going to improve how practitioners and participants view Gibraltar when there's a transaction involving a Gibraltar licensee. It will hopefully provide for quicker and clearer processes when we're talking about change of control. Not that these already don't work well and quickly under the current system, but it is more an informal system that we carry out with the regulator. Now we can all point to codified sections and lists of regulated activities and regulated persons.

It's also bringing in an appeal mechanism for the first time. This will hopefully balance out enhanced supervisory powers for the regulator with an appeal mechanism which we've never had before.

It will introduce, again for the first time, a third category of licence for support services within gambling. If we're talking about M&A and change of control, then it will impact on change of control considerations for those operators who provide, for example, marketing AML, third-party AML, and co-location telecom services.

To my mind, it opens up more M&A activity and provides more regulatory certainty and formality.

Ivor Jones: You've set out a very good indication of the clarification to come in Gibraltar that will potentially make transactions execute more quickly, maybe at lower cost. Stuart, I'd like to ask you to talk about the complexities in transactions from the legal perspective, particularly around issues around guaranteeing, or being confident of, compliance levels.

Stuart McMaster: In terms of where the risks lie and how you can see loss of value on M&A transactions, we're starting to see very interesting stats coming out of the Warranty and Indemnity (W&I) insurance market.

W&I insurance is being used extensively now on private M&A transactions and that gives great insight into where problems can arise on M&A deals, and also how loss of value can occur. What the stats show is that most claims which arise – and this is for all sectors, not just the betting and gaming sector – are in relation to tax, and accounting and financial matters.

Tax accounts for 35% of all claims under W&I policies but a relatively small number of those tax claims are large. Only 4% of tax claims are classified as high severity.

But when you turn to accounting and financial matters, while only 13% of claims relate to accounting and financial matters, they account in a greater proportion for serious claims. So 41% of high-severity claims are in relation to accounting and financial matters. That covers things like undisclosed material, adverse changes since the last accounts, non-compliance with accounting standards.

Another area of risk relates to material contracts. For example, undisclosed issues with suppliers, undisclosed changes in relationships with suppliers. These account for a significant proportion of warranty claims.

What's interesting when you then apply it more specifically to the gambling sector is that, as a whole, there are relatively few claims in relation to regulatory matters. But I think that's because W&I insurance won't cover known issues in relation to gambling, regulatory compliance or data protection compliance, and so those matters often have to be covered by separate indemnities. They won't be covered under W&I insurance policies.

Going back to the issue about where value lies between operators and game suppliers, a lot of the trickier issues rest with operators when it comes to direct interfacing with consumers. Operators are obviously much more exposed in relation to gambling and regulatory investigations, and also tend to be at the sharp end of things when it comes to data protection compliance. To some extent game suppliers are insulated from some of those trickier issues, and therefore in theory completing those deals could be done with less exposure to loss of value.

Ivor Jones: I guess another aspect is that buyers will have a greater degree of confidence in buying businesses in tier one jurisdictions. Andrew, can you talk about Gibraltar as a jurisdiction for operators and potential changes?

Andrew Montegriffo: Gibraltar has always been a great jurisdiction from which to run dot-com and other external regulator markets –having always had a point of supply and flexible regulatory framework has certainly helped. We all expect that the new Act will only build on that. There's nothing in the new Act which is designed to in any way prohibit that and certainly the expectation is that we can grow that sort of activity.

Recently, we've seen a lot more Gibraltar licensees use Gibraltar to target regulator markets elsewhere – in Africa, Latin America, Ontario – and we expect this activity to increase and to add to the Gibraltar proposition essentially for licensees.

In terms of broader opportunities, the Minister mentioned the potential Schengen deal earlier today. Most of my discussions with clients in the industry have been fairly negative in that we will need a good Schengen deal just to preserve the status quo, and essentially ensure that we have free fluidity at the border.

I think we should be a little bit bolder and think here about the potential opportunities that getting a good deal could bring. If we get it right, being able to do cross-border business – not just in the gambling industry but in the wider services industry – brings unprecedented potential to really open up new avenues of business and collaboration which will benefit the industry and other technology industries tremendously.

Ivor Jones: Vaughan, live news from 888 this morning. Could you talk about your deal please?

Vaughan Lewis: As everyone knows, we're very close to closing the transaction with William Hill. We just announced this morning the terms around the debt. Ivor has asked me to explain why we doing the William Hill deal, particularly when the UK is so unclear, so I'm going to address both of those points.

We have a really robust and structured acquisition framework for 888. It uses loads of data and essentially looks to answer three questions. One, does the acquisition improve the quality of the business? Two, is the combination a better owner than the standalone? Three, is this a good use of investment? This is not our money, it's our shareholder's money: are we doing the right thing with that?

So just briefly on those, firstly does this create a better business? This immediately puts us as an enlarged business into a position where we're a top three operator in the UK, we're a top three operator in Spain, and have significantly enhanced positions across a range of other markets, like Italy and the Nordics. So it's strategically really attractive from a market share and sustainability point of view. It brings in some huge assets and capabilities from both sides.

If you think about the strength of the William Hill brand, it's celebrating its 88th birthday this year. There are very few brands in any industry with that kind of heritage and that history. The power of a brand like that really enhances the sports capabilities and depth of product, content and trading for the enlarged business. So there are some real, powerful capabilities in terms of brand, and product, and so on.

On the second point, does this add value as a combination, or are we better off staying as standalone? We're not in the business of just acquiring businesses to become a conglomerate, it needs to add value as a combination. So when we look at the scale benefits in the value chain, in terms of the product, platform and capabilities, the group of brands that we'll have and the ability to focus marketing on the best returning brands, and deliver the best customer propositions, shows the combination really adds value and adds capabilities to the enlarged business.

Then when we look at the financials, we need to be extremely disciplined on this: it's not our money, it's our shareholder's money, it's the owner's money. We, as the management team, have to come with a recommendation and say, 'We've assessed everything we can do with your money, with the combination of how we're funding this through debt and equity we're going to generate a really positive return on investment with this combination, so this makes sense.'

So when we put those together, do they improve the business? Yes, we will have a much more powerful footprint across key markets, and more growth opportunities. Is it a better combination? Yes, there are powerful synergies on the cost side. More importantly, I would say, there are real opportunities on the revenue side, and creating better customer products. Thirdly, it's really attractive from a financial perspective.

Once we answered those three questions, it became very clear for us that this is a strategically and financially attractive opportunity to pursue.

And, in terms of why we're doing it now, the simple answer is that you don't get many opportunities for transactions like this. You have to address them when they come around.

With regard to the UK, this combination improves the capabilities of the business on an enlarged basis, relative to either business on a standalone basis. It propels us to a top three position for market share, with really strong and well recognised brands in both sports betting and gaming, and with really powerful operations and scalability to be able to adapt and change to whatever changes come out of the Gambling Act.

Timing-wise, we were thinking does this put us in a stronger position whatever comes from the changes in the Gambling Act? We think that's the case.

Looking ahead – and thinking about the charts that Ivor put up about the hotel industry and the increasing dominance of the scale operators – in a year's time we'll hopefully be saying this transaction was a stroke of genius. It has propelled a large business to become one of those real global operators and gave us that depth of capability and scale to be able to compete with the top operators. So in one year's time, a bigger, better, stronger business.

Ivor Jones: At Peel Hunt, our view is that after this period of equity market decline will come stability and, while we're not seeing capital raising in the London market at the moment, history suggests it will bounce back very aggressively once we see that stability. So we will see a fresh range of IPOs in London.

The other side to not having many new companies to market is that we're seeing more M&A activity than at any time previously. Something like 10% of the FTSE 250 Index is subject to a bid right now which, bearing in mind the process only takes 60 days under the Code, is a pretty remarkable concentration of corporate realisation that assets are undervalued.

Anna, you talked about SPACs. I didn't really get the economics of the SPAC: I didn't get the dilution of either the new shareholders or the vendors in that transaction. My final question then: is the SPAC structure now dead and perhaps with it, the New York market as a venue for capital raising in this space? Or is there some attraction to it that means it will come back or be replicated in London?

Anna Kutsenko: There have been some significant changes introduced quite recently from the SEC that will impact the SPAC process and how the mergers would happen. I would say there will be a lot of headache.

Last year was incredible, we had a lot of SPAC transactions, not just in gambling in but other sectors too. The year before was also quite dynamic. We will probably will see a slow down this year, mostly driven by the regulation.

Stuart McMaster: I can't really comment on the future but we were involved with an American SPAC transaction last year. There were a number of hurdles in terms of risk of litigation from investors if they felt that valuations weren't quite right, which made the valuation discussions quite difficult because you've got the negotiations between the two parties, or the SPAC and the target business which is going to be acquired, but you're also concerned about how the transaction may be perceived by external investors.

It can also be complicated because often people want to combine businesses so you could have multiple acquisitions completing at once. Valuation issues there become much more difficult because the parties to the transaction aren't fully in control of decisions around value.

Vaughan Lewis: We're not involved in the SPAC market at all directly but, from a purist point of view, it's one route to raise capital. That capital is either being used to invest in growth, or it's being used to pay out previous owners of the business.

For a long period of time the SPAC route appears to have been the lowest friction, and lowest cost route. Potentially not the fastest but a pretty fast route and, for a long period in our sector, the highest valuation route to raise that capital. It's not obvious that any of those still hold, I would say.

Andrew Montegriffo: We were involved in a couple of SPACs last year, not gambling-related but in fintechs, with Gibraltar companies undergoing SPACs in the US. Certainly the process was extensive but there was no block or barrier for a Gibraltar company to undergo that process. We didn't find any resistance in the US or in Canada to a Gibraltarian company undergoing the process.

Steven Caetano: I would echo that from a Gibraltar angle. From our perspective, it's proved that Gibraltar has not been a barrier for those transactions.

UK Gambling Act White Paper – Where Next?

Moderator: Seamus McGowan

Associate Director, KPMG

Panellists:

Richard Bayliss Senior Regulatory Affairs and Compliance Manager, Playtech

Wes Himes Executive Director Standards and Innovation, Betting & Gaming Council

David McLeish Partner, Wiggin

Nick Nocton Partner, Mishcon de Reya

Publication of the long-awaited White Paper on the UK Gambling Act had been expected prior this year's eSummit taking place but news remained elusive as the panel gathered to discuss their thoughts on the likely content as well as the potential implementation and reaction to reforms that may be proposed. Moderator Seamus McGowan began by setting out the Gambling Commission's position announced in its Interim Business Plan and Budget from April 2022.

Seamus McGowan: In its business plan the Gambling Commission has set out that:

'We expect the Gambling Act Review White Paper to introduce several fundamental and far-reaching changes, the implementation of which is likely to require significant effort from teams across the Commission. As many of the actions arising from the White Paper will likely require consultation, we also recognise the resource impacts upon these stakeholders, who will want to engage with the consultation process. Our approach will therefore be to seek to publish a timetable of proposed consultations, make our consultations more thematic in nature, and limit the number of individual consultations to avoid over burdening stakeholders.'

What do we learn from this? Firstly, the Gambling Commission is clearly expecting several fundamental, far-reaching changes that will likely impact the broad market rather than just a segment of the market. Secondly, many of these will require consultation, and the Gambling Commission appears to be concerned about the potential resource impacts that has on stakeholders.

To help, it plans to publish a timetable. This suggests a consultation approach which is staggered as opposed to a potential big bang. It will therefore be interesting to see how the Gambling Commission prioritises the various measures that we expect in the White Paper.

Next, the number of consultations will be limited. It's to be confirmed what that means, but in my view it could be one of two things. The first that they group potential impacts, or potential measures, and consult on those at the same time. However, that would seem to go against the not overburdening participants point. The second is that it's a one-shot consultation without multiple rounds which means people have to get it right first time.

Finally, the Gambling Commission has said consultations will be more thematic in nature: this is instead of the current, rather narrow approach of multiple, short, prescriptive questions, the Gambling Commission will take a more topic-led approach, which affords stakeholders the ability to create more nuanced arguments. That's a potential upside.

So, from the Gambling Commission perspective, what do we expect from the White Paper, both in terms of content, including detail, but also how the process will work when published?

Wes Himes: Let me see if I can try to paint a picture, certainly on the second part about implementation. The default position has always been that the White Paper will be published. We know this is now very imminent and that there would then follow a three-month-consultation period by the Government, then three months of reflection, and then they would come out with another instrument which would indicate what they were actually going to do.

That is a possible course of action, but there are no hard and fast rules that a White Paper has to go to a government consultation. This whole thing could fragment into a number of initiatives in order to take it forward on a more accelerated basis. So we have done a legal analysis of all of the topics that were listed in the call for evidence and what might then happen in order for them to come into force.

There are very few that actually require amendment of primary legislation. The rest can be done either by the Gambling Commission through a change in the conditions of licence, or by amending the ordinary codes (OC) or social responsibility (SR) codes. The other way is by a statutory instrument, which can be brought forward by the Secretary of State, and that is why the 2005 Act as amended in 2014 is an enabling Act.

It means that if you wanted to accelerate this process, you could easily come out with some sort of prescriptive measures in the White Paper, and then hand them off to the Commission for instance, to take it through its normal consultation period.

Then you start looking at the Commission's procedures. Under a consultation, they have to go through 12 weeks of notice. Then there's a period of reflection, and then they bring in what they're going to change in terms of the LCCP (Licence Conditions and Codes of Practice) usually a few weeks later, in order to give operators a chance to change their controls, their procedures, and often their tech.

So you can start working out the potential timelines. There is some discretion, there's nothing hard and fast in terms of being nine or 12 months, but you can start to understand when these measures might come into force. As operators, you want to have that visibility as quickly as possible.

For a statutory instrument, it's different. The Minister can lay a statutory instrument at the Houses of Parliament whenever he or she wants and they have up to 40 days on a negative or a positive assent process in order to get approval for that. Then there is an implementation period, again for operators to be able to put that into place. So there is a way to really shorten the cycle of when those measures can come into force.

In terms of content, I think there will be measures in all of the areas raised by the call for evidence. What, and how acute, those measures are remains to be seen. The Government is wanting to keep this under wraps but I think there'll definitely be measures in all of the areas. So everything including affordability, stake limits on slots, advertising and sponsorship, inducements, a levy, an ombudsmen, and Gambling Commission powers.

Seamus McGowan: You mentioned that very few measures are likely to require primary legislation. Which did you think would require amendments to legislation?

Wes Himes: A statutory ombudsman would require legislation because there's no method within the current Act for bringing such an ombudsman into place. There is also an issue around the issue of credit for what we call high-end casinos, in terms of how their customers can use credit, and that's written right into the Act, so that would need amending if you wanted to be more open in terms of how to provide credit. Those type of things need amendment by legislation but the other things I mentioned can be brought in, if they so choose, by the Gambling Commission or by statutory instrument.

Nick Nocton: I'd agree with that. You can bring a levy for example.

There has been talk about a smart levy recently; with different rates for different types of operating licences. I'm not convinced that you wouldn't have to amend the relevant section facilitate a smart levy, but on the face of it, there's provision for a levy.

There is an obvious attraction to doing things the way that Wes has outlined. Politically, there's likely to be less adverse publicity. There'll also be less scope for the anti-gambling lobby in Parliament to push, although no doubt they'll use whatever opportunities they can.

There is likely to be a significant amount of implementation that is pushed down to the Gambling Commission. The things that you can do in the statutory instruments are relatively straightforward. You can change the definition of games of chance. You can, as I say, bring in a levy.

All sorts of things can be done, and it just goes to show that all the talk about it being an analogue Act for a digital age is absolutely nonsense. It's perfectly designed for exactly what's about to happen.

Seamus McGowan: The Gambling Commission has said it will publish a timetable, so we'll have a reduced number of consultations. How do you think they will, or should, prioritise the areas they will cover?

Richard Bayliss: Remember the call for evidence was issued in December 2019. It closed in March 2021. So we're well over a year already with no announcement: that points towards the need for this to be done quickly, which suggests that the Gambling Commission will be left to coordinate and run most of it.

Regarding the timetable, we suspect they've got some issues which are ready to go. There's been lots of talk around further consultations on customer interaction, particularly around affordability and unaffordable gambling by consumers. That is obviously a very difficult topic, provoking much debate during the discussions.

As people have dug deeper into it, and understood a bit more about it, they've realised that affordability is very personal, it's very dynamic, it's always going to be subject to change, and people will have different views on what they think is affordable from one another.

Stake limits, following on from the FOBT stake reduction, is relatively simple to do. The question really is on numbers, and whether or not there is a set limit. Some people are pushing for £2 but with some discretion so we might end up with a tiered system, which would offer some flexibility. Again that would be consistent with the general aims of the Act, and this idea that people can do different activities safely but subject to further checks.

I think it's correct that we're all fatigued from doing this for the last 15 months or16 months, and if we end up with another two years of consultations, the goalposts will have moved again by that point. So it's important I think for the Commission to set out this direction of travel, so we all understand where we're going to go and how the different pieces fit together.

Seamus McGowan: Just around that potential consultation fatigue, one thing we did pick up on but which doesn't sit within the White Paper is a potential new approach to fines. This was mentioned recently by the Commission. David, what's your view on this and when it might be likely to happen?

David McLeish: Yes, there was an article by the chairman in The Times, which is an interesting place to make regulatory announcements. He said in an opinion piece that they were considering approaching fines more on a percentage of revenue basis. This may fail to acknowledge the relatively low margin of some of the more recreational consumer focussed businesses. But there has always been a question from the anti-gambling lobby about how can these companies make so much money and get away with such small fines? 'The record fine in the UK is £15m or so but look at these massive profits!'

There is a lack of understanding that these are not just UK businesses, they're mostly global international businesses, licenced all over the place, and all the profits they make aren't just from the UK. So the concept of global revenue is quite a scary thing to be putting out there. I don't think the Commission can suddenly go there in terms of their current enforcement guidance, with a fair and proportionate approach and just suddenly double figures overnight without backing that up through consultation. Quite how they'd implement that, I'm not sure.

A lot of the things will play into the interaction guidance that came out this week, which everyone's got three months to implement. Everyone was very worried about it but actually it doesn't really say anything new. The key thing, to my mind, is

that the Commission have foreshadowed the fact that they are going to be responsible for bringing in affordability, rather than in any form of statute, and that it's going to get shoehorned in to the interaction guidance. I don't think this is the right place for it, but it's a way of getting it in in a relatively quick manner.

When it comes to enforcement, people aren't going to breach stake limits because the suppliers are going to make games which have the limits embedded in them. The hot topics are more likely to be around affordability as seen in some of the horror cases that have previously been shown where operators have historically not been intervening early enough. That's where the fines are going to be, but again, a reference to revenue is a fairly dangerous approach.

That's a real area of concern that we need more clarity on but I don't think the White Paper will give that clarity.

Nick Nocton: Yes, there's a real risk that we end up with revenue-driven fines. Also, an ombudsman that can facilitate customer redress in relation to the same breaches: a genuinely significant escalation, even beyond what we're currently seeing. There really needs to be significant engagement on those points when consultations take place.

The Commission has already consulted on looking at how they could take into account global revenues in assessing the affordability of financial penalties. We don't think that they can do that lawfully because the relevant provision doesn't allow them to include the financial resources of other group companies. That might be an area that you would need to address by primary legislation, and if the White Paper doesn't cover it, that would be a bonus. There's one direction of travel in terms of fines, and that's going to be wider.

Seamus McGowan: Andrew Rhodes (Interim Chief Executive of the Gambling Commission) recently said in the Westminster Media Forum that just because the White Paper has been delayed, it doesn't mean operators should kick the can down the road, and there is more that operators could be doing now. What do we think that operators could be doing, particularly looking then towards responding to the consultation?

David McLeish: Certainly the large operators, in tandem with the Betting & Gaming Council representing the wider community, have already been looking at what may be done around affordability. It's too early to judge but my impression is it's not going to be the horror show that was originally advertised with the clamour for very hard limits at very low levels. Most operators now have some form of third-party affordability tools in place. If you're behind on that, that's the obvious place to get going.

Two years ago, people were nowhere near where they are now and many of the operators have taken a massive leap forward in that particular area. Those who are behind have got some catching up to do.

People will also be looking around for alternative sources of advertising revenue, or opportunities, if the rumours about Premiership football shirt sponsorship are to be believed. Although most of the people who are sponsoring those shirts are not actually focused on the UK market at all. So that's probably a bit of a red herring.

Wes Himes: Customer interaction, which is I guess another term for the affordability. That's been around since 2018, when they brought it in to LCCP. What I saw particularly is that the policy came to a screeching halt last March, following the consultation and call for evidence and there were 13,000 responses from concerned customers about low-level checks, and requirements for documentation etcetera.

That got overtaken by the White Paper but that doesn't mean it went away. There was a step up in Gambling Commission enforcement, and the rollout of a voluminous number of assessments across all operators. You only have to look at the business plan at the Gambling Commission for this fiscal year to next March to see they plan on 130 assessments of the industry. So that's really where the rubber is hitting the road now in terms of operators and what they're having to do in regards to affordability and putting in triggers in place.

That's going to continue and you can almost bet your bottom dollar that once this White Paper is out, the Gambling Commission has the consultation teed up, ready to go, following the call for evidence from last year on the issue of customer interaction. That will accelerate and move quite quickly once the White Paper is published.

There's a lot going on in this space. There are challenges for the industry, particularly for small or medium-sized businesses who might outsource some of that identification, monitoring, and algorithms. You've got to make sure there are no gaps in that process. Automation is a constant challenge; you want to try to automate some of the responses so there's not a latency lag between customer service and when the risk appears on the monitor. So these challenges are coming through in the assessments and they are not going to go away. The question would be, if the White Paper gets delayed another six months, will that consultation go ahead anyway? That we don't know.

David McLeish: On a related point, the Commission's focus has shifted from where it was two or three years ago, where it was really concentrated on high-value customers and lifetime losses, to be much more keen to look at speed of spend. I think that that will definitely come out in the White Paper.

There's no doubt that there will be much more of a focus on intervention at very early stages, with limits which are uncomfortably comfortable. That's the other area to really get your systems up and running so that you are hitting those people that can spend quickly because the classic Commission line, in almost every letter, is if you want to offer a 24-hour service, you need to be able to automate, monitor and intervene promptly. That's a message which has been coming through loud and clear for the last 18 months.

Seamus McGowan: Obviously it's a good response to the consultation if you can say we're already doing many of these things. What do you think operators should be doing to make sure that they're responding to the consultations as effectively as possible?

Nick Nocton: Actually engage with the consultations. Query whether or not that will be particularly effective. Collectively, whether through the Betting & Gaming Council and through the larger operators, there is constant communication with the Commission, but they still seem - either themselves or through pressure, by what's going on in Parliament – to fail to take into account adequately the changes that are already happening.

They regularly say, 'We make no excuse for keeping our foot on the accelerator'. The problem with the Gambling Act Review, and it's the same with a lot of the consultations, is it's all happening through a prism of slightly historical focus.

What I really want to happen, and what I hope that the industry will somehow be able to engage in and influence, is to allow for this raft of consultations to have sufficient time to be evaluated and to be implemented properly.

Is there anything we can do now to ensure that? I'm not sure, we'd probably have to see the White Paper to know. But that's what I'd like us to be thinking: engaging with it, definitely.

Richard Bayliss: Evaluation: that's been the issue with consultation historically in that neither the Commission nor the industry has been able to show accurately whether what they've done has worked or not, what impact has it had. The Commissioner has been criticised for that by the National Audit Office amongst others. In pretty much every consultation we see, industry evidence is often rejected because it's not considered to be independent enough, or it's been done very quickly.

So, historically, everyone is behind the curve on it, and the timetables that were set out – 12 weeks for a consultation – are never going to be long enough to plug that gap in historic evidence. In the last few years we've all upped our game significantly on how we gather evidence, how we open up ourselves to scrutiny as an industry and share that with the regulator. Ultimately, some of these things come down to quite subjective decision-making and it's a question of 'do I accept your evidence from the industry, or do I accept this evidence from someone else?' It's often the loudest voice that wins the argument, which isn't necessarily based on the strength of the evidence.

Seamus McGowan: We have discussed some aspects that we may not want to see in the White Paper but is there anything that we would want to see in there? Not just in the content but also in the process?

Wes Himes: One of the things we would like to see is around Gambling Commission powers. Usually everybody talks about that as a one-way street but I would genuinely like to see better, consistent, professional, regulatory engagement. For example, on time. What we're seeing now is a lot of short-circuiting of what has traditionally been accepted as consultation periods.

Normally you get three months, then there's three months of reflection, and then there's three months to implement it. So you have visibility of a change that you know you're going to have to implement with enough time, particularly when it comes to tech changes, to be able to put that in place. Now we're getting a lot of short-circuiting of that. So that's one area that would be really helpful.

Another is genuine collaboration on what the outputs might be. Sometimes if feels that the consultation is a consultation in name but it is really just an intention of what's going to happen once they go through the process. Being able to bring evidence and data about the impact and actually look at what works, as opposed to simply replying in a very transactional, counter party-like way to a consultation where nothing actually changes.

There have been numerous consultations where, basically, what was in the consultation is what's going to be in the LCCP. If the White Paper can re-establish that relationship with the industry, then we would certainly embrace that, and we would certainly welcome that in the White Paper.

David McLeish: I'd like to see something that acknowledge the fact that some of the measures which have or are to be implemented may have impact on the same issue they are designed to mitigate multiple times over. If we take stake limits and affordability, they're both heading towards consumer protection from different angles but there is an overlap.

It would be nice to think that there was some recognition that you didn't have to have a race to the bottom on the stake limits for example. You wait to see how affordability changes played out, so you didn't rush to £2, and maybe you reassessed after a period of time.

Stake limits aren't going to go up once they're introduced! We accept in the world we're living in – they're only going to go down – so a wait and see approach would be good.

Richard Bayliss: It would be good if the outcome of this was a new consensus on what we want for the gambling sector. Ideally, we want this to be evidence led. With regulations amended based on the evidence rather than prevailing Twitter and social media thoughts from what is often a relatively small group.

This should be the chance to decide what sort of gambling industry do we want in the UK and make sure we get there. That involves maybe a re-evaluation of the relationship between industry and the regulator, a bit more mutual trust on both sides, and putting into practice some of the things that we and the regulator have been saying for the last few years.

Nick Nocton: I completely agree with all the things that have been said. One thing we need to bear in mind – and probably I need to remember this as much as anybody else, and possibly more – is that we have to have a good relationship with the regulator.

I will welcome significantly increased funding. I'll welcome the fact that they propose to have more forensic accountants and more enforcement officials. What we want is consistency, transparency for understanding how the fines are calculated. Consistency and professionalism.

There was a time when you could pick up the phone to the Commission more regularly, and I think the Commission probably feels it is backed into a corner through a combination of lack of trust, a suspicion that the industry wasn't doing what it should be doing five years ago, a lack of resources, and political pressure.

A lot of those things are going to change as a result of this, and especially the noise. So I think we can look forward to a better relationship going forward after this, but it would be nice if the White Paper helped to facilitate that.

Delegate question: Do you think the legislators will be bold enough to articulate some sort of statutory ombudsman process in the new provisions, or do you think they might put that out for tender?

David McLeish: My guess is it will be statutory, but Nick's point earlier is absolutely right: operators can't be punished twice, once by an ombudsman and one by the regulator. You need to define very carefully what the ombudsman is addressing. Is it to replace what would otherwise be done currently by independent dispute resolution resolution procedures and/or the ability for customers to seek compensation for breaches of terms and conditions in the courts? Is it a double whammy in saying there are regulatory failings and therefore what you've paid out to customers gets taken into account in regulatory fines from the commission? I think it needs to be statutory because it has to be made very clear what those lines are.

Wes Himes: The Government will have to decide whether they want a statutory one because then they will have to decide if they want to bring a bill forward and if they have room in the legislative calendar for it.

If they were to take this decision, there's two ways they can go about it. They can have a very descriptive bill, which outlines exactly how it would work, who would fund it, etcetera. Or they can simply put a single line, stating 'There shall be a statutory ombudsman,' and then kick that out to the Gambling Commission, for instance, to go through the process of forming that.

If it's a voluntary ombudsman, they also have to have a process in order to get to that point. I'm pretty sure the Government would want to look at anyone who could satisfy those requirements. So I don't think they would nominate or name someone the ombudsman. I think they would create the ombudsman and have then potential suppliers of that service to come forward to plead their case.

North America Sports Wagering: The Regulators' View

Moderator: Susan Hensel

Hensel Grad

Panellists:

Will Cox Ohio Casino Control Commission

Dan Hartman Division of Gaming, Colorado

Doug Hood Alcohol & Gaming Commission of Ontario

Stephanie Maxwell Sports Wagering Advisory Council, Tennessee

The online gaming market in North America has been the subject of much curiosity and speculation for many years – and interest is now gaining momentum as various states have begun to introduce legislation to allow licensing of operators for sports betting. In this fascinating virtual session, filmed especially for the Gibraltar eSummit, four of the regulators in the US and Canada discuss progress in their states to date and potential issues for would-be operators in the North American market. Moderator Susan Hensel, herself a former regulator from the Pennsylvania Gaming Control Board, began by introducing the panellists.

Susan Hensel: Our panellists today are representing a range of experience when it comes to their maturity with sports wagering activity. The old timer on the block is Colorado which has just over two years of experience accepting wagers, and it is represented on our panel today by Dan Hartman, who is the Director of the Division of Gaming. Next in the list of maturity is Tennessee. Tennessee started taking wagers a few months after Colorado, and since that time has actually switched regulatory oversight bodies. Today sports wagering is overseen by the Sports Wagering Advisory Council, represented on our panel by Stephanie Maxwell, who is General Counsel.

The newest kid on the block to have launched is Ontario which began taking its first wagers just a few months ago and is represented by Doug Hood, Project Director for Sports Betting for the Ontario Alcohol and Gaming Commission. Our newest kid on the panel but not yet launched is Ohio, represented by Will Cox, who is the Deputy General Counsel for Ohio's Casino Control Commission. While Ohio has not yet started taking wagers, it is anticipated to do so at the beginning of 2023.

Our goal today is to give you insights from the regulators' perspective on the standards of sports wagering in the US and in these respective jurisdictions, and to offer some insight on doing business as a sports wagering company in the US. So we'll get started with a brief status update from each of the jurisdictions. First from Dan in Colorado.

Dan Hartman: It's funny that I'm the old timer on the block at two years! Colorado has just finished its second year. We've taken over $7 billion in wagers and $16 million in taxes. We have 26 mobile operators in the State and 17 retail operations.

As we've matured, we've got some new legislation that was passed this year: a big Responsible Gaming Bill that took us from about $130,000 to over $3.5 million this coming year to really beef up our responsible gaming programme.

Another of the things that we've just passed into regulation in Colorado is that fixed odds wagering on racing product, horse and greyhound product, and we look forward to that. We'll be the second state in the US to start doing that – they've done it in New Jersey by law. We've put it into our regulations.

Stephanie Maxwell: We have had sports wagering here in Tennessee since November 2020. We are online only, we have no brick-and-mortar facilities, and when it was first legalised the Tennessee Education Lottery was the regulator. We recently changed and so the Sports Wagering Advisory Council took over on

1st January this year as the regulator, so we've been going about six months.

The Council is a fully governmental entity unlike the Lottery which is a quasi-governmental entity, so we had to go through the Administrative Procedures Act and get rules in place when we first started. Right now, we have 12 licenced operators and are expecting maybe two to three more by the end of 2022.

One interesting thing in Tennessee is that our definition of a sporting event upon which wagers can be placed specifically excludes horse racing, so that's one type of sporting event that is not permitted to wager on in Tennessee.

Doug Hood: It's been an exciting year for sports betting in Ontario, even from a regulator's perspective. For those of you who have not been fixated on our province the way some of us have, there were two significant events that happened that combined to make this a big year.

The first was the passage of Bill C-218 at the federal level which legalised single events sports betting across Canada. Previously you could only offer parlay bets at the provincial level.

The second was the opening of Ontario's new iGaming market which is regulated by us, the Alcohol and Gaming Commission of Ontario, and conducted and managed by iGaming Ontario. Most importantly, it created a competitive market that includes private operators, which we didn't have before.

So the combination of those two events together means a large new menu of sports betting offerings were unlocked for Ontario players, completely changing the landscape here.

We've only been live since 4th April but so far, so good. The industry has been responsive: the first 15 operators that were registered all offer sports betting products. That includes some of the largest global brands as well as some local home-grown brands. There are actually more than 70 operators in the queue in terms of registration so there'll be a lot more coming online soon.

On the sports integrity side, the sports integrity advocates have recognised that we're taking that seriously as well. For example, recently the International Betting Integrity Association indicated that they would like to see the Ontario model replicated in other jurisdictions. We're proud of that, as we are proud about the response that we got from the industry. So, at a higher level, that's what's going on in Ontario.

Will Cox: Ohio, as Susan said, has not yet launched sports gaming in the State. The State of Ohio passed sports gaming and the effective date of the bill was in March. We sent out our first batch of rules for comment just two days after Christmas on 27th December.

That first batch of rules – related to general provisions – became effective here in mid-June. We're working through an additional four batches of rules moving into plenary licences or full licences, as well as some of the compliance pieces that some of the other panellists have noted.

We opened up our application windows for most of our application types earlier this month, so we are looking to get a lot of those applications in and start processing them in a timely manner.

Ohio's market is a little unique in that the market allows for up to 46 online operators, up to 40 physical brick-and-mortar sports books, and an unlimited number – likely thousands – of brick-and-mortar kiosks that will be in bars and taverns throughout the state. We are trying to launch all of those three markets on the exact same date as the Bill requires.

As such, Ohio is looking to launch on 1st January 2023 for sports gaming as we work through all of those licences and applications. That's where we're at right now.

Susan Hensel: That's great, very interesting. Let's talk a little bit about lessons learned. Again, you're all at different points in your experience levels. Will, I know it's early and Ohio hasn't launched yet, but I imagine that there are already some lessons learned?

Will Cox: Yes, one of the biggest lessons we've learned is the number of suppliers, or as our Bill puts it 'vendors', in this space. There really are a lot of people who are getting a piece of the sports betting pie in unique ways: affiliate marketers, payment processors, KYC providers, and so forth. It's really been an eye-opening experience for us as we worked through that vendor supplier stage.

Ohio is also a little unique in that our Bill did not give us a registration or a vendor minor as some other states have. We only have a full supplier licence. So working through that has been a bit of a challenge for us but we've appreciated all of the conversations we've been able to have with these individuals who are engaging in some really interesting products.

Susan Hensel: Doug, what about you about lessons learned in Ontario?

Doug Hood: Adding to Will's point, one of the things we've noticed here at the AGCO is the sheer amount of innovation in the sports betting space. So a key part to regulating that is making sure that we keep up with that innovation and the technologies that support it.

A few weeks ago we did a tour with major league baseball of the Rogers Centre to take a look at the technologies that they're using, and it was impressive. It was fascinating, it was a little overwhelming, and we almost ended up on the field in the middle of the game but that's another story! Those tracking technologies present different integrity concerns just around the latency of the data feeds and the specific control individual players have over specific types of events that could be bet on. So trying to keep up with that innovation is something that we're focused on.

The key is making sure there is sharing of information between regulators and operators, integrity monitors, the leagues themselves, law enforcement and data distributors. So a real priority for us out of the gate has been to develop relationships in what is a new eco-system for us.

Plus, we think it's important too that the public knows about the efforts we're making to protect the sporting event betting integrity market, so we're making sure that we're publicising those efforts as well.

Susan Hensel: Stephanie, what about Tennessee?

Stephanie Maxwell: One thing I've learned is that players only file disputes if they lose, they never complain to us when they have won!

Seriously, though, I'd echo what others have said: we have been really amazed at the technology in this space, and the geofencing. The map just blows my mind when I see it.

As a relatively new regulator, we're pretty small and still trying to figure out what staff we need, where to focus our efforts on investigations and making sure everybody is complying with everything, and where to use our limited resources. We're still learning that but it's just an amazing industry.

Susan Hensel: Dan, what about lessons learned in Colorado?

Dan Hartman: I think the biggest lesson is to not open up in the middle of a pandemic!

I'm going to build on what everyone has said: that communication is key. As regulators, we seem to get very, very quick turnarounds from legislation to bring in sports betting. We got about six months from the time it was voted in to launch in May 2020. You need communication with all the parties – and you're talking about the operators, the leagues, all the different people. We had a robust stakeholder meeting in the beginning where we really learned a lot of things from the industry and everyone who's part of that process.

Another thing related to the technology is to really look at staffing prior to filling those positions. So, instead of investigators, we really needed the cybersecurity investigator, the person that could do forensic investigations. It's moving away from traditional officers or traditional investigators and bringing in data scientists and all of those things. Those are some of the lessons we learnt in Colorado.

Susan Hensel: Doug and Will, you're the newest jurisdictions and I'm wondering if we can help you along the learning curve. If you had one question that you could ask Dan, our most experienced regulator for sports wagering, what would that question be? Doug?

Doug Hood: I have about a hundred but if I was picking one it would be does that initial pressure on advertising on rollout ever get to an acceptable equilibrium without intervention?

Dan Hartman: In Colorado it certainly did. We saw the same crush, everyone fighting for the customer base and acquisition of customers, but as it's gone on the pressure has gone down. We're seeing it around the beginning of football, we're seeing it around the final four, we're seeing it now a little bit in the summer as thing start gearing up. We've got far less broadcast advertising: I think they've diversified across all the different platforms for advertising but we're seeing much less on TV after two years.

Susan Hensel: Will, what about you?

Will Cox: Dan might have done a good job answering my question with his initial take on some challenges and hurdles – I think communication and stakeholder meetings may be the answer to this – but is there anything in particular that could really help a young state looking at the potential largest market and largest simultaneous launch? You have a fairly robust market there in Colorado in making sure that all of the various different operators stay on the same page with the regulator.

Dan Hartman: Yes, it really does go back to communication. If you're not open and you're not taking calls, they're not comfortable calling the regulator when they're having issues. Because of the pandemic and because there really wasn't any sports going on, we launched first with just four operators, we brought on a couple in a few days and within about six months we had ten. Launching everything simultaneously, they're going to run into bandwidth, they're going to run into other problems, we've seen some that in some of the other states.

The biggest thing is that they're comfortable talking about their problems, and then as a regulator you work through those problems to get them up. That's what we've seen works here. It goes back to communication and stakeholdering and making them feel that they're part of your regulatory framework.

Susan Hensel: Stephanie, you're in a bit of a unique position with Tennessee switching regulatory bodies and regulatory personnel. Can you talk a little bit about what kind of challenges that has presented to Tennessee?

Stephanie Maxwell: Yes, we are in a unique position and I think there are some advantages. Unlike the situation that Ohio is in right now, when we came in there were mechanisms in place, there were already licenced operators, there were rules, there was guidance. This was great but our first staff member was hired in November and we became the regulator on 1st January so we had to really scramble to get some emergency rules in place, to hire more staff, to get all of the information transferred over to us. That's been a nightmare: as you can imagine, the volume of information and reporting and the need to get everything set up has just been really overwhelming.

Also, when the Lottery when it was the regulator, they had never been a regulatory body: they were operating the Lottery and their function had always been more marketing and promotion of their product. They had never really operated as a regulator so when we came in as strictly a regulator, communicating with operators, we probably have taken some different interpretations of certain things. So, getting that all across has been a challenge.

> **We're finally getting there now. Permanent rules are going into place next week. In the last six months we have realised multiple ways that we could improve our rules, so we're working hard to get that done. It will get easier as time goes on but it has definitely been a challenge.**

Susan Hensel: I'm sure that there are companies in the audience that are contemplating doing business in North America, and I'm sure that one of the realities of doing business here is that each of our jurisdictions presents a different regulatory scheme. With a different regulatory framework, there are nuances. What else do each of you think companies have or should have a perspective on if they want to come in to do business in North America? Doug, can you start us off with what you think would be a big misconception?

Doug Hood: A point I would make is there seems to be a conception that all North American jurisdictions are taking a prescriptive approach to approvals of offerings, for example. In Ontario, as the AGCO, we've been moving towards the standards-based approach for about a decade now which really focuses on outcomes over prescriptive rules. So, in the sports betting space, that means that we've created criteria rather than going through an approval process, and the operators have to ensure that the offering meets our standards – proper integrity safeguards would be an example – but then they can move forward with it. So it's a pretty broad and inclusive framework that includes esports and betting exchanges, as well as in-play betting amongst others. Industry really appreciates the model because of the flexibility that it creates, and the timeliness to market.

Susan Hensel: Will, what about you?

Will Cox: The biggest thing that we're facing is making sure that even our North American based operators are aware that each state is a little different. We've seen operators come already looking at marketing and advertising in the state of Ohio. But we, for instance, have a unique rule where the word 'free' cannot be used if any risk is required of the patron at all. So we've been having growing pains with that with some operators.

We're also taking a look at making sure that payment options don't target unbanked individuals, and that's a little unique from different jurisdictions. So it is making sure that all operators look at all the rules and the statute as well. Sometimes operators can come in and really get focused on the rules, and not recognise that there is another governing piece of law in the statute. So trying to make sure that they're aware of all of those unique statutory and rule-based restrictions that differ from state to state.

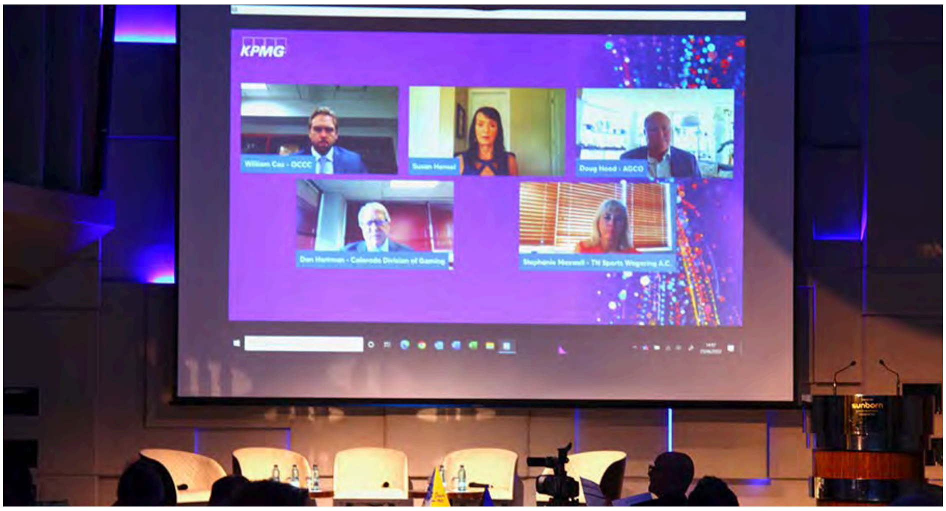
Susan Hensel: Dan, misconceptions?

Dan Hartman: I'm right with Will and Doug. It really comes down to looking at North American states almost as if they were multiple countries. Although everybody went with the same flow, everybody has got different legislation, they've got different mandates in their legislation, and that shows up in the rules. It shows up in how you launch and what you have to do to launch. So the biggest thing I would say is 'be prepared'. Put where you've operated in the past a little behind you and find out what it takes to do it in the jurisdiction you're going into.

Susan Hensel: Stephanie?

Stephanie Maxwell: I would say exactly the same: really read the statute and regulations for your jurisdiction very closely. For example, in Tennessee, we don't permit funding a betting account with a credit card. I think only one other state in the United States is like that, and so that has caused a lot of issues. But it's something that was very important to our legislature so we've got to comply with that. It's really paying attention closely to what the differences are.

Susan Hensel: Why don't we wrap up with a question about what the future holds for sports wagering in North America. Will, what are your thoughts?



Will Cox: I think the future in North America is uncertain. I do think we're going to start seeing more European operators come over and get into the states. My understanding is they held out for quite some time, letting some of the North American based operations maybe fight each other. I think we'll see a consolidation of those North American-based operations here in the very near future.

I do hope that doesn't stifle innovation. Doug pointed out earlier that exchange wagering is an interesting and fun concept that has been around for quite some time in other jurisdictions but hasn't been able to really find a foothold in North America due to some of these large operators duking it out. So I think we'll see that consolidation, we'll see those European operators coming in, but I do still hope we see innovation.

Stephanie Maxwell: I agree with all that. In Tennessee, we have an exchange wagering company who is about to renew their licence for a second year, so that's exciting. I think there's going to be a big growth with regard to esports as a sporting event. That's permitted under our Act and, from what I've seen, that's just probably going to explode. There will be some consolidation and the market will shake out but it's exciting.

Doug Hood: I agree about the consolidation piece as well as the exciting components of different products that are emerging. We just had a couple of conferences here in Toronto and those were definitely themes that came through.

In terms of an impactful trend, though, one will be the convergence of the different sectors. Sports betting products are starting to look pretty similar between lottery and online and in casinos. I think it's going to be a challenge for regulators to try to regulate on a sector-by-sector basis – which is what we do – as operators create more omni-channel strategies and those products overlap. It's true across gaming but you'll see it really emerge in sports because of the natural overlap you've got in a place like a sports bar as well as the nature of the sports betters themselves because they tend to be pretty tech savvy. You're going to see a convergence of the different sectors in terms of what's offered.

Susan Hensel: Dan, what predictions do you have?

Dan Hartman: Well, we're already seeing a little bit of consolidation. We've lost two operators, but then we've brought on two, taking the place of the old ones. I agree that fantasy sports are starting to look a little bit more like sports betting, and so you've got all the different kinds of things that are going on. What you see today maybe on a hand-held mobile app, it's going to be completely different in two years and in the way you interact with the customer or with how it can jump between different things. Then you start to look at the different payments. One of our operators just started taking crypto, and we've got a couple more that are very interested in it. So there's going to be a lot of different things that come on and pose a lot of challenges to regulators to keep up with the technology.

Susan Hensel: We couldn't end on a better note than to acknowledge, that there are certainly more challenges ahead because with great challenges comes great opportunities! Thanks to all the panellists for your insights today.

ESG within the Gaming Industry – Transitioning to a Sustainable, Responsible & Resilient Future

Moderator: Charlie Leach

KPMG

Panellists:

Jo Abergel Founder, Ethical Gaming Forum

Nathan Beaver Head of ESG Consulting, KPMG

Tania Rahmany Associate, Hassans

ESG has become an increasingly hot topic across all sectors and is no longer talked about solely in terms of responsible gambling in the betting and gaming industry. Climate change mitigation, climate adaption, responsible behaviour, diversity and inclusion are all key elements of corporate ESG strategies and policies – and action around these is coming under growing scrutiny by regulators, customers, employees, suppliers, partners, shareholders and investors. Moderator Charlie Leach began the session by asking what is ESG and how does it relate to the gambling industry?

Nathan Beaver: The definition of ESG is environmental, social and governance: ultimately ESG is about creating a focus on transitioning to a sustainable, responsible and resilient future. This is a need we all have, whether we're working for KPMG, Hassans, working for an operator or a supplier.

The goal and the outcome is the same for all of us: that we're sustainable in the energy we are using and the emissions we are creating; we're responsible in our business practices, our ethics, our behaviours in our organisation; and that we're resilient. That we're building organisations that are thinking much more about long-term value, creation and protection; and we're thinking about how our products and services are going to need to have to adapt and change to reflect how the market is transitioning.

Every industry has their own challenges in transitioning to a more sustainable future. Whether you're a bank, whether you're a consumer product company, a utility organisation or gaming and betting, there are lots of different challenges and lots of similarities.

One similarity across all markets is the focus on carbon and our industry is no different in terms of the amount of effort both operators and those supplying operators have to make around carbon reduction. Then we've got more things that are a bit more specific to the gaming and betting industry, such as the focus on safer gambling, which is very much anchored to the "S" part of the ESG agenda.

There are some broader areas as well that the industry needs to really lean into if it's going to address some of the challenges, including a big focus around other material topics like customer privacy and security.

The safer gambling agenda, the carbon agenda, and the diversity and inclusion agenda: ultimately every industry and every company in the industry needs to address these on their own journey to a more sustainable future.

Charlie Leach: Jo, based on what Nathan said about the social aspects of ESG, how does responsible gambling fall under the ESG umbrella beyond simply following regulatory requirements?

Jo Abergel: Safer gambling isn't just about regulation or about reputational damage by having problem gamblers on your books. We all have a social responsibility to protect the vulnerable in our community.

Whether that's our players or our staff who are on the end of the phone taking these calls from people who are saying, 'I've just lost £15,000, give me my money back or I'm going to kill myself.'

This is the reality that safer gambling teams face on quite a regular basis. We need to think about what we're really doing to support first of all the players. Are we training our staff so that they actually know how to engage the players? Are we training them in suicide awareness, motivational interviewing, recognising risk, what to do if there is a significant risk?

But, also, how are we supporting our staff? How are we supporting our people that are on the ground taking these calls? Particularly when they might not know the outcome of the call – they might be talking to a customer in a different jurisdiction where they can't contact the authorities on their behalf. How are we supporting them through that process?

Charlie Leach: Tania, looking at the "E" of ESG, we all know that the gambling industry isn't a heavy polluter in terms of emissions relative to other sectors. How important is the environment in the context of the gambling industry?

Tania Rahmany: There are three main things that are critical for climate risk mitigation. The first is energy efficiency, the second is transitioning from fossil fuel energy to renewable energy, and the third is halting deforestation. Those three things are things that every office workplace can do including every business that's a service industry.

As lawyers, we take that into account as well. Yes, we are sitting in an office, there's no smoke billowing from our chimneys yet we can do things and take business decisions that do reduce energy consumption, that switch to better renewable energies, and that use less paper, less cardboard and make sure that we're recycling and contributing to a circular economy, thereby halting deforestation.

Sometimes the ESG agenda has been overcomplicated – we need to just keep it simple and realise that no matter what we're doing, what business we're in, what industry we're in, we can do things a little bit better. As businesses and individuals, we can all just do a little bit better to focus on those three things to mitigate climate risk, and that, ultimately, really build a more resilient business as well.

In the business place, ESG has often been looked at as an extra and something additional to the business priorities. So we focus our management on our profit making and our operations, and then if we've got time we'll think about ESG because it's 'a nice to have'. We really need to start moving towards the business case for ESG. It is not 'a nice to have'; this is a switch in our long-term thinking, in our strategy, that needs to happen in our day-to-day decision-making.

The benefits are two-fold. First, we're avoiding significant risk. One in four operating businesses are affected by climate risk in the world, so that's a quarter of us affected by climate risk no matter how comfortable we feel in our air-conditioned offices. Things like flooding and extreme weather events, they impact on our workers, they impact on our productivity.

Secondly, apart from the risk, there are opportunities. AT COP26 last year in the UK, the carbon markets were valued at £1 billion, so there is value there to be tapped into for businesses that are focusing on ESG and making it a priority.

Charlie Leach: Nathan, speaking about carbon, is it a buzz word or is it something that's genuinely important for businesses? Can it be measured and how would we go about that?

Nathan Beaver: Carbon is hugely important and I'd advise everyone in the room to think about it is as a currency, because ultimately it is now an asset class that you have to start managing within your organisation. Whether the role you have is in supporting the operators or the end customers, carbon is ultimately the thing that is going to drive and affect your business going forward.

If I look at some of my clients in other sectors, they are probably several steps ahead of this industry as a whole because they are already thinking about the establishment of carbon treasuries, the establishment of internal carbon pricing. Everyone in the room is ultimately going to be facing to a decision in a few years' time which is if you want to invest in the new data centre or if you want to invest into growth into a North American market, you'll have to ask yourself two questions. The first is have you got enough Capex and the second is have you got enough carbon?

The ability to get a grip of your carbon, understand your forward carbon position and how you are managing carbon outside of your organisation to create head room for organic growth is going to be critical in as little as three to four years. So, yes, it's a huge buzz word but the importance it's going to have for every organisation in this room today is going to be massive over the coming years.

My advice would be to start getting ahead of the curve now. Start understanding what carbon sits in your business, what carbon sits in your value chain, and what role and effect that you can have on reducing it, and to monetise that opportunity as well.

Charlie Leach: Jo, we often talk about operators generally wanting to be the best in class at certain things like regulatory compliance. Increasingly ESG is now in the eyes of investors as well. Does that stifle the ability to implement it? How can operators collaborate across the ESG spectrum?

Jo Abergel: There are some amazing ESG projects going on amongst operators here, and those that are supporting the operators like the Centre of Excellence in Responsible Gaming (CERG) at the University. There is some really interesting research going on but we need to collaborate so that we can connect that research with the safer gambling teams so that we're trying out new methodologies.

The bottom line is that, while we're seeing some great projects like those lovely colourful projects for Pride month, we need to look at the metrics of some of those projects. Are they actually working? Are they making a difference? What can we learn from each other?

Everything we're seeing from the training that we do, and particularly as a result of the Ethical Gambling Forum, is that there is an increase in problem gamblers. So while there's some amazing technology out there for safer gambling, the little research that's available is showing that the number of problem gamblers is increasing, and the efficacy of some of these projects is pretty low.

We need to find out what is working, where's it working and how can we learn from each other to benefit the whole industry. We can only do that through creating greater opportunities for collaboration. It's something that we're very keen on doing, it's why we set up the Ethical Gambling Forum in the first place. We wanted to challenge the industry.

We're moving forward now with meetups that are very focused on ESG and on the three different aspects because we find that people have their passion. Some people are much more passionate about the environment, some are very passionate about helping vulnerable people.

Within the operators, we have to harness those passions amongst our people and amongst our colleagues. It's not just top-down leadership or HR being responsible for ESG: the whole company needs to be responsible for it. We need to create more opportunities to collaborate internally and externally to find out what's working, what we can learn from each other, and how we can improve ourselves together as a community on ESG, and for Gibraltar as a jurisdiction as well.

Charlie Leach: Sticking with social aspect, what are the key challenges facing the industry in making it more inclusive and diverse?

Nathan Beaver: A challenge that every industry faces is 'does your organisation look like your customer base?' Female gamers are one of the fastest growing segments within the market and we're seeing a huge rise in games platforms specifically targeted at a female audience. Yet you look at most leadership, most senior management pipeline and it's predominantly white male. That doesn't reflect the base that every operator is now seeing in their market.

It's not just 'the right thing' to do but it's also economically the right thing to do.

Organisations that have a greater diversity of leadership and have a greater diversity of senior management teams generate greater enterprise value, generate greater stakeholder returns, generate greater customer experience and generate greater employee experience. The argument all stacks up so it's really on everyone in this room – and those in the industry as a whole – to continue to press and push action forward one step at a time.

Tania Rahmany: In terms of brand recognition and employees, millennials and Generation Z are already the biggest workforce, which is incredible when you think about it. These are generations of people that are willing to take a lower salary to work for a business that they feel aligns with their values. They are also willing to pay more to consume products and services from businesses that they feel are aligned to their values, so this is really hitting the bottom line.

I've always said that I am not here to tell people what their morals should be but ESG is just not a moral question at all now: it really is a bottom line in profitability and investor return issue. If you're not aligning your values to these long-term thinkers, you're going to fall behind in the recruitment market, in the retention market and in the consumer market. So it's really important.

One other thing I find really interesting is that we all have these psychological biases. We all develop them and we often don't realise that we have them but, for example, familiarity bias is a precondition that we all have to feel more connected to people that are more similar to us.

This can be not only in terms of gender, nationality or race, but something as simple as an accent. You are less likely to feel more connected to somebody who has a different accent to you, and sometimes these things are disguised as "finding the right fit for the existing team". These types of prejudices which focus on alignment with existing people halt the diversity in businesses.

We all need to recognise that no matter how much we think we're knowledgeable about these issues, and that we're conscious of these issues, we all have these biases because we're all human. We need to stop and think: is it really that I connect with this person because I think they're a great member of the team, or because they're similar to me? Our own biases are the biggest challenge.

Jo Abergel: Just to add another dimension, one of the main challenges now is how we can become more open to neurodiverse colleagues and create a welcoming environment for those that are neurodiverse and those with physical disabilities. That's still a big gap, particularly here in Gibraltar.

We know, for example, from our research, that players with ADHD are much more likely to become problem gamblers. I think there's a reluctance of people who might be on the autism spectrum to talk about that, whether they're amongst our colleagues or our customers, and we need to address that in the future.

Also on inclusion – and it was mentioned earlier about the local talent pool and the fact that Gibraltar companies are struggling to recruit – we need to include the local community a lot more, and we need to engage with younger people here in the Gibraltar community so that we can develop that talent and the skills that we need for the future in Gibraltar.

When I was working in gaming in recruitment, I was having to recruit from abroad for pretty much 90% of the positions. That is not sustainable for Gibraltar, so we need to be engaging with young people earlier so that they can be included in this big growing sector in Gibraltar.

We can start working with them and developing their skills to match those that we're going to need in the future. Whether that's through apprenticeships, internships or work experience, it's giving greater opportunities to include the local community in the development of Gibraltar's job market.

Charlie Leach: Looking again at ESG as a whole, and specifically at companies that might be listed or looking to get involved in M&A activity, how important is ESG in valuations?

Nathan Beaver: We've all grown up in a world where private market enterprise value is classically your EBITDA x multiple which is ultimately a financial capital way of calculating how much your business is worth. The whole market is shifting – not just in this industry but in every single industry – where the future valuation of your business isn't going to just be about the financial capital that you create, but also about the environmental, the human, the social and the intellectual capital.

Organisations and institutional investors will place value on that and we're already seeing that play out at the moment. If you open up a Bloomberg terminal and put in any of the FTSE 250 organisations, you will see between four and seven ESG risk ratings against those organisations. These are from companies like Morgan Stanley, Refinitiv, Sustainalytics, FTSE4Good and others, and those ESG risk ratings are the way in which a number of agencies are scoring how well a business might make that transition to a sustainable future.

That score is going into the institutional investor decision-making that is looking at those organisations that are outperforming not just on financial capital but on other forms of more sustainable capital. We're seeing that flow through in the market at the moment.

You also only need to look at the whole raft and increase in ESG due diligence now taking place around acquisitions because organisations want to know whether they are going to buy an organisation that's going to take their risk rating down and therefore cost a lot to remediate.

We're seeing ESG due diligence rise in the M&A process, we're seeing it in the valuation process with that correlation between ESG risk rating and share price performance in the market. It's back to the point made earlier that was ESG now sits core and central to the equity story, to the value story, in the overall corporate strategy.

If it's not then, ultimately, the organisation is going to be at the back of the herd, which means that it's only going to be either really cheap to buy or it's going to be on a long slow steady decline until they can remediate the position they are in.

Charlie Leach: Again looking at ESG as a whole, what sort of role does law and regulation have with regard to the ESG agenda for gambling companies, Tania?

Tania Rahmany: It's interesting because the courts seem to be pushing this agenda further, maybe, than the legislation.

We have seen tons of protests by young people over the years asking for governments to take climate change more seriously, to accelerate action in that area. Overall, it's fair to say that progress has been slow. Every COP gets delayed finishing because countries struggle to agree on sometimes small positions.

The courts seem to be taking quite serious action, particularly in relation to listed companies. Last year in The Hague District Court, the parent company of Shell, the oil and gas giant, was sued and was forced by the Court to amend its environmental policy. It's not that it didn't have an environmental policy – it did – and in fact it had been committed to carbon neutrality by 2050. But the court found that it wasn't good enough, that the Paris agreement required more accelerated commitment than that, and Shell was forced to change their environment policy.

More recently, in the UK, Shell directors have been sued by the shareholders on the basis of a breach of fiduciary duty. Directors have an obligation to take care of the interests of the company and the claimants argue that this no longer just means the balance sheet. It means, looking ahead, does this business have a future? Is this business even going to be around in 10 years' time when fossil fuels aren't available or are too expensive? It's going to be really interesting to see how the courts determine that, and also to see what other actions are likely to come up.

The litigation risk is now part of the climate risk, and as Nathan was saying, the M&A market as well. One challenge that's facing businesses is measurement and verification – agencies do vary by their standards. A company might be doing very well on one agency rating, and not so well under another. Eventually these things will level out but the point is that it's not something that you can ignore anymore. This is in your boardrooms, in your accounts, in your figures: it goes to the core of the value of the business now.

Delegate question: If gambling companies are interested in ESG, should they be enabling the use of cryptocurrencies which have a large environmental load when there is a staggering amount of fraud and scams associated with cryptocurrencies and NFTs?

Nathan Beaver: I have two reflections on that. One, you're absolutely right, the background of crypto has historically been a very energy intensive market. But, if you look also at what's going on more broadly around crypto, you're seeing a switch to miners moving to renewable energy.

For those of you familiar with the energy market, if I'm mining in somewhere like the Czech Republic, then that's a market that is essentially brown coal market, which is the dirtiest of all the coal. So, for every Bitcoin I create there, it creates a considerable amount more CO_2 than if I was to mine that, for example, in an EU mix market or in a renewables market.

We're seeing a shift in the market in miners moving towards a more renewable source of energy so, notwithstanding the sunk carbon cost of existing coins already being mined, going forward coins will be mined with less environmental impact but I'm not saying it will be zero.

My second reflection is around fraud. Fraud is a challenge that the gambling market has to lean into, but one that they're not going to solve on their own because crypto is becoming ubiquitous across every market. We heard earlier it's being used as a form of currency for deposit in the North American market. El Salvador was again in the news this week for its adoption of crypto as a core currency for business.

Crypto is ultimately here to stay and the gaming and betting industry, like with all the issues we've talked about today, has a role to play by being at the table in these discussions alongside the financial services institutions, alongside the institutional investor institutions. Because we know that the gaming and betting industry is going to be a core market where these deposits will occur. So it needs to have a voice at the table, but it needs to recognise it needs to have a voice with others as well, and be part of the discussion on how crypto should be used more broadly as a payment mechanism within any economy.

Tania Rahmany: I'd add that it's important overall not to villainise entire industries or entire sectors because that tends to create an inaction in that sector. We've seen the gaming and gambling industry unfairly tarnished in many ways because of questions of morality or fraud risk and so on. So rather than excluding crypto and DLT from the discussion, it's important to bring everybody in, just as much as the oil and gas companies. Bring them into the discussion and let's see how we can get better through collaboration rather than by exclusion.

Jo Abergel: Yes, just on the point about vilifying crypto. The gambling industry is facing massive challenges when it comes to fraud and when it comes to money laundering. We've just seen in the news this week match-fixing allegations with t he Spanish and Gibraltar football leagues. It's all part of financial crime through the gambling industry. Crypto has to be taken into account with all the other types of financial crime fraud that are going through the industry and shouldn't necessarily be singled out.

#WeAllWantToPlay: Diversity, Equity and Inclusion in the Gaming Sector

Moderator: Mickey Swindale

KPMG

Panellists:

Abby Kimber Head of Strategic Partnerships, Digital Isle of Man

Niki Stephens Partner, Mishcon de Reya

Joanne Whittaker CEO, Betfred

KPMG has been a long time champion for diversity, inclusion and equity, and nowhere more so than in the gaming sector with the launch of the #WeAllWantToPlay initiative in 2016. In this session, KPMG's Micky Swindale (a founder of #WeAllWantToPlay) explored the experiences of three other women working in and with the industry, including whether they felt there had been any positive change in attitudes over the years and what more could be done to make the sector more representative of the general population. Commenting that all of the panel were enjoying successful careers, and therefore had no personal axe to grind, Micky first asked Jo Whittaker, CEO of Betfred, to reflect on her rise to the boardroom.

Jo Whittaker: So I've been CEO for just over a year now. I do feel a bit of a fraud being on this panel because I would say gender has never held me back. I've got to the position I'm in because I've worked really hard, as anyone in my position would.

My career began when I was a developer in my early 20s. As a female developer, you could walk into any job. I was an okay developer but I was female, so it helped me probably, and maybe my resilience was built up over those years of working in a very heavily male-focused environment where you just have to hold your own and get on with it.

I've got three kids: I've had very limited maternity breaks by choice. I've never felt any pressure to do anything that a male counterpart wouldn't. And I'm really proud that within Betfred we've got a diverse board. My CFO is female, we've recently acquired a company in South Africa where four out of five of the management team are female. So gender inequality is not something I recognise in our business and in my career. I'm not saying it's not there, it's just not something I have been party to.

Micky Swindale: Of course, when we talk about diversity and inclusion for the sector, we're not just talking about gender. But it is a pretty good place to start because it's very easy to measure what the stats should be – we know that the world is more or less 50 per cent men and 50 per cent women. So it's easy to see how businesses are performing – often just visually. All employers gather gender data but gathering other data around diversity can be much more difficult, particularly when it comes to things like race, class, sexuality and neurodiversity.

The other piece of data that all businesses have is age, and we talk quite a bit in inclusion and diversity about intersectionality. So what if you're hampered by not just one but two potential areas where people might be biased against you, or where you don't fit the classic stereotypical norm within business?

What assumptions might people make when you're not only female, but when you've also been successful whilst still of, shall we say, tender years?

Abby Kimber: Well, I'm not that tender anymore to be honest and I'm genuinely a little bit embarrassed to tell this story I certainly felt at the time that my personal credibility took a bit of a kick. Like Jo, I don't feel like I've had any real issues in

being a woman working with this sector but couple of weeks ago, myself and two colleagues – both male and both older than me – were travelling to an industry event. One is more senior, he's my CEO, and the other, Tony, is a peer, so we're Heads of our own areas and our titles reflect that.

When invitations went out, we were quite surprised as a team to see that only the two men had got an invitation and I hadn't. We couldn't really understand it because, due to my connections and my experience in the area, they thought I would definitely have been included.

When we enquired to ask if there had perhaps been a mistake, we were told, 'Oh we're really sorry, we can only invite the two most senior people.' In this case, my CEO stepped up and challenged, and said, 'Well, absolutely not, if anyone should go, it should be Abby I'll bow outgive my seat to Abby,' which is incredibly supportive. But, ultimately, we don't really want to have to have other people to fight our battles for us all the time.

Micky Swindale: Yes, and I'm embarrassed to tell you that it was KPMG that made that mistake! When I stepped in and asked the question, they said, 'Well, we just assumed that Tony must be senior to Abby,' and I said, 'Well, that's a very dangerous assumption to have made, isn't it? Just because Abby's younger than him. And there's maybe a gender thing going on here as well.' I'm hopeful that the people involved learnt an important lesson from that.

Niki, you're in the same boat as Abby. You're younger than people might expect for someone at your level. Does that ever impact you?

Niki Stephens: It can do. It's not a daily occurrence and it's not even a particularly frequent occurrence, but there have been a number of occasions. Less so in a client facing setting and more on an internal basis.

Occasions such as where we've wrapped up a meeting and the assumption is that I'll go away and do the drafting. Or you put forward an idea, you think it's been heard, and you can see the reaction around the room. Conversation moves on then, all of a sudden, your idea boomerangs back to you and it's somebody else's – invariably someone slightly more senior than you. That's really irritating.

There's certainly more that I should do to call out that kind of behaviour and we'll probably come on to discussing how you go about doing that without embarrassing people and trying to make it a positive interaction so that everybody learns and comes away a bit more aware of these sorts of things.

Like the other ladies on this panel, being a woman hasn't really ever held me back. I don't feel I've had any less opportunities, it's just on occasions those things grate on you.

Micky Swindale: That experience of women in meetings and in board situations is a very common one. There's a lovely cartoon some of you will have seen that shows a board table and the chairman is saying to the lone woman at the table, 'That's an excellent suggestion, Miss Triggs. Perhaps one of the men would like to make it?'. I think that sums it up nicely.

So we've all had a pretty good experience in our own careers but, let's be honest, that can't be true across the board. Some of the senior women that have come into the sector from outside have observed that very clearly. There's perhaps no-one better for me to quote here than Sarah Harrison when she was CEO of the UK Gambling Commission. She said, 'It will come as no surprise for me to tell you that this sector is very white and very male. The lack of women working in the sector in senior roles or otherwise is staggering.'

When it comes to eGaming in particular, given the intersectionality of gambling and betting with technology, do you think part of the reason for the lack of women might be about the messages girls and boys are given from a very early age about what they should be interested in or good at?

Jo Whittaker: I'd say that was probably the case when I was growing up. My mum told me not to do computers as a GCSE and I ended up being a programmer. I'm Chair of a kids' charity now in one of the roughest parts of Manchester, and I would say that everything is open to the young people that are coming through there. The world is a small place now and they're really not scared about opportunities, they're not scared of technology.

I think those young people will come up and they'll challenge everything about everything because we've empowered them to do that. We need to do more working with young people in that way to give them those opportunities. The area where I work with those kids is one of the poorest areas in the country, so seeing the way they respond and react to positive behaviour, if we can empower them in that way, the better the world will be.

Niki Stephens: I don't think there are many businesses out there who are deliberately trying not to be diverse. The experience you get and the conversations you have with people are generally very positive and open. So education must play a part. It's that grass roots level where more needs to be done to open up opportunities to people from more diverse backgrounds. Taking Mishcon as an example: it's not just about hiring lawyers. We run apprenticeship schemes, we run mentoring programmes. There are lots of things that businesses can do to engage with potential future talent that isn't just ticking boxes in terms of employees, but is helping develop those relationships.

Abby Kimber: Yes, I agree with Jo that it has to start really early. The earlier, the better. Encouraging that interest in stem subjects is really important. On the Isle of Man, there is a charity called LoveTech that is run by technology firms within the industry and supporting sectors, and that's all around getting children – girls in particular – interested in stem subjects from an early age. Also presenting those positive role models that are already in the sector and that young females can look at and say, 'Wow, I'd really love to do that.'

Micky Swindale: There's a very similar initiative – Girls in Tech – in Gibraltar and some of those initiatives are really starting to drive change. One of the things that we talked about when we were preparing for this panel was that it's really not about diversity. Diversity, in terms of the sheer stats of your business, is a very tiny part of the battle; it's the equity and inclusion elements that really matter.

If you focus on diversity only, it can be very easy to convince yourself, or try to convince your shareholders, that you have ticked the necessary boxes. But you won't get the benefits of having those diverse teams if half your team doesn't get to speak, or they aren't listened to when they do. What can leaders do – or perhaps what have you seen them not do – that really makes sure that they get the value of everyone on their team?

Niki Stephens: Representation without participation is still exclusion. It's really important that everybody feels that they're able to share ideas and contribute towards policies around well-being or diversity.

Include a diverse mix of people when you're drafting those documents and try and benefit from their experiences and what challenges they've faced, and how their backgrounds and experiences might contribute to making the workplace more diverse.

Also ask yourself who is it that participates in these discussions, and why is it that it's those people who participate and not others? What can we do to make people feel safe and able to contribute their experiences without feeling any form of judgement or criticism?

Abby Kimber: Policy is no good without buy-in and ultimately you need that diverse set of people who are comfortable talking about it and who are involved in policy-making in order to create the buy-in from the team. Again, if they can see that there's a diverse set of people talking about this, then that will encourage them to be interested as well.

Jo Whittaker: All I can add is just bringing those policies to life. I can't stand having a policy that's just sat on a server somewhere: that's a useless document. It has to be in everything we live and breathe. We need the policies for the governance but we need to make sure they're actually implemented and everyone takes them seriously from the top right down to the bottom.

Niki Stephens: Yes, it's about authenticity, it's not just lip service. It needs to go to your core values and be ingrained in what you're doing. It's much more sustainable that way.

Micky Swindale: If we're going to have that kind of buy-in or that genuine leadership belief, then we can't ignore the fact that in this sector the stats show us that most leadership groups are predominantly white and male. That's also true of the accountancy profession. It's also largely true of the legal profession, and probably true of lots of government bodies as well. We need those white men to genuinely care about this, and perhaps more importantly, to feel able to do something about it.

I have shared before a survey by Catalyst that asked men what might undermine their support for gender equality and a pretty horrifying 74% cited fear. Fear of loss of status, fear of other men's disapproval and, perhaps most telling of all, fear of making a mistake. How do we make it safe for those white male leaders, and anybody else – probably most of us – who are scared of getting something wrong feel safe in the environment we are in now?

Abby Kimber: Firstly, we've got to stop vilifying people for getting it wrong. We're human: it's natural, everyone does it. It's what you do after that matters.

If you look for resources on how can you challenge in a safe way, and it's something that I've looked at recently, there's not really anything out there. It's all about challenging yourself, which is brilliant – in a perfect world, everybody would challenge themselves – but sometimes people aren't as perceptive or they're not as far along on that journey.

Ultimately, we all need to speak up when we ourselves are wrong and we need to be quite public about it. People need to see that they're not going to be attacked for getting it wrong so that we can normalise the challenge.

Niki Stephens: Yes, just try not to embarrass anybody; no-one likes that. Try and find a way to have an honest conversation. Authenticity is so valuable.

Also think about whether there's any training that can be done on unconscious bias just to make people generally more aware. Sometimes it's just planting a little seed so that the next time it changes behaviour in subtle ways and makes the world a better place.

Micky Swindale: Thank you everyone and, just finally, we are aware that this is not a diverse panel! It's interesting that when it comes to diversity and inclusion, you end up with a panel of all women talking about it. I did ask some men but none of them were particularly keen, or all had other things that were going to prevent them from doing it. That might be a reflection of that fear that we've created.

I'd hoped not to have all-male panels today and was disappointed that we ended up with one when the sole woman that was on that panel couldn't attend, so perhaps I have made up for that by having an all-female panel! I do think it demonstrates an important point about participation, though, because I hear conference organisers across the sector talk all the time about how there just aren't enough women to come and speak at events.

We do pretty well for women speaking at our eSummits but I often wonder if that is because I'm a senior woman who's been working in the sector for a long time and so naturally (given we are innately attracted to people like us) my network has a lot of women in it?

That maybe tells its own story about 'if she can see it, she can be it' – the more we have women who are working in, or working with, the sector and who are visible and active, the more things will change and the quicker that change will come.

Emerging Regulatory Themes & Impact on the Sector: Consumer Protection & Choice Architecture

Presentation by Adam Rivers

Partner, KPMG Economics

Anna Soilleux-Mills

Partner, CMS

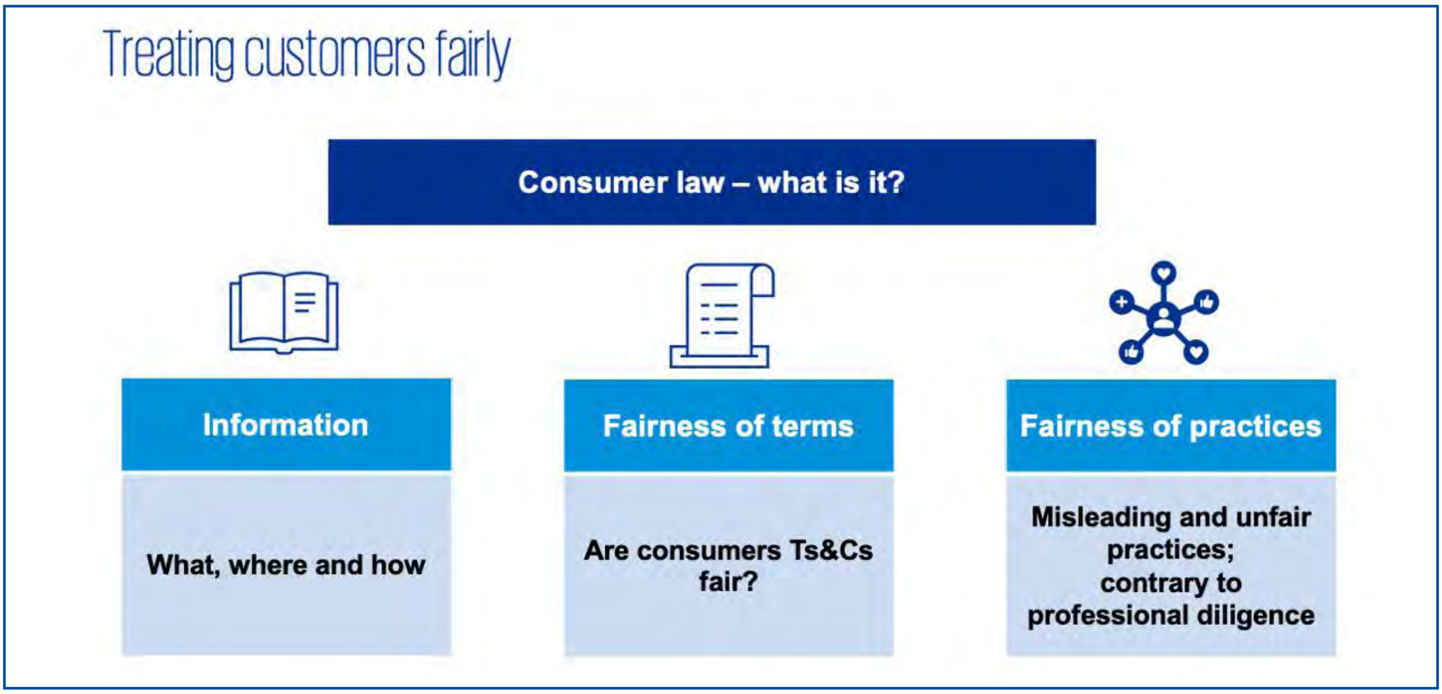
When it comes to legal and compliance issues, the Gambling Act Review, anti-money laundering and safer gambling tend to be top of mind but it is equally important to keep a watch on other areas that are coming under increasing scrutiny – and the resulting potential reforms gaining momentum behind the scenes. Adam Rivers and Anna Soilleux-Mills gave an enlightening update on consumer protection law and how a number of online practices are being called into question – particularly with reference to the online gaming sector.

Anna Soilleux-Mills: Consumer law broadly covers three issues. The first is: what information you need to give to customers; where you're giving that information; and how you're giving it. The second is the fairness of your terms and conditions. There have been some recent cases – Mr Green v Betfred and a recent Paddy Power case – that highlight the importance of getting that right. Thirdly, and the area that we are going to concentrate on in this session, is the fairness of commercial practices, a slightly nebulous concept.

Recapping where we are with consumer law in the sector, in 2016 the Competition and Markets Authority, the primary consumer law regulator in the UK, launched an investigation into the online gambling industry at the request of the Gambling Commission following lots of complaints they had been receiving about alleged unfair terms and unfair practices.

The CMA investigation focused on a few key practices and issues. One of those was the restrictions and limits placed on customers accessing funds in their accounts. For example, withdrawal limits, the approach to dormant account balances and wagering requirements around bonuses, as well as unclear conditions and unfair terms.

Following that investigation, the CMA handed the mantle over to the Gambling Commission to monitor compliance with



Consumer law in the gambling sector

- **Competition and Markets Authority investigation into online gambling (concluded 2019)**
  - Restrictions on withdrawing funds / dormant accounts / minimum withdrawal limits
  - Unclear requirements and restrictions in promotions
  - Operator discretion to determine "abuse" / "low risk betting strategies" and impose penalties
  - Compulsory publicity
- **Gambling Commission investigations and licence reviews**
  - Recent public statement (February 2022):
    - T&Cs not clear whether an attempt to return a balance is made
    - Right to amend bonus offers when a customer has already signed up
    - Significant conditions of a welcome offer not prominently displayed
- **Targeted UKGC compliance assessments**

the principles and the undertakings that a handful of operators had to enter into as part of that investigation.

More recently, we've seen consumer law issues crop up in Gambling Commission enforcement proceedings and licence reviews. In February, as part of the BetVictor licence review (which was predominantly around AML and safer gambling), we saw the operator criticised for not being clear in its terms and conditions about whether they attempted to refund a balance before the account was deemed dormant.

We're also seeing targeted compliance assessments in this area with the Gambling Commission trawling through terms and conditions and saying, 'Are you sure this is fair?' And there have also been recent targeted compliance assessments on things like refusing and delaying withdrawals and using AML checks as an excuse for that.

That's where we are to date but where are we going in the sector – and outside? Consumer law is likely to be next year's GDPR. At the EU level, there is a raft of new legislation in this area and EU member states are being handed fining powers of 4% of annual turnover for breaches of consumer law.

Obviously, that doesn't affect us in the UK, but in April 2022 the UK Government issued its response to the consultation on reforming consumer law and competition law, and proposed fines of 10% of global turnover for consumer law breaches. That would be a huge step change in the enforcement risk around consumer law.

Where are the regulators focusing their attention in consumer law? One new big area of focus is something called "dark patterns". If you haven't heard that buzz phrase before, then you will have seen it in practice. For example, when you're booking a hotel online and you get hit with lots of notices saying '500 other people have booked this hotel in the last week', '100 are looking at it now', 'there's only one room remaining, book now'.

When you sign up for a free trial of a streaming service, it's super-easy to sign up for it but when you try and cancel it, you may find that the link is buried in layers upon layers in the website. Or you sign up for a social media platform or a website and you get loads of prompts saying, 'Give us your mobile number; we'll only use it for account security,' or, 'Sign up for our newsletter.' It seems the only way to get rid of those prompts is to hand over data that you wouldn't otherwise.

"Dark patterns" are commercial practices, particularly around website or app design, which make consumers do something that they otherwise wouldn't have done.

There's obviously a fine line between great advertising and great online design on the one hand, and on the other, manipulative, exploitative practices that impair a consumer's ability to freely make decisions. Adam is going to give you some great examples of how you might see this in the gambling sector but I want to reinforce that this is an area that it's not just of interest to the Gambling Commission or the CMA with its consumer law hat on; this is an area that is being looked at by multiple regulators.

The Gambling Commission will look at dark patterns in wagering requirements, for example, and the ASA will be looking at this from the perspective of misleading marketing practices. The European Data Protection Board is looking at practices that force consumers to give consent or hand over more data than they really want to.

The CMA, with both its competition law hat and its consumer law hat, is tooling up with new departments looking specifically at this issue. At the EU level, dark patterns are being specifically prohibited in new draft legislation in the form of the Digital Services Act.

So having set the scene, I'll now pass over to Adam to tell you about the applications in the sector.

Adam Rivers: As regulatory economists, we do quite a lot of behavioural work. So when I saw the CMA publish its initial paper into online choice architecture about two months ago, I took a keen interest – and I was alarmed on behalf of the sector at the sheer volume of references to gambling that are present within that paper.

Before we look at that the paper, it's worth remembering that until relatively recently, when regulators were thinking about putting into place interventions in markets, they were assuming that consumers were rational. The emergence of behavioural science and behavioural economics teaches us that's not actually the case.

As consumers, we often make decisions that are bad for us. We act in irrational ways, but often – as shown through all the various academic research that's been done - these biases are systematic. We can track them over the time.

On one hand, that creates a slight concern because it means that firms could potentially exploit those biases. On the other hand, because we now understand them a lot better, the regulator can do a better job of putting in place measures to try and protect consumers, effectively, from themselves. We are seeing regulatory intervention on the increase, at a global level and in very specific sectors too, for example, the recent Consumer Duty being put in place at the FCA in financial services.

Turning back to the CMA's paper, what do we mean by 'online choice architecture'? This is the design of the online environment; it's how we interact with websites, whether that's web browsing, comparing options from shops, or playing with an online gambling operation.

There are particular features within online choice architecture that influence the consumer's choice differently relative to land-based settings. Firstly, some of those systematic biases can be exacerbated in online environments. Secondly, there can be more impulsive behaviour. We've seen politicians speak to the fact that casinos are now 24/7 in your pocket; that simply wasn't possible 20 years ago.

Businesses can increasingly use data to optimise and personalise interactions with customers and put in place so-called nudges that make us take decisions that we wouldn't otherwise take. What might previously have been product recommendations from friends down the pub is increasingly commercialised through platforms like YouTube and TikTok telling us what we should be buying.

How does the CMA, as the main UK consumer regulator, intend to start investigating with its regulatory remit? It put out a paper two months ago around online choice architecture and classified 21 commonly-seen practices into three categories.

The first is choice structure: how choices are presented to consumers. Second, choice information: the information that we have when we're looking through those choices. Third, choice pressure: that some of that information might nudge us to do things that we wouldn't have done were it not for that information being provided.

Before I apply some of the common practices to the gambling sector, there is an important caveat. 'Choice architecture' itself is a neutral term. So whilst there is emerging evidence to suggest a number of these practices can lead to harm, it doesn't mean that they are all intrinsically harmful. In fact, quite a few of them can be used for real positives, for example, reducing the friction in responsible gaming tooling to create a better customer experience.

The CMA's detailed body of research that sits behind the summary paper, however, references gambling something like 65 times. In my view, they see the gambling industry as a market where these sorts of practices are highly likely to be susceptible to being harmful relative to others.

In this presentation, I've identified nine practices that can be found in the gambling

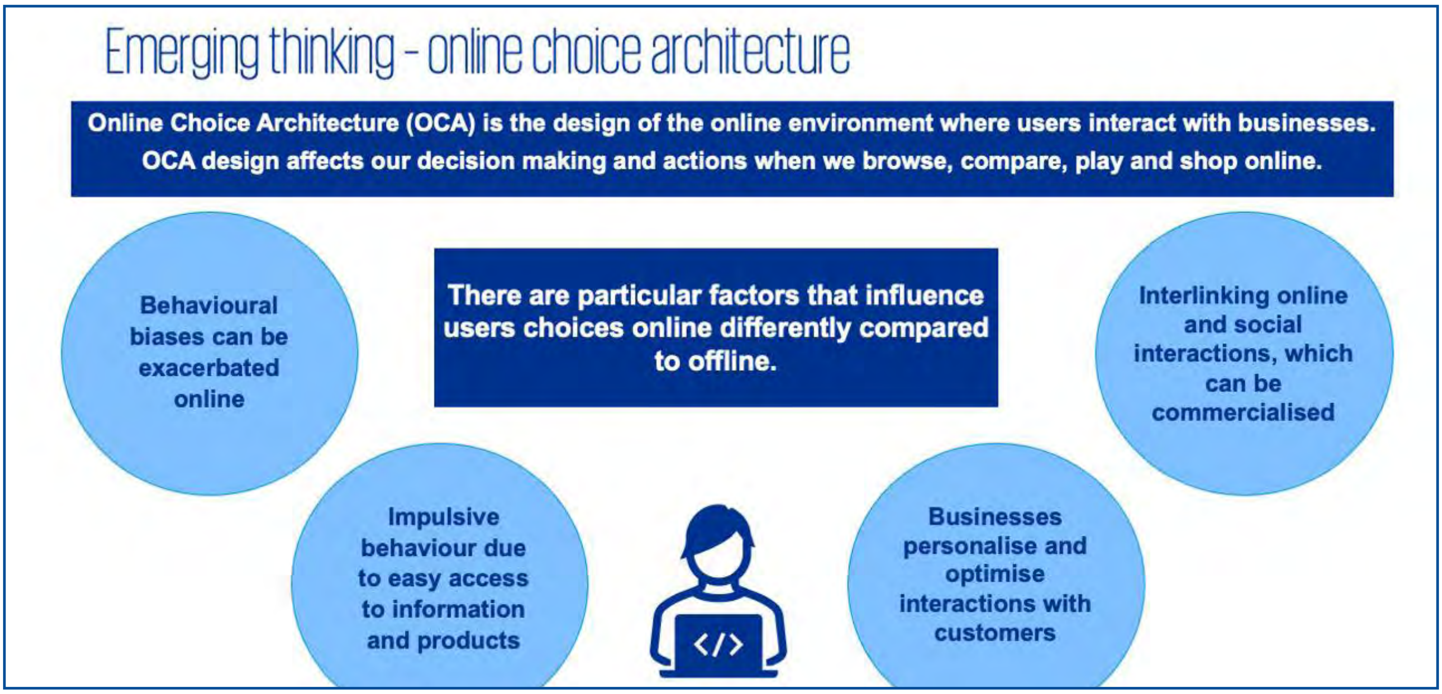
market, some of them already the subject of academic research that shows they intrinsically have the potential to cause harm. Not necessarily that they always do, but they have that potential.

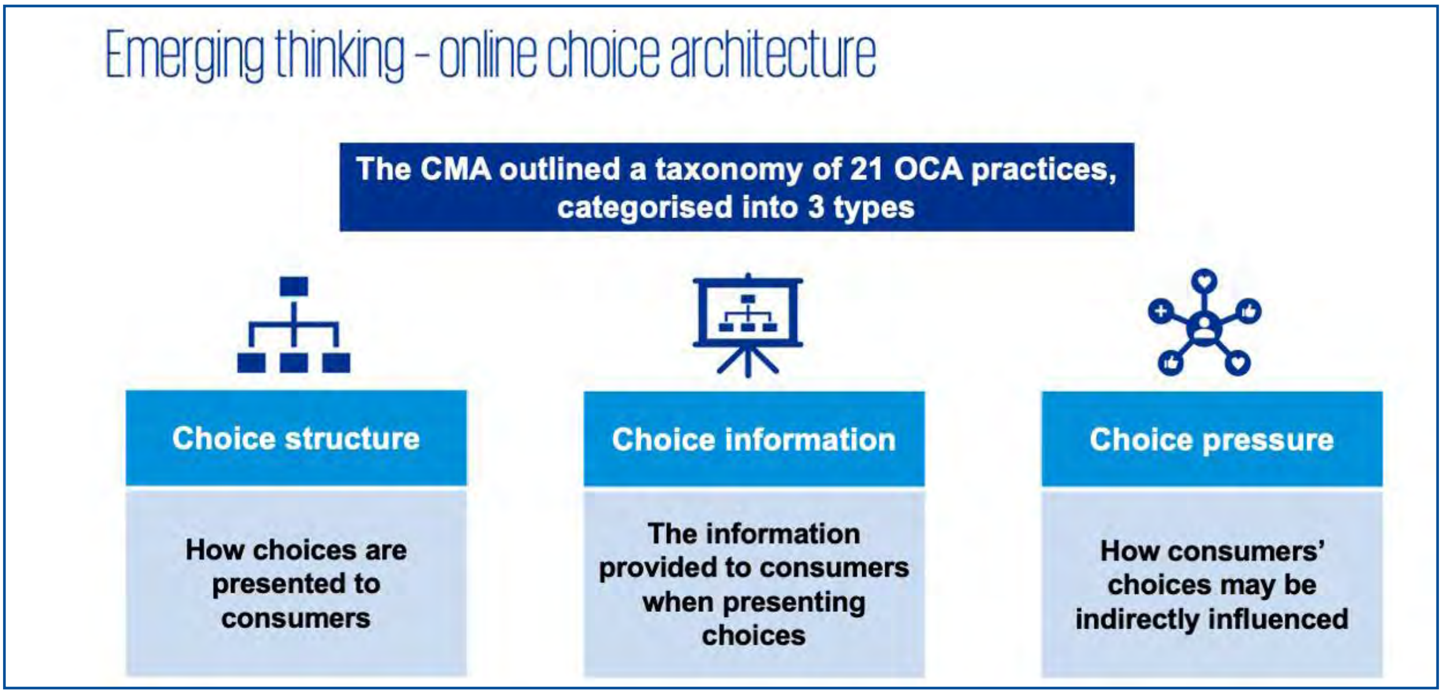
For example, defaults.

As consumers, we are poor at applying effort to make decisions – we're all inherently lazy. So when there's a default setting applied on your account, and it takes effort to go and change that, and a lot of consumers don't. There's a range of literature that shows that this can lead to poor outcomes.

Starting with the CMA's choice structure category, the three practices I'd like to look at today, in the context of gambling, are dark nudges, choice overload and sludges.

A dark nudge is simply removing friction to get a customer to do something they wouldn't have done had that friction potentially been there. In the CMA's paper, it speaks about dark nudges being especially prevalent in the gambling industry, through things like the use of electronic machines in casino premises removing the friction of going to the cashier and getting your chips, making it easier to gamble. It cites online gambling as opening society to a whole new dimension of gambling harms. It's not



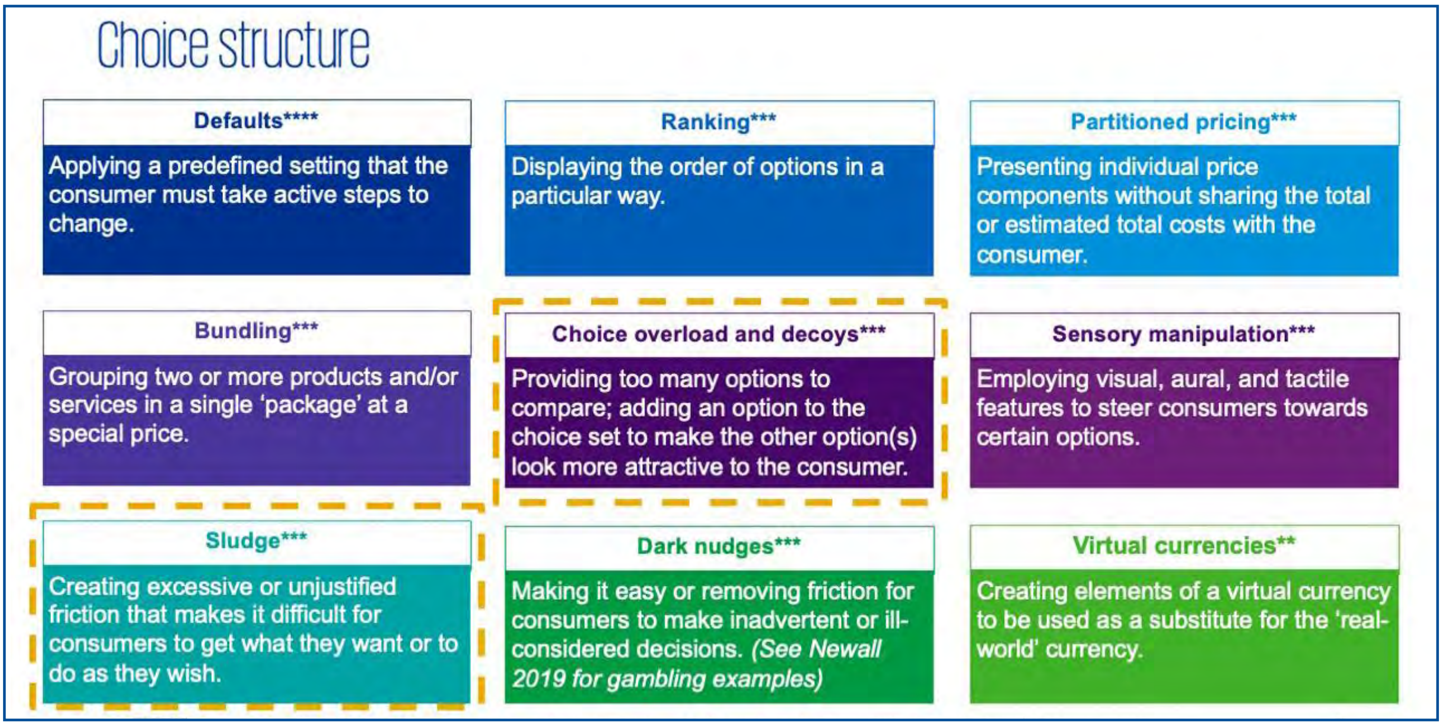


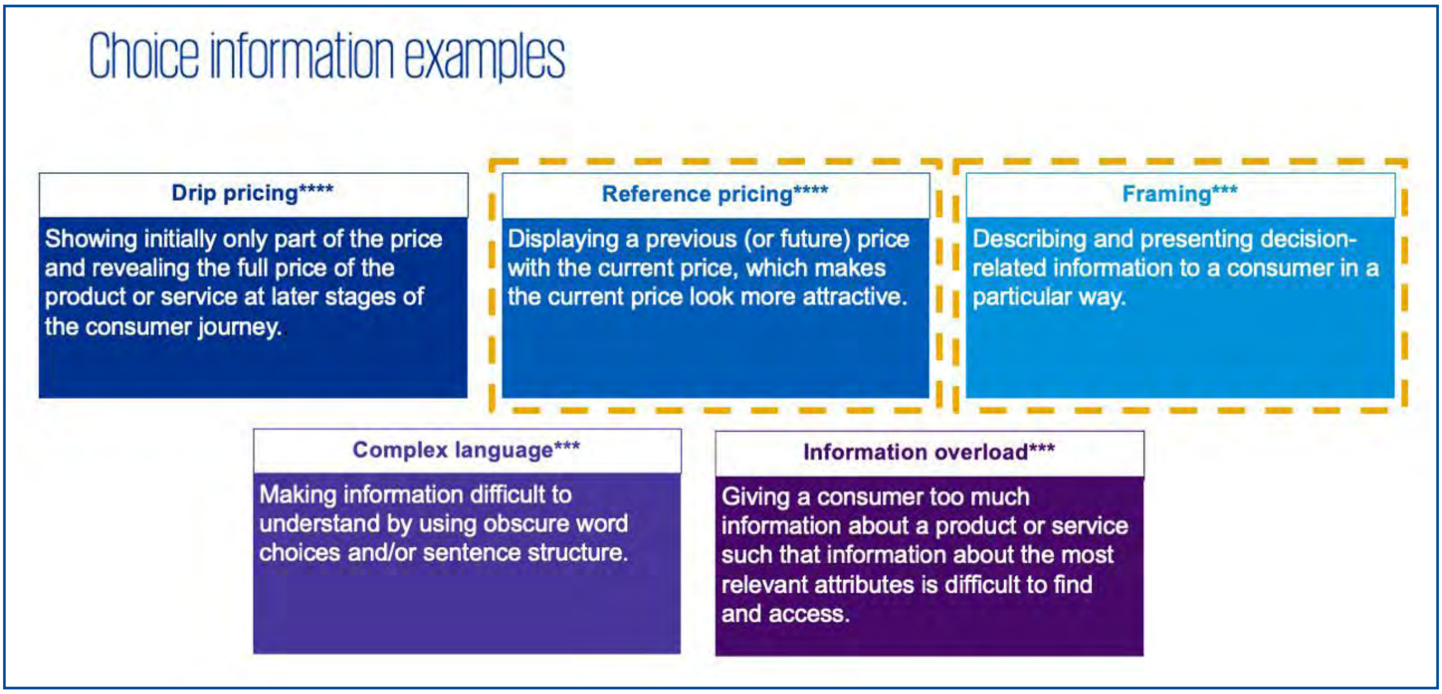
necessarily positive reading for industry, but it's what's currently out there.

Sludging is not new to the sector. When the CMA undertook its investigation into online betting and gaming promotions, they were looking at onerous friction placed on customers in order to get outcomes that they wanted, and they saw that as unjustified. Hence we had all of the changes and the CMA/GC letter that ended up going out to operators saying how promotions should work.

The final example under choice structure is that of choice overload. Quite simply, we find it very tricky to evaluate lots and lots of options at once. So, when we're presented with too many things to pick from, potential harm arises – we could end up making a poor decision relative to a scenario where we had a bit more time to make an informed choice, or had the sort of information that would allow us to make that choice in a more informed way.

The choice overload example in the CMA's paper is of a bookshop. It says, 'When you've got all these different books to choose from, all the star ratings and different prices, it's very easy to





use your heart instead of your head to take a shortcut and make a choice that's potentially poor.'

It made me smile because if you compare this graphic to an online casino lobby and slots, they look quite similar. Interestingly for the sector, the CMA also points out what potential remedial action businesses might be able to take in order to help these biases leading to poor choices. In this one, in particular, it talks about personalisation algorithms and the fact that you can get to know a customer quite well, understand their own choice preferences for them and then serve up content that's most relevant to them.

I find that particularly interesting because personalisation is also talked about as a potentially bad thing in the sector, with the hypotheses being it can force or create gambling opportunities that wouldn't be there but for the personalisation. So clearly this is a very tricky line for industry to tread, as and when it does start getting questions from the regulator.

Moving to choice information practices, there are a few examples which are seen as intrinsically harmful. Things like drip pricing. You may remember airline cases where you started out with a 99p flight and by the time you reached the end of the journey, it was £50, for example.

There are a range of choice information practices that are relevant to this sector. The first is framing: the way in which information is framed to a consumer can have a significant bearing on the likelihood of them taking a certain action.

In May this year, the ASA put out a ruling against SkillOnNet Ltd that owns the PlayOJO casino brand, and it was an adverse finding against a new mechanism that they had put in place in relation to their slot lobby. This was a "hot or not" feature: using flames or snowflakes to tell the consumer that this slot has paid out more than the expected average in the past hour than the mathematical expectation, or these slots are running particularly cold, they're not paying out at all.

The concern was that the advert may infer to the player: maybe if you played the hot ones, you could be the one to continue that streak, or play the cold ones and it's due to change. That is, of course, preying on one of the most famous behavioural biases in the academic gambling literature: the gamblers fallacy. Consumers really struggle to disentangle the fact that events are independent. When we walk into the casino and it's been black 10 times in a row, that has no bearing on what the 11th spin is going to be, but many consumers feel it does. This sort of mechanic plays on that bias and the ASA has now said you cannot advertise like this.

Some of you might be wondering what does that mean for the land-based casinos that have hot and cold numbers? I think there's an interesting debate to be had as to whether or not we are going to see that in the next five to 10 years.

One important point is that there is also positive framing and that, of course, can help. Taking lessons from behavioural literature and applying them to things like your responsible gambling tools can make it more of a positive experience. The literature shows it could encourage take-up. So perhaps when we're thinking about the recent customer interaction guidance, it's worth bearing this in mind.

Another practice is reference pricing. We love a bargain and cannot get away from anchored pricing. When you go to buy your new TV and it's £700, down from £1,000 you think, 'Oh, £300 saving.' This sort of thing has been around for a long time and perhaps you know, in reality, it was only £1,000 for a couple of weeks, but you still find it quite difficult psychologically to get away from that anchor that's created.

The reason I've brought it up in the context of gambling is that there is a relatively new type of betting option to a consumer around price boosts where the industry is advertising to customers explicitly 'the odds were 3-1, now it's 10-3, what great value.'

Again, I'm not saying these are necessarily intrinsically harmful, although it is interesting that they're being done on doubles and trebles where the human brain struggles even further to try

and compute the true odds. It will be interesting to see how the industry starts pulling together evidence to show why this type of thing doesn't create unintended consequences.

From a legal perspective, I understand that it's imperative these aren't misleading. So if you're currently doing them and only advertising these prices for split seconds, you may want to revisit that.

Finally, choice pressure: where information is provided to us that really pushes us to take certain actions. Again, a few examples relate to gambling and commitment is one that's explicitly cited in the CMA report. It cites here the use of bonuses committing the player to future action, and it also cites feedback. The negative it cites is losses disguised as wins, where you get feedback 'well done, you've won 60p' when, in reality, you may have staked a pound. We know now in the UK that's not permitted.

But I think there are some really positive ways that the industry can be using this sort of mechanism as well. When I logged on to my online gambling account the other day and I went into the banking tab, it instantly gave me my profit and loss. That positive provision of information may be a good thing.

Another practice is scarcity. Where markets are scarce, we have a very strong inbuilt bias to think we should buy now. We don't like the feeling of regret. So if I go online to buy a jacket and it says there's only two left, I will much rather buy it now than risk it not being there in the morning and wish I'd acted earlier.

That's really interesting in gambling settings. A relatively new piece of innovation that I think is potentially quite an effective product is must-drop jackpots: prizes that have to go in the next hour or next 24 hours. They are playing on that same behavioural bias. It's worth thinking through the way these are advertised and marketed and how the data shows consumers are playing with them, and whether these won't be seen as problematic in the future. Again, I'm not saying they are; just food for thought.

Outside of the practices themselves, there are a couple of further considerations worth mentioning. The first one is very important: vulnerability. The CMA is explicit in its paper that these types of practices get exacerbated with consumers that are seen as potentially vulnerable. Again, the paper explicitly references the gambling sector, saying that this is the sort of area where vulnerabilities are more likely to exist.

The new Gambling Commission guidance on customer interaction has an entire section on vulnerability: it has a specific section about complex products and how vulnerable people may struggle to understand those. It's all playing on this same area. It didn't say it's about choice architecture but, effectively, it is, so worth thinking through.

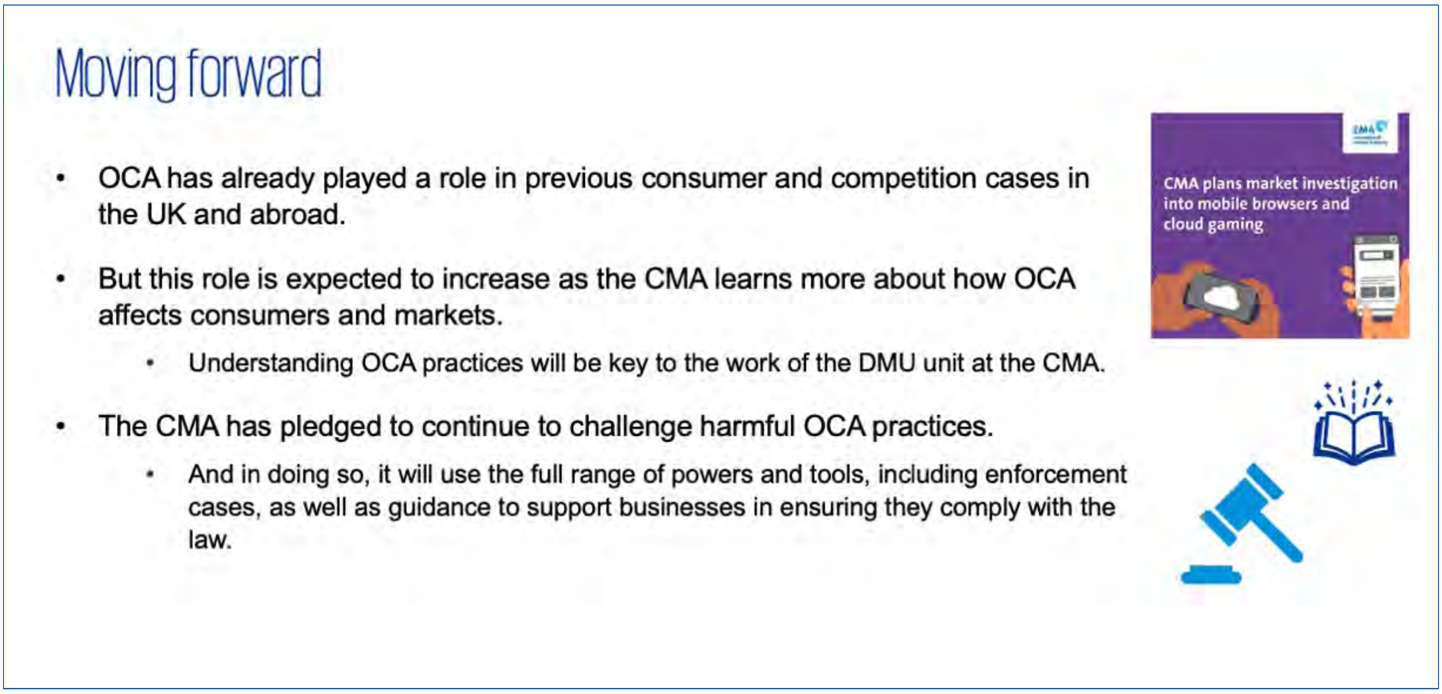
The second consideration is algorithms. Again, the CMA says that when you're jointly employing these techniques with algorithms to refine and optimise them, that can exacerbate some of these potential harms.

Looking ahead, the CMA is explicit that it plans on increasingly investigating going forward The CMA already cites gambling as being a key case in the past and says it is going to start opening up more formal sector-wide investigations on the prevalence of these practices. So, without wishing to scaremonger but given the volume of references in this document, it would surprise me if gambling operators don't get a knock at the door at some point soon. Over to Anna.

Anna Soilleux-Mills: It is important to understand this is not just about terms and conditions. Terms and conditions are an important part of it, but it's about the entire customer journey from the advertising that they see that leads them to the website, to the onboarding process and all the commercial practices that go on behind the scenes, through to the transaction itself and the customer service support. It needs to be looked at from a holistic perspective.

Much like with GDPR, where there was talk of a "privacy-by-design" approach, we're moving to a "fairness-by-design" approach. What that really means is this is a multidisciplinary practice: you need your lawyers and compliance people involved, you need people like Adam who can analyse the behavioural impact of some of these practices, as well as your commercial teams and your website designers.

Consumer law, including dark patterns and online choice architecture, are areas that are getting increasing scrutiny from multiple regulators at a time when those regulators are being handed significant fining and other enforcement powers. It is something, at the very least, to keep on the radar and be mindful of.



Leaders & Legends

Moderator: Micky Swindale

KPMG

Panellists:

Edo Haitin Managing Director, Playtech Live

Shay Segev CEO, DAZN

Vaughan Lewis Chief Strategy Officer, 888 Holdings

Jo Whittaker CEO, Betfred

The operator panel is always a highlight at the Gibraltar eSummits with delegates gathering to hear key players in the eGaming world give their views on both current issues and developing trends. This year's session – renamed Leaders & Legends in honour of Continent 8 Technologies, the longest and most prolific supporter of these events and sponsor of this eSummit report – was moderated by Micky Swindale, founder of KPMG's eSummit series in 2010, and saw the discussion addressing a wide-range of hot topics in the industry.

Click here to watch the Continent 8 Technologies Leaders & Legends session in full.

Micky Swindale: The industry is waiting with bated breath for the UK Government to publish its Review of the 2005 Gambling Act and to see what impact that's going to have on the market. It seems almost certain that there will be more stringent regulations around responsible gambling with player affordability front and centre. Whilst safe gaming, clearly, must always be the priority, some are raising concerns about over-regulation and whether it will make the markets unviable for smaller operators. With the UK seen as a regulatory benchmark for others to follow, ripples of change to the Gambling Act are likely going to be felt far and wide. What changes do you expect to see as a result of the UK Government's review; what impact do you expect those changes to have on the market; and how are you preparing for them?

Jo Whittaker: My first comment would be that we just need to know what's coming. It's hanging over us and we need to move on. As an industry, we're agile, we evolve.

We've already heard some speakers talking today about what's expected. They are probably better informed than me but we'll possibly see stake limits on slots, affordability, the levy – I hope they take into account the higher fixed costs we have in the retail sector – and an ombudsman.

How are we preparing as a business? We started off with panic: analysing and looking at data, looking at impact to the P&L. We've got past that now. We had a significant hit on retail when the FOBT changes came in but we survived.

If you talk to Fred [Done, owner of Betfred), these legislative changes come in cycles. They are always serious. He'll quote the National Lottery coming in: he thought that would be the end to the business. It hit us for a small amount of time and then we recovered.

So, for our business, we're watching and we will respond. I hope we're given time to implement the technology changes that'll be required. I hope that we can consult on affordability, although we've been saying what we think for a long time and BGC have been doing some great work there. It's now just wait and see from our point of view.

Vaughan Lewis: We all know it's an incredibly complicated area, and listening to Adam and Anna's session [Choice Architecture] they really highlighted some of the dilemmas about making an amazing product for the individual through personalisation and must-drop jackpots that are really exciting for the player.

Getting it right as to where that tips over from real personalisation, enjoyment and promotion of great new products into something that becomes exploitative is the really challenging bit that this new legislation is trying to address.

Like Jo, we just want clarity about what the standards are that we need to meet. Once operators have that clarity, we'd back ourselves to provide great customer experience and great safety within those standards.

There may be some sort of reshaping – a change in the structure of the industry that results from that – but that will then enable everyone to get back to focusing on delivering great products and experiences to customers, building our brands and building that long-term relationship with our players.

That's where the real value of the business is. We want players to stay with us, to say, 'I play with 888 or I play with William Hill because they've got a great range of products, they really look after us and they're not exploiting us.' We want that long-term relationship where they keep coming back to us and keep playing with us.

There will be changes here. We are well-planned for it and we're hoping that clarity allows us to move to the next stage.

Edo Haitin: I fully agree with what's been said but, coming at it from the provider angle, it's a bit different than the operator's angle. We are operating around the world in almost every jurisdiction and every regulatory environment, and we've seen it all.

I do think that it's in the product to solve it: it's in the product to serve the right experience for the players in the way that the regulator sees they should now play. We need to equip our clients, our operators, with those products to solve that.

On the flipside, as a big provider, I definitely feel for the smaller ones who are trying to enter the market. Small start-ups who now don't know what they should be aiming their products at when there could be something coming that's really influential to the roadmap and to their investment.

The regulators should bear in mind that there are companies that are trying to make their first move and they are relying on what the state of play is now. They need the information, while for companies like Playtech it's pretty straightforward to adjust.

Micky Swindale: Gibraltar has long considered itself a leading jurisdiction for gaming businesses, whether that's operators, suppliers or affiliates. But, with the way the market is changing and how rapidly market conditions are changing, all of the jurisdictions are having to adapt very quickly. That includes not only reviewing their own requirements but also helping licensees and businesses within their borders to navigate what are becoming fairly choppy waters. Those choppy waters were very much in evidence last week with the FATF announcement of the grey listing.

Shay, as someone who has chosen to base themselves in Gibraltar and is now choosing to make a very significant business decision about Gibraltar, perhaps you could tell us why that is, and what are your plans for DAZN?

Shay Segev: DAZN, for those who don't know, is a media business in the space of sport. It's a big business, we are aiming to close this year on $2.5bn revenues and pretty much double it over the next few years. It is growing very fast.

DAZN is a big sport streaming platform: it's a massive brand in countries like Italy, Spain, Japan, Germany and a few other markets as well, that buys premium rights and streams them, similar to what companies like Netflix are doing.

One of the opportunities we have in DAZN is to transition the business from a streaming business to a sport entertainment platform. This is what we are doing now, which also fits with where gambling is going as a market. If you look over the last 15-20 years and the transition that gaming has gone through, it's clearly moved from being very focused on high-value customers to becoming a much more recreational mass market.

Regulation and player protection regulation – of which I'm very supportive – is only going in one direction. That's very good for the industry, making it much more sustainable and fair.

One of the things I was doing before I left Entain was to try and work more closely with the regulator and be even more supportive of this process. Even if we lose some revenues in the short term, I believe that, long-term, it's much better for everybody to become a more sustainable business.

With DAZN, the opportunity is to remove frictions for customers to watch their favourite sport, to socialise with their friends, to bet and to do everything else, on a trusted platform. This is a quite exciting journey. A month ago, we announced that DAZN is also going into betting with the launch of DAZN Bet and we chose Gibraltar as the hub for that.

Being based personally in Gibraltar for the last six years, this jurisdiction has been amazing both in terms of the Government support in infrastructure, the ability to set up yourself here and it is clearly very respected in term of regulation. We find talent here too. So it was a very easy decision for us to set up DAZN BET in Gibraltar. We are now set up with an office holding 200 people here, and hope to launch DAZN BET before the new football season begins.

Micky Swindale: Vaughan, we've seen a real wave of M&A activity crash over the sector and you're no stranger to these. With no sign of mega-deals slowing down, could now be the right time for smaller operators to push mergers and acquisitions? What makes an attractive acquisition target and what can businesses do to put themselves in the running for a potential acquisition or takeover?

Vaughan Lewis: Ivor Jones talked earlier about the evolution of the industry and how the value chain is being driven towards those really large-scale operators, distributors and providers that have scale benefits and the capability to distribute globally through unique distribution channels. We're not seeing any slowdown in this trend of mega transactions: we've been through multiple waves of M&A getting bigger and bigger.

We're closing a £2bn transaction next week. That seems relatively small in the modern world. Just before Christmas, Flutter announced a $2bn transaction and didn't even have an investor call to explain it: it's like a bolt-on for them now. A few weeks ago, MGM announced the LeoVegas deal for $600m and called it bite-size. So we're definitely into a new phase of the industry where these huge businesses have been created, huge value has been created, and that is starting to really drive that M&A cycle.

At the medium and smaller end, we're still seeing a lot of activity. If we think about what drives the value, there have been a whole number of transactions recently in the last few weeks, such as Entain and BetCity and Evolution buying Nolimit City. Typically these all have one or more shared characteristics. Unique products and content that you just can't get elsewhere, that you can't create quickly enough. Unique access to markets, whether that's licensing and a difficult licence to get, or a unique position in that market. A really strong local brand, strong loyal customer base, access to omnichannel, potentially access to unique customers through media convergence and streaming, and so on. So those type of unique access to attributes that drive outsized value are where the real focus of future M&A will be.

For smaller operators who want to put themselves in the running: think ahead a couple of years, plan what the business could look like with those unique characteristics, what KPIs you would need to show and what you'd need to demonstrate to really prove those unique characteristics and that value. Then work backwards from there. That's how I'd think about it.

Micky Swindale: If the pace of M&A continues or perhaps even increases, which seems quite possible, many observers feel that the market is going to become increasingly concentrated. That was picked up by the UK regulator at the recent Westminster Media Forum conference where they talked about the big four businesses now accounting for over 50% of UK market share. That will allow those companies to leverage the advantages of scale when it comes to technologies, talent and market access. But will that change the make-up of the market and, in particular, how might it impact consumer choice?

Edo, what impact could this level of concentration have on the market and would it ultimately benefit the player or will it impact choice and lead to an industry that no longer has to push for innovation or keep improving the player experience?

Edo Haitin: My own personal opinion is that the future of entertainment cannot be controlled by big companies and will not be controlled. We see today the biggest entertainers in the world are people that pick up a camera, stream it in YouTube and gather tens of millions of followers. They become the big forces in entertainment.

Whether buying out companies will block others from getting into the entertainment game, whether others will be able to participate in the competition, I don't think that picture is going to change. Yes, we see fields like the soft drinks market, for example, where there is consolidation and we see one favourite drink, but there are others.

The quality of entertainment and the nature of entertainment is so fluid, we enjoying seeing one thing now and in five years we will see something completely different. We will consume it differently. We will be interested in different things.

Once you deal with video and content, you really pay attention to those things. We look at the market and what's in front of us: obviously, we see our immediate suspects in terms of competition, but we look more at what's going on in the side-lines, what's going on in content creation, in places that do that just from understanding what people want to see.

Consolidation definitely blocks the immediate entry for companies but I don't think it will impact the variety and the versatility of the product that we are offering or that is offered on the market generally. I think the first one that thinks like that will be on the way down immediately.

Shay Segev: Clearly, consolidation will continue as this industry becomes more mature. In the UK, it would probably be an almost kamikaze strategy for anybody to try to enter the UK market as a new operator. It's so competitive and the barriers to entry are so high in terms of regulation, what you need to do, and the cost of customers that you don't see many new entries. Then you see consolidation because everybody is trying to enjoy core synergies on technology, marketing, and everything else, like the recent 888/William Hill potential merger. I don't think it will abate.

In other markets that are not as mature as the UK, like the US where you still have a lot of different small brands trying to come in, it's very obvious they this will go through the same cycle as well. Perhaps getting to three, four or five brands in the US at some point, like DraftKings, BetMGM, FanDuel, and maybe one or two more.

It's a natural thing as the market is growing: it's very easy to go and take a small piece. When it starts to slow down, then you're looking at consolidation on costs.

The other cycle is that there might be consolidation between industries. Suddenly, betting or gaming which might have been thought by some as very unethical a few years ago, I think even companies like Amazon and others at some point will start looking into it.

In the US, perception has changed as well. ESPN, for example, has said a few times that Disney is looking into it. So you can see where it's probably going the next 5-10 years, where there'll be some level of other consolidations as well. MGM is a good example, too.

Edo Haitin: I think Shay and his company DAZN, is representing exactly that. When they launched, ESPN and Sky Sports were very established. You start to understand that people want to acquire the services, acquire the entertainment and the pastime activities.

Ultimately, we are a pastime activity and we should look at ourselves as that. It's profitable enough not to aim to be a gambling activity but a pastime that gives value for the players.

That array of services – and the array of ways to serve those services – is going to continue and develop. We are still in the very early days.

Micky Swindale: M&A has been a big focus of our discussions today but the other big focus, in common with the wider business world, is recognising the importance of ESG. Several in the sector have already taken strides along the journey to a more sustainable, responsible and resilient organisation. Jo, where is Betfred on that journey and what do you see as the key ESG risks, opportunities and KPIs for the sector?

Jo Whittaker: We're a family-owned – and we were a family-run – company up until I was appointed. We had a joint chairman/CEO role which we've recently separated. So we've been on a journey around corporate governance for a long time and we are constantly evolving.

For us, player safety and customer centricity are key values. These can be easy terms but they go back to this need for clear language. It's too easy in our sector to get caught up in the compliance language where emails written by compliance departments to customers, or for FAQs on a website, might mean something to one person in our organisation but are meaningless to anyone else.

On player protection, we do not want problem gamblers. I think we're doing really well as an industry. We welcome the White Paper: we'll work and support that but we're doing okay on our own. We're evolving, we're challenging everything that we do continually, and we always will.

The White Paper shouldn't be too prescriptive because this industry is changing by the day. There are new challenges and we need to be able to adapt and empower ourselves to address them and, at a corporate governance level, ensure that we challenge every element of the business.

Shay Segev: The last thing I was doing before I left Entain was launching two narratives in the business: one was sustainability and the second was growth. It has become very clear in the world in the last few years that it's not enough today to run businesses with a core objective just to make money and increase your EBITDA.

It's about how can you do a bit of good, how you make a sustainable, long-term business that is good with communities, good with customers. We have switched from just thinking how to maximise EBITDA in this year or next quarter to how to maximise EBITDA for the next 10 years.

If you're thinking about making a business sustainable for the next 10 or 15 years, then some decisions that make sense for the short term might not make sense long term around the people you employ, the products you launch, the equality, inclusion, and all of those things.

This is where a lot of companies are starting to focus: on the right thing to do. This is what we're doing now in DAZN, and I see many other companies doing it in the industry.

Vaughan Lewis: We've seen a dramatic change over the last five years in terms of the focus on sustainability and that shift from short-term profit to how we create a business that is fit for 10, 15 or 20 years' time, with all the stakeholders that go behind that: environment, regulator, people. We've got a three-part strategy – and we've still got a lot of work to do on this – that's around player safety; people (in terms of diversity, inclusion, growth, development, support, increasingly flexibility – and I think there was a big change on this during lockdowns); and then the environment.

We've just been through a Gambling Commission review process and had a sanction, and people across our business were shocked and disappointed by that. It was a real wake-up call for us as a business that those people that we need to build and grow the business and to innovate, they want to see real focus on safer gambling, they want to have clarity around diversity and inclusion policies and becoming more diverse, and they increasingly want to see those environmental policies.

So, as we think about how we build a great business for the long-term, those ESG elements -which a few years ago would have been still seen as quite soft and only for the regulator or the shareholders – are now really critical elements.

Micky Swindale: We've talked today about the challenges for operators in the UK market but the industry is thriving largely by looking into new markets and, in particular, North America has been very much the focus. Progress is really being made in Latin America, Africa, Asia and Europe and that presents some fantastic opportunities, but also some challenges, with operators and suppliers having to meet different regulatory requirements in different markets. It's also raising questions about how countries regulate online gambling. Is state-by-state and province-by-province really the most effective approach?

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Whether that's the case or not, operators and suppliers with global ambition are now having to prioritise compliance if they want to expand internationally. How challenging it is for you as operators and suppliers to be truly global? What does it take to do deals and be compliant with regulations in different markets around the world, and do you perhaps see a time when there's more harmony in regulation?

Vaughan Lewis: If you could wave a magic wand and have harmonised sets of regulations, tax rules and so on, that would be the absolute dream scenario for operators and suppliers. It would enable us to focus on product innovation and development, player protection, creating much better products for consumers and not spending that time tailoring the platform in each jurisdiction for the different tax reports. (It would be a total nightmare for a lot of people in this room who are lawyers, though, so it's not a win for everyone!)

We're one of the few operators that have a really global scalable platform that can operate in multiple jurisdictions. We have to tailor that to each of those jurisdictions. So if we look at the US states, the investment that is required to meet the local tax and disclosure regulations in each state and then some infrastructure sucks up a lot of time. It diverts a lot of attention from those other areas that could be much more productive in making great products and really looking after players.

Regulations, in my view, will probably never be harmonised because there are too many embedded incumbent interests that stop that. But the more that we can move towards standardised approaches, particularly in the areas of player protection, the better for all stakeholders.

Edo Haitin: The US is a good example because the regulation is not only about player protection, it's much wider. That separation between the federal laws and state laws, what's allowed and how you need to handle those: there are a lot of things that you need to understand and comply with.

Compliance teams definitely need to up their game. Every company that wants to go into those new regulations needs, first of all, to have a good structure and professional compliance people who are not there just to scare you but to direct you on how to develop your products correctly. Not to push the boundaries but do it in a smart manner that really allows you to create a business out of it.

If we take the US, specifically in live, we needed to create a studio in each state that we're in because of the Wire Act from 1961. When we started the journey of building the studios, I couldn't believe they made us do that and wouldn't allow us to just to build one big studio. Now that we've finished, I'm saying let's keep it, that's a good entry barrier for my competition!

Definitely, you need to embrace regulation. The more that you embrace it, the more you understand it and the meaning behind it, even if it's wrong. For example, in the live business, to have a studio in the state to which I'm catering the services, that's not optimal for me. That brings risks like collusion which the market is not mature enough to understand and we need to invest more to cope with those risks.

Once you understand the playground, you can really cater to that culture but it can be very difficult as a business moving into a new market to see how to make a return on the investment in that market.

Micky Swindale: Shay, you talked about the evolution of the sector towards broader media, and Andrew Rhodes also recently noted that the UK Gambling Commission is intently watching that evolution. From his point of view, whilst at face value this could be positive by creating business models that are centred on recreational play, it also potentially introduces new concerns around the gamification of media products. How should the sector navigate that challenge?

Shay Segev: Clearly, we can understand the potential risk of putting a product on which a consumer can spend more time and more money to broader audiences. It needs to be done in a responsible way.

But I do want to see the positive side and where consumer trends are going. If you think about your experience as children watching sport with your parents, there was always some kind of a ceremony before the beginning of a Champion's League match: you took out the popcorn, everybody gets ready, putting it on the channel. It was a five hour production that everyone in the family was watching.

But today's young generation are not like that. They come in and they watch it for 15 minutes while they're on TikTok, or on WhatsApp, with their friends. You cannot get their attention.

So, clearly, the whole entertainment and time consumption needs to change. The way we consume sport, it needs to be more fun, more interactive. I'm not saying that betting is the answer for that but I think it's part of it.

And that's exactly what we're planning to do in DAZN, to add more interactive experience while watching these things so it is more fun. Not necessarily watching with the classic commentary but having some influencer who is very cool, or someone who's doing rap, or a famous boxer giving the commentary, or your friends can be commentators as well.

Also, being able to place some casual bets. Clearly that needs to be done within the regulation and around best practices. Overall, it will be great to remove more friction for the consumers. It can also be great for the sport itself because the athletes and the leagues are suffering as well from a decline in some places in terms of younger generation watching that will impact budget.

What companies like DAZN are trying to do is to inject some energy back to the core business of sport and creating a bridge between existing generations who want to have a more laid back experience and the younger generation who want to have a more interactive experience.

Micky Swindale: Could we be in danger, with all of our talk of evolution of the sector, of losing sight of the high street punter? There was a lot of debate, particularly during lockdown, that people who traditionally would have gone to betting shops in person would go online and would never come back. Any truth in that rumour, Jo, or is retail alive and kicking?

Jo Whittaker: It was our worst nightmare during COVID. The shops closed and, yes, our online business shot to the stars and it was fantastic but the high street has fully recovered. We're really pleased with how the high street is performing. Customers enjoy the betting shop experience, they enjoy the social element. Long may that continue.

Shay Segev: This industry exists but you cannot ignore the fact that this is more of the past rather than the future. You wouldn't see new betting shops coming in; you'd probably see more of them closing and consolidating.

I do think there is an opportunity to try to reinvent the betting shop experience as well, something more like self-service and transitioning them more to entertainment centres. So, yes, there is something there but clearly it's not on the increase. Experiences are moving more and more to digital. Creating something which has some synergy between retail and online is probably the best formula.

Jo Whittaker: I both agree and disagree. I agree there won't be new shops coming but, at turnover level, the customers are returning and they want to come to the shops. Thankfully, our digital business has normalised but we're still in a much stronger position than we were pre-COVID.

I do think there is a place for high street. Yes, I agree SSBTs, yes, I believe in omnichannel but customers want to come in the physical environment. We're seeing that in other territories as well.

In our US business, our retail performance is strong in the casinos in states where we've got partnerships. In our South African business, we've got significant retail, though it's a very different retail offer: it's a much bigger footprint with 30-40 tills in a shop.

Levels of income are a lot lower in the areas where we are operating in the retail environment, but there is a place for retail. I accept all your points around digital but retail will survive.

Vaughan Lewis: Generally, as an industry, we don't do a great job of standing up and promoting the value of the products that we're selling. Retail is back to where it was, pretty much, because people love it: they go to the shops because it's a fun thing to do. They do it every week. They see their friends, they're generally friends with the people behind the counter and the shops provide a great experience, they're providing value and service.

It's similar with the convergence of media and online. If this is providing a valuable cross-sell/upsell service and providing something of value to those consumers, then that's great, there's no exploitation, there's no harm with that.

I think of it like any other cross-sell or upsell product. I'm sure there are a few people here who enjoyed the minibar in the hotel last night but you're not going to empty the minibar every night. When you go and fill up your car, you might buy a chocolate bar, but you're not going to do that every time.

So long as it is done responsibly and in measure, providing an extra layer of enjoyment and engagement with a sport, or with a game in day-to-day life down at the betting shop, we should all be quite proud of those services that we provide and that entertainment.

Certainly, for me, betting and gaming provides a huge amount of entertainment and enjoyment for my life. So I think betting shops are back: they never really went away, they were just closed because they had to be for COVID. But they're a core part of the industry and a core part of people's day-to-day lives.

Edo Haitin: I'll choose the middle ground here. Retail is back and I think people are also enjoying it because it was away for a long time. I also agree very much with Shay that reinventing them is an important thing.

Look at the circus industry, for example. People loved going to the circus, but slowly attendance went down. Then came Cirque du Soleil, they reinvented completely the experience of going to a circus; it's just in a hotel or in some kind of a different show, not in a tent. And you would pay even more to go to that same experience.

So I think that the retail offering will need to use self-service or other experiences that will drive traffic or attract people into the retail on top of the online experience which, let's face it, will only get bigger because we will get more platforms, we'll have more capabilities to make the players have fun. Retail will need to up its game than just be there on Main Street.

Jo Whittaker: Then, digitally, we all need to up our game and constantly evolve; it's no different. If we all stand still, we're yesterday's news.

Shay Segev: True. I'm also being asked a lot about whether live casino is cannibalising land-based. I'm always saying firstly, no, it's an extension of the business and, secondly, can we really replace the experience of a night in the casino? To some extent perhaps but, as a player, I would enjoy playing online but I would enjoy also going to the casino in the right environment. It's a mixture of them both, and the wallet that the player diverts to our services, whether they are retail, online or wherever we stream or provide them, will get bigger because, again, we're focusing on the experience of the players.

Micky Swindale: Over the past couple of years, the industry has made fantastic progress when it comes to diversity and inclusion. Some would argue that this progress is long overdue but momentum is really behind those efforts to ensure equality, not just for gender but right across the board. Edo, how has Playtech approached equality and are there any particular initiatives that you think are good to share with your fellow operators?

Edo Haitin: As a big public UK-listed company, we are, of course, engaging in a lot of official activities in projects that bring about inclusion and diversity and equal opportunities, and we are all the time investing in them and making sure that we apply them.

I represent Playtech Live, which is just over half of all Playtech employees, and we have a clear majority of women working in Playtech Live. I'm not referring only to the dealers; I'm referring to all levels of management, all the way to the top. We opened a studio in Peru last week and the Playtech Lima CEO is a woman named Sandra who started as a dealer and climbed up and now she's a CEO. Her COO is a woman and it's like that all across our organisation.

Sometimes people ask me how we achieved this at Playtech and I always say we have a great programme. But, in reality, we literally apply an equal opportunity approach, and we have found that abilities are equal in our field of work. We don't need to recruit especially women or men, or any other gender; we let it happen according to the talent and we insist on letting the talent decide.

The result is that we have a majority of women working for us in the management sector. I didn't aim for that and I can be popular in saying that we have great programmes, but in Playtech Live we are really focused on the quality of the people and their eagerness to work. It's very hard working in live: it's 24/7, you always need to be somehow connected to the business, there are no days that you leave it to the machine in all the management positions that we have.

In general, you should bear in mind that different sectors have different requirements. Whether it's because we have more female dealers starting with us because they are more eager to stand on a stage and be in front of a camera and then they just continue working with us and going up the ladder – I have never checked it scientifically. We definitely do not recruit from the outside people that have no live experience ahead of our own team. That's something that we definitely emphasize.

Shay Segev: Something that we recently did in DAZN was the launch of a big campaign called More Eyes to support DAZN coverage of the Women's Champion League across the world.

We spend a lot of marketing money to promote women's football, which is as good as men's football but hasn't had the right exposure for people around the world to watch it. This is not done to tick a box for women's equality; it's done with a sincere intention that there is a really good asset here on the rise, women's football, which is growing, and they just need to get the right chance to be in everybody's home to watch it.

We managed to get 50 million people around the world to watch the final of the Women's Champion League and we will continue doing it for the next four years with UEFA. So it's a great opportunity and it's done both for equality but also from a business perspective, as well, which is always the best thing to achieve.

Vaughan Lewis: Talent doesn't have a gender, or a look, or a style. Our approach is to ensure we're as open, diverse and inclusive as possible so that people can be themselves at work. They can be as relaxed as possible, focus their energies on productivity, engagement and enjoying themselves, hopefully.

As an industry, though, we know we've got a lot of work to do, so we're trying to force progress a bit more and have set a target that at least 50% of promotions will be female in our business. It's a starting point, we've got more to do on that, but what drives it, in my view, is the leadership and the culture from the top. The way Shay and Edo were talking about that is spot on.

Jo Whittaker: I'm slightly against percentages and quotas, personally. I just think the right person for the right job. Betfred has been very successful at that. We have significant female leaders in the business. We've just completed an acquisition of the largest gaming company in South Africa, and the management team there are four females out of five. It's great being in the room; I actually feel sorry for the guy…

For us, it comes naturally. Linking to sponsorship, we've been sponsoring Rugby League for a long time now, we're really proud to do that, and as part of that sponsorship, we were adamant it had to be the female and disabled rugby league as well. Just why would it not be? It's core to our values.

Delegate question: I'd like to ask the panel what they think relationship will be between online gaming and cryptocurrency in the next five years. Both generally and specifically, with regards to recent events, on affordability.

Edo Haitin: The link already exists very strongly now. A lot of people are playing with crypto.

My personal opinion, not Playtech's, is that we need to see what happens with the crypto market as a whole. What we've seen since the decline started is that people may be betting on it a bit more, throwing their crypto into gaming. I never like to see people throwing stuff into gambling, but I do feel that we're seeing an uptake in the use of that, a bit light-headed use even. So I think it will be used more and more.

NFTs are clearly an extension of prizes and of things that can be used within games if you talk about game creation, but it needs to be done in a well-regulated manner. There are extreme exchange rates and we would need to see that everything is being used correctly. There are a lot of sites in other operations that are just a bit Wild West with that, which is not good for the players, not good for the sites and not good for the industry. Nevertheless, it's a genuine form of exchange and we must adapt to include it in a better way.

Shay Segev: I'm personally a big fan of blockchain and crypto. What the Gibraltar Government has done here is great, with all of the regulation being advanced and making Gibraltar a hub for blockchain and crypto companies.

For me, cryptocurrency is just another currency. The problem is that it's probably easier to transfer cryptocurrencies between accounts and currency. It's the whole idea of the blockchain, without the middleman, which creates some challenges on the finance system.

On the gaming system, if you apply the regulation of AML, source of funds, KYC, et cetera, then I don't see a difference between someone depositing one bitcoin or $1; we should apply pretty much the same regulation.

What does blockchain mean for the industry? There have been some attempts to create some kind of decentralised RNG casinos. There are a few companies who have tried it. I'm not sure there is really a need for this, but there may be some application that we don't see now.

In DAZN, we have just launched our own NFT marketplace. Clearly, what NBA did was astonishing with NBA Top Shots, and a lot of companies are trying to do a similar thing. There will be some further links, I assume, between blockchain technology and industries like gambling but, right now, it's not very clear exactly how.

Delegate question: We haven't talked about diversity in relation to customers. Women participating at the same level of men is the perpetual untapped growth opportunity. Is it structural? Is there anything you'd do to fix it?

Edo Haitin: From a provider perspective, when we create games we look at who's potentially going to love them. We try to cater for all tastes, whether they are gender-related or other taste-related.

When you go around the world, you have cultures and games that are played in specific places. When you create a game, you need to make sure that you know what you are making, what the end result is, what the experience is and who the players are that might play that.

When you have a hit game, then it ticks all the boxes and it caters for most audiences, and those are the big games that we see around. In terms of inclusion in players, I don't think it's a question of gender; it's a question of what you enjoy, what you like, what's interesting for you. I think that's cross-gender completely.

Shay Segev: 888 had 888Ladies, if I'm not mistaken, to try to put the brand and the marketing around more female audiences. In bingo, clearly, most of the audiences are women as well. It is an upside, a potential to increase your market share around women.

Edo Haitin: The rise of the game shows, specifically the live, is definitely something that creates more women users. We see a lot of women playing them, but I see a lot of women playing roulette or baccarat. I don't think that there is any barrier for any gender to enjoy any games.

If you look at the US and the daytime gameshows there, there is this notion that a lot of women are at home during the day and are watching those TV gameshows. If you want to look at the US as a market, you want to tap into that availability.

I remember the days of 888Ladies, as well, and I don't think that now any of us would go in that direction. It really goes beyond that gender content now.


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