KPMG eGaming Summit

Isle of Man

3 October 2019


PORTFOLIO
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KPMG
eGaming Summit 2019
Celebrating the 10th KPMG eGaming Summit on the Isle of Man
3 October 2019

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A Word from the Sponsor

It is with enormous pleasure that we bring you this milestone report from the 10th anniversary KPMG Isle of Man eGaming Summit. As report sponsors, we have supported the KPMG Summit series since its inception in 2010. From the outset, we recognised the value in sharing the reflections, learnings and knowledge of key industry figures and creating a space for everyone to debate critical issues and developments as they happen.

At this Summit we had an opportunity to share our own story over the past 10 years and it was wonderful to look back and celebrate our own success with delegates. A decade ago we had built our Isle of Man Data Centre, of which we are still extremely proud, and since then our business has grown to more than 50 connected locations across three continents. Over that time, technology has continued to advance in leaps and bounds, leading to substantial increases for bandwidth usage and quality, along with a reduction in price. We continue to innovate with a wide range of products and services, embracing cloud technologies, managed services and combating the ever-increasing digital threats that are particularly prevalent in our sector.

The KPMG Isle of Man eGaming Summits continue to offer us opportunity to collaborate, innovate and to create the next 10 years together. The Isle of Man's success as a jurisdiction has been built on this co-operative and entrepreneurial spirit, and we look forward to the next 10 years with anticipation of meeting the many challenges and opportunities that the speakers have outlined in the day's sessions.

We hope you enjoy reading the report and it gives you food for thought for the next decade in the Isle of Man's eGaming story.

Michael Tobin

CEO & Co-founder, Continent 8 Technologies

Contents

Micky Swindale

Chief Executive Officer, KPMG Islands Group

"Ten years ago, one of the key steps we took to position KPMG as the preferred provider of professional services for the eGaming sector was the launch of a thought-leadership event focused entirely on this sector. We did so in this very room on 23rd November 2010, where we were supported by the Isle of Man Government, who have maintained that support throughout the 10 years since then.

Of course, if you had told any of us at the time that we would be here now running our 10th event both in the Isle of Man and also in Gibraltar next May, we would have said that you were mad. The fact that we are here is testament to the way the industry, all of you, gathered around this event and supported it… as speakers, as panellists, as sponsors and as delegates."

KPMG

KPMG eGaming Summit Welcome Address

The Hon. Howard Quayle MHK

Chief Minister, Isle of Man Government

Firstly, I would like to congratulate KPMG on their eSummit series. This year's theme - 10 Years of raising Standards Together - is a true demonstration of shared dedication and commitment to the sector and to the highly regarded reputation of the Island as a place to do business. Events like this, where industry visionaries, government representatives and business leaders are all brought together, help us to recognise the real challenges and opportunities we face both as an Island and as a centre of excellence for eGaming.

When the first Isle of Man eGaming Summit was held in 2010, the Island's eGaming sector looked very different. During that year eGaming accounted for 9.1% of sector share - a 41% growth on the year before - with our overall economy standing at a total GDP of £3.35 bn. We will shortly be releasing our latest National Income Report and I can announce that, today, eGaming now has a 21% sector share. When combined with our other digital industries, that figure increases to over 30%.

Furthermore, the soon to be published National Income Report shows our overall economy is now over £5bn - that's over 60% growth since we all sat in this room for the first KPMG eGaming Summit and a 3.6% rise in real terms on last year. If you compare that with other jurisdictions nearby they would give their eye-teeth for that, given the uncertainty of Brexit.

Over that period we have had nine years of consistent growth and the eGaming sector has doubled its share of contribution to GDP. Of course, it's not just about GDP. In 2010 we had 22 licences, now our current licences stand at 43, almost double the amount in 2010.

We know, of course, that it has not all been smooth sailing. There have been both local and international challenges that we have had to navigate, yet we retain a strong and confident economy and eGaming has remained one of our shining stars.

Whilst for many parts of the world, eGaming is still a developing sector, for the Isle of Man it is now a mature sector, focusing on extending core business and looking for new opportunities for growth. But we do recognise the landscape has changed, and will continue to change.

We've seen changes to the regulatory, licensing and taxation model, and to our customer profiles. We've seen job roles evolve and we've witnessed huge technological shifts. And in response to these changes we've continued to adapt. In 2015, we licensed our first esports betting company - we now have three esports companies established on the Island. Also in 2015, we brought in digital currencies under the AML and Proceeds of Crime legislation - 42 companies have since been registered under this model.

In 2017, we licensed the first operator to offer skins betting - who would have ever thought that would be a reality! Again, in 2017, we licensed the first ever blockchain-powered lottery.

In February this year we launched our new Business to Business software supplier licence, the first being granted in May. Last month we awarded the first blockchain Business to Business token-based licence, combining both of these new initiatives.

These illustrations of our evolution prove time and time again that the Isle of Man is a forward-looking and welcoming jurisdiction to online gaming businesses and their ancillary network of support and digital businesses.

"Whilst for many parts of the world, eGaming is still a developing sector, for the Isle of Man it is now a mature sector, focusing on extending core business and looking for new opportunities for growth. But we do recognise the landscape has changed, and will continue to change."

Yet while we offer a safe and secure home for our local businesses, we understand that there are challenges globally. Around us we see daily announcements of unprecedented political instability.

Occupying our immediate minds is of course the uncertainty around Brexit but we are doing everything we can to prepare and keep you informed of developments. We've updated all our guides and continue to work with individual businesses and sectors as a whole to ensure we are as prepared as we can possibly be. And, as Chief Minister, I am regularly away visiting senior politicians ensuring that the Isle of Man's voice is heard.

We have also expanded our popular Business Improvement Scheme to encourage local companies to access external consultancy support to help with Brexit planning, should it be required. And throughout all of this our economy is confident.

The results from our most recent business confidence survey continued to be encouraging with 92 per cent stating they would recommend the Isle of Man as a good place to do business. When asked what was the greatest advantage of doing business in the Isle of Man, over a third of respondents stated the business environment and community, and a quarter said the quality of life.

> "We have expanded our popular Business Improvement Scheme to encourage local companies to access external consultancy support to help with Brexit planning, should it be required. And throughout all of this our economy is confident."

This hasn't happened by accident. Against all these challenges my administration set out a commitment to grow the economy and to create the right environment through becoming "an island of enterprise and opportunity". We initiated the review of the Department of Economic Development that brought in the executive agencies under the restructured Department for Enterprise.

We launched the "Locate" strategy to increase inward migration, with two consecutive quarters of growth in the economically active population since the launch this year. We have reviewed our High Net Worth proposition and, as a result, are in the process of relaunching a stronger campaign focusing on this important area.

We have listened and we will continue to listen to make sure businesses such as yours have the right environment to succeed. You asked for planning reforms: we've now completed the first stage and will continue to simplify and streamline the process. You asked for work permit reforms: we radically overhauled and simplified the whole process.

You asked for healthcare reforms: we provided a fundamental review of the Island's health and social care system and are now embarking on a major transformation of our health system. You asked for Telecoms reforms: since the last eGaming Summit, our National Telecommunications Strategy was unanimously approved by Tynwald and is now being implemented. We are at the final stages of appointing a partner to accelerate the rollout of fibre broadband to the whole Island. By the end of this year we expect 25% of premises will have access to ultrafast fibre broadband – at no cost to the tax payer. Work is also underway to provide two new fibre routes via subsea cables, again, at no cost to the tax payer.

And while we support our businesses at home, we remain acutely aware of our global responsibilities.

Earlier this year I recognised the climate emergency facing us all and have commissioned an independent expert chair to identify and prioritise the impacts for the Isle of Man.

The Isle of Man is of course the only technology hub in the world that is located inside a UNESCO Biosphere. As members of the network, we have pledged to conserve our amazing landscapes, wildlife, culture, heritage and communities, develop our infrastructure in a way that supports the environment and increase knowledge of what makes the Island so special. All of this work cements the Isle of Man Government's promise that we are a special place to live, work and visit.

Turning to the focus of the day, it's encouraging to see that there is no let-up in applications for eGaming licences. In fact the pipeline is healthy and we are seeing the same volume, if not more, than we've seen in recent years.

Whilst the market is changing, it is leading to diversification, and we are seeing opportunities coming through in blockchain, esports, artificial intelligence, big data, and tech trials. As a Government, we launched Blockchain Isle of Man, our initiative to support and guide businesses using blockchain technology. We've had 41 applications to date, with 27 accepted and progressing.

We are working with the Financial Services Authority and the Gambling Supervision Commission to create regulations that further support the technology. We have working groups formed to help progress our propositions around esports and tech trials, and we are working with industry on a strategy to take these forward.

It's also fantastic to see that Capital International has received its provisional banking licence – the first Class 1.2 licence to be issued in the Isle of Man under the alternative banking scheme. We expect that this will go some way to alleviating some of the challenges we see with banking.

All these initiatives are overseen by our Executive Agencies, public/private partnerships to help you identify and lead us in amending policies, developing products and promoting our Island that is of benefit to us all.

The last 10 years have been truly remarkable. Our economy has grown and is confident. Your sector has grown and is confident. But we are not complacent. We have seen major change and we have responded. We will continue to see major change and we will continue to listen and respond. That is why events such as today are so important in helping all of us work together to ensure our Island remains a special place to live and work.

Thank you very much and enjoy your day.

The Good, the Bad and the Ugly: 10 years of M&A in the Gambling and Betting Sector

Presentation by Simon French

Bixteth Partners

Formerly an equity research analyst in the gambling sector, Simon French is now a founding member of Bixteth Partners, a business that helps companies shape strategies and capitalise for growth, making him well placed to review continuing M&A activity in the online gambling sector. With the potential Flutter/The Stars Group deal announced on the eve of the Summit, M&A was clearly a hot topic at the gathering and Simon's entertaining analysis of what had worked well, and equally what had not turned out as anticipated, was a timely reminder of the potential and the pitfalls of mergers and acquisitions.

KPMG eGaming summits have a habit of clashing with some fairly seismic events in the sector. This year is no exception: if someone had said 10 years ago that I would be standing here the day after two companies that didn't yet exist were merging to form a £15bn online gambling giant, I would have assumed they had been a fairly enthusiastic participant at the pre-Summit drinks the night before.

We certainly live in interesting times – both geo-politically, economically and in gambling.

Looking back on the industry, its clear to me there have been three very distinct phases as the industry has evolved. The first online casino appeared around 1995, and some of you may remember 888's casino-on-net that was launched in 1997. It was a licence – not that you needed one - to print money.

EBITDA margins were over 60%, almost treble what they are now, and everything was going great until the interventions of Senators Kyl and Reid in the US back in 2006 who tagged the Unlawful Internet Gambling Enforcement Act onto the Safe Port Act one Friday night in September and pretty much killed an industry over the weekend. When the London Stock Exchange opened on Monday morning, share prices fell by roughly two-thirds.

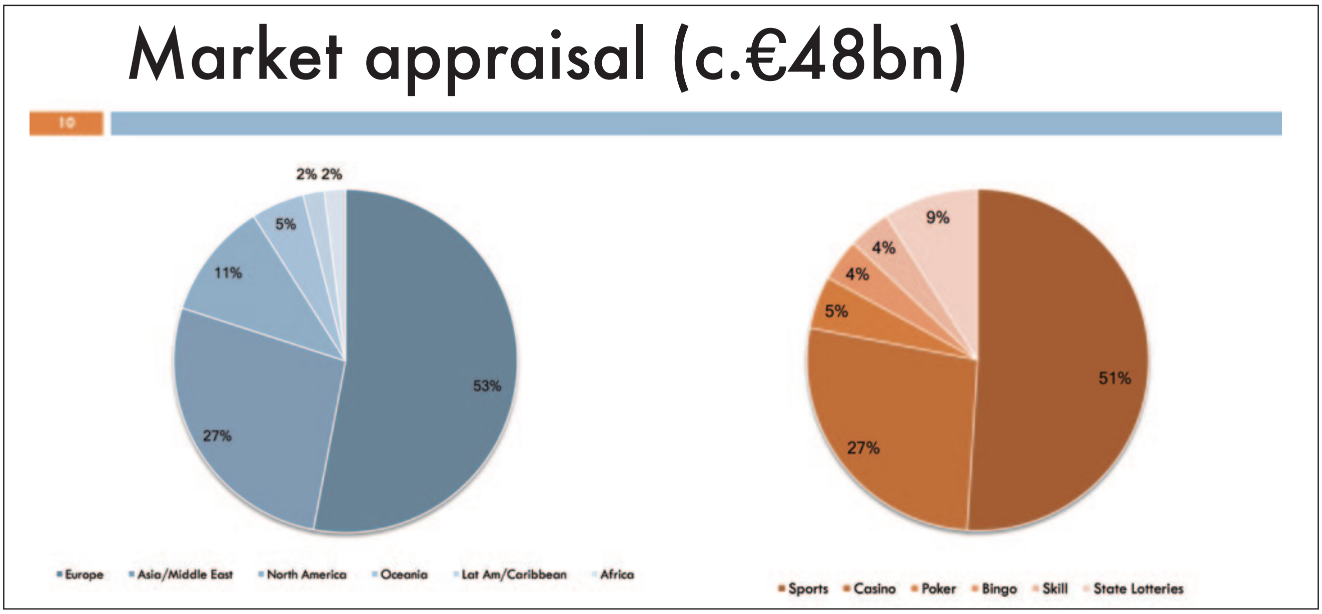
This led to a more restrained period of growth and injected significant caution into the mindset of investors, who became increasingly wary of exposure to unregulated markets. This acted as a restraint to growth and led to a step-up in the number of M&A transactions.

The online gambling axis shifted again in May last year as the US Supreme Court repealed PASPA, leading first to the opening of the Delaware and New Jersey markets, and subsequently Mississippi, West Virginia and Pennsylvania, amongst many others.

What is undoubtedly clear is that the 24 years or so over which the industry has evolved has seen it change beyond all recognition and none more so than in the last five years. If you look at the publicly-listed sector, none of the big three - Flutter, GVC Holdings and The Stars Group - existed in their current form five years ago.

That has been the result of M&A, the form of which few could have predicted.

It always serves as a useful exercise to remind ourselves about the size and share of the online market place we are talking about.



The last 10 years

- 2009: top 3 operators' revenue share c.7%
- 2019: top 3 operators' revenue share c.20%
- Volume of deals
- Value of deals

This is a huge market, a €48bn market, having expanded at a compound annual growth rate of circa 10% over the previous five years. But it's not that huge in the context of the overall gambling market, around 11-12% of that behemoth. It's worth reminding ourselves as well that mobile, within the online sector, still accounts for less than 50% of online market

Geographically, Europe is the biggest market by some distance, double the size of the Asian/Middle Eastern sector, with 53% of gross win. In the last 12 months, Latin America and Africa have both doubled their market share to reach 2% each. I'd expect M&A in those territories to feature quite heavily over the coming 18 months.

By product, sports betting accounts for 51% of gross win. If we were to split that down between horse racing betting and other sports betting, horse racing would account for 27% of the market and customers remain highly prized as they are worth three times of those of sports-only customers in terms of life-time value.

Casino remains tremendously important at just over a quarter of the overall market and, to my mind, the ability to successfully cross-sell casino product into sports betting customers remains a key differentiator of success.

So now we've reminded ourselves of these market dynamics, let's have a look at what's happened over the last 10 years.

In 2009, the market was worth c€25bn and we estimate the top three operators had a combined market share of just 7%. Roll that forward to today and the market is worth €48bn and the top three operators have a market share of almost three times that at 20%.

Now if you were to assume that Flutter successfully merges with The Stars Group, then the market share of the top three operators will increase to 24%. A truly massive shift in 10 years.

Unfortunately there is no reliable data on the value and volume of deals over the last 10 years but what our research shows is that the number of deals has increased year-on-year and the value of deals has increased as well. What we have is a market consolidating at an astonishing rate.

Typically between 2009-2014, there were 4-5 large deals a year. The most high profile was the merger between bwin and Partygaming. This was 18 months in the making - from the first meeting in La Lina at the McDonalds on the Gibraltar border, to the announcement in July 2010 and completion in March 2011. Jim Ryan, CEO of Partygaming, quipped at the time that if he had known how long it was going to take he would never have bothered. How he must have wished he hadn't. The market capitalisation of the combined group ended up being less than the market capitalisation of either of the companies as independent entities prior to merger. It led ultimately to the group putting itself up for sale and the merger with GVC in 2016.

From 2016, the pace of deals has accelerated to around 10 a year and they became more valuable. This year we've seen at least four major deals: William Hill acquiring Mr Green, JPJ Group acquiring Gamesys, NetEnt acquiring Red Tiger and, due to complete at the end of this week, Rank acquiring Stride Gaming.

Behind that we've seen a number of smaller deals this year involving 888, Gaming Realms and others.

Next year we'll likely see the completion of the biggest deal of them all as Flutter mergers with The Stars Group. As I alluded to earlier, based on last night's closing prices and including debt, this is a £15bn company!!

Going back a few years ago to 2016, let's look at what people in the capital markets viewed of the gambling sector then.

> "In 2009, the market was worth c€25bn and we estimate the top three operators had a combined market share of just 7%. Roll that forward to today and the market is worth €48bn and the top three operators have a market share of almost three times that at 20%."

Market view: three years ago

- Large, growing, global industry with small number of large players and large number of small players:
- Growth rates framed by regulatory and technological change
- High margins and strong cashflow conversion should lead to relatively high and progressive dividend payout policies
- Regulated markets warrant a premium to reflect earnings security
- Consolidation inevitable and will drive synergies, grow margins and increase market share
- Industry will crunch down to 2-3 large global players and long tail of niche operators
- The U.S. will 'never' regulate

It's pretty much played out how the market thought it would do although it's probably worth focussing on those last three points in more detail.

– Consolidation was inevitable

– The industry would crunch down to 2-3 large global players; and

– The US will 'never' regulate

Now the market was clearly wrong about that last point and the US is definitely a key feature of M&A, whether in specific US deals like Flutter acquiring FanDuel or structuring deals like The Stars Group/Fox Corp arrangement to create FoxBet, the GVC JV with MGM, the William Hill US strategic agreement with Eldorado Casinos or 888's buyout of its partners within AAPN.

So what have been the motivations for M&A? These include cost synergies, entering new geographies, exposure to new products, acquisition of new skill sets, acceleration of earnings growth, buying talent, diversification and risk reduction.

This list could be lifted from any textbook but what is interesting, when we look back on M&A over the years, is that the reasons for doing so have ebbed and flowed. Undoubtedly some of the earlier big deals in the sector were purely around cost synergies. Earnings growth accretion hasn't always been apparent in deals and delivering it has not always been rewarded in commensurate share price gains.

For me, what has become clear is that in recent years the over-riding reason for M&A has been to diversify in order to reduce risk.

Regulation has increased multi-fold in the last 10 years, and what regulation really means is slower revenue growth and higher costs. On the back of increased regulation inevitably

M&A, why and why now? (2016)

Why?	Why now?
Cost synergies	Market growth is slowing
Enter new geographies	Regulation is increasing
Exposure to new products	Taxes are rising
Acquire new skill sets	Technological change is accelerating
Accelerate earnings growth	Marketing costs are increasing
Buy talent	'A couple have worked'
Diversify	'Everybody else is doing it'
Reduce risk	

Recent trends

- Hybrid business models
  - Playtech acquisition of Snaitech
- Private equity investment
  - Bridgepoint, Blackstone, Clairvest
- Focus on proprietary tech
  - BetBright
- Supplier consolidation
  - RedTiger/Net Ent

comes higher taxation, reducing margins further, and as industries mature, it becomes more expensive to recruit customers further impacting on margins.

The dynamics in the market place led us to formulate a scenario we called Megabet. This was a piece of analysis based upon the global brewing industry of the 2000s, which was led by the Brazilian brewer AmBev which acquired the Belgium-based company Interbrew in 2004 before embarking on a global acquisition spree which has seen its market share reach 28% with annual sales of US$55bn.

When we looked at the brewing market place we could see such strong parallels with the gambling industry and felt that in the same way there could be global mega brands serving the mass market recreational customer but there would still be a place for niche offerings focussed on geography and product, be that Betfair Exchange, a strong African brand or even something like JackpotJoy in the UK market.

The harder part was identifying who was going to lead this consolidation. It seemed clear that GVC led by Kenny Alexander would be a driving force in consolidation and the merger of Paddy Power and Betfair provided a similar platform. But there were also candidates vying for leading roles such as William Hill, 888 and, over time, The Stars Group.

So what became clear in recent months was that effectively you had three Megabet players in GVC, Flutter and Stars. The commonality between them all is clearly that they offer multiple products in multiple jurisdictions but interestingly all have approached US market entry in different ways.

Of course, in light of yesterday's announcement those three will likely become just two, with Flutter, after acquiring Stars, twice the size of GVC. Although I wouldn't assume that is a done deal just yet.

More recent trends have seen business models evolving: B2B now sitting cheek by jowl with B2C. And that doesn't mean there isn't a place for B2B going forward, far from it but having strength in both business models actually provides complete flexibility when considering market entry strategies for emerging markets such as India and Africa.

Private equity interest definitely appears to be increasing in the sector with Apax acquiring Genius Sports Group in the summer of 2018, Bridgepoint leading the acquisition of Cherry more recently. Blackstone investing in Superbet and Clairvest has acquired FSB, although that deal may very well end up in the ugly box! And once the impact of maximum stakes on machines in betting shops over the winter months becomes clearer then I would expect interest in UK operators such as William Hill and Betfred to be reignited.

We're also seeing renewed focus on proprietary tech from those companies that are big enough to justify it. 888's acquisition of the BetBright platform gave it complete ownership of tech over the four key product verticals whilst JPJ Group reuniting with Gamesys brings the JackpotJoy platform back into one group.

Finally supplier consolidation is on the rise and this makes sense. If the number of operators is falling then the proliferation of suppliers over the past few years is unsustainable. Net Ent acquiring RedTiger for around 12 times current year EBITDA has certainly sparked interest amongst other Tier 1 providers. Also this week it has been reported that Sportradar is in talks with Optima and clearly the data provided by the likes of Sportradar is becoming a hot topic of discussion and debate in the industry.

This hive of activity in the last 12 months means it is too early to pick new winners at this stage. It has also been noticeable that the regulator is playing an increasingly active part post-deal. GVC inherited a far bigger responsible gambling problem with Ladbrokes Coral than it had anticipated, whilst Clairvest had owned FSB for less than a month before the UKGC began to intervene as to the suitability of some of its white label partners.

The role of competition authorities in M&A is about to become extremely real in the Flutter/The Stars Group deal too. It ultimately depends on how narrow the market is defined but, as I understand it in the Stars Group/Skybet deal, the UK's Competition and Markets Authority looked at specific product verticals and separated digital from retail. I would therefore expect them to look at the market in a similar way when considering this deal. Depending on the data source, the combined group would have somewhere between one-third and 40% of the UK online sports betting market which appears high.

An interesting but perhaps harder aspect to capture is that the average number of betting apps a customer has on their smart device is just under three. Now if these were all to be owned by the same company then that customer appears to have very limited choice. They are free of course to download different apps but in the world of convenience there is inevitable friction to this. One for the CMA to ponder.

Similarly in Australia a combination of Sportsbet and BetEasy will deliver around 40% combined market share and whilst Flutter CEO Peter Jackson yesterday was keen to paint a picture of the corporate bookmakers playing the role of David against the Goliath of the TABs, that narrative doesn't appear to fit the facts.

Finally, turning back to the US, it is still unclear to me just how profitable that market will be given the differing approaches to regulation, and the multiple partners needed to transact bets. The early winners appear to be Draftkings, FanDuel and FoxBet but there's a long way to go although clearly again the position of FanDuel and FoxBet will be strengthened by the proposed merger.

The Flutter/Stars Group deal was announced too late to sneak into my poll question but I've selected six deals that have happened over the last 10 years and I'd like you to vote what you think is the best one. Clearly 'best' is slightly subjective so, for guidance, I'm not looking for the deal that was best for the selling shareholders - there would be a clear winner on that basis and it's not listed here - but I'm looking more for the deal that you think has been most transformational and created most shareholder value for the acquiring company.

Interestingly, I ran the same poll recently amongst 15 sector CFOs and there was a slightly different answer in that 63% voted CVC acquiring Skybet, 31% for GVC/Bwinparty and one vote - which was mine! - for Paddy Power acquiring Sportsbet 10 years ago which really kicked off all this process.

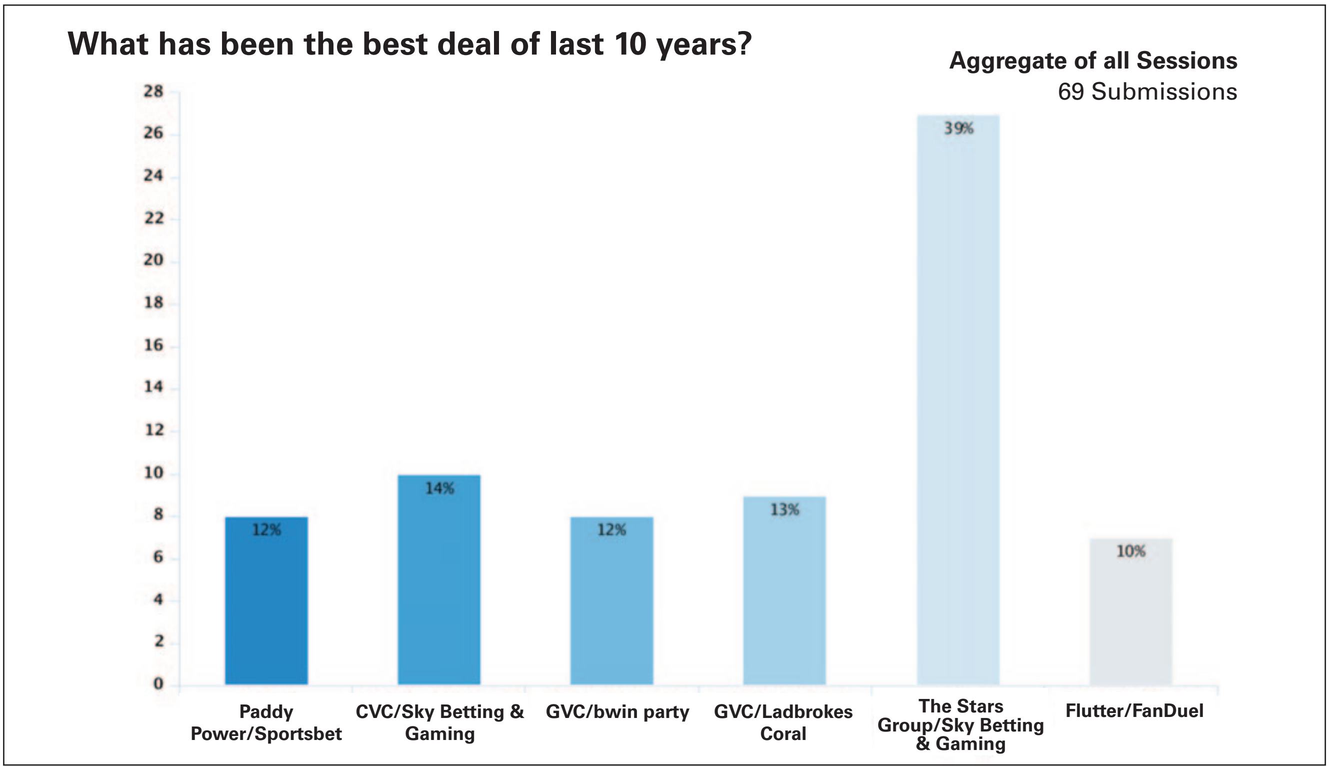
What does it tell us? It tells us that Sky Betting & Gaming is a pretty good business. I can understand why Flutter will look forward to acquiring it as part of the deal with The Stars Group. But in essence it shows the difference in opinions between yourselves and the room on Monday night is that M&A is very subjective and, ultimately, beauty is in the eye of the beholder.

Of course, hindsight is a wonderful thing and even in three years some of the deals have changed shape, shall we say, and potentially moved from good to bad or ugly. Paddy Power-Betfair seemed a great deal at the time but integration was tough, new product development slowed and ultimately the architect of the deal stood down. There may be some learnings there for Peter Jackson. Likewise GVC's acquisition of Sportingbet set it on the way to greater things but since 2016 it has had to dispose of its Turkish-facing operations – a real cash cow – and incurred a €200m tax bill from the Greek authorities for its operations run by Sportingbet in Greece.

Amaya-Rational, which at the time seemed a real mess, not least with some of the corporate governance issues, ultimately created The Stars Group as it turned out, providing a platform to acquire SkyBet in the UK, a combination of operations under the BetEasy brand in Australia and a partnership with Fox Corp in the US, paving the way to merge, or be bought, by Flutter.

So, the industry really has changed. Consolidation has been dramatic and there is more to come - and I think there will be more to come even post Flutter and The Stars Group.

I'll leave you with one tantalising thought: if in 10 years time I'm asked to talk about the last 10 years then I wonder what role China and its Macau-based operators will have played in the market? China I suspect will be a key player in online gambling over the next 10 years.



Continuing Consolidation: M&A Activity and Trends

Moderator: Kristan King

Advisory Director, KPMG

Panellists:

Susan Breen

Partner, Mishcon deReya

Simon French

Founding Partner, Bixteth Partners

David McLeish

Partner, Wiggin

With the pre-event announcement of the potential mega-merger between Flutter and The Stars Group on everyone's minds, it was clear there would be much for the panel to talk about in terms of M&A activity in what has clearly become a maturing online industry. The panel debate ranged from cost and revenue drivers, the impact of regulation and potential future regulation, opportunities overseas and through the supply chain - and of course thoughts on how the industry, and its customers, would adjust if the Flutter/Stars deal goes through.

Kristan King: If we think about the M&A drivers that we've talked about in the past, we looked at synergies as a key driver. On the Flutter/Stars transaction the quote yesterday suggested they are hoping to realise in the region of £140m of annual cost synergies from the transaction. Simon, maybe you could touch on how the market values the revenue synergies that might be a little bit harder to assess sometimes and the risk diversification on products and markets?

Simon French: The market finds it really hard to value revenue synergies because it is always difficult to extrapolate them from business as usual. The clear option, if you like, for revenue synergies in this deal is going to be the cross-sell of customers between brand and product. What's harder is how that will work with the individual brand and product teams, and that ties in to cost synergies as well because, depending on how the groups are re-organised, you are going to have three UK-facing brands all with slightly different propositions arguably touching and targeting slightly different parts of the market. There is inevitable overlap, and how you incentivise teams and how you reward brands for performing within that is difficult. Revenue synergies get a little bit obfuscated because of that.

In terms of diversifying risk, it's quite interesting that Flutter, with Peter Jackson as CEO now, has definitely got a different approach to risk. He is less risk averse than his predecessor. He was saying yesterday that Flutter will operate in over 100 countries worldwide, with 18% of revenues coming from unregulated markets and that no single unregulated market would make up more than 3% of earnings. That's pretty transparent compared to some of his peers, giving that level of granularity. But it goes back to things that we've talked about in the past, which is that regulated markets are great but they are expensive. Unregulated markets generate high levels of cash flow and, if you can recycle those cashflows into getting dominant positions in regulated markets, then you do get quite a decent risk profile across your business. I would view the enlarged group as being a more diversified, less risky group, but one that is pretty happy to hold its hand up and say "yes, we're in unregulated markets".

Kristan King: Susan, what are your thoughts around the concentration particularly in some of those European markets as a result of the larger deals and how far that might go? I know Simon touched earlier on possible CMA intervention in the current transaction.

Susan Breen: If I had to bet one way or another, I would say that it would safely come through a merger control review. I note Simon's point around consumer choice, but I think the CMA will still be getting its head around, and be slow to react to, the market online versus in-store. It will keep that distinction. The size of the customer market and the substitute-ability of product would be key determinants in the approach of the CMA. But they are shifting in focus. The bigger deals will give them pause for thought. If you look at PayPal/iZettle, they cleared that deal but they did begin to look for the first time at what digital and big tech combinations can do to a market. In that deal they were looking at the price paid and whether the price paid was designed also to achieve a stunting of competition in the market. Those sorts of thoughts and concepts will begin to grow in the minds of the CMA in terms of how they look at the mega mergers going forward.

David McLeish: I think it actually has to go through, in the sense that it's the first item on the list that would have come up when they were looking at the deal. There's no way they haven't taken robust advice on it. Yes, people are going to potentially look to challenge it and certainly the UK will grab headlines. You could see a potential issue with

Australia but, in theory, there are distinct brands which could be disposed of if that was absolutely necessary. That's just not an option in the UK. Obviously, we had the issues that came up on the Ladbrokes Coral merger in terms of disposal of shops to BetFred and so on. So the UK is the real one that they will be worried about, but I am sure they wouldn't have entered into a period of potentially 12 months of uncertainty unless they were pretty bullish it was going to go through.

Simon French: Probably where Flutter has been optimistic is on timing. They are anticipating competition clearance in Q2 next year. If they do get approval, which I think they probably will in the long-run, I would be amazed if it is as quickly as the second quarter of next year. This will take a lot longer than they are anticipating. That has pluses and minuses. It gives them a longer period of time to plan for integration, which will take some serious planning. It also has a longer period of uncertainty for staff working in both businesses, and that gives the opportunity for competitors to steal the march, both in terms of interacting with the consumer and potentially recruiting some of the employees of Flutter and Stars Group. They are being very optimistic on timing.

Kristan King: David, what do you think about the consumers themselves? Are they concerned with the concentration of operators? Do they like to spread their accounts across different operators? Do you think that in itself might limit concentration, or prohibit a complete concentration, towards some of the larger players? Or is it less of an issue, self-regulating almost?

David McLeish: It's interesting against the backdrop of the regulatory and political sentiment in the UK being that there are far too many brands and far too much advertising which points against that. But looking at the sheer numbers, consumer choice is not an issue. I take Simon's point that you can have three apps and they can all be within one group - and who would have thought some of these brands would have all ended up together, even three or four years ago? Nevertheless, there are lots of offerings out there.

What's an interesting counter-play is what's going on with the Gambling Commission in the UK. The actions of the Gambling Commission are almost taking you down a path where it seems they would ideally like to regulate a lot less people rather than more people, which in itself presents a challenge. Looking at what's happening in the UK, and with Sweden taking its lead from that regulator in terms of fines and enforcement action, the challenges around an integration from a regulatory perspective - getting it right, protecting the customers, self-exclusion, aligning policies - and not just from a technological perspective should not be forgotten. That's not something you can click your fingers and make happen overnight. Regulators will be potentially looking to catch people out, if I can be so bold as to say that.

Kristan King: Susan, do you think regulation is an increasing factor in diligence and the approach to transactions? How have you seen regulatory considerations factored into transactions?

Susan Breen: We've being saying for years that regulatory risk is just one of a number of issues that larger operators have to grapple with but, looking at keys to successful M&A merger deals, regulatory risk is the biggest, if not the sole determinant of successful M&A in a bizarre way. From an operational perspective, you could see that as being slightly illogical but when you think about what a good M&A deal delivers - in terms of operational leverage and product diversification, geographic diversification and the ability to invest - risk and regulatory risk drives through all of that. And it's extremely costly. There's a relentless drive to improve your cost base. Regulatory risk is significant in Europe and the UK. As David said, the UK sets itself out as being one of, if not the strongest regulator, with Sweden following suit. It's unknown yet as to how the US will play out. It is increasingly the case that having the financial bandwidth to cope with global regulatory risk is going to be key.

Kristan King: Certainly, in more mature regulatory markets such as financial services, for example, we would see the regulatory due diligence almost being the priority in the approach to transactions. Because that's often the one that actually identifies a deal breaker.

Susan Breen: Again, we've been about 20 years behind the financial services industry and still are to some extent. It's only recently that businesses are focussing on the need to really understand the regulatory risk and the legacy issues on any M&A deal because it is now coming back to bite them. Businesses have been saying "look, we won't listen so much to the lawyers and the risk profilers because we can digest the size of the fine and the implications". But as the fines get bigger, as the profile increases, then it's a critical part of assessing the cost benefit analysis of any deal.

David McLeish: And there's an overlap on the financials. On a transaction last year I saw two companies send their databases to an independent third party testing house to try and map out where there was overlap, whether that be VIPs or, self-excluded players, to really try and see how that might impact on the business going forward. In terms of the potential for regulatory headwinds, you also see some increased focus on what the business may have done a long time ago in other markets. You look at, for example, William Hill/Mr Green, with issues in the Netherlands. You look at the pronouncement around what's coming round the corner in Brazil with the suggestion of a 10-year bad actor clause, or a 10-year bad actor clause for anyone who has ever worked in an unregulated market, which means they won't get many applications.

"Certainly, in more mature regulatory markets such as financial services, for example, we would see the regulatory due diligence almost being the priority in the approach to transactions. Because that's often the one that actually identifies a deal breaker."

There is a lot more scrutiny than there ever was before, and there is still this nervousness that as regulators get more aggressive, the risk of you being locked out of a market or losing a licence will have such a domino effect that actually everything else doesn't really matter. So it has increased the importance but, fundamentally, the numbers are the numbers and that's where the key driver is. But the importance of compliance is catching up quickly.

Kristan King: We talked last year about how it would be interesting to see how businesses were going to enter that US market and in the US we've seen quite a lot of partnerships, JVs and slightly unusual structures in M&A. It's quite interesting the way that market is developing. Simon, what are your thoughts around the structures we're seeing and how those relationships might pan out?

Simon French: The US has got so much potential, no-one is going to deny that. No-one has worked out yet how you achieve that potential and the steps you have to go through to unlock it.

If you look at the different structures, the cleanest, if you like, has probably been Flutter acquiring 59% of FanDuel and then with various pre-agreed dates on which to acquire the balance. That gets slightly confused in the deal with Stars so that Fox Corp can acquire 18.5% of FanDuel as well. Buying a business that has a database of customers who have shown latency to want to have some form of interaction around a sport is probably not a bad way to go.

What everybody has been surprised by is just how high levels of cross-sell have been from daily fantasy sports customers into gambling customers. That probably shows the way for a few other deals in other markets that may regulate over time. I'm thinking particularly India, where you see a huge proliferation of daily fantasy sports or fantasy 11 cricket games. So that's quite an interesting signpost.

If you then look at other structures, clearly Stars and Fox Corp, with FoxBet, it's an interesting structure. It's a little bit more complicated than the headlines lead you to believe. Fundamentally, they are trying to replicate over in the US what they've achieved with Sky in the UK, exporting that knowledge base out of Leeds into the US to try and get a successful media-led sports brand. It seems to be getting quite good cut-through and the clever bit they've put in is the free-to-play game learning from Sky Super Six over here, and having the free-to-play game on FoxBet. That means you are suddenly nationwide. As those states convert to, or have regulation that permits real money, you can convert those players into betting players.

The rest is still to be proven. William Hill has got a very strong path and is in El Dorado. Obviously, El Dorado is a bit busy with acquiring Caesars. Caesars has its own sports betting partners that it brings to the table, and El Dorado also has a deal with Stars, which now means it potentially has a deal with Flutter, which means it has a deal with FanDuel and then it gets very confusing! Then you've got a straight JV between GVC and MGM, which as yet hasn't really gained any traction.

But I am always very wary of making judgments too quickly because if you go back 15 years and look at the early winners in the UK market, it was Ladbrokes and it was William Hill, and it wasn't the three names we've been talking about today. So things evolve over time, and there will be unexpected twists and turns. The danger with the US market is with so many people trying to get into it, it becomes a bit of a money pit. It would be very easy to blow an awful lot of CAPEX and OPEX in that market over three to five years before a Chief Executive is brave enough to stick their hand up and say "this isn't working for us".

David McLeish: That skin model represents a complete melting pot. You've got so many people relying on each other in so many different places, it can potentially cause lots of trip wires along the way for M&A. But there is definitely a trend there. You hear rumours of US participants increasingly trying to acquire Europeansports betting technology and that must be with the US play in mind. You look at the North American private equity house Clairvest coming to take a relatively low EBITDA business but with a solid platform in the form of FSB, presumably with North American aspirations. You hear rumours about DraftKings trying to do a B2B play with SBTech.

There are deals out there where people think they need tech to get forward in that market, and it may not be long before you could see a situation where one of the big US operators went big on tech to try and do it themselves rather than relying on someone in Europe. Going alone like that would also rely hugely on having to bring in some real expertise on online marketing, which hitherto they haven't had.

Kristan King: There's obviously quite a bit yet to be simplified in terms of those complicated relationships that have developed where you've got one of the European businesses bringing the technology and the US commercial gambling companies having the brand and the presence. Susan, do you think we will see those US companies doing some of the mega deals to take over some of the European operators that are so far helping them with technology, simplifying the market slightly?

Susan Breen: I don't immediately see that. The market in the US is just so big, upwards of $150bn. I would imagine the trajectory that Simon and David are talking about is right: expertise, tech and marketing coming from here, with local industry and consumer knowledge so that a US/European deal makes sense. Poker seems the obvious way in. It's a huge poker market but it also drives straight into the cross-sell to sports. You have the media potential on top of that, legacy issues don't exist with the fantasy sports operators which makes them a 'clean' proposition plus you've got the value of a recreational offering: it should be a perfect storm for a terrific combination at some point in the future. With all this potential, I think it's taking time to digest and assess where the right landing spot is. Some businesses are just at the initial phase of market entry and are bedding in. Nobody knows whether it's two, three, five years or more before anybody gets to grips with it and makes significant money out of it.

Longer term, it may be a big US conglomerate trying to go it alone or we might see, just because of the size of the market and the interest of the consumer there, financial companies like hedge funds coming in and looking at a financial markets play, a derivatives, a high-frequency trading play that matches with media, and that matches with poker and sports business. That's where there is the potential for something as yet unexpected and huge that could loom over the market. But I think there is still too much to do, without even looking at larger collaborations, to see how many of these current deals can produce some sensible return for shareholders.

David McLeish: There always has to be some concern that there's too much focus on the US, because you don't know exactly where it's going yet. Two things around that: firstly, especially for businesses which are going to have to go through huge integration plans, they are going to be looking at South America and Africa, markets where they can't get left behind by only focussing on integrating businesses. They need to stay up with the pace and not let those who aren't involved so heavily in the US market developments lead a march on them. Secondly, there was huge amount of speculation that a whole bunch of European suppliers and operators would never get licenced in the US because all the big US players were going to try and keep them out by talking about unregulated revenues etcetera. If we can call that a strategy, it hasn't worked. Those who tried to adopt that strategy may have to shift their position to continue to fund the investment in the US business by maybe having more of an unregulated market mix than they have before. So, one might start seeing some slightly 'holier than thou' suppliers looking further east.

Kristan King: The prioritisation point is quite interesting. We talked before about South American markets and about India. There are some big markets waiting to be developed whilst some of the players are trying to move into the US. Do you think that is creating opportunity for others to steal the march in other markets whilst some players are distracted? Are we going to see different people taking leads in different markets?

Simon French: What you'll see is that the companies that are focussed heavily on the US accept they won't be able to do everything and they are taking a view that "fine, we are going to be late to India, we're going to be late to Africa, we're going to be late to South America, we will just have to buy one of the leading players at that time". That's the strategy that evolves and it creates quite a nice eco-system for everybody because it means that companies that are building up a presence in those markets know there are going to be willing buyers, and the willing buyers know there are willing sellers. So it just becomes a matter of timing and valuation and how you construct those deals to make sure that legacy issues don't prohibit a deal being completed. Buying a company with a short operating record in these emerging fast-growing markets probably negates some of those historical legacy issues, so that could work as well.

"There are deals out there where people think they need tech to get forward in that market, and it may not be long before you could see a situation where one of the big US operators went big on tech to try and do it themselves rather than relying on someone in Europe."

“If you look at major FMCG companies, they spend between 5-6% of their sales on marketing. I don’t think this industry would ever be as low as that because the barriers to entry are low.”

David McLeish: Unlike the big public company deals you have much more opportunity to cleverly structure private deals. We saw Kenny Alexander come up with a slightly unusual contingent form of consideration on the Ladbrokes Coral deal in light of FOBTs which was quite clever, but earn outs are harder to achieve on a straight take-over merger deal. But you can see a proliferation of earn-out lead provide deals with an eye on regulatory change and fast paced growth in certain markets. If someone had gone to buy a Kenyan operator six months ago they might be cursing themselves if they hadn’t put some kind of significant earn-out element into the deal. So, you can see increasingly that deal structures are being catered towards this pace of change.

Kristan King: Thinking a bit more about markets closer to home again, we touched on the B2C/ B2B hybrid model, and some of the B2Cs buying down the supply chain. Is that a trend you continue to expect to see?

Susan Breen: Yes, and it will be tech-driven and cost-driven. The very successful, very big suppliers are going to become ever more costly to the operator. If the operator can take that in, then that’s what operators will do. Not in every respect, but certainly there are some chunky deals that look like they are worthwhile doing for the operator.

Simon French: If we all agree that advertising is going to be restricted, then marketing costs will fall. Therefore you do turn to other parts of the value chain to see what can be brought in-house and where there is flexibility in the P&L to do that. The industry just becomes more mature and looks a bit like other industries over time because spending 30-35% of your revenue on marketing is never going to be sustainable over the long term.

If you look at major FMCG companies, they spend between 5-6% of their sales on marketing. I don’t think this industry would ever be as low as that because the barriers to entry are low. But there’s flexibility in the P&L, there’s opportunity now to consider which bits to bring in-house, particularly as the proliferation of suppliers across various bits of the value chain has been significant in the last 5-10 years. They don’t have independent futures if the numbers of operators consolidates down. So, again, you’ve got a bit of a willing seller/willing buyer scenario unfolding.

Data is going to be really interesting. The approach to data in the US is clearly being driven by the Leagues trying to get some form of ownership over it. It’s belatedly sparked a little bit of a light bulb in some of the European-facing data rights owners to see if they can capitalise on it but it does feel a bit like the horse has bolted on that one.

Ultimately, such is the globalisation of something like the Premier League, which is broadcast into so many hundreds of countries, that to try and retain ownership of the team sheet - something I know the FA has talked about - and trying to monetise that is very difficult. Not least because the clubs probably think they own the team sheet, and then I’m sure a very clever agent would tell you his player owns the team sheet. Data is definitely becoming quite problematic as a relationship.

David McLeish: That’s why, in part, some of the data companies are trying to diversify their risk in terms of building their own, or acquiring, sports betting platforms. The status of participants in the supply chain is becoming more blurred. William Hill’s business in the US, for example, is predominantly a B2B business. That’s fundamentally what it is. Playtech was always seen as a B2B business but acquired one of the biggest B2C operators in Italy. You can see this kind of mixture where people are actually looking for value rather than necessarily being tied to what they were traditionally. It’s not just a question of diversification, it’s a question of seeing an opportunity to create value rather than just staying in those neat boxes.

Kristan King: It’s interesting to see if that’s the B2Bs trying to create an outlet for their product, or whether it’s the B2Cs trying to get control of the technology, or both. You’d think that there would be a trade off with flexibility. If you’re an operator and you’ve acquired a data company, does that reduce your flexibility in your supply chain? It’s quite an interesting trade-off between buying to bring value in-house but potentially losing a little bit of flexibility?

David McLeish: There’s even hybrids, someone like Gamesys, who went from B2C to B2B back to B2C. It depends on who can make money on a deal.

Kristan King: With that thought, I suspect we probably all agree it’s clear that M&A is playing a real part in this sector, both in entry into new markets and the acquisition of technology. Undoubtedly, it’s going to continue to have its place and will be a key factor for everybody. It remains for me to wish everybody well with their transactions over the next 12 months and to thank the panel for their contributions today.

“The prioritisation point is quite interesting. We talked before about South American markets and about India. There are some big markets waiting to be developed whilst some of the players are trying to move into the US.”

Garth Kimber

Chief Executive Officer, Xela Holdings

"In 2010, each gaming jurisdiction was different in the way it was perceived. The Isle of Man was perceived as definitely having a can-do attitude and being approachable: we had people in Government who would help people through, there was always a point of contact and businesses could visit the Island and meet all the right people in one visit.... The Isle of Man was a place that wanted their business and was accessible."

The Road to Perdition

Presentation by Dan Waugh

Partner, Regulus Partners

An acknowledged thought leader in the industry, Dan Waugh advises on the development of responsible gambling programmes and has also written extensively on regulatory matters. Previously group strategy director for The Rank Group and director of investor relations at Whitbread, he is the Founding Chairman of the educational charity YGAM and has also given evidence to the House of Lords select committee on gambling. In a hard hitting session, which he warned may be "gloomy", Dan sought to expose how the current rhetoric amongst policy makers and in the media, combined with an increasing tendency to view gambling as a public health issue, is fuelling negative sentiment. This, in turn, is leading to a growing demonization of gambling and the potential prohibition of what for the majority of players is a pleasurable and harmless pastime.

In the words of the ancient Chinese curse, we live in interesting times. For many of us, particularly those of us in the silent but perplexed majority, the rise of political populism, extremism and intolerance is troubling. We live in a world where vast amounts of energy and resource are wasted in trying to win arguments and to disparage those who may hold views different to our own.

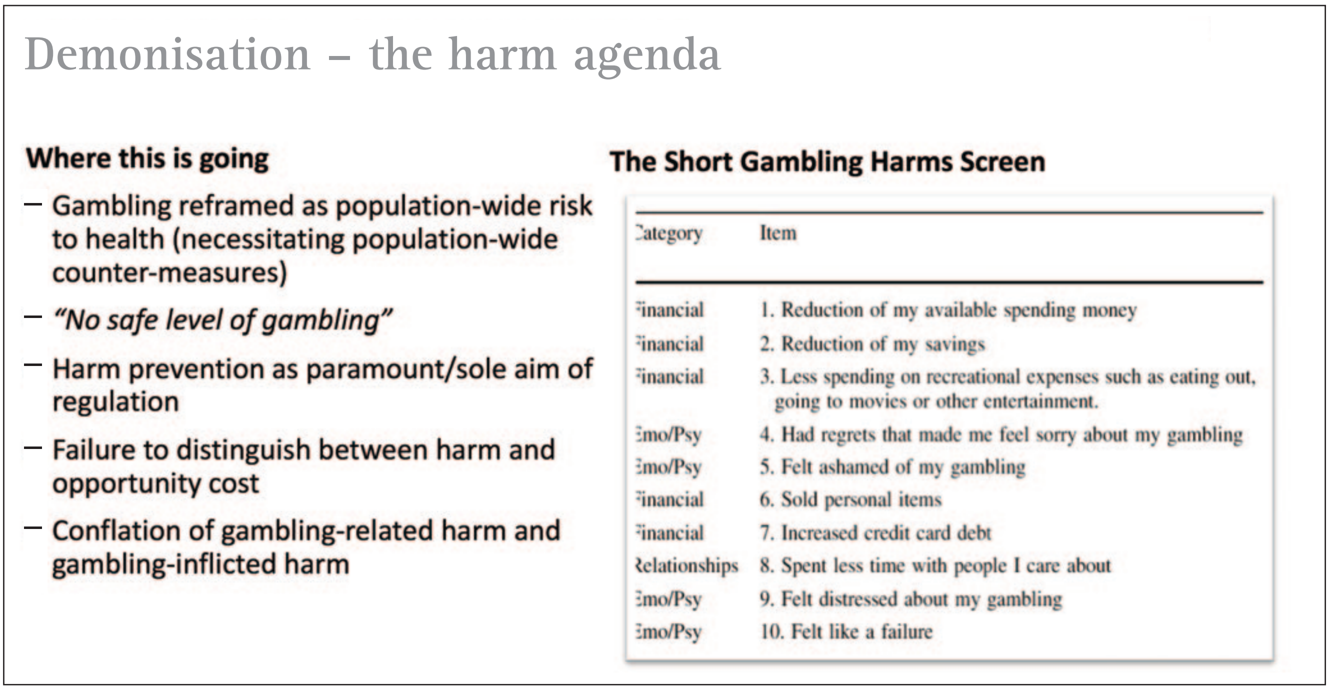
In times of extremism, gambling - which tends to be never too far from controversy - can become painfully exposed. What I will explore today is how the gambling policy debate mirrors the broader political conversation and whether what is going on in our industry carries any deeper meaning for civil society.

I will do this by looking at how the gambling policy debate is unfolding in three domains and argue that a Cultural Revolution is underway in Great Britain, and in other jurisdictions around the world. This movement is characterised by three elements: the demonization of opponents; the infiltration of key organisations of power and influence; and attempts to exclude, marginalise and silence dissenters.

In terms of regulation and public policy, perhaps the most important development of recent years has been a reframing of how we think about the negative externalities of gambling. Twenty years ago, the late great Professor Bill Eadington described problem gambling as the "Achilles heel of the legal gambling industry". For too long Britain's gambling industry paid insufficient heed to this insight.

All this gives the anti-gambling lobby an opportunity to exaggerate the costs associated with gambling. So what is happening as a result of this philosophical shift?

Has anyone here come across the Short Gambling Harms Screen? This emerged from Australia about three years ago and was designed to help researchers measure harms from gambling rather than simple rates of gambling disorder. The questionnaire is shown on the slide here.



However, problem gambling is a relatively niche psychiatric condition, affecting a minority of adults and a somewhat larger minority of gamblers. It is also rather abstract: two people with gambling disorder can have exactly the same diagnostic score and classification and yet exhibit completely different behaviours. They may experience entirely different symptoms and harms. In the Western world, rates of gambling disorder have typically been in decline or stable over the last decade, perhaps as a result of adaptation.

This has, in the past, presented the pro-gambling lobby with the opportunity to diminish the severity of the issue or to make spurious arguments about the problem resting with the individual rather than the product.

Over the course of the last three to four years, we have started to think differently about the societal costs of gambling, moving from the abstract of problem gambling to the more vivid realms of harm. This makes sense. When weighing the costs and benefits of any activity, we are more likely to be able to make good decisions if we can ground our considerations in measurable and 'real world' effects.

The issue is that this harm is pretty loosely and subjectively defined. This presents an opportunity to establish a broad scope of what is considered harmful and set very low qualifying thresholds. It also brings into play the valid consideration that harm may not be restricted to the individual but may also affect families, friends, employers and others in the community. In this way, proponents of the harm agenda may argue that a significant proportion of the population is harmed.

What the Short Gambling Harms Screen facilitates is the idea that there is no safe level of gambling because one of the harm items is that you have reduced spending money. Another item is that you have less money to spend on other forms of recreation, and another is that you spend l ess time with family and friends. Now unless you take your daughter to the casino, you're probably hitting a number of those items.

So you can see how easy it becomes to allege that there is no such thing as a harmless flutter. And because third-parties may be harmed as a result of our gambling, we end up in a situation where it is possible to claim that gambling is an activity from which the population as a whole requires protection. It is this mantra that is now driving regulation.

Researchers are using this approach to try to quantify harm, typically using foregone life expectancy, and are claiming as a result that the greatest quantum of harm is to be found amongst low-risk or even non-problem gamblers. This is calculated by multiplying the large number of non-problem gamblers and low-risk gamblers (which in Britain is around 97% of those who gamble) by very small levels of so-called harms.

Can anyone see any problems with this? Perhaps most obviously, in setting the threshold so low it fails – as Paul Delfabbro and Daniel King from the University of Adelaide have pointed out – to differentiate between harm and opportunity cost. It also ignores the benefits that consumers receive from being permitted to gamble. Significantly, there is no corresponding Short Gambling Benefits Screen to balance the picture.

It may also lead to perverse outcomes where resources are spent on population-wide programmes (such as public health campaigns) and not on those genuinely in need of help.

I do not seek to reject the idea that gambling harm is a population-wide issue. I would argue however, that this remains a matter of conjecture within the scientific community and that many highly experienced researchers and clinical psychiatrists do not necessarily agree. Without formal review, this doctrine is now displacing the Budd Report's conceptualisation of gambling as a legitimate pastime for adults.

Public health is exerting its influence in the field of gambling policy in a way that I don't think has been fully appreciated. Public Health England is now highly engaged on gambling policy while the Royal Society of Public Health has worked with the Campaign for Fairer Gambling and GambleAware. We have seen a succession of appointments from public health to key positions within the tripartite structure; and the language of public health now litters our regulatory and political language. For those who missed out on the campaign against the tobacco industry, gambling presents a new crusade and chance for glory.

One of the tenets of public health is that the benefits of gambling should be measured and understood. But this is not happening. Moreover, some organisations, such as the Institute for Public Policy Research, have argued that consumer benefits should be dismissed on the basis that they are part of the gambler's delusion.

Moving beyond direct influence on policy, let us briefly consider the media. Who here thinks that the national press is fair and unbiased in its treatment of gambling?

Of course, we do not expect the media to be objective. However, its uniformly hostile and highly selective depiction of the industry ought to be a cause for concern. While the gambling executive may, in this country at least, be a perennial pantomime villain, the media's demonization of the industry has not happened by accident. This is how one anti-gambling activist described media engagement in a recent research paper:

"… we … built very good relationships with journalists and over a number of years. At each newspaper we had a journalist that we were working very closely with who had clout… eventually newspapers were running campaigns that were aligned to our objectives... building that consensus [across media outlets], using that coverage to leverage support from MPs and parliament."

Over the last five years, we have seen a shift in the academic research community in this country and in other jurisdictions. Gambling research – which used to benefit from a balance of disciplines and viewpoints – is now dominated by social researchers and public health advocates. It is also almost uniformly hostile to gambling.

Among some researchers, there are strong suggestions of ideological motivation while others, judging by their Twitter accounts, simply don't like the industry. I have heard that it

is much easier to gain funding for gambling research if one is viewed as being anti-gambling. Meanwhile, those who conduct research funded directly or indirectly by the gambling industry are often subject to abuse.

Is this justified? A recent study of more than 700 research papers found no statistically significant difference in objectivity between industry funded and so-called independent journal papers. However, the study did find that industry-sponsored papers were far more likely to include disclosures on sources of funding and conflicts of interest.

The result of this shift in academia is that the quality of papers has declined substantially - it is now common to find opinion pieces masquerading as research - while its influence within the media, within Parliamentary and on regulatory thinking has never been greater.

Meanwhile, potentially very valuable research from within the industry based upon actual customers and actual gambling behaviour is almost invisible.

Finally we have the issue of marginalisation and intolerance. I won't dwell too long here but it's important to point out that there is a growing, multi-jurisdictional movement to exclude the gambling industry - and indeed anyone who may have a dissenting point of view - from policy debates. There is a mounting intolerance for freedom of expression.

The Gambling Commission and GambleAware have called for the term 'responsible gambling' to be banned, the Bishop of St Albans and Iain Duncan Smith think problem gambling should be expunged from the psychiatric lexicon; and British Airways is forced to withdraw advertising for holidays in Las Vegas. This is censorship.

Then there is the bullying - particularly but not exclusively on social media - of those who hold alternative points of view. These are worrying developments in terms of the gambling debate but also in terms of the kind of society that we are shaping.

So where does this all lead? The answer is that it could lead in all manner of directions. However, it's worth considering a scenario that a number of high profile figures from research and from public health have called for. That is for ministerial responsibility to be passed from the Department for Digital, Culture, Media and Sport to the Department of Health and Social Care.

"The effort and resource expended by the gambling industry on tackling harm is now considerable both in absolute terms and in relation to just five years ago."

Let's just consider how government policy might change following a transfer. How would the Department of Health square concerns about gambling as a public health issue with running the tender for the fourth National Lottery licence? Under what circumstances might the Department decide to relax regulatory policies?

It strikes me that the transferral of gambling from entertainment and culture to health is a natural staging point on a prohibitionist agenda.

Here are some of the things that the public health lobby is targeting:

– Reduced visibility of gambling through advertising and sponsorship bans/restrictions; banning rewards cards, incentives and bonuses; reduced access and availability through a national gambling ID system, mandatory pre-commitment, mandatory loss-limits and gambling curfews.

– Structural changes (or safer gambling) through online limits to reduce stake/prize/speed of play; banning of features (LDWs, near misses, past outcomes); sensory cues – minimising win cues; maximising loss cues; banning some products outright; making gambling socially unacceptable; negative public health campaigns; community action; and establishing legal liability for harms and grounds for civil redress.

The good news – for now – is that when questioned by the House of Lords Select Committee earlier this year, a senior official from the Department of Health indicated that he was happy to see gambling stay put at the DCMS. I imagine that his Department has enough on its plate without having to deal with the circus of gambling policy.

We all know that the immediate future for gambling is likely to involve further regulatory tightening. Some of this is long overdue but there is no sign that such measures are assuaging the ire of opponents or leading to a reduction in political hand-wringing or media attacks.

I can't say what the longer term future holds. There are many paths that we may go down depending on how wider political events pan out and also on the industry's ability to restore some balance. In setting out a rather gloomy prognosis, I am guilty of selection bias - of telling only a part of the story. Yet however partial it is, this is not science fiction. The threat that I have described - where gambling is positioned as the new tobacco - is very real.

So how should we respond? The effort and resource expended by the gambling industry on tackling harm is now considerable both in absolute terms and in relation to just five years ago. That needs to be sustained.

However, minimising harm is a complex challenge and requires thorough examination and detailed thinking. There is still a tendency within some industry participants towards the grand gesture - and this creates the idea that the intention is to appease critics rather than address problems.

There is a real danger that in attempting to appease those who are dogmatically opposed to you, the support of allies may be forfeited. In particular, I would urge companies to resist the temptation to commit grand gestures in the name of social responsibility - and then demand that all others follow suit. We should recognise that almost all of the regulatory and fiscal reverses suffered by the industry over the last five years have been advocated by neighbouring parts of the industry. If we are to have any chance of building a more united industry, this is a lesson we need to learn fast.

At the same time, we need to stop apologising for being the gambling industry and remember why we are here.

The Road to Perdition

Growing calls for gambling policy to be transferred to Department of Health

- Should the Department of Health run the National Lottery licence tender?
- Under what circumstances would the Department of Health ever propose regulatory relaxation for gambling?

"If gambling is to be taken seriously as a public health issue then ***policy responsibility for prevention and treatment should lie with the Department of Health and Social Care,*** *with input from other departments who deal with the harms of gambling such as welfare, justice, and education."*
Wardle, Reith, Langham & Rodgers 2019

The reason that gambling companies exist is because consumers want them to, because they meet a fundamentally human need. The economist, neuroscientist and high-stakes poker player, Don Ross put it this way:

"Gambling industries exist partly as solutions to coordination problems, providing focal points where people who want to bet on things can find opportunities to bet and other people to bet against. People value having pre-established structured common focal points for gambling as a social activity."

It is also worth reminding ourselves that gambling can be a positive and healthy activity for adults. This is how Peter Collins described it a decade-and-a-half ago: *"It may in fact be the case that people who drink in moderation, have temperate sex lives, and even enjoy the occasional game of chance have lives that are not only more enviable but also more admirable than those who eschew all such pleasures and play."*

Reminding policy-makers of the consumer benefits that this industry generates is likely to be critical if we are to regain any semblance of balance. At the same time, we need to do more to generate consumer trust, consumer enjoyment and consumer advocacy. The case for the defence of the gambling industry is not a strong one; the case for consumer sovereignty, consumer surplus and consumer autonomy is.

Harm minimisation and consumer enjoyment are two sides of the same coin. As an MGM executive said to me earlier this year, harm prevention is an integral part of customer service excellence at his company, not a separate discipline. Rising to the challenge of championing the best interests of the consumer at large - in terms of both fun and safety - is the beach on which we must fight.

I will leave you with a line from an article in The Independent newspaper last year which spells out why society more broadly should be concerned.

"We live in a free country where people are allowed to make dumb decisions every day, whether it's about their job, their relationships or even their health. Some of us drink, some of us smoke, some of us gorge ourselves on cake and, yes, some of us gamble. So be careful what you wish for: your own personal vice might be next."

If we tolerate attempts to prohibit or emasculate gambling, then our vices may be next.


THE AMERICAN ISSUE

U.S. IS VOTED DRY

36th STATE RATIFIES DRY AMENDMENT JAN. 16

Nebraska Noses Out Missouri for Honor of Completing Job of Writing Dry Act Into the Constitution; Wyoming, Wisconsin and Minnesota Right on Their Heels

JANUARY 16, 1919, MOMENTOUS DAY IN WORLD'S HISTORY

"The reason that gambling companies exist is because consumers want them to, because they meet a fundamentally human need."

David Black

Managing Director, Continent 8 Technologies

"We're very proud of our Isle of Man data centre, it represents a significant point in our development as a company. In the last 10 years data centres have gone from pure real estate into real estate with a services package.... Suffice to say with advances in technology infrastructure, we've seen usage go up, quality go up, and price go down. The Isle of Man is very competitive, increasingly not just in the offshore setting but in a general internet setting. This is a very good news story!"

Addressing public concerns: one company's perspective

Lyndsay Wright

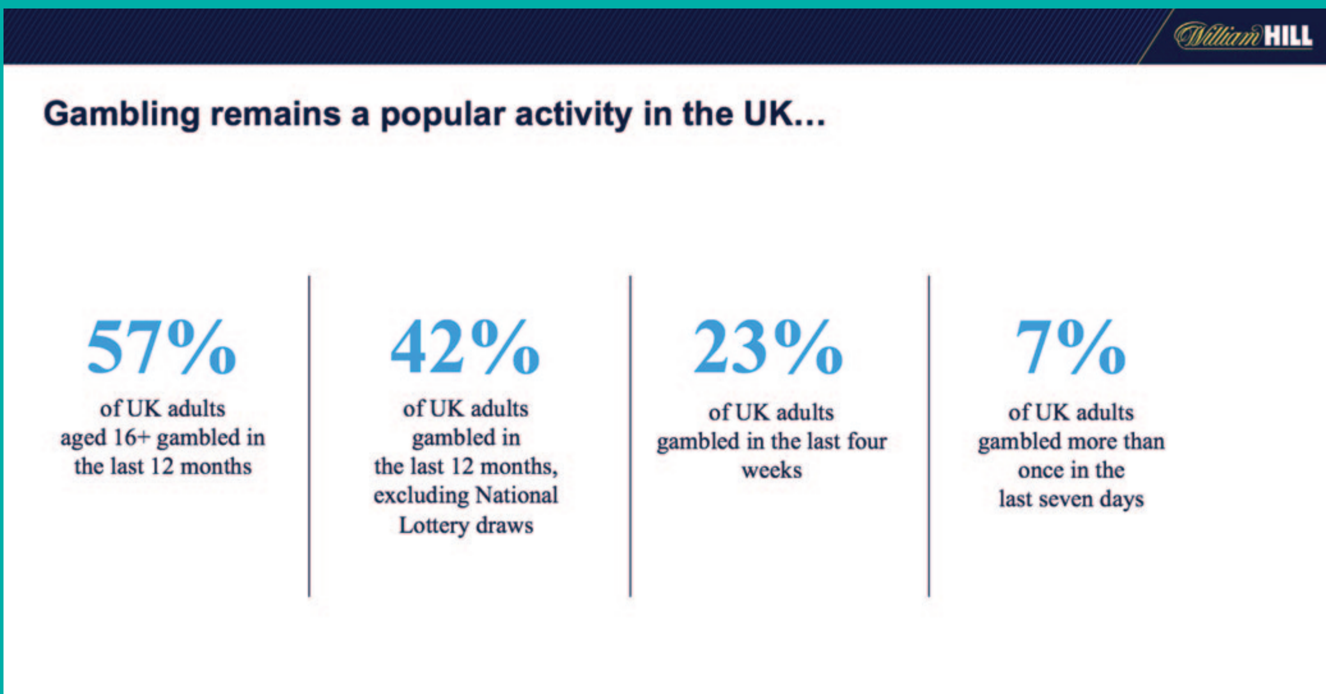
Director of Sustainability, William Hill

One of the biggest and longest established names in British betting, William Hill has recently been paving the way in terms of social responsibility and safer gambling. Since taking on additional responsibilities around sustainability some two years ago, Lyndsay Wright has been responsible for encouraging a different way of thinking right across the business and in this session she shared the company's experiences as they set off on a journey to understand the issues around risk and responsibility, and how they can be best addressed.

When, as a business, we were navel gazing quite painfully about three years ago on all of this, we had to go back to first principles, almost to reassure ourselves around why we even exist. It comes back to the fact that gambling is a natural human instinct.

Most of us will gamble at some point during the course of the year and we do have to believe that a well-regulated industry is still the best answer to that, in terms of treating our customers fairly, protecting the vulnerable, keeping under 18s out of gambling, and making sure that criminal activity doesn't benefit from gambling in the way that, those who have long enough memories, know that it did before it all got regulated.

While that's true, and it's fair to say we've seen gambling increase in popularity through mobile in particular, what's also true is that we've seen trust in gambling massively decline since 2012. This goes to the very heart of our ability to maintain a well-regulated industry because it's about our licence to operate - and that is so much about whether society believes we are doing a good job in delivering gambling in the way that it expects us to.



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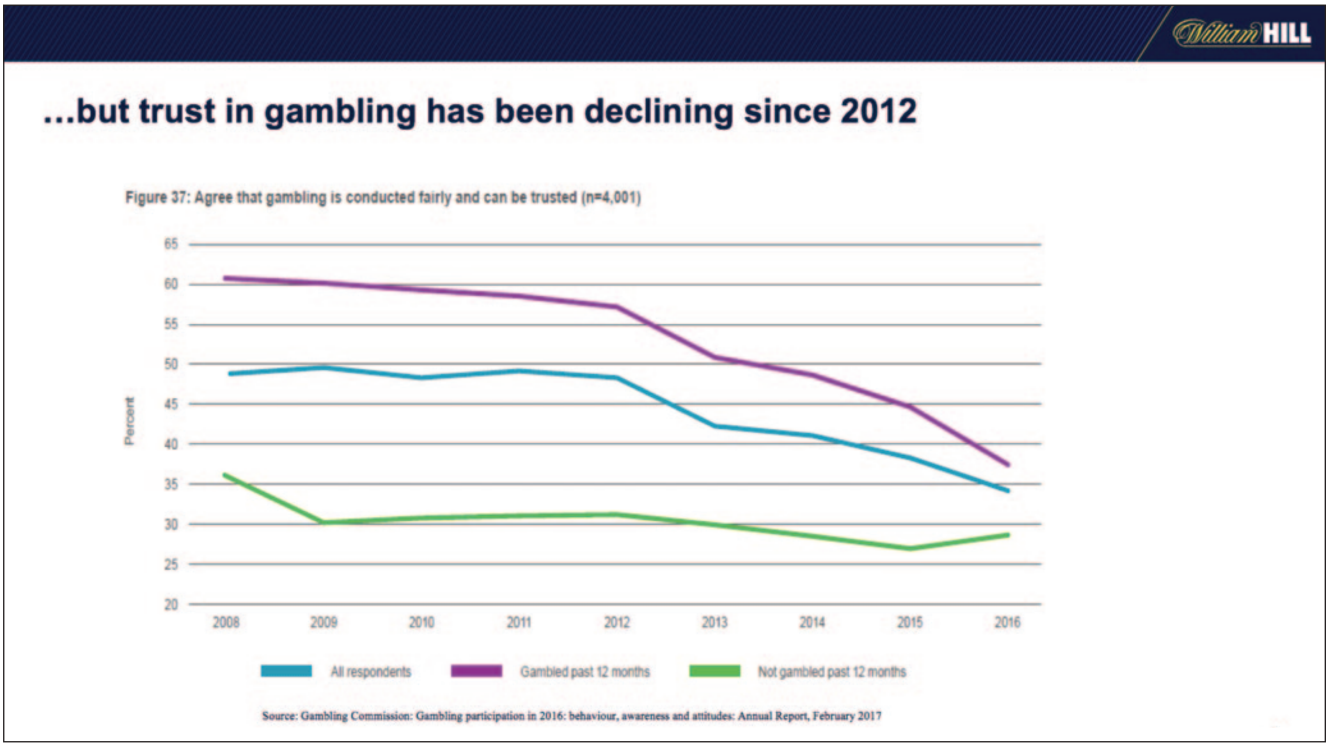


When we looked at the research from the Gambling Commission, the piece that really brought us up short wasn't the fact that we were seeing the decline so much since 2012, it's that that decline was mostly coming from gamblers. Non-gamblers, it seems, have a fairly standard view of what goes on in gambling, but when you've got your own customers saying they trust you a lot less today than they did in 2012, we have a problem.

Further reflection on how the world really sees us brings us to the media, and the negative headlines we are all very familiar with. We know the media isn't balanced, and it's probably going to be one of the last stakeholders that will drive any kind of balance in this debate. But, at the same time, how many of us aren't familiar with the stories that circulate about gambling addiction and harm? Many times I've explained to someone what my role is and they've immediately then told me 'oh my brother-in-law' or 'my son' or 'my daughter'. There are stories around our friends and family that far too many of us do know, where they've been worried about what's been going on with their gambling.

So, this is how the outside world sees us and our response has been that:

– The problem is in a tiny proportion of the population;
– It won't make any difference unless the whole industry does it;
– If a person wants to gamble irresponsibly, they're going to find their way around our systems, and they'll do it; and
– There is no evidence for what works.

Yet, if we all know people that have been affected, if we all really want good outcomes for our customers, why do we sound like this?

One of the biggest challenges we had to look at first was what should we sound like? Because, if we can articulate that, can we get to a place of really understanding the mentality shift that we need in our own space?

Our response was that:

– The harm gambling can cause matters and we can make sure everyone is in control and enjoys gambling;
– We want to help, and we will take steps to do so;
– We have a responsibility to help;
– While it may be true no-one knows the answer, let's go and find those answers. Let's test and learn to establish the best solutions; and
– When we find out what works, let's share what we learn.

Let's go back to first principles. By its very nature, gambling is a risky activity. It's the thrill of it that we know the customers love. But it is also supposed to be an entertainment product - and it's only entertaining if there's control around the risk.

If you haven't read the report In Control, from the Revealing Reality work commissioned by the Senet Group, I would highly recommend it. It looks at what control means for gamblers. It goes back to core aspects, like people do regret gambling when they're not in control. That they tend to set themselves some boundaries but they are often quite informal boundaries. As a result, they are not always aware whether they are staying within the boundaries and parameters that they think they've set for themselves.

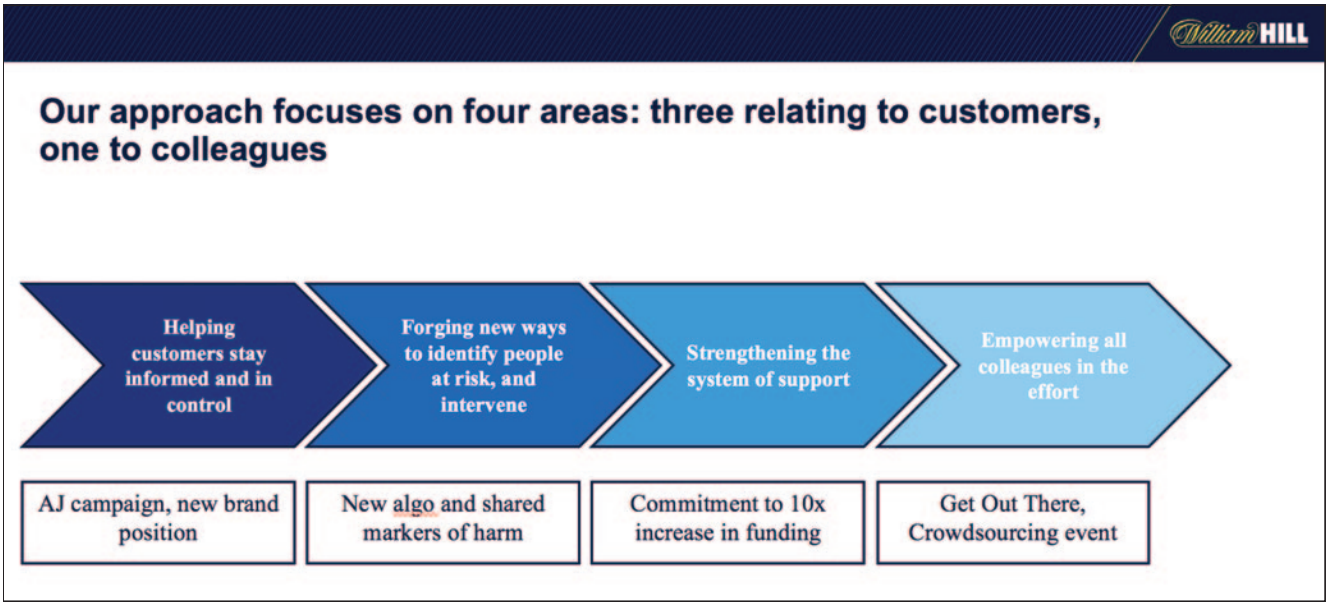
It also gives some really interesting insight around understanding the motivations for staying in control and, as a result, the strategies that potentially best fit with those motivations.

Thinking about this strategically, we said this has to be at the heart of the business. So we created four strategic pillars as an organisation and safer gambling is one of those four pillars. Within that, the safer gambling strategy has four focus areas. The first three are all about the customer and the fourth is about our colleagues.

We'd already done a lot of work thinking about customers who are at risk, how we identify them, how we interact with them in the most positive way and how we make sure the systems of support are there if they're needed. One of the issues we encountered very quickly was how do we empower all customers to stay in control?

We wanted to go back up the chain to a large extent. This was a big mental shift for us as an organisation, so we had to think very seriously about how we empower our colleagues so that they really feel we are taking this seriously as a business and it's something we really want every one of them to be thinking about.

Each of the four focus areas has some priorities that we've been working to through the course of this year. There are pieces there that you would absolutely expect. We have a new algorithm that has been deployed this year, which has built-in behavioural markers of harm, as well as changes in terms of time and spend on a customer-by-customer basis, and that runs every 24 hours. We have an expanded team that now supports those kinds of interactions.

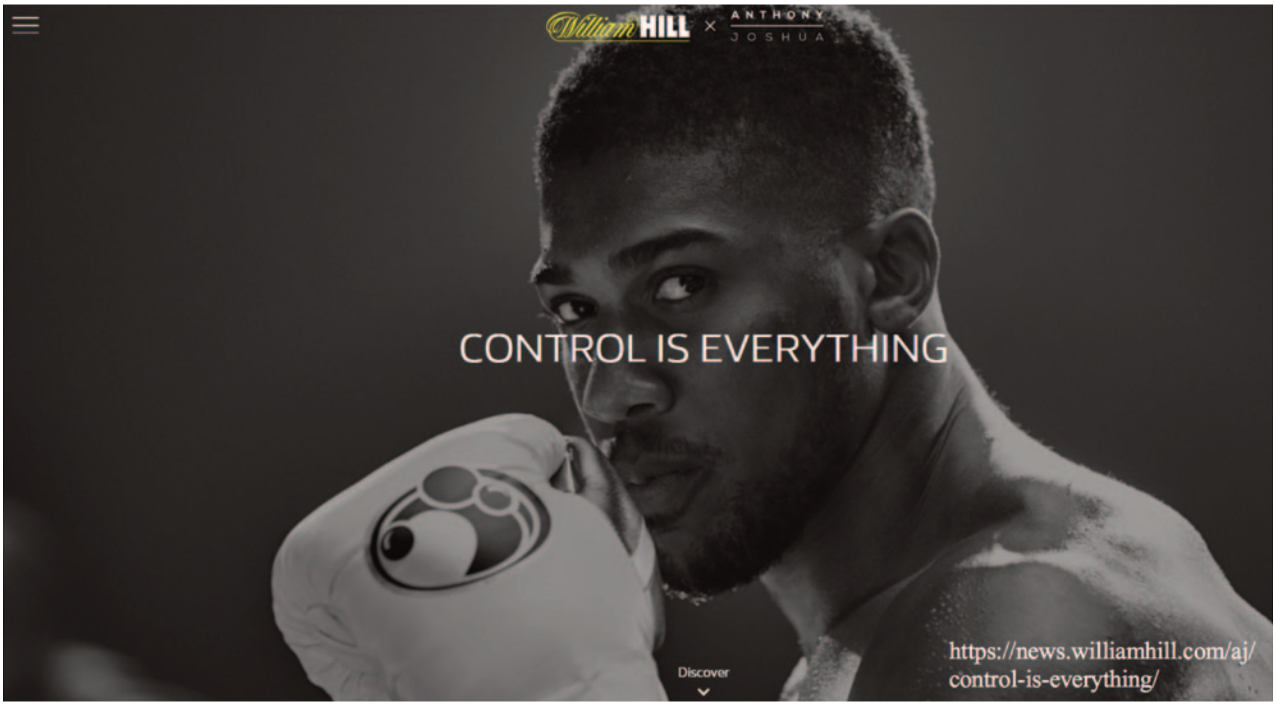


We've committed to a funding increase because we think it's really important. We do want those who need help to be able to get to it. That is insufficient at the moment and, over the next four years, we will increase 10-fold the amount of money that we are putting into safer gambling more broadly and specifically into support and treatment.

There are some surprising things showing up too. One of them is about how we get more customers to stay in control if they're using quite informal control mechanisms. We need to understand what control looks like for them. One of the simplest ways would be using things like deposit limits. So, how do we get more of them to use the tools that are available? This is where we have one of those challenges, because if you talk to a customer about "responsible gambling", often we'll get the response "that's not for me, I don't have a problem". But, if we can talk about "safer gambling", can we get more people to think about what actually helps them stay within the safe areas for them?

We were challenged externally by people saying 'you've got an amazing brand and marketing team. You've got incredible skill sets in your own business, you use them commercially, why aren't you using them on this side?' And, when we put that challenge to our teams, they massively rose to it.

In April we launched a new brand campaign which ran April to June. We are massively fortunate to have Anthony Joshua as one of our global brand ambassadors and what he did for us, at the same time as recording a TV advert, was record four control messages. We now use these very extensively across our social media platforms and in our direct communication with customers. At a very superficial level, what we saw was a 40% increase in customer engagement with those safer gambling messages, compared to what we had previously.



We're now using that to try to increase the number of customers using deposit limits and, so far, we've gone from about 18% of customers last year, to about 30% of customers today, and higher amongst the at-risk groups. So, we are starting to make some serious headway.

Now we're looking to take this to the next level. Our new Chief Marketing Officer, Charlotte Emery, who joined less than a year ago, came to us from the world of tobacco and alcohol. She brought a very different perspective because, when we sat down and then talked her through what we really want to achieve in terms of safer gambling, she completely got it, and took us to a different place.

What she's looking to achieve is making safer gambling normal and making it a core part of the brand. We launched a new brand campaign about three weeks ago called "It's who you play with" and this is really putting social interaction at the heart of the betting experience. That's something that we've always known is a core part of what customers love in the shops. We want to work out how to take that into the online experience. And, it's been shown to us that, through research, this is really important to the customers as well. Sport is a reason for them to chat. Betting with the sport is absolutely a reason for them to engage with each other. Betting is at its very best when it is a social experience.

The other piece that Charlotte talked about on the day that we launched this was that betting becomes dangerous when it's a hidden, secret, late night activity. We wanted to show that betting is a normal part of life for the majority of people, and we need it to feel normal so that it isn't hidden. Because, if gambling ends up hidden, problem gambling is going to be even more hidden, and that's a massive problem for us.

Fairly predictably, we had some interesting responses to the campaign. I'll read you the piece from The Big Step: *"This ad is irresponsible. Gambling shouldn't be advertised as a social opportunity when it's often the opposite. If you're a gambling addict, I'll tell you who you play with: mental health, family trust, job security and debt collectors."*

What gave me huge encouragement was the response we had in direct opposition to that. Richard Flint is obviously still keeping a very good eye on the space and was immediately in to say: "This ad ISN'T irresponsible. I know I will be attacked for saying this but this ad shows the sort of betting behaviour that happens every day, every week". A huge thank you to the guys at Wiggin who also then stepped in with a blog. What these responses are starting to show is the increasing willingness to challenge and stand up for the middle ground.

For us, it was also fantastic to see the customer response. They absolutely loved it. They said this is who I am, and they were saying to us 'we like the fact that you're showing people around me that this is what betting is like for me, that it's not that dark version that they just see through the media.'

I can't overstate the importance of having a wider community engaged with us in this. There are so many issues we can't solve alone. There's knowledge that we, as a company, need to bring in to enable us to do a lot of this better. But we also need plenty of voices in the room.

We ran an event last November called *Nobody Harmed: a collaboration towards solutions*. https://www.williamhillplc.com/nobody-harmed/collaboration-towards-solutions/ The insight that gave us was really powerful. We had a really wide range of voices in the room and I'm immensely appreciative to those who got involved, a number of whom are in the room today. We had 20 of our most senior people, and we invited another 80. These were academics, researchers, policy-makers, and figures from the industry, as well as adjacent industries, who bring a really interesting insight around financial services, or sports bodies, community support agencies, those who might be seeing debt problems coming through, those who might be seeing mental wellbeing problems coming through and the

frontline organisations whose insight in all of this is absolutely invaluable.

We gave them 10 challenges across 10 subject areas. Between them, on the tables, they then brainstormed ideas on each, and that's what we've put out on the report. A lot of those ideas we've already started work on. There are more we want to come through, but we really wanted to make that available, because we got so much good insight.

One of the things we've found that was powerful from that event, and from others that we've done, is you can't beat getting out there to be part of the solution, particularly when it brings your colleagues face-to-face with the issues in a way they wouldn't see day-to-day in the business.

As a result, we kicked off a new project in September. We did the planning over the course of the summer, and we've got a great partner in an organisation called Three Hands, who help companies and the third sector come together to work on projects for greater social impact. We've got four projects with some absolutely amazing charities.

The projects have been defined by the charities. They are ones they want to do, for which they need extra resource, or a different kind of expertise, and what we've put into this is 24 of our rising stars. These are our next generation of leaders.

Over 12 weeks, they will work through each of those four projects. They'll present the output to the charities' boards, and they'll come and present it to our own board. On the charity side, they get some good pro bono resource. On our side, we get an enormous amount of benefit. We've got our people experiencing this for themselves, really immersing themselves in the issues and understanding better what solutions could look like, and then going back into our own business. One of the things we're trying to do in terms of the cultural change is peppering knowledge at all kinds of different levels of the organisation, so that the conversation is happening right the way across the business.

I could go on and talk for hours about what we're doing but time is up and I hope this has given you some food for thought.

KPMG

Collaboration to Protect our Customers

Moderator: Adam Rivers

Director KPMG Economics

Panellists:

Lyndsay Wright
Director of Sustainability, William Hill

Elaine McCormack
Senior Manager, Risk Consultancy KPMG

Sarah Hanratty
Chief Executive, Senet Group

Lee Willows
Founder and Chief Executive, YGAM

Fiona Palmer
Chief Executive Officer, GAMSTOP

Dan Waugh
Partner, Regulus Partners

Despite continued negative press, the past 12 months has seen some ground-breaking initiatives in the area of social responsibility with the introduction of the whistle-to-whistle advertising ban, new self-exclusion tools and the roll-out of William Hill's leading Nobody Harmed strategy. But some businesses still lag behind, either because they are unsure of the way ahead or through fear of the potential commercial impact of taking action. Introducing the panel session, moderator Adam Rivers, reminded delegates that this was not a journey operators needed to take by themselves and that increased collaboration was a way for everyone to move forwards.

Adam Rivers: Today we are going to be speaking about responsible gambling with a focus on collaboration. We are going to tackle three areas: collaboration across operators, collaboration with our customers and collaboration within organisations.

So, starting with collaboration across operators, what does the panel think is going right and where could the industry be doing more?

Lyndsay Wright: Most of us would say the level of collaboration has changed massively, certainly over the last 12-18 months. In the time I've had to get myself up to speed on this, I've been immensely grateful to a lot of others in the industry, and more broadly, for bringing my education level up really fast. What we could do with is a very clear path forward. There have been a lot of great ideas that keep bubbling up. We need to get on and deliver some of those with real consistency. We've also got to get our biggest stakeholders on board because if we don't come forward with solutions, they are just going to get thrown at us and they are probably not going to be the ones that are the right outcomes for our customers.

Elaine McCormack: I'm not directly involved from an operator point of view but something that works well here on the Isle of Man are the industry forums, which are an opportunity for collaboration between the operators, to share the best practices and think about the industry issues that are impacting everybody. There's not a one-size fits all solution because there are different types of operators offering different types of services. But that facility to be able to share that knowledge and best practice is absolutely invaluable.

Adam Rivers: You have such a forum, Sarah?

Sarah Hanratty: Yes, I think it is really exciting. I am an eternal optimist and believe that we are really on this journey now. What I've been incredibly impressed to see in my relatively short time within this great industry is that real appetite and leadership now coming through from some of the CEOs. This is becoming a really, absolutely critically important piece of getting business right now. And there is real acceptance that you can't do this alone. No one single organisation can deliver this, no one business can do this on their own. This is about really getting it together. The Isle of Man approach over the last 10 years almost summed it up brilliantly: you need to get the right people in the right place, and you have to have a really "can-do" attitude. That is a recipe for getting this done now. Collaboration is all about getting people together to actually produce something, not just chat about it, to take action. So, I am really very excited about the next 10 years.

Lee Willows: There's something about the power of one voice. I've witnessed that myself working within the industry over the past five years, I do see more collaboration. It would be good to see that coming through as one voice. We do have a media that are really against the industry. The media are actually against YGAM and we're an independent charity! So there needs to be that collaboration, there needs to be that one voice and, also there needs to be more moderate voices as well. Perhaps, for us and the charities in this space as well, the time is right for us to put our head above the parapet a little bit more, and actually also act as one as well. The work that Lyndsay alluded to earlier with Three Hands, where we have four great non-profit organisations working together - we have a bit of responsibility to share some of that as well in a positive way.

Fiona Palmer: I'm in the fortunate position to be able to say that the GAMSTOP scheme is evidence that collaboration does work. I am not sure I agree fully with the statement that one-size doesn't fit all. GAMSTOP is one-size and it does fit all operators of all shapes and sizes. We're working with small individual bingo operators through to the multinationals, and we use the same set up, the same service. It's only come about because of the collaboration of the industry. It has taken leaders to come forward and sit round the table and work together, educating and bringing all operators along. It's about communication. I believe the platform for collaboration all started in 2014 when the British Gambling Regulations changed meaning all operators were on the same level playing field. It actually came from the compliance people. In those days, I was a compliance person and I looked at my counterparts within the other operators as my colleagues to turn to. They were the people who could help me do my job and vice versa, and it's developed from there. Yes, it's been slow coming but it's taken a much more rapid pace now five years on. We have delivered things like GAMSTOP and there's more to come from this area.

Dan Waugh: Somebody told me a Taoist proverb the other day, which is "there is so little time and so much to do, we must pause to reflect", and I think the industry's not done a very good job of that. The more pressure the industry's come under, the more things it's tried to do. I remember when I worked for Rank as strategy director, I realised that sometimes the more resource you throw at something, the harder it gets to achieve. I would say that in the last five years, we have seen just a dazzling array of organisations all trying to solve the same problem, all trying to solve it on their own terms, and all telling everyone else that they need to come in with them.

What's really good is that we're now starting to see that come together. So, we are seeing a coalescence of some of these bodies, this alphabet soup now seems to be starting to spell something. Collaboration is not about everybody getting together, it's about leadership. It's about trying to tie all these different strands of activity together. I'm very encouraged by some of the consolidation and rationalisation of the virtue industry.

Adam Rivers: It's clear that if the greater the number of operators, the harder it is going to be to establish meaningful collaboration. Furthermore, I've heard some industry commentators say that safer gambling is actually a lever of potential competition and, therefore, some operators may not want to collaborate. Would any of you agree with that?

Dan Waugh: The sainted Phil Cronin at Tombola, which is probably the most ethically run online gambling company in the world from what I can see, has a culture of limits. They have a management KPI to reduce spend per customer. I don't know anybody else in the world that does that. He's always said that they see that as a point of differentiation. It's a point of differentiation not actually a point of competition.

Sarah Hanratty: I'd go even further than that. Having come from the alcohol sector, it's when the CEOs of those leading companies take off those competition hats and solve this together collectively, that you start to get impact happening at speed, and at scale. That is absolutely critical. It's a big moment, and it's a brave moment as well. William Hill's Nobody Harmed strategy was a game changer. Each piece was a milestone for other businesses who wanted to do something similar. Businesses should get recognition for the good stuff they do but then share that and collectively bring the whole industry along that journey. And there's a really simple saying "leadership starts where regulation stops". You do need that collective leadership sense to get this stuff moving in the first place.

Lee Willows: We certainly see it in the charity sector as well. YGAM is synonymous with education, it's been going now for five years, and I've seen a lot of other former addicts like myself wanting to do something positive in this space as well. Even in our little charity space there's been a bit of competition around who's got the best education, who's got the most impactful education. For us, it's about taking insight, it's about that collaborative working, and I guess that competition is healthy because it keeps you pushing your boundaries while sticking true to your core. We will probably end up partnering with more organisations that are going to be doing education, because our charitable purpose is to inform, educate and safeguard. We can't do that by ourselves and we are absolutely open for working with three or four other organisations to give us that scale. Also working with yourselves as well as the industry to try and be a positive news story, to help to try and get the news story back from what is quite an "anti" press in the UK.

Lyndsay Wright: The other way to look at it is in very blunt financial terms. When we started doing the strategic piece of work on this, we tallied up all the tax increases, all the regulatory changes over the previous five years, and had those not happened, our profits would have been about £300m higher. Just to give you context, the expectations for William Hill this year are profits of £130m. We are in a place where if we don't tackle this collectively, we will never make enough money competitively to overcome the harm that will be done to us financially from regulatory change, because we've not taken the lead on it.

Fiona Palmer: Does it also come down to employees? If you take the lead on the safer gambling and providing a safer product and looking after the consumers, your employees will feel more proud and engaged with where they work. Do you see that as well?

Lyndsay Wright: We definitely do. All of us will feel a lot better if we feel like we're working for an industry we're actually proud of, without a doubt. If you are working in the digital space, you need marketeers and you need technology guys and the younger they are, the more this is an absolutely pivotal part of what they want. They want a company with purpose, and we have to compete for that kind of skill set with some of the biggest tech companies based in London. So it's a very fair point.

Sarah Hanratty: We're lucky in this as we've got the experience of other sectors who've lived through this over the last 30-odd years. Certainly the alcohol sector, and high fat, salt and sugar foods. You're just seen as a big collective, you're big food, or you're big alcohol, or you're big gambling. So, even if you've got one strategy as a company that is absolutely brilliant and you're doing the best thing, it doesn't matter because you are still just "the collective". I'd argue that it can almost be more damaging if you are going out just on your own, trying to show you're changing everything because the outside world is desperate for the industry to get itself together, to really get working on this collectively and at scale.

Adam Rivers: So, if the industry is only as good as its weakest link, does that mean that collaboration across operators is not enough on its own, and that instead collaboration with regulators to ensure that those weak links raise their own standards is required?

Elaine McCormack: There has been a lot of regulatory change over the last number of years, and it's important to have that level playing field so everybody is focused towards the same goals and the same outcomes. There's been a lot of regulatory tightening already but, for me, regulation is a good thing because it does mean that everybody is playing to the same rules.

Fiona Palmer: From a GAMSTOP perspective, if there is regulation that ensures that all operators are part of an integration with GAMSTOP, then that can only provide a safer environment with more protection to consumers. Therefore, yes, that is where the regulation is needed just to help get those remaining operators over the line. We've got the vast majority - all the leaders are there - but from a consumer perspective, we're not seen as the national solution until we can say all operators are part of it, and you will be protected.

Adam Rivers: Dan, we've gone through collaboration potentially with operators and the regulator, what about the research community? How does the industry better collaborate if currently the majority of researchers are so vehemently anti-gambling?

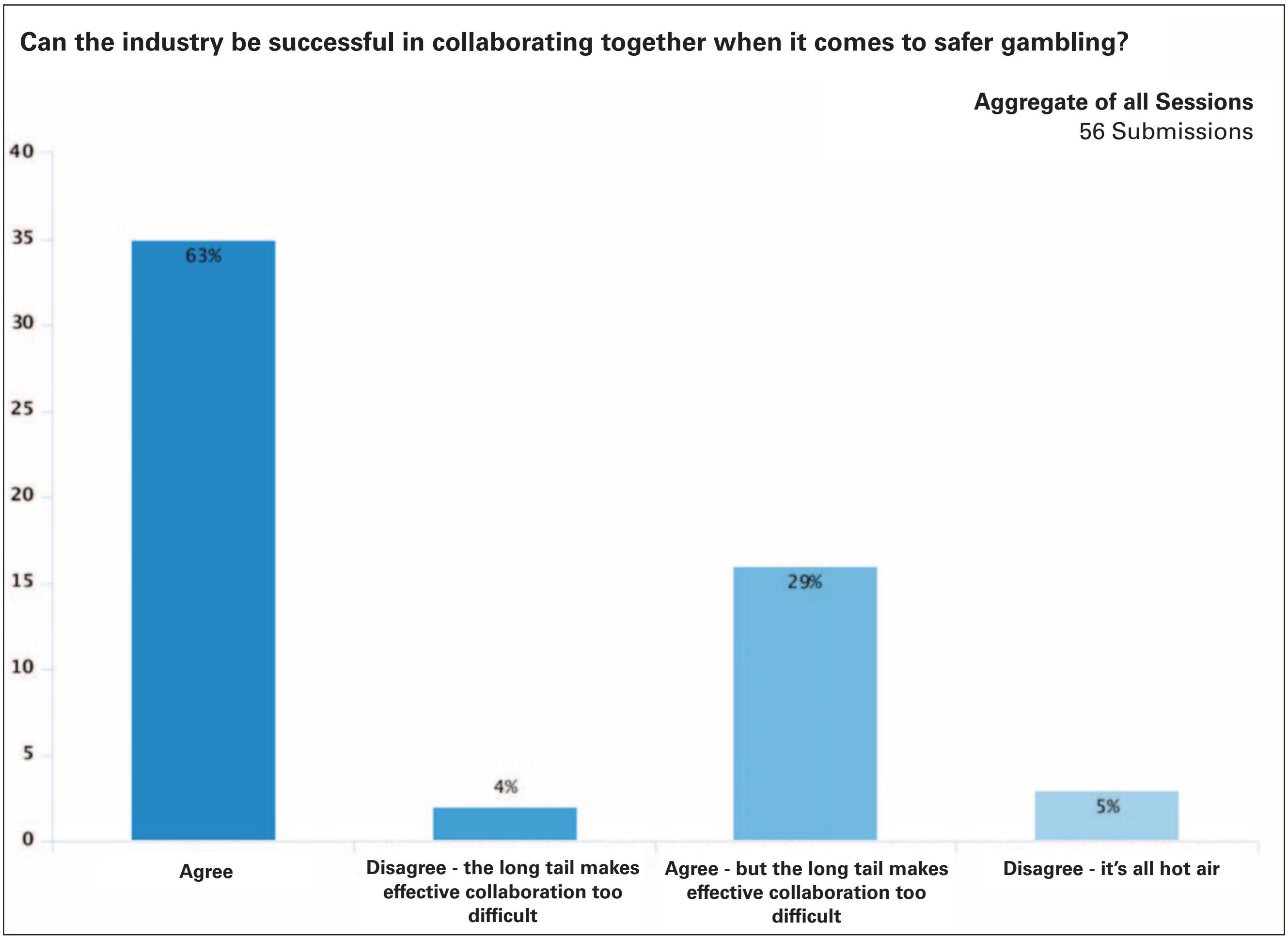
Dan Waugh: It's very difficult. I suspect you probably invited a few researchers to this conference but it's becoming unacceptable for some researchers to be in the same room as members of the gambling industry. There are some other researchers who, for other reasons, are not permitted to carry out work on behalf of the gambling industry. So, in the UK it's very worrying and, unless the Gambling Commission is prepared to take leadership on this, I'm not sure how we solve that.

What we can do is look overseas because this heavy imbalance is not necessarily replicated in other markets. Some of the best researchers in the world are to be found in Australia, in Canada and in the US. If you want to get proper independent, credible, expert, non-ideologically motivated research done, increasingly you are going to have to look outside this country. Because, even if you tried, say to fund some bursaries for research, I think you'd find that you'd be criticised for doing it and people applying for those research bursaries would be vilified in the research community. It's really worrying. We've become very intolerant in research in this country.

Sarah Hanratty: That's a really good challenge for the industry because some of the leading expertise around knowledge of your customers, the understanding of your data, understanding of all that at a collective scale, can contribute to that research knowledge. We are seeing some really good examples of those data collaboration pieces. When you get operators working collectively together to solve a key problem that's obviously an issue, trying to work out an industry-led solution using our data, our research, our data science expertise to solve that. We've had a similar experience with Senet Group's Markers of Harm project.

Adam Rivers: On talent, some organisations are introducing research hubs where staff might be in BAU roles for four days a week, but one day a week they get to conduct research using internal data and be public about their findings. Can you see that happening in gambling?

Dan Waugh: GVC/BWin started this more than a decade ago with the transparency project at Harvard, and obviously GVC has revived that in the last year. But that's an example of having to go outside this country and find credible researchers who are prepared to work with you, and who won't feel intimidated.



Lee Willows: Speaking personally, impartiality is bonkers. I hear the Gambling Commission won't attend, won't go to conferences or won't go to a casino in case they are tarnished in some way, which is ridiculous. Within YGAM, we are delivering our workshops to teachers and we invite members of the industry to come and participate in those workshops as well. It's really powerful because the teachers can see then the industry isn't necessarily what they read in the newspaper. Using Microgaming here on the Island as an example, we work with them and with the local authority rolling out education across the Island. We need to get over this impartiality. It can be a restraint in some ways.

Adam Rivers: Our first poll asks whether or not the industry can be successful in collaborating together when it comes to safer gambling with a few options. The poll (above) is incredibly optimistic. I look forward to doing this session again in six months and seeing if that remains! OK, great. Let's take some audience questions now on operator-based collaboration.

Delegate: A lot of what you're doing is UK focused. How are you going to rope in all the thousands of licenses based in offshore jurisdictions?

Lyndsay Wright: We almost have to think of this as a series of steps. We've got to satisfy ourselves we're doing the right things to start with. So, let's think about our own company first. The second stage is very much that piece of collaboration with those that are nearest to us, because we really want to get good outcomes for customers and that does mean real consistency in terms of what's being delivered. I'm massively encouraged by the fact that we've got a new industry body that is bringing together these voices in a much more powerful way. I think the BGC for the UK will end up being absolutely pivotal and they can help us hugely with the industry bodies that sit outside of the UK in terms of those more international relationships.

Ultimately, it's then about how do the regulators pick this up? There are aspects of what we would want to see change over time that you would really hope the UKGC would build into the LCCP and the UKGC is clearly talking to other regulators around the world. It's going to take a period of time, but if we could get the biggest operators from the UK, you get to something like 70% of the amount of money that is being spent, so you make a big step forward there, and then we just keep flowing through. If you've got any brighter ideas, please share!

Fiona Palmer: It most definitely comes from leading by example and being open to sharing what works, the tried and tested approach. Ultimately, from experience, the volume comes when others start to follow the lead, then it becomes the minority that are left behind. It's shared learnings across all levels. So, most definitely at the regulator level. If they have something that they can demonstrate that's been done that they can take to other regulators, then it's definitely a way forward.

Sarah Hanratty: The way the global landscape is changing will speed that process up in many ways, looking across both the regulated and de-regulated markets. It was certainly a very common pattern within the alcohol sector, that they were using the learnings from other jurisdictions to quickly get structures in place that would safeguard that absolutely priceless licence to operate that global businesses require. So, the structural landscape can really speed that change too.

Adam Rivers: Moving on to the customer, I think we all agree the industry is facing a big challenge when it comes to public trust and trust with its own customers. What more could the industry be doing when it comes to collaborating with its customers and helping broader society understand the positives that do come from the sector?

Dan Waugh: The online industry in particular has not done a great job in terms of building customer advocacy. When I worked in the industry, we owned bingo clubs, we had casinos and we had online, and so I used to sit in three trading meetings a month. In our bingo club business, we talked about customers an awful lot and in very positive terms. In our casino meetings, we talked about customers somewhat, and not necessarily in the most complimentary terms. But the worrying thing was in the online meetings we didn't talk about our customers at all, we talked about accounts. So we dehumanised the customer, and that physical dislocation from the customer and the language that you hear in the online industry, things like 'lifetime value', a lot of the terminology is quite negative, and that's part of the reason we're in the mess we're in.

When you have a situation where you've got Justice for Punters, whose main beef is they can't gamble enough, in alliance with the Campaign for Fairer Gambling who say we shouldn't be able to gamble at all, it tells you that you've got something wrong with your customers. So, we come from a bad place.

The first thing to do isn't collaborating with customers, we've just got to focus on delighting customers. We've got to move away from what has perhaps been seen as a rather extractive industry to a genuine entertainment and, in land-based, hospitality industry. That's the first thing.

Question six in the House of Lord's enquiry was "what are the benefits from gambling?" and that, in a funny way, seemed to be the question that operators I spoke to were struggling with a bit. Which is insane. In any other part of the leisure industry, you would be able to answer that immediately. Look at Net Promoter Scores, look at Trustpilot scores: they are not good. We need to focus on that before we can expect anything back from our customers.

People say it can't be done, because they say 'well, you know, it's gambling. It's an adversarial relationship'. That's not true. If you look at the Trip Advisor score for The Wynn in Las Vegas, it is on a comparison with Disneyland. It's a diversified offer. People recognise The Wynn for being more than a place where you can transact. They get value from it. That's the only way you build advocacy. So, we have to pay far more attention to how we build value for the customer. And if we do that, the advocacy will come.

Adam Rivers: Arguably some of the more successful operators we've seen in the past five years are those who do focus on the recreational customer and curating a great customer experience.

Dan Waugh: The Gambling Commission's own research says that trust is the most important factor in determining who to bet with. It trumps all the other things, prices etcetera. It's an easy thing to challenge, it's a lot harder to do, but that's where we have to focus.

Elaine McCormack: For me, there are two aspects when it comes to collaboration with customers. It's knowing your customer in the first place; operators gather an awful lot of data about their customers, but it's about not just gathering it and putting it to one side, it's about using the data so they can offer that help and support if they need to. As we've already alluded to, the media focus is all on the negatives. There are some fantastic tools out there to help customers, but potentially they don't know about them. They only get to know about them when there is a problem. Or they think that by using the tools, it indicates that they've got a problem. So, there's that stigma involved as well, and it's how industry can break down that stigma.

We always think that the gaming industry is not as mature as some of the other traditional financial services industries, and we always think about what we could learn from other industries. The Financial Conduct Authority in particular have been very vocal about what financial services can learn from the gaming industry, especially around the use of technology and investment in technology, which helps them to be more proactive when it comes to looking at collaboration with customers. It's using that data and prompting customers when there potentially may be a problem. That prompt might just be all they need to recognise that there is a problem but that prompt will also provide that opportunity for operators to provide that help and support if it is needed.

Sarah Hanratty: Looking at other sectors is really good. If you think about car safety, customers just expect that. It's almost built into the system. Without even being aware of it I put my seatbelt on, it's there, it's comfortable to wear, there's a bit of legislation/regulation that creates that framework there, and it really does work. I am a ferocious believer, and the data backs it up, that customers trust brands in a way that they don't trust big, monolithic organisations or governments or parliaments. Brands are very personal to you as a consumer and as a customer. Your customers are expecting you to get this right, and if you're not getting this right, looking down the road 10 years, the sustainability point is huge. That's the really big one. Brands could do this really well, but in a way that suits the style of the brand. Some of the cognitive dissonance and that social contract that feels like we've broken, is around the transactional sense of this, and we're not used to that sort of advertising anymore. You don't buy a car anymore on the fact that the advertising is telling you it's going from 0 - 60 in 3.4 seconds. You're doing it because you love the spirit of Volvo, or you love the spirit of Audi. It's really interesting times, and we're seeing that journey really starting to evolve.

Lyndsay Wright: What both of you have flagged is seen in its worst form in how we do TV advertising. It's very shouty, it's very aggressive, it's very call to action. You look at the journey the alcohol industry has been on all the way through to things like Guinness Clear. We've got to look at that alcohol journey to see where we need to start maturing as an industry in terms of how we show up to our customers.

Dan Waugh: When you get on to the advertising, it's not just that the shouty stuff is irritating, although I think that's a big part of the antagonism. There are some pretty good researchers, including one in Bilbao called Hibai Lopez-Gonzalez. He's looked at gambling adverts and says while they are relatively low order in terms of harm, don't make them so they are overtly appealing to machismo, don't show people drinking in the pub while they are betting, don't over-egg skill and control, and, be a bit grown up about this and inject into your advertising some appreciation that this is a risky activity, so it's there. I'm probably going to offend people here, but what's interesting is that three of the brands that transgress those sort of insights around potentially harmful gambling are owned by two of the companies that are calling for gambling advertising to be banned outright. It makes no sense because we should be able to navigate a way between outright ban and laissez-faire, by advertising in a way that is positive and responsible. Not run banter ads and then stick a "when the fun stops, stop" on the end. That makes no sense whatsoever. We have to be more grown up about this and I agree what William Hill has done with AJ is the way forward.

Adam Rivers: Time for a poll. Does the industry do a good job of promoting the positive side of gambling? There are three choices of answer. (See below.) That's interesting: No-one thinks it does and nearly a quarter of the room thinks that it would be too controversial!

Let's move on now to the customer of tomorrow, i.e. those under 18 and those who are 18-24. When you turn 18 and suddenly you can have a betting account, what does that really mean? How do we feel the industry is currently protecting those who can legally gamble and those who have recently started?

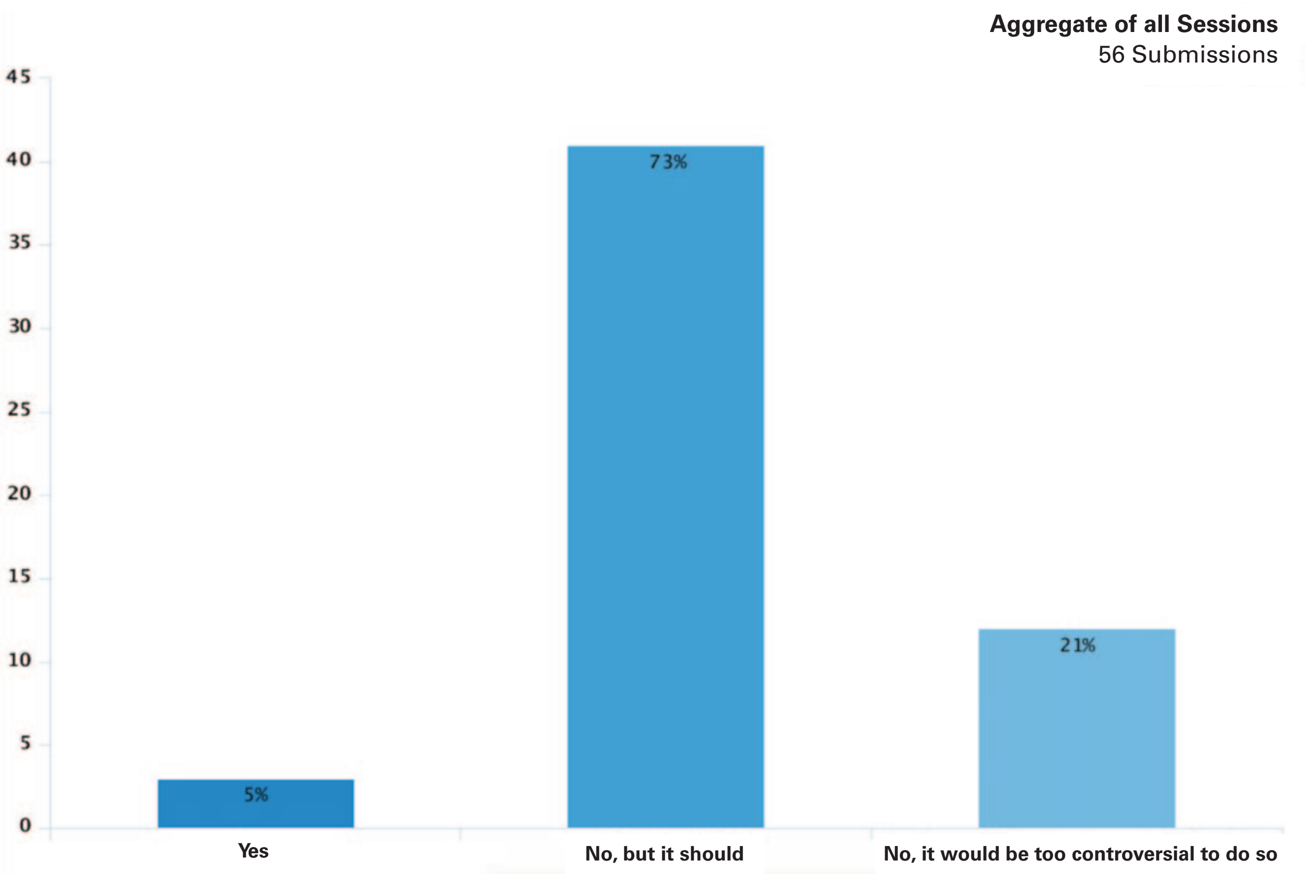
Lee Willows: When YGAM started that out, we were the Young Gamblers Education Trust so we were absolutely focused on gambling and we would bring teachers to our workshops to talk about gambling. Over the past five years we have rebranded ourselves to the Young Gamers and Gamblers Education Trust. What's bringing teachers to our workshops now is still the gambling, but also it's the gaming.

In our world, gaming is unregulated (think of games such as Fortnite, Clash of Clans etc). It's sexier, it's a British success story and it's good for people, it improves eye-hand coordination. But gambling? It's toxic but it's regulated. It's safer but it gets a lot of negative press and it's an age-restricted product. I find that incredibly interesting.

For under-18s, as an industry, you absolutely can't be engaging with those young people at all. Though young people can gamble on Category D machines, it's not an audience you need to be reaching out to. But there are organisations like ourselves and GAMCARE, and what we want to do is remove the stigma around gambling related harm. I experienced that, a lot of addicts do, so let's start to have those conversations. Let's start to shine a light on how to make those informed decisions so that hopefully we are encouraging a group of young people growing up that stigma doesn't exist at all.

The final thing is around what the end goal is for education, because we don't know if education works or not. We're putting a lot of effort into learning from other jurisdictions, we're putting a lot of effort into evaluation and accreditation, but also we'd like to get gambling, gaming and digital

Does the industry do a good job of promoting the "positive' side of gambling?



resilience as part of the National Curriculum as well. If we can do that, then we are speaking to the future customers, and hopefully we are educating them in a more informed approach to this whole space.

Dan Waugh: It's deeply unfashionable but it's worth reflecting on the facts, and the facts are that gambling by under-16s has declined dramatically in the last 10 years. The gambling that does take place by under-16s is predominately private betting with friends and family, or gambling on Category D slot machines which, as Lee points out, is currently legal, although Bacta (the amusement machine trade association) are putting some stickers on their machines I believe.

So that's the reality. Online gambling participation rates by children on past-week basis on online gambling have gone from 3% to 1%. It's not necessarily the industry making this happen, although things like this years' change in age verification has got to be a positive step. But also it feels that children are less interested in gambling these days. Certainly, that's what participation rates tell us. Picking up Lee's point, it may be that they are migrating to other ways of getting their kicks, including somethings that may be similar to gambling but are not regulated as gambling.

Sarah Hanratty: Under-18s aside, with all the conversations that we're having, there's a growing recognition and acceptance of the slightly more precarious 18-25 year old age group who, looking at research, are proven to be at more risk than those with adult fully matured brains. There are some good conversations going on at what that might look like across businesses, how there can be a consistent way of recognising that a new or younger gambler is in a different place than a more experienced person.

Fiona Palmer: As a mother of teenagers, this is extremely close to my heart. It drives what I do and why I do what I do. But I feel passionately that we need to educate because we want informed consumers. We want people to go in eyes-open, know what it is that they are signing up to and what they are doing, and the associated risks as well as the benefits. That way they can make an informed decision as to whether or not they want to do it. That's absolutely key. We need to talk about it and make it an accessible conversation at all levels.

Lee Willows: I totally agree. The challenge is that we only reach out for help when we've fallen off the edge of the cliff. And then when we've fallen off the edge of the cliff, we've reached out for help, we are greeted with warm open arms on social media or asked to tell our story to the newspaper. We want to show there is a different way and education is a way to perhaps prevent that young person falling off the edge of that cliff, to recognise their behaviour beforehand, and to recognise that they can access the services of GAMCARE. Schools don't necessarily know about GAMCARE but there is support out there if gambling is affecting you negatively. There's a real sweet spot there that, together, we can do some powerful work in.

Adam Rivers: We have a delegate question.

Delegate: As politicians, we get a lot of lobbying from family members of people with gambling problems. How does this collaboration work in individual cases, and does GDPR in fact prevent true collaboration to protect customers? (A story of an individual case was given where, despite self-excluding, a young person continued to open new gambling accounts and stole to support his addiction. Despite his bank account details remaining constant he set up new email accounts which allowed him to get around the systems.)

Fiona Palmer: There's now a one-stop shop through GAMSTOP for self-excluding online. Regarding your specific question around GDPR, yes, it is a challenge and we need to work on that and how we overcome it. There are limits in how far we can go. We also have a challenge with the financial institutions where certain information cannot be seen by the gambling operators because they are not within the financial industry themselves. Again, these are challenges. There are new banks emerging that enable consumers to block gambling transactions themselves and, where we come from, we advise a layered approach. There is no silver bullet. That's the starting point. However, there are layers of barriers that an individual can put in place, and it's about making that easier and more accessible as a one-stop shop and working closer with treatment providers, so it's all there. This would mean, when you have somebody like the individual you're talking about, that they only have to come to one place, and then everything is already automatically there for them, and easy for them to access.

Lee Willows: I might be slightly unpopular with what I'm about to say now, but there is an element of personal responsibility, alongside any responsibility for product design. Before YGAM, I spent 25 years in education. A lot of that time I'd been working in prisons, working with young people who had tragically ended up in prison because they'd stolen money to feed their addiction to drugs or drink. There was a substance addiction behind why they ended up in custody. We would often talk to young people that, first and foremost, you've got to accept personal responsibility and however difficult, you have to commit to making a change. You are the person now who, when you leave the prison doors, can then create a new life for yourself, remove that stigma that you've had, hold your head up high and move forward positively. I'm a great fan of that personal responsibility as it is part of the healing process and provide a catalyst to move forward. Stopping gambling, I've done it and it's the most difficult thing to do. And I needed to accept personal responsibility, I needed the tools that were available, like the National Problem Gambling Clinic and self-exclusion tools from the casinos. Without all of that coming together, the cravings were so strong, I don't not think I could have stopped. But there is an education piece as well for professionals who work in prisons, who work in the NHS, around that personal responsibility, the same as we do with the substance addictions. All this support is

"We're putting a lot of effort into learning from other jurisdictions, we're putting a lot of effort into evaluation and accreditation, but also we'd like to get gambling, gaming and digital resilience as part of the National Curriculum as well."

going to come through, but stopping is the most difficult thing. And it is very very hard, I really can empathise with what that young guy is going through.

Adam Rivers: Moving on to our last theme: collaboration within the operator. It's something that often gets forgotten about, but the cultural change that can be required within an organisation in order to achieve some of these points is significant. I can think of no better example than in Financial Services where, following the emergence of Treating Customers Fairly in the early 2000s, there was a lot of soul-searching in organisations to get them to a position where putting the customer first was key. Elaine, that's an area where you've had a lot of experience: could you talk us through how cultures change internally to meet these sorts of tricky issues?

Elaine McCormack: Yes, my background is in financial services, primarily banking. Certainly, following the financial crisis the banks were the media bad boys. There was an awful lot of historical cultural failings within the banks and they paid a very heavy price for that when it came to very public things like mis-selling. It took a while to change the culture in the banks, but I think it has changed. A lot of the issues within the banks stemmed from rewards and rewards for excessive risk taking, but there were a lot of issues as well because there was so much siloed behaviour within companies. That's not just within financial services, it was within every company. You've got your compliance function sitting completely separately from your business development function, from your marketing function, and nobody talks to each other. Things are changing but there's certainly a lot more to do. Compliance, as Fiona said, were in the background but now they've been pulled kicking and screaming forwards, and they sit right across the whole organisation. That's great because there's that involvement from a really early starting point now. So, no matter what the business is planning, if it's new features, new games, looking to go into new jurisdictions, then they can speak to the compliance function and they can talk about potential pitfalls and considerations. That's going to save so much heartache going forward with things like customer complaints, regulatory action and reputational damage. It's really important.

Traditionally, compliance was always seen as the 'business prevention unit', but that's had to change. Businesses never like spending money on departments that are going to cost them money, rather than departments that are going to make them money. But there has been that key change. Coming to the cultural aspect and, particularly in respect of responsibility, for Financial Services it's vulnerable customers, for gambling businesses it's responsible gaming. Businesses are always judged on their culture and how they treat their most at-risk customers is very indicative of the culture right across the business. There is more interaction now, but there is definitely more that could be done.

Adam Rivers: Lyndsay, your Nobody Harmed initiative was pretty "out there" when it first came in, no one else was speaking in quite that way. How did you go through the journey internally, getting buy-in from the CEO and other senior stakeholders?

Lyndsay Wright: That speaks to how important it is to do both top-down and bottom-up if you are going to do anything that is that critical culturally. When we launched Nobody Harmed, we did it with a very stark presentation because we really wanted to shock people, and we wanted them to be shocked into believing that we were taking it seriously. We didn't do much with media - we did a piece with the Racing Post, because everyone in the shops reads the Racing Post, and we did a piece with EGR, because we knew most of our guys on the online side would read EGR. What we wanted to achieve from that was that they could see us going so publicly with this that they would know we are never back-tracking from it.

What was fascinating was how much that just took the lid off everything internally. It gave permission to the whole organisation in a completely different way, and what surprised me most was how many things then started bubbling up. To have a top-down 'yes we're going to do something that bold' approach allowed all of that passion to come through from underneath, for all of the colleagues that were just desperate to do something. Structurally, we said there is no central function for this. When it comes to Nobody Harmed or sustainability, I'm it, I am one person and my job is advocacy because really it's 16,000 people who have this as part of their responsibility. The fact that it then sits as one of the strategic pillars means reward for the entire organisation is partly predicated on getting that right.

Sarah Hanratty: I've heard it anecdotally that if you go and talk to some of the teams at Hills, they use Nobody Harmed as a way of thinking completely differently. Authority was given to them from the very top, and you can see the business re-engineering as a result of that. It's quite powerful because there's a risk that this is just words and doesn't actually have an impact. So there's a real need to look hard at your business. If your reward structures are still completely dissonant to your overall vision, you are never going to get cut through and we won't get cut through collectively until we are serious about this too. It's at every level of the businesses, and many of the alcohol businesses, certainly Diageo and SAB, had to look at every single part of the business to see if there was anything that was going to take this off the track. It's a huge cultural shift.

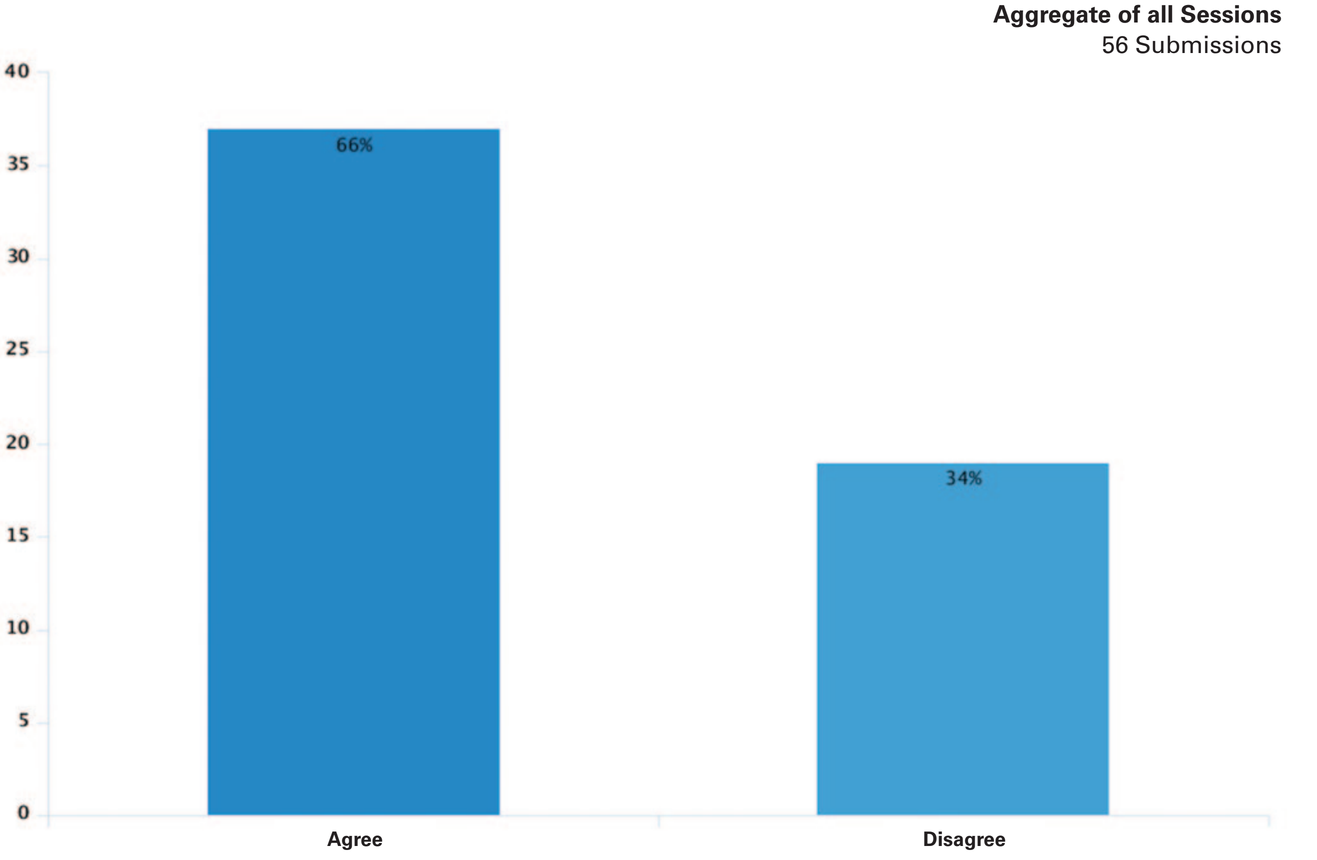
Adam Rivers: Within cultural change you need to consider a wide range of parameters, such as director responsibilities and incentives. I was with a client in the water sector recently, and they have re-written the director responsibilities to include sustainability goals as things that affect their remuneration. That's a big step change. Does the panel think we'll end up seeing similar things here?

Dan Waugh: When I worked in the industry, if you talked about problem gambling, which I did, you were labelled a tree-hugger and people threw things at you. Maybe that was just me?!

The first thing that we can say is that cultural change takes a long time. For it to be meaningful, I'm not sure we know the answer. But the most important thing, and Lyndsay hits this on the head, is people are talking about it now. Just the raising of awareness that gambling can result in harms, some of them fairly severe, is the first step down that journey. And then we'll see.

We will continue to see examples of bad behaviour through Panorama and Gambling Commission enforcements. We're definitely going to continue to see those things; it is like

The culture inside gambling operators is changing - boards truly care about safer gambling



looking at a distant sun because these things happened a while back, so we won't know for a few years whether there's genuinely been cultural transformation, and how far it's gone. Awareness is that first critical step, and William Hill and others have done a fantastic job in sending us down that road.

Adam Rivers: Let's have our final poll which asks is the culture inside gambling operators changing? Do boards truly care about safer gambling, or is it just all a mirage? There's a healthy dose of scepticism, I would say. One more question from the audience.

Delegate: Just on the safer gambling for customers, one thing that strikes me is there's been huge progress around TV advertising, perimeter pitch side advertising and football sponsorship. But what strikes me now is the pervasiveness of advertising on the radio for online casino-style games at breakfast time when you're sat there with your family. What's the industry view on having a bit of introspection on advertising on the radio, and committing to withdrawing from radio adverts?

Lyndsay Wright: I can't say it's a topic we've actually raised yet, which I'm guessing probably means we are not doing a lot of it. I go back to first principles, you've got to think about what impact you are having on under-18s first, and if you are having a meaningful impact, we shouldn't be there. It's very simple as a starting point, and then you get into the whole question about tone. So, let's answer the question, are we hitting too many under-18s at that point?

Sarah Hanratty: It also underlines that sense that there is too much, it's too prolific. The whistle-to-whistle voluntary action ban that was taken by operators in the UK was a hugely symbolic step to start to try and address this, but there are lots of layers to that which we need to understand better.

It is a real challenging area; there have been Cochrane reviews, which are the biggest global review you could possibly do, about what is the real impact on behaviour and advertising. While there isn't conclusive proof either way, we are getting a new digital generation of children who we have to safeguard in many ways. It's being clear about how to address that comprehensively, and understand what's driving it, what are the issues, what do we actually need to solve.

Adam Rivers: We're at time, so we'll leave that positive thought for another day. Thank you panel.

"Within cultural change you need to consider a wide range of parameters, such as director responsibilities and incentives."

Bill Mummery

Celton Manx

“As a jurisdiction of licence and regulation, the Isle of Man continues to enjoy global recognition as a good place to do business from, to live and to work. Of course there are challenges but that reflects a whole range of external and international factors not of our making. The key is how we overcome the challenges and embrace the undoubted opportunities. My closing remark would be exactly what I said 10 years ago: the future is bright and it is here in the Isle of Man.”

Technology for Good

Lydia Barbara

Chair, Digital Isle of Man, Isle of Man Government

As chair of the Isle of Man's Digital Agency, as well as the founder and CEO of a tech start up, Lydia Barbara is well placed to talk about technology and the innovation it can bring. In this educational session, she looks beyond today's eGaming landscape to consider what is happening in the exciting fields of quantum computing and robotics – and how these technologies may positively impact our lives in the future.

With all the doom and gloom news around technological advances and personal privacy, it's important to recognise that our lives are better off than our forebears largely because of technology. It stands to reason that our grandchildren's lives will be better off even than ours, although it is incumbent upon governments and corporations to help steer us in that direction.

Yet we are not living in the future our great-grandparents thought we would be. For example, autonomous cars aren't flying everywhere and they are harder to program than we thought they might be. There's a good argument we'll actually see flying autonomous vehicles before we'll see ground-bound ones enter the mainstream. After all, you don't get the problem of pedestrians in mid-air.

We could be farther along in our journey than we are now, if it wasn't because some investors in the 19th Century missed out on what could have been the greatest technological advancement of humanity to date: the Difference Engine.

Invented by Charles Babbage in 1822, it wasn't built until 1991 because Babbage simply couldn't raise the funds necessary for its manufacture. What makes this story even more tragic is that once built, it worked flawlessly, and still does. You can go see it in the Science Museum in London.

We could have started this computer age 100 years earlier than we did. Just imagine the present we could be living in right now if that had happened.

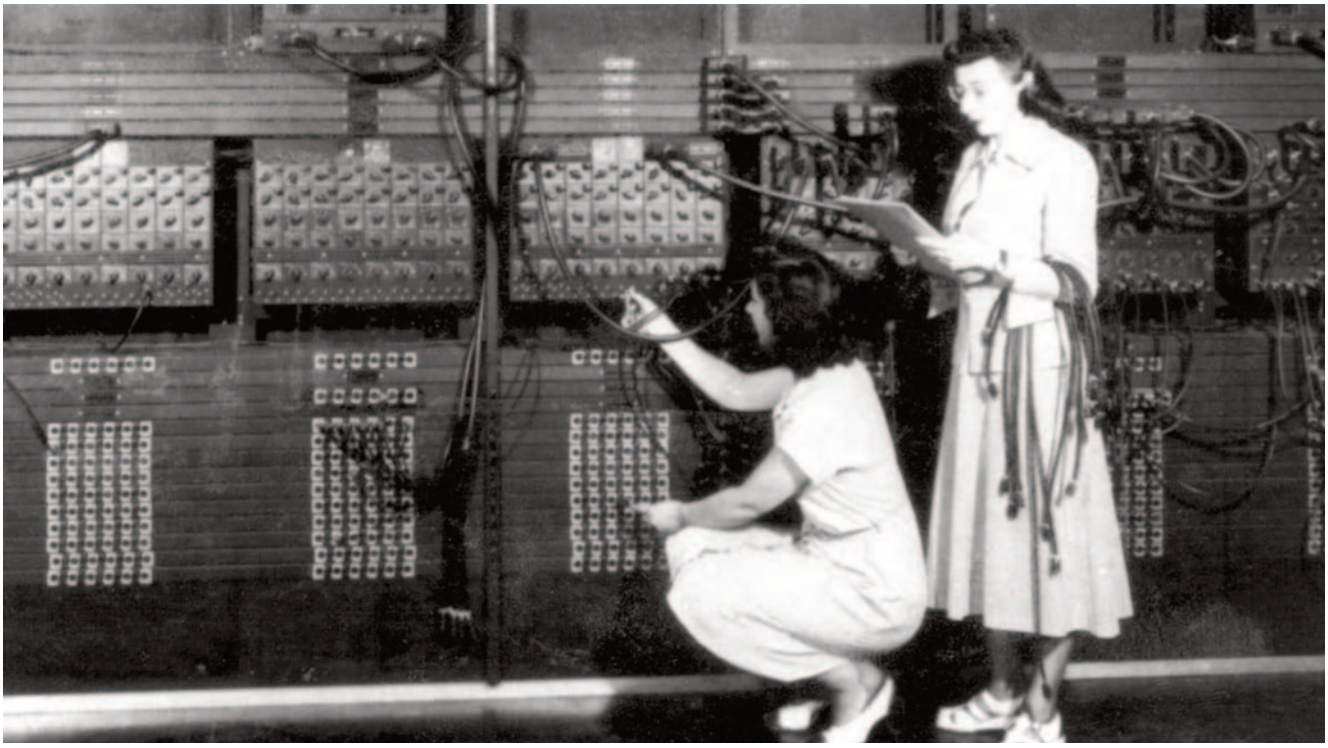
The first digital computer as we know them was the ENIAC, built in 1943. It was 150 feet long with 20 banks of flashing lights, and it was essentially a very large adding machine. You'll see the first programmers of the ENIAC were women. Most of the first programmers of computers, including the first programmer of the Analytical Engine which Babbage wanted to build after the Difference Engine, were women, something that's glossed over in the history of computing these days.

The next evolutionary stage in computing is quantum computing. Most of you will have heard of it but maybe not know too much about it so I'll give a brief explanation of quantum versus classical computing.

Classical computing (what we use now in our phones, PCs, Alexas, etc) is, at its simplest, the processing of data in the form of bits, which are essentially 1s and 0s.

Generally, the more bits, the more information can be stored and the more complex data that can be processed at one time. A 32-bit processor can store 4.3bn integer values at a time. This is, of course, far more advanced compared to computing devices in the past, or even with our own human computational abilities.

The advancement of computers as we know them is intrinsically linked with the advancement of the number of bits within processors. You'll probably all have heard of Moore's Law, which covers the rate and limitations of this advancement.



Instead of bits, quantum computers use qubits. Qubits are subatomic particles that exist in a state of being both 1s and 0s at the same time, a phenomenon called superposition, which allows for far greater information density than is possible with bits. Once you observe it, much like opening the box holding Schrödinger's cat, it firms up into either 0 or 1. A computation is done while the qubits are in this superposed state, which is fragile and difficult to maintain. A lot of the work involved in running a quantum computer is simply keeping the qubits cold enough and quiet enough for long enough to finish a computation.

A lot of money is pouring into this field – China recently spent $1bn on a research facility alone. It's safe to say that today's investors are trying not to make the same mistakes as the investors back in Charles Babbage's time; they see this very clearly as the future.

But despite that, until a couple of weeks ago, everything was pretty theoretical and the practicability of quantum computers was questionable. Then a paper leaked from Google and NASA claiming they had achieved quantum supremacy. Quantum supremacy is the idea that they have a quantum computer that could do something that a classical computer was unable to do. In fact, it performed a calculation – a quite boring calculation - but it calculated this in just 3 minutes and 20 seconds that would have taken the world's fastest computer 10,000 years to do the same.

Breaking this barrier could be seen as being like breaking the four-minute mile, or getting Kitty Hawk into the air. This could be recognised in future as the event horizon that changed everything in computing. Now that it's been done, we can hope that advances will come in leaps and bounds.

To demonstrate the rate of advancement that could take place (and I have to emphasize COULD, a lot of this is still theoretical and in R&D): a new law has been proposed called Neven's Law, which states that quantum computer power will advance at doubly exponential growth relative to conventional computing. This was described by one researcher as a line in a graph angled towards the centre of a screen, then hitting the middle and shooting straight up.

Interestingly, that image of a graph is also what the patent application landscape looks like in the field of quantum research right now. There are tons of patent applications coming in globally on this topic.

The 53-qubit quantum computer that Google used for this calculation can achieve an estimated 10 quadrillion superposed states at once. So, quite a bit more advanced than even the world's fastest supercomputer in doing particular kinds of calculations.

To explain the types of computations quantum computers will be better at than classical, there's a rather famous problem quantum scientists use called the Traveling Salesman Problem.

Let's say that you have a salesman who wants to go and sell his goods across all the major cities in Europe and he is trying to figure out the optimum route he could take between each of these cities to minimise the travel distance between each of these cities.

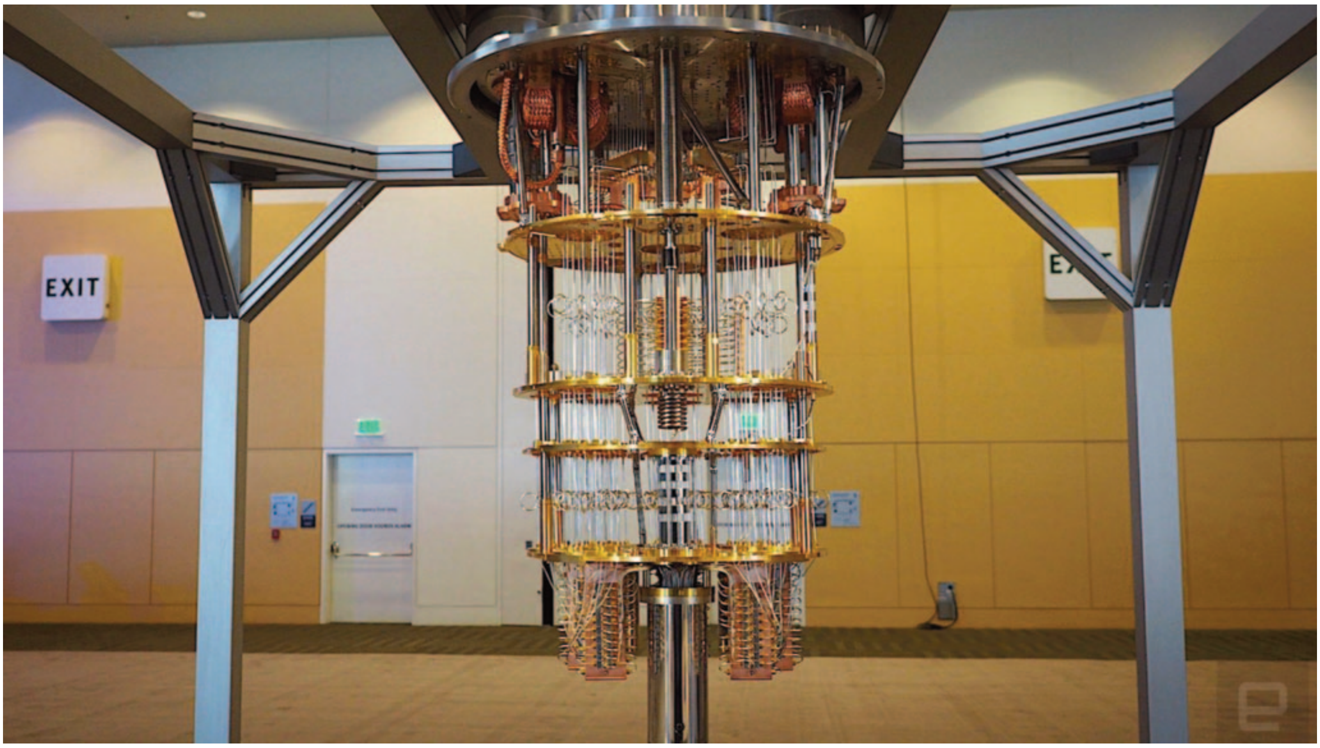
For a modern computer to work this out, the length of time increases every time more cities are added into the equation.

For five cities, there are 12 possible combinations, which takes 12 microseconds.

For 10 cities, that's 181,000 possible combinations, taking 0.18 seconds.

For 20, that's 6.1 times 10 to the 16th, which would take one of our fastest computers 2000 years to calculate.

And if we have 25 cities, it's 3.1 times ten to the 23rd, which would take 983 million years.



Quantum computers should in theory be able to figure this out in a fraction of the time it would take a classical computer. This means more than schedule optimisation, it has implications for more efficient electrical wiring, the design of better microchips and optimised global logistics.

So how does a quantum computer work? This slide (above) shows a prototype 50-qubit quantum computer from IBM. This entire chandelier part is a cryogenic refrigerator. All the fun bits are down in the little silver cylinder at the bottom that contains the qubits and other working pieces of a quantum computer. Data comes in from a classical computer to the cylinder, which has been cooled to 0.015 Kelvin, which is colder than space. That's -273 degrees centigrade. The computation happens here in this cylinder, and it stops when the qubits collapse into their 1s and 0s, producing a result, which is then sent back into the classical computer to be analysed by its programmers.

Speaking of programmers: the only people who can programme these machines right now are PhD-level theoretical physicists. There still need to be layers of abstraction built up before you can ask questions of it like we all do with Google. There's a lot of work yet to happen in that field.

What we think quantum computers will excel at are things like simulations, forecasting and encryption.

In particular to encryption, because quantum states become solidified when they are observed, a quantum key used in encryption can only be successfully hacked by breaking the actual laws of physics. So we are building unhackable, unbreakable systems. What it also means is that they can break any encryption in theory. That is mildly terrifying but we have to remember that security is a journey, not a destination, and top-level encryption experts are watching these developments closely.

They can also perform computationally difficult tasks like simulation and very advanced pattern recognition. We could start to see faster development of drugs. Early detection for cancer, cures for Alzheimer's. We could solve traffic. Building out large-scale modelling for autonomous vehicles could be done too, although I hope we crack the problems of those sooner, as we're years away from general use quantum computers. Basically, anything involving very complicated simulations that classical computers just can't handle should be a breeze for quantum ones.

Quantum computing will be a boost for machine learning as well, as the computational power will allow for far more advanced algorithmic work to be done. A painting created by a generative adversarial network, a form of machine learning, sold at Christie's last year for $432,000. The auctioneers estimated beforehand that it would bring in only $10,000, indicating that the market for computer-generated art is unusually high. It's not even a particularly good piece of art.

If all of this wasn't weird enough, I'm about to make it weirder. Qubits are able to become entangled across space and time, which means we can real-time transfer of data without any actual movement of the data. In sci-fi, that's called teleportation. But this isn't science fiction, this is happening. Earlier this year, scientists have managed successfully to see entanglement across qubits in different space, same time. This isn't teleportation of matter, it isn't "beam me up, Scotty", that may never be possible. But real time transfer of data and information through teleportation is now possible because of quantum mechanics.

Although this is a real breakthrough, Google's quantum computer could solve only this one problem that had been designed specifically for quantum computers to be able to solve well. We're decades away from quantum computers being used for general purposes. But that reality is

happening now, whereas a few weeks ago, we could have looked at this and it would have all been fairy tales.

How widely used quantum computers will be is a big question. You can partner with IBM from later this month to start running calculations running through one of their quantum computers. So they are opening this up to the public which is a really good thing but you're not going to have your own in your garage unless you can cool something to -273 degrees centigrade, it's just not practical.

At the same time, back in 1945, the CEO of IBM said: "I think there is a world market for maybe five computers", and there's probably some of us in this room who have five computers on us right now, so who knows?

I have to admit: I don't really understand this stuff, not at a deep intuitive level. The ability to both *be and not be at the same time* is the key to quantum mechanics, and I just can't get my head around it. Much like I can't picture infinity, I can't see a fifth dimension or imagine the edgelessness of space. I've started to think of it like it's an alien intelligence, and I'm trying to understand the functions while falling short of true comprehension. Some people say our brains work like classical computers, so we'll never fully understand it. That raises a lot of really interesting questions because we are building things that we don't fundamentally understand. Thankfully a lot of good and really smart people are looking at this question and the implications of it.

So, a few weeks ago I would have said "nonsense, quantum computing is never going to happen". But now it is starting to happen and I think there is a real possibility by the time our grandkids are around we will be working off a quantum internet instead of the internet we know today.

Moving on to something far easier to get our heads around, which company do you think sold the most vacuum cleaners in the US last year?

The answer is iRobot. They make the Roomba, which sweeps, the Brava, which mops and soon they are also releasing the Terra, which can mow your lawn. They've sold 25 million consumer robots to date. It's remarkable that we have moved from Terminators in the movies to having robots in our homes helping us out without even a blip.

The Roomba as yet is not entirely autonomous. It doesn't detect when your home needs sweeping, go out and do it, empty its compartment of dust and then settle back on its docking station. You have to physically move it from floor to floor.

But there are semi-autonomous robots called a collaborative robot, or cobots, and they are both the present and the near future of robotics.

Amazon use robots in their warehouses. Tesla, Ford and other car manufacturers use them in their factories. They work alongside humans and other robots in real time, picking up the work that's too dangerous or repetitive for humans to do well.

There is a real fear that robots and automation will take jobs. We need to take that fear seriously, but at the same time we should prepare ourselves and the next generation for working alongside robots. They are not just going to come in and take our jobs, they are going to be working with us and we are all collectively going to be doing much better work than we would have been able to do singly.

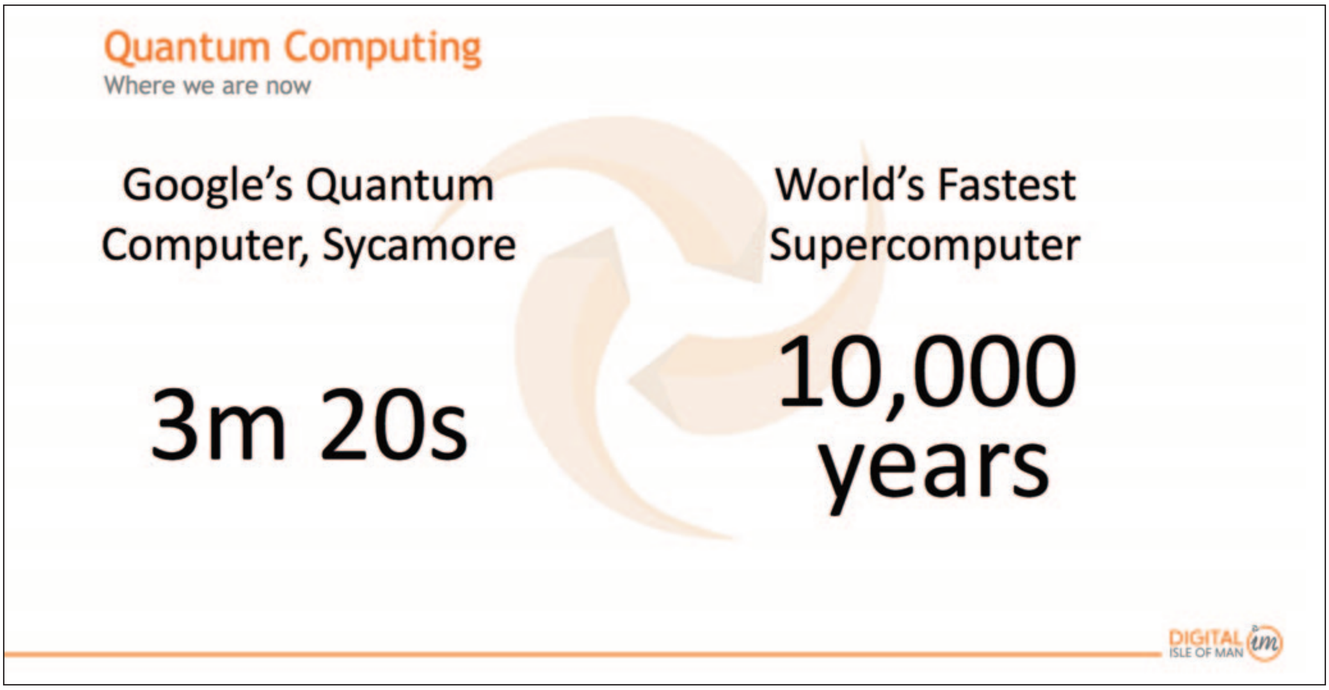
In Switzerland, a house has been built by robots and humans as part of a panoply of new technologies all brought together for one project, called DFAB. The construction sector is responsible for up to 40% of the world's total energy consumption and CO2 emissions. It's a dirty industry, but it doesn't have to be. This house was built with economy in mind for its construction and ongoing use. It has 3D-printed ceilings, energy-efficient walls, timber beams assembled by robots on site and an intelligent home system. It is 2,370 square feet and needed 60% less cement than a traditional house of the same size. It has also passed the rather stringent Swiss building safety codes.

In an entirely different use case, the Scoliobot is being developed to aid surgeons in spinal surgeries. And other types of cobots are already in use in surgical rooms, as they're better at performing precision tasks with fewer cuts. If you need heart surgery, for instance, and I hope you never do, the chances are a robot will be performing it on you with a surgeon depending on the type of surgery.

Mindar is a Buddhist robot priest in Japan. At the moment he just repeats the same sermon over and over, but its creators plan to incorporate some artificial intelligence so he can start interacting with parishioners to help them solve their ethical and spiritual dilemmas. They believe that using artificial intelligence will help the robot "grow in wisdom" over time.

Robots even have their own wearable subcategory. The following image is an exoskeleton called an EksoVest that Ford uses in car manufacturing. It enables the wearer to lift heavy power tools like they're made of air.

The most immediate gains from cobots are in industrial settings, where the gritty and dangerous work can be left to the robots, and the humans can do the programming and more intellectual work. Or they can take over food



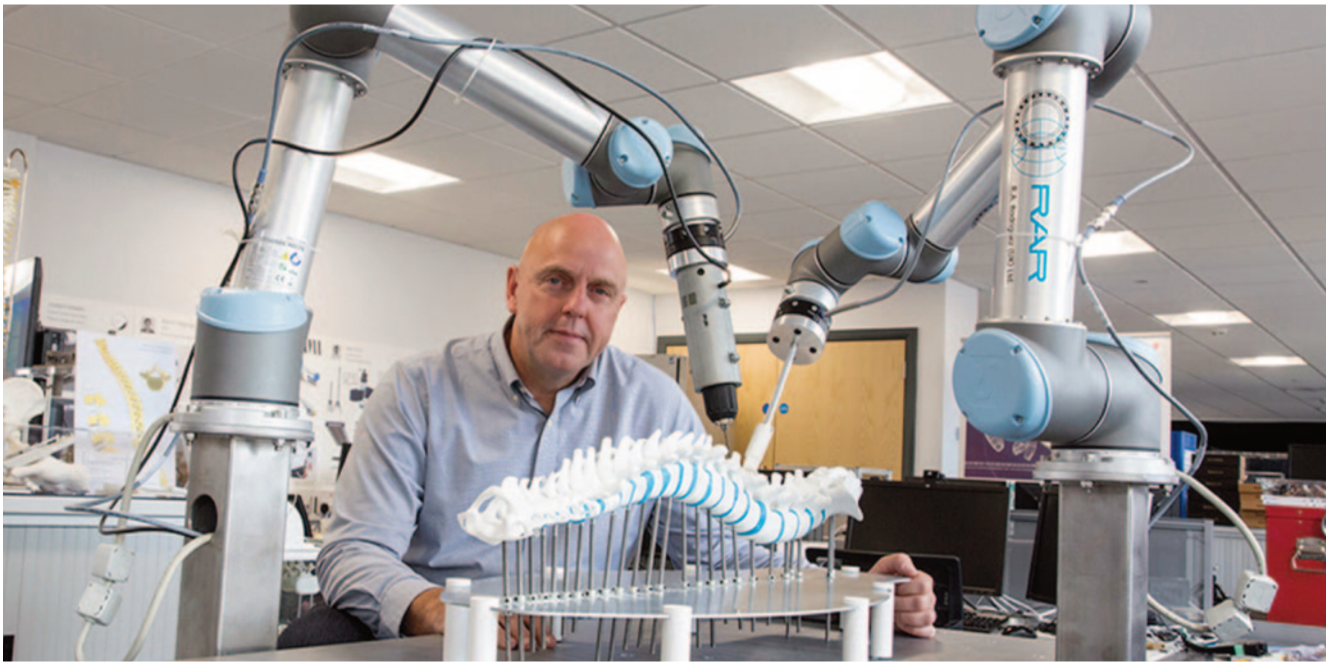
manufacturing where they have to exist in completely sterile environments. Opportunities abound for robots and humans to work hand-in-hand in manufacturing.

But the most heart-warming gain, I think, is the introduction of robots into people's homes to help care for the elderly and sick. The problems of Japan's aging population are well known, and the Japanese government is turning to robots as part of the solution. As the entire world's population ages, we will start to see more of these types of robots enter the mainstream.

In the US and UK, care homes are introducing robot pets into their homes to provide companionship for their guests, like the Aibo from Sony. It has cameras in its nose and tail, and it uses cloud-enabled artificial intelligence to identify up to 10 faces and voices. It responds positively to praise and learns over time what behaviours make its owners happy, so it can do them more often. There's already a trend in Japan for buying Aibos for elderly relatives. I think we're going to start seeing them over here. They have a price point of $3,000 so maybe the price needs to go down a little bit first but we're going to start seeing more and more of these in care homes and perhaps even to watch over your kids if you go out to a movie at night.

I'll leave you with this thought. We are living in interesting times, and a lot of what we're building could be used for good or ill. So let's make the conscious decision to develop technology to benefit humanity, whether it's safe entertainment, or cleaner construction, or making sure our grandparents don't suffer from loneliness.

As the inimitable Doc Brown said, the future is what you make it. So make it a good one.



Warwick Bartlett

Chief Executive Officer, Global Betting & Gaming Consultants

"During my 12 years on the Island, I have seen many changes. Many of those holding licences then are not here today, they have been replaced by new companies offering new services. Ten years ago the focus was on sports betting, now it is towards services and gaming. Geographically it was the UK market, now the growth is in Asia."

"Why did I pick the Isle of Man as a place to live and work? I have travelled throughout the world on business. When you go to different places on holiday, they all seem idyllic but when you go on business you see what a country is really like. You learn how long it takes to get a phone connected, you learn that electrical power cuts are the norm, you learn that in some places you cannot drink the water, you learn that corruption is everywhere. You learn that hot weather in a swimsuit is a blessing, in a business suit it is a killer. You learn that mañana is not tomorrow, it's next month and you learn that clean air is something you have taken for granted. No place is perfect, but many are less perfect than others and the Isle of Man, for me, is about as good a place to be as anywhere."

Regulation & Enforcement Panel

Moderator: Richard Williams

Gambling Team, Keystone

Panellists:

Beth French

Associate, Wiggin

Ty Smith

Director, Ableton Prestige Global

Rebekah Jackson

Global Business Development Manager – Gaming, GBG

Hazel Dawson

Consultant Solicitor, Keystone

Jeremie Kanter

Chief Compliance Officer, SB Tech

Negative publicity has continued to hound the gambling industry during 2019 with popular TV programmes such as BBC's Panorama and Ross Kemp highlighting individual cases of gambling harm and the way in which some VIP practices and inducements have compounded problems for those involved. Labour deputy leader Tom Watson has also been a notable vocal critic calling for a new gambling act with much stricter limits on stakes, spend and the speed at which people can gamble online. Moderator Richard Williams began the session by reflecting on some of the recent stories that had featured on air and in the press.

Richard Williams: You'd have to say it's been a bad year for the eGaming industry in terms of publicity. Do you think the industry is cleaning up its act?

Beth French: Yes, I do. That's not to say that it's all been sorted out, but certainly our experience with our clients, and in the industry as a whole in the UK, we've seen a significant step towards addressing a lot of compliance concerns, particularly around social responsibility with the focus on introducing triggers, automation of processes, and using technology and algorithms to identify all these different markers. That's not to say that we're there yet and those TV programmes that focus on individuals, their personal circumstances and how gambling impacts on their lives and their families, are obviously going to give a negative image. But it's going in the right direction.

Richard Williams: Given the sort of figures that were talked about, they are quite astounding aren't they? Over a relatively short period of time, people losing £600,000 or £3m. Do you think that operators' systems have improved significantly on the whole in Great Britain to prevent that from happening again? Would they have intervened with the systems operators now have in place?

Beth French: The policies and procedures are there. When you look into how well they are implemented, there's still some work to do, particularly around how quickly players can lose money, and particularly when there's a lag between those markers being hit and when the business receive reports. We know that it's 24 hours, for instance, before some operators will get a report. There is still some work to do on 24-hour coverage of customer activity, particularly overnight.

Richard Williams: The Gambling Commission was very keen on that: the time when there could be most harm is the early hours of the morning when people have come back from the pub, they're gambling and nobody is there to intervene until the following morning. So, you think that's being rectified on the whole?

Beth French: Yes.

Richard Williams: Looking at the Isle of Man as a licencing jurisdiction and bearing in mind it's an Asian-facing jurisdiction, on the whole, it's interesting to see what's happening out in Asia on the countries bordering China. Recently a statement was made by the Chinese Embassy in the Philippines. It makes it absolutely clear that gambling by Chinese citizens is an illegal activity, and that anybody involved in gambling who is Chinese is subject to the force of Chinese law. Essentially it is saying 'close down your remote gambling industry which is on our border, which is actually sucking in our residents, our nationals but also being used to open casinos online inside China', and some of the terminology being used is quite frightening if you were in those positions.

Ty, you have worked for the Gambling Supervision Commission in the Isle of Man and now work for an operator. You're not in China as an operator, but you are Asian-facing. What are your thought about this? We've seen the impact in Cambodia with people being arrested and sent back to China. We've seen the Philippines and this threat. How does this impact the Isle of Man as an Asian-facing licencing jurisdiction?

Ty Smith: Your point is absolutely right. At Ableton, we don't target China and we don't take Chinese players. But this is a fascinating situation. China has quite clearly lost patience, the sentiments are clear. As amazing as the great firewall is, operators have found a way through.

The scenario of grey markets trying to prevent leakage, and grey market operators trying to generate profit from them, is not a new one. What's interesting now is the dichotomy between those countries and the elements that are at play. Most people in the room will recognise that the Philippines benefit from considerable e-Gaming employment on the ground. That then brings its own political issues for the Philippines to resolve, and they're making a clear stand at the moment about where they feel that they are.

What's interesting for me is the unofficial coalitions that seem to be forming. So, Cambodia have followed suit with China: is that down to economic influence? I would suspect so. We'll start to understand how this will play out if we can understand how far and to which countries that economic influence extends from the Chinese government. The end game is ultimately Chinese regulation at some point. I don't know when but that's where it will end up.

In terms of opportunity for the Isle of Man, we've talked about risk management from a business perspective and the Isle of Man has a big focus on having management, the headquarters, of companies here. If I had any base in the Philippines, one of the things I would be looking at is what happens to my company if service is interrupted from there. We know in most industries service is critical but, in our industry, it's more so than most. If it goes down, what then happens? So, there's an opportunity for the Island. Perhaps not in terms of relocating staff that are in the Philippines, kit and caboodle, over here - that's never going to be economically viable - but, as part of a risk management strategy, relocate skeleton teams here so that if service is interrupted, you can carry on. Perhaps you might not be running at 100 per cent but you can certainly tick over whilst those issues are resolved.

Richard Williams: Talking about the Philippines, there is a lot of Chinese investment there. One of the threats from China is that if you don't comply, the Chinese State can turn off that investment. That's not an option available to them in the Isle of Man but in terms of what action the Chinese State could take, is there any realistic prospect of extradition or any other risks for Chinese residents living here, for example, and working in the industry?

Ty Smith: You're right that one of the things the Government has tried to do over the years is to really engage Asia-facing business. It's done that to a certain degree but certainly we don't see the same level of investment in the Isle of Man as you would in Cambodia and those other East Asian countries. The economic influence is mitigated massively.

In terms of extradition, that's not something that I'm an expert in by any stretch of the imagination. I have had some peripheral experience from a hypothetical playthrough of an extradition situation many years ago and one thing that became apparent from that was that it was not a smooth process. I'm pretty sure any Chinese nationals who have gone into the gaming industry have gone into it with their eyes open. It's an interesting concept that you've got the Chinese authorities going extra jurisdictional, threatening to apply laws outside of the country but, personally, I don't see it as being a particularly big issue for the Isle of Man.

Richard Williams: Hazel, you're a corporate and commercial lawyer here in the Isle of Man, and you've had some involvement in terms of technology and gambling in the Isle of Man. For the benefit of the people who aren't based in the Isle of Man, can you let us know what that has been?

Hazel Dawson: I work in this space day to day and I've also been involved in the periphery of the Blockchain office, as it was called. It's been interesting to see a few developments from a client perspective over the past six to nine months such as the Software Supplier licence and the Token-based Software Supplier licence that have been introduced by the GSC. Those have been beneficial and I know that other clients are looking at a change, or hopefully some form of licencing development, in relation to skills-based gaming. There's a lot going on in the background on the Island, and it's good to know that the Government is behind the initiatives with the Blockchain office. The GSC is an excellent regulator, it's interested in dealing with the industry and helping the industry drive forward.

Richard Williams: The regulator is not standing still then. Looking forward to the next 10 years, there are things in progress?

Hazel Dawson: They never really get a chance to stand still because the developments in the industry are pretty much constant. From a regulatory point of view, the Island has a good gambling regulator, it's well-renowned. It's willing to work and develop licences for new potentially niche products with the industry participants that want to move forward.

Richard Williams: Certainly some of those things the Gambling Commission wouldn't sanction in Great Britain, and the Isle of Man is very far advanced on some of those projects. Just moving back to Great Britain and white label arrangements, particularly the EveryMatrix licence review which has come up with the Gambling Commission recently.

White label arrangements, as you'll know, are where under the Gambling Act it's permissible for one operator with an operating licence to allow other brands to essentially piggy-back off their licence, so they become a brand of the operator. The Gambling Commission has made it quite clear that, although this is legal, it's the operating licence holder who has the responsibility for regulatory compliance. You can't pass on your AML or SR responsibilities to the brand. You have to do all of that yourself as the licence holder.

Beth, it's fair to say that Tom Watson has been focusing on white label arrangements and a number of different operators have been under the spotlight. EveryMatrix is particularly interesting because its licence was not only reviewed but was also then suspended, and all of the white label partners relating to EveryMatrix were then left unlicensed and had to close down immediately. Do you have some comments for us, particularly on the statement that was made by EveryMatrix, because people in the industry thought this issue was being ironed out?

Beth French: I've only seen what everyone else has seen in the newspapers, and the public statements that have been made. The issue that was cited with EveryMatrix is around customer interaction and that ties very closely into the evolution of the white label model. Historically, you would get a brand, let's say a TV company, or a newspaper, that would say here's my brand, go and market it. Post-2014, you had well-established operators that perhaps decided not to go and get a UK licence, and who had the infrastructure to say 'we have customer service', or 'we are capable of taking that particular operation on', and it has then often become a commercial decision or a commercial negotiation between the licence holder and the white label. What you then have is a white label partner taking on things like customer service. And you're dealing with a scenario - and this is an assumption that this may have been one of the issues in the case of EveryMatrix as it's certainly one that we've seen as a common theme - where you have a customer service representative speaking to a British player. That representative is not necessarily properly trained in customer interaction, in terms of inducements or offering bonuses, or how to spot potential problem gambling.

The political driver behind a lot of this attention is due to the proliferation of gambling advertising but the Commission's concern, when they've looked at the various operators in the UK and undertaken compliance assessments, is that they have noticed a lack of oversight in those areas. They are probably right to be concerned because it is a significant risk. It's quite an easy target for anti-gambling lobbyists as well.

Richard Williams: The quote that was made by the CEO of EveryMatrix when they were surrendering their licence was about the Gambling Commission's wish for a 'substantially changed way of operating white label businesses in future' suggests there's not going to be a move to say that every person operating is going to have to have their own operating licence. But clearly there was something going seriously wrong.

Beth French: We know it's something the Commission are focusing on. That's for a combination of reasons, political pressure being one but a lot of it comes from their own findings from these compliance assessments. With EveryMatrix, it raises the interesting question as to whether you can outsource customer service. I think you can, but there needs to be a shift in the recognition that you have to have oversight and those controls over it.

Richard Williams: Ultimately, you're responsible for what happens if it goes wrong.

Jeremie Kanter: Beth is absolutely right. It's a matter of making clarity of the confusion and complexity of the relationship between the industry stakeholders, the platform providers and the operators. The regulators don't always understand that relationship properly.

This confusion, or this complexity of the relationship between B2B/B2C, needs to be clarified, needs to be understood by the regulators, and there is a clear message to the operators that, regardless of your commercial appetite, regardless of how fast and how convenient you want things to work, there is a single point of responsibility and you need to face it and to accept it. That is unnegotiable.

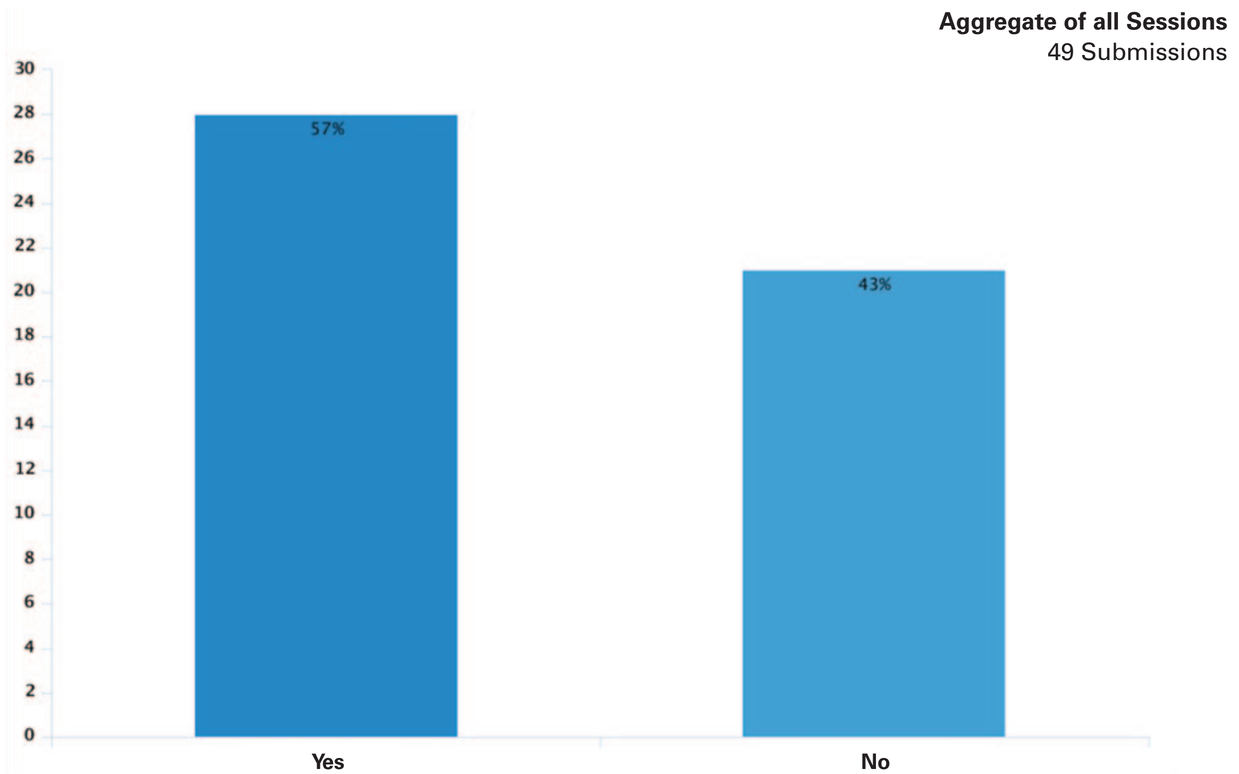
Rebekah Jackson: GBG works with various different white labels and, just as both Jeremie and Beth have said, it needs to be clear about which area of responsibility each one holds for the compliance aspect. The particular company that we're discussing today, it's my understanding that B2C was only 2 per cent part of their business. So, after not being able to reach an agreement with the Commission on the proposed changes, they said we're going to walk away from this licence and focus on the other 98 per cent of B2B business. If they can't get the compliance elements right in the B2C area then, of course, that was the right move for them.

Richard Williams: It's unfortunate though, if you're a white label partner of this operator, where the licence is suspended and then surrendered. You're left with a business which has basically been extinguished, because you can't necessarily switch to another operator overnight and in the meantime, you've lost your customers. It's terrible for business continuity.

Rebekah Jackson: From our understanding, as soon as the suspension was imposed, within a couple of days, many of those operators had already started looking for a new platform or working towards their own licence.

Richard Williams: We have a poll on this: do you think white label licencing arrangements are acceptable, or if not,

Do you think white label licencing arrangements are acceptable?



should everybody who is facing customers have to have their own operating licence?

That's a pretty even split then, with the majority saying that the white label arrangements are acceptable. It's the legal position under the Gambling Act: it would take a dramatic change of primary legislation to prevent white label licensing arrangements from continuing, despite what Tom Watson may say, but certainly I think we are going to see more focus on that from the Gambling Commission.

Moving on to the Gambling Commission and licence reviews. What's happened this year is that we've seen the continued pace of licence reviews and financial penalties for operators. People are probably now taking more notice of regulatory action when acquiring businesses and the potential for financial penalties.

Over the course of the last year, we've seen a £5.9m fine for Ladbrokes Coral, albeit those breaches took place before it was acquired by GVC in March 2018, and we've had Stride Gaming with a £1.2m fine. All fairly significant sums, for the same issues again: you can almost write the script for the Gambling Commission when the review comes out, it's anti money laundering breaches or social responsibility breaches. We think things are improving but I'm sure there's still going to be that sort of focus. Beth, what's your impression? The Gambling Commission now seems to have gone back to the land-based casino operators, which are high risk. We've had Silverbond's Park Lane Casino having a licence review and a £1.2million fine recently. Do you think the remote operators can start to breathe easily now, or is this not the end?

Beth French: No. Just to touch on the land-based point, a few months ago there was a Freedom of Information request put into the Gambling Commission. The Commission said they were taking regulatory action against 15 land-based casinos, which is comparable to a couple of years ago in respect of the 18 (or so) remote operators, so they've definitely shifted their focus, or at least they are focusing on that as well as. Regarding the Silverbond fine, they had the same problems as we're finding online: anti money laundering and social responsibility concerns. It was in the public statement that enhanced due diligence was a particular point for Silverbond, but we are certainly seeing the same problems, both land-based and online.

For online, a lot of the licence reviews (the statutory mechanism by which the Gambling Commission can sanction a licenced operator), are being borne out of these compliance assessments or corporate evaluations that are happening. A couple of years ago, we saw a lot of the largest operators were looked at to begin with. The Commission then moved to the mid-tier. From what we've seen at Wiggin, they've moved back to the larger operators to reassess their progress, if you like. The Commission have made it abundantly clear to those operators that, if they haven't learnt lessons, then as a regulator they will come down on them pretty hard from an enforcement perspective. I'm certain that we'll see more coming out of that and probably some hefty fines in the process.

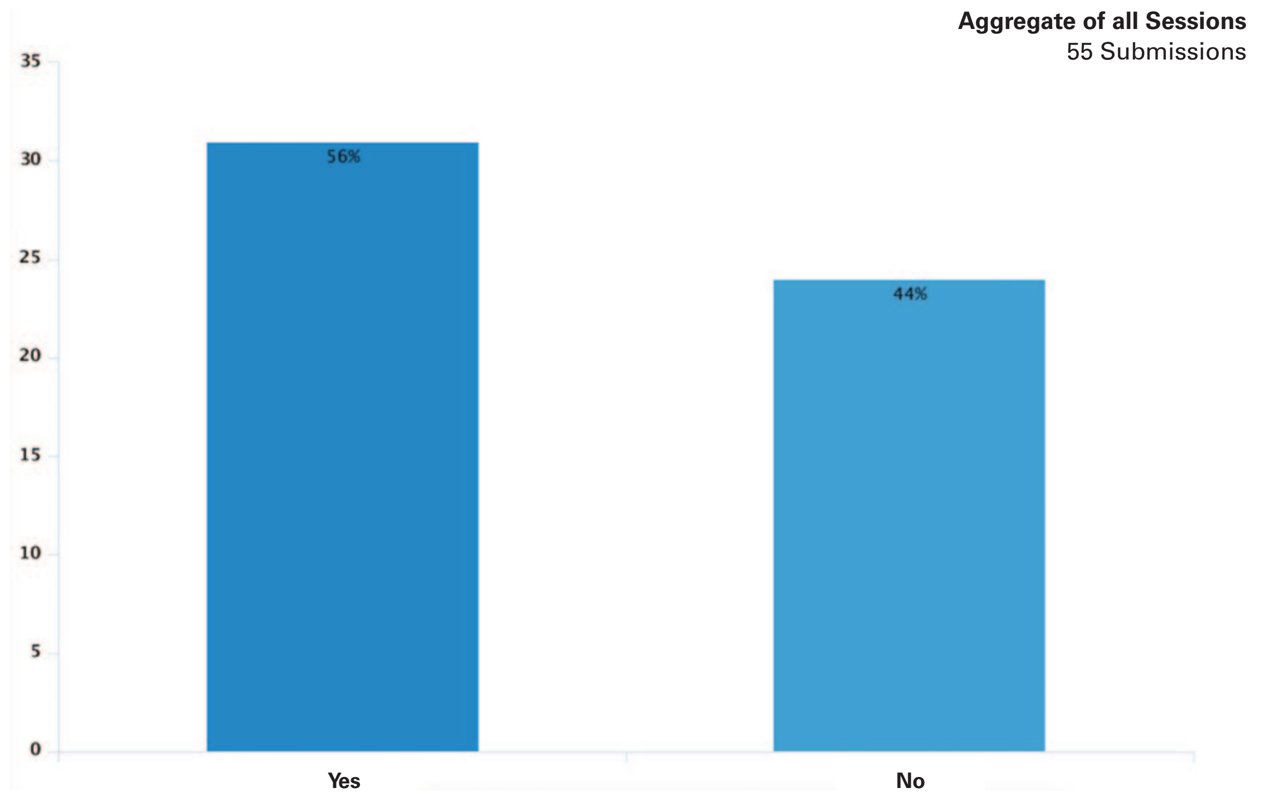
Richard Williams: We are talking about operators now who've been back, not once, but twice, and possibly a third time with the Commission. So, realistically, at some point, it's not just higher and higher fines, it's potentially a revocation of an operating licence?

Beth French: Yes. We saw a licence revocation earlier this year, but not for anti money laundering or social responsibility. It was to do with M&A and the change of control, with the Commission not being satisfied as to the source of funds. I don't think the Commission is looking to put people out of business and, in the last 12 months, during these ongoing licence reviews, we have seen them working together with operators to move towards better compliance. I don't think the Commission are quite there yet, but, of course, if it's repeated failings, then revocation is there as an option.

Richard Williams: It's a potential. Personal Management Licence (PML) reviews as well are high on the agenda, so that's the individuals involved in the business. Some of these people who were just told by their employer, 'obtain your PML, you can go on in that position', didn't quite

"The Commission have made it abundantly clear to those operators that, if they haven't learnt lessons, then as a regulator they will come down on them pretty hard from an enforcement perspective. I'm certain that we'll see more coming out of that and some probably some hefty fines in the process."

Do you think using a credit card to gamble online will be banned?



appreciate at the time they could end up with having their PML revoked.

The Gambling Commission also have a consultation out at the moment that would ban the use of credit cards for gambling transactions. We could talk, probably for many hours about whether that would be effective, and what the impact would be on the bottom line of bookmakers. But I'd like to know the view of the audience, bearing in mind this is a consultation and the outcome is not supposed to be predetermined. Do you think that at the end of this consultation process that gambling using credit cards online will be banned?

So the majority are saying yes. Certainly all the documents in the run-up to the consultation suggested it was pretty much fait accompli that gambling with credit cards would be banned, but people here think the outcome is more even.

Rebekah, changes were made to the licence conditions and codes of practice (LCCP) in May of this year, regarding age verification and ID verification. How have you found that has panned out in practice?

Rebekah Jackson: There were several changes within the LCCP that came in earlier this year. One of the main ones was that age verification is required before deposit, revoking the 72-hour ruling. Another was that a hard date of birth match is required. Many operators previously have used an assumed over-18 data set, such as a credit source. That caused operators to have to look at the processes they've had in place and their risk processes, but also it impacted them by having to do things such as retrospective batches. Many operators would have had lots of players on their books that weren't actually verified and validated to a standard needed by the proposed changes. If they couldn't be verified, this then led operators to put processes in place to go out and ask the customer for more information to verify them to the right standard.

We have seen a change in the match rates (how many people you can automatically verify through data) but the main issue is that, because more stringent levels of verification have been moved much earlier in the process for operators now, some operators are finding the cost of compliance under a UK licence just too expensive, and they can't really fulfil their ROI or ROC operating within those jurisdictions. We're talking about the much smaller operators that can't throw all the data sets at it, because they don't have the funds to do that. So, ultimately, we've seen operators pulling out of the UK, or many operators not offering free to play on bonuses now.

"The Gambling Commission also have a consultation out at the moment that would ban the use of credit cards for gambling transactions."

Having said that, I personally think it's been a really good change for the industry. It's really helped with not allowing minors to access content and that was one of the main aims of the Gambling Commission. It is really important to remember that was one of the underlying factors.

Richard Williams: Beforehand, if they didn't age verify, they had 72 hours until they had to close an account. But you see it as being fairly streamlined in terms of the operation and the checks that are made at the outset?

Rebekah Jackson: Everything from an operator's perspective is now automated. There's a lot more processes in place. Operators typically have an automated process which takes less than a second. If not, you're able to do things like automate the document process nowadays, which does keep it to seconds onboarding, rather than allowing somebody to go on, gamble, spend funds and then in 72 hours realise they shouldn't have been doing that.

Richard Williams: Moving to the last poll, this relates to an article that came out last week about the Gambling Commission warning an operator who was offering bonuses for putting reviews on a review website. It wasn't just a bonus if it was a good review, it was a bonus irrespective of what the review of the operator was. I started to take a look at this and I'm not sure how and in what way, that would be irresponsible. Does anyone want to give a view before we go to the poll?

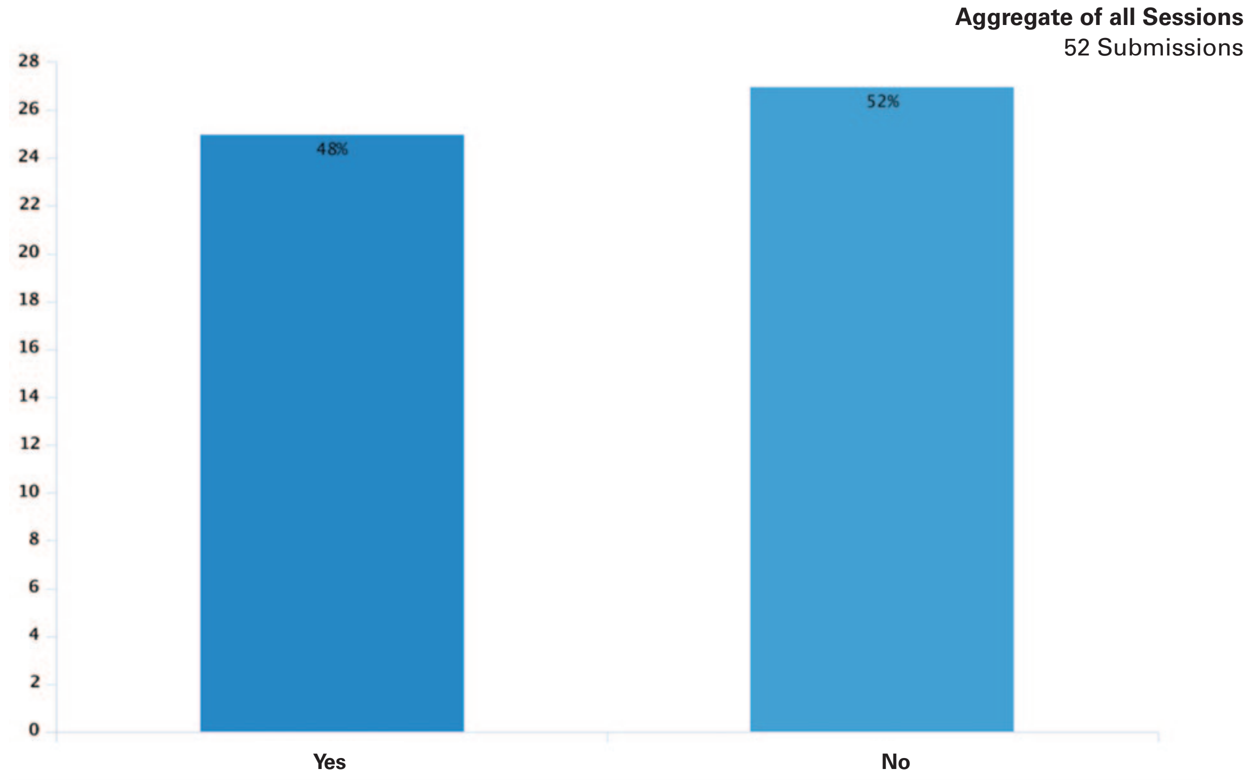
Ty Smith: We've spent a huge portion of the conference this morning talking about brands building trust with their client base, about transparency and engagement with customers and trying to make customers feel comfortable and have trust in a brand. So, wearing my ex-regulatory hat as well, I find it quite interesting as to what the foundation is for that. What is the basis that the Commission has said we're going to pin it on you not being allowed to do that for that reason? I'm with you really. If it was incitement for activity only on positive reviews then, yes, you're on really sketchy ground. But where you're just saying give us a review, all this is about is consumer trust in that brand. How is that any different to TripAdvisor? That's the thing for me. I worry about where this is going. I really do.

Richard Williams: We've just got enough time to do the poll. Is offering a free bet for leaving a review, whether it's good or bad, irresponsible? So that's an interesting split there. About half and half, almost dividing the room.

Thank you for your thoughts and thank you to all the panel members for today.

"People are probably now taking more notice of regulatory action when acquiring businesses and the potential for financial penalties."

Is offering a free bet for leaving a review (good or bad) irresponsible?



John Coleman

Chief Executive Officer, Microgaming

"In the future, staff will want to work with businesses that have a purpose. Diversity, in all its forms, is a huge part of this. We, as an industry, have a collective responsibility to protect players and we have a duty to give back to communities worldwide. In 2030, I hope the industry will look back with pride at what has been achieved in this area, and I hope that we have all played a part in writing that story."

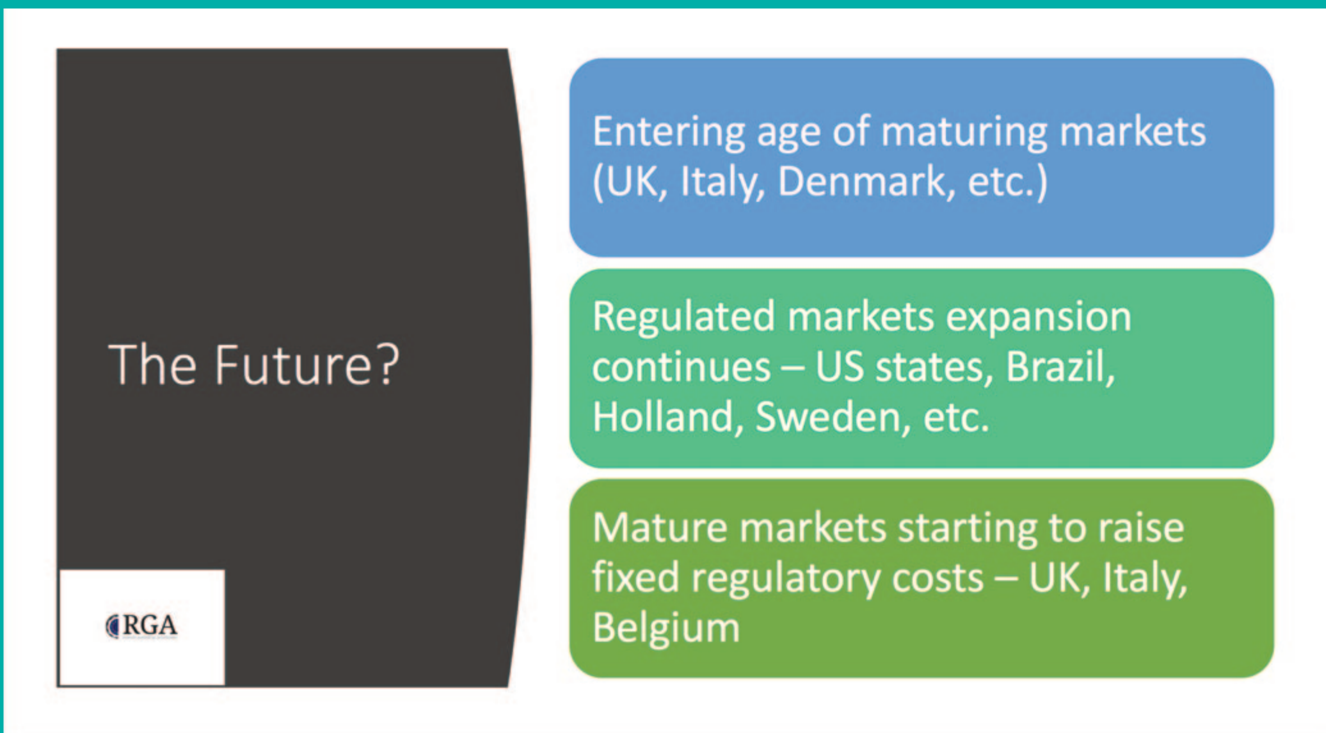
The Next 10 Years

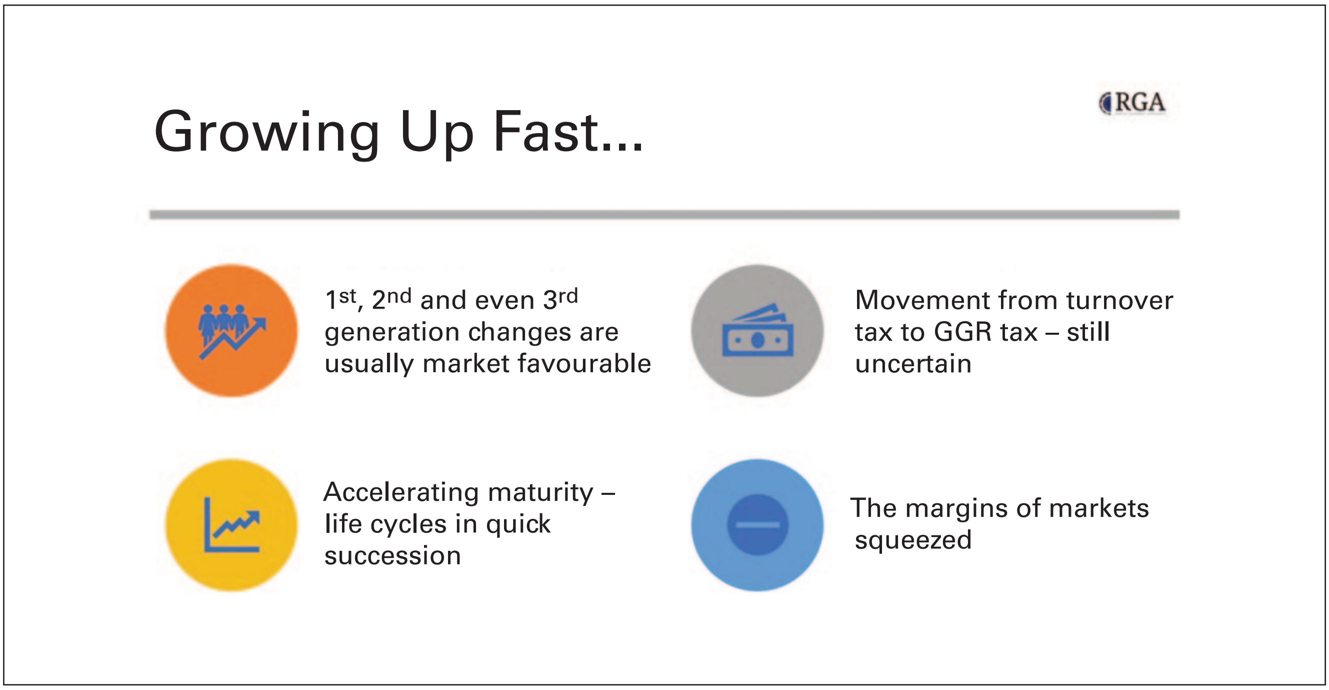
Wes Himes

CEO, Remote Gambling Association/Betting & Gaming Council

With many speakers reflecting back over the last 10 years of the Isle of Man eGaming story, it was fitting that Wes Himes was asked to address what the next 10 years might bring. At the time of the Summit, Wes was interim CEO of the Remote Gambling Association which was soon to evolve into the Betting & Gaming Council, a newly formed trade association for the wider gambling market in the UK. Bringing together for the first time online gambling operators, retail bookmakers, land-based casinos, and bingo, it aims to speak with one voice on behalf of the industry. Wes began by recapping where the market currently stands.

The first thing that's happening in the market is that we are becoming a mature market. It's funny to think that mature markets can occur over 10 years. I think about how many years it took for McDonalds to populate the US and then I think about how many years it has taken to create a mature online gambling market in the UK. Really it's only about 14 years from start to finish, if you take the Gambling Act as the initial beginning.





The second thing is that there is still a wide space open for expansion: Brazil, Sweden, Holland, the US. I was struck by Simon French's comments earlier today about the strategy of getting into those markets before they become regulated in order to provide the cash flow to put into your developed markets in order to increase market share. It will be interesting to find out if that's some of the strategy behind yesterday's announcement with Flutter and The Stars Group. But there is a tremendous amount of pioneering still to be done in online markets outside of the regulated markets that we are used to today.

The third thing is the rising fixed regulatory costs that are now permeating those more mature markets and rapidly entering less mature markets.

One of the other big questions is what's going to happen to small and medium operators. Over the next few years are we going to lose licensees in GB as opposed to gain them? What does that do in terms of the competition landscape?

Also, where is the pendulum swinging in terms of this increased regulation? Obviously these are creating rigorous compliance requirements for the industry. They are raising those costs but, more importantly, setting the bar as to what it means for our customers. Because we rarely think about what does that mean for our customers if suddenly they can't use a credit card, suddenly there is a stake limit, suddenly they don't see advertising about the products they want to explore and participate in. We need to think a little bit more about what it means for our customers.

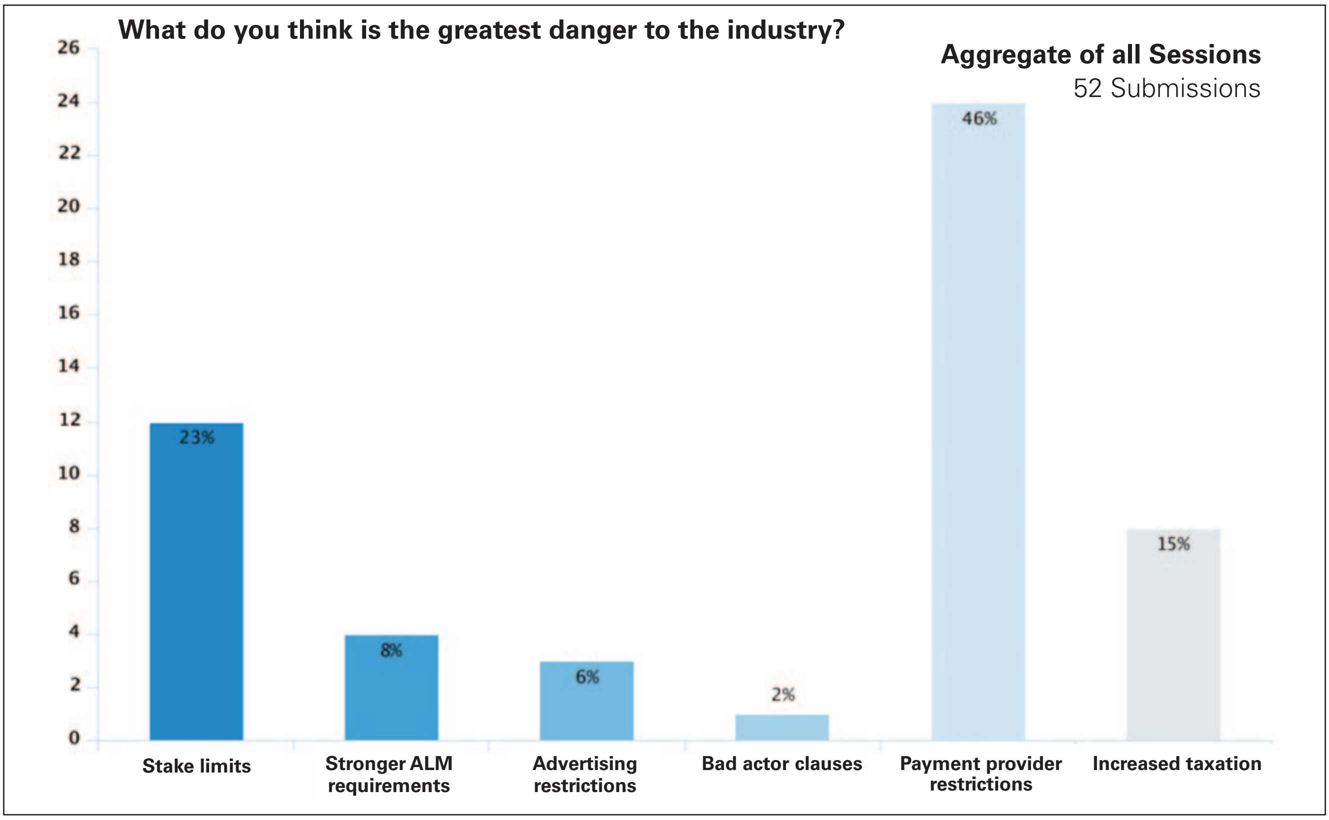
These three themes will be self-obvious to you but we have to think about what will happen because of these developments. What's happened in Europe particularly, ever since Italy went to a point of consumption tax in 2006, is we've had generational changes over those initial pieces of legislation and all of those have typically been favourable. So think of Italy, it went from a turnover tax to a GGR tax on sports betting. The same thing happened in France, where the GGR rates are higher than we would have wanted but the base is better.

But in each generation, there has been substantial change and the question now is as we enter the fourth, fifth and sixth generations in some of these regulated markets, are we going to get that change? GGR is a perfect example. Over the last 12-13 years, every jurisdiction that brought in a turnover tax has tended to move towards a GGR. But today if you look at countries like Brazil or the recent reform in New Zealand, they are all going to the turnover model.

So, we can no longer take for granted that we are going to get a more conducive GGR tax as these new markets open up. That's going to have an effect once again on the cash flow generated and what happens when you put it back into developed markets.

Probably one of the most important challenges is the accelerating maturity of the market. It has taken probably about 12 years, up to about 2017 and then particularly the World Cup, for advertising to become a real bell-weather about regulatory sensitivity. We know that there were massive complaints in the UK after the World Cup about the amount of advertising in place. This was some 12 years after the original Act and eventually, of course, the industry came forward with the whistle-to-whistle ban.

In Sweden the same process has taken two weeks. It's taken two weeks for the politicians to wake up and see how many adverts were going through the Swedish market, and we now have a great amount of uncertainty in Sweden on what is allowed and what is not allowed. The market is rapidly accelerating from cycles that took 12 years in the UK to literally two weeks in Sweden. That has a profound effect on the speed of your development, particularly into new markets if these other markets are maturing rapidly. Once the hyper-competition hits the market, from day one of the regulation you are already starting to see a filter out of those companies that will survive and those that won't in a very short amount of time.



A question for you: what do you think is the greatest danger to the industry as of today?

Payment provider restrictions and stake limits are also threats to the sector. I imagine the payment provider restrictions come from a combination of financial transaction blocking by certain jurisdictions but also what's happening, particularly in GB, around e-wallets as part of the consultation on credit cards. So I'm not surprised that this issue is a little more prominent. Stake limits are probably more political, being a driver to push other initiatives that the industry needs to take.

Bad actor clauses didn't score so much. Bad actor clauses are talked about but, when push comes to shove, most jurisdictions have opened up because they realise by restricting operators they are not going to optimise their market.

The item I want to talk about is advertising because advertising is obviously the most visible part of the industry.

It's the one that not only our customers see but all our non-customers see as well. It's the one that the politicians tend to gravitate to, it's the one they seem to push back on. You only have to look at the number of ASA judgments over the last 6-12 months to understand about the impact of changing regulatory opinion on advertising.

The biggest challenge for the industry going forward is online advertising. The viral aspect of online, the social media platforms, and the porousness which defines some of the platforms, means that we are constantly seeing studies telling us that under 18s are exposed to accounts, advertising etc for our product. If we don't get it right, there will be repercussions on what we are able to do through that particular medium.

We also have Twitter and Twitch. These both have some negative aspects in terms of our ability to control advertising and we're going to have to address those directly or else we are going to find them difficult to use.

Then there are the third party affiliates that we have to rely on. I'm pleased that marketers have got together under Responsible Affiliates in Gambling (RAIG) under the RGA's former CEO Clive Hawkswood. As part of that value chain of responsibility, affiliates need to make sure that online particularly is no longer falling foul of the guidelines from the ASA and BCAP.

Finally, and probably most frustrating for the industry, there is a mismatch between what we think is right and then what we're told is right. So you get your studio to produce an ad, you get it through to Clearcast, you get it through guidance and then the next thing you know there is a complaint to the ASA and it's been rejected. That's thousands and thousands of pounds of investment right down the drain because now you have to go back to stage one.

So this is one of the problems in the current landscape that as the pendulum swings back for more regulatory intervention, the goalposts are constantly moving. It's one of the issues we have to face as an industry.

Let's look at a few other friction points which also create concerns across the customer base. If you hear the UKGC speak, they will always tell you that the black market in the UK is fairly non-existent. I can understand that: having good competition, and the advertising to talk about your offering, has allowed a regulator market to develop. But what happens if the regulatory pendulum swings further out the other way and causes some friction with our customers?

On 7th May, we went through a whole new age verification identification process and we know that hundreds, probably a lot more than hundreds, of customers were effectively locked out of the market because of the inability to get the data we need to verify them. If we were financial services, we would have had a better hit rate but because we are not financial services we had to rely on more manual interventions to try to verify people. Those customers are now out of the system due to this friction. Where did they go?

With AML and source of funds checks, we're getting to the point now where the industry is having to be very reactionary and basically take disproportional measures. But what happens when you create that friction with your customer, asking for a bank statement, asking for a payslip? Certainly we need to be sensitive to a customer's financial means, but do these checks turn customers off?

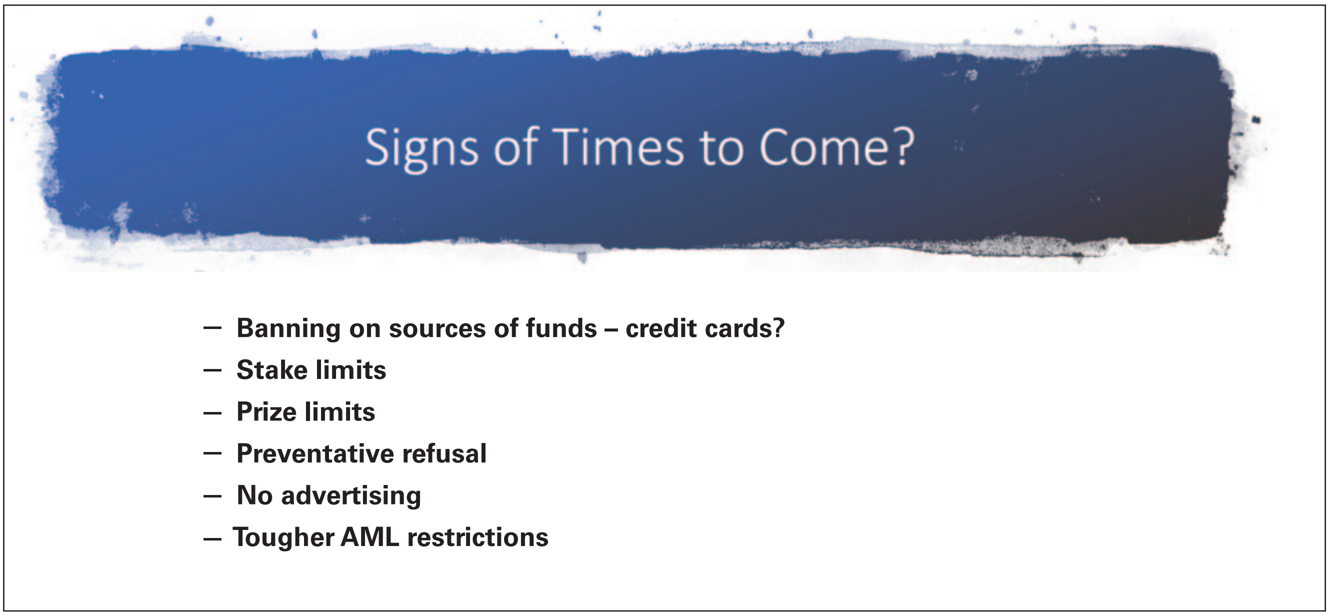
Then there is the streamlining of self-exclusion. We all know when you self-exclude, you're out for six months. Self-exclusion is a wonderful tool but there is a debate about what happens after the six months. There are some deep ethical questions here, such as if you self-exclude once, should be self-excluded forever? Or if you feel that you've got through it, you're back in control and you want to get back into the products, then where is your point of entry back in? Where do those players go?

How about interventions? We are being told earlier and earlier in the customer journey to try and identify potential problems and markers of harm, and we're told to intervene. It's the right principle but the question is not whether you intervene but how you intervene. At what point do you want to make sure you get the message across without losing the customer?

Finally there's game design. We hear all the time about behavioural analytics and how games are designed and whether they are designed to capture you, keep you and make you continue to play. At the RGA, we're undergoing a piece of work right now that's looking at about 20 characteristics of game design. We're trying to determine whether they are potential markers of harm.

Customer friction points – driving sustainability creating migration to non-regulated markets?

- Identification requirements
- AMLD – source of funds checks
- Self-exclusion streamlining
- Interventions – how to scale
- Game design versus innovation



Looking further ahead, what are the signs of the times to come? Will there be a credit card ban? Two thirds of you thought there would be. For politicians, it's a nice binary headline but it has many unintended consequences.

Stake limits is something that's loved by some segments on the Labour side of the aisles in the UK. Prize limits as well. There's the issue of preventative refusal: at what point do we start cutting customers off because we are identifying potential markers of harm earlier in their customer journey? And if you start levelling the field by withdrawing advertising, which is a privilege of the licence, then how are you able to compete on, for instance, broadcast advertising? Tougher AML restrictions are also likely.

So what of the future? Think safe product – safe customer. That's a very simple thing to say, but it's another thing to live it. We have to continue that cultural journey, that cultural transformation from the Board level down, to make sure we are providing a safe product because a safe customer is going to be a happy customer.

We have to compete but we have to compete on safety as well, not just on innovation, or bonuses, or advertising. We have to create more tools for customers. That's something I love to talk about when I go to the Houses of Parliament, all of the wonderful tools that we build, not because the regulation demands them but because we want the customers to be aware and in control of their gambling.

Sustainability is the future. At what point do analysts and investors start saying we like nice smooth profits over the long term as opposed to chunky, spiky profits in the short term? That's probably going to be another transformation.

Above all, we need evidence. Right now there is a war of statistics and research in the UK. I cannot tell you the number of studies that I have seen where the methodology is completely skewed. We do not, for instance, have a holistic view of prevalence, and the studies and the statistics that are used from the current prevalence studies are completely misused in terms of how they are presented. So we need to make sure that we have a rich, thick, deep bit of research in order to understand what we need to do as an industry.

KPMG

Icebergs to watch out for..

- Offshore versus Onshore debate
- Asia shutdown
- Advertising clampdown
- Duty of care
- Public Health issue

But life wouldn't be good if we didn't have a few challenges, if we didn't have a few icebergs. It's what makes life so interesting. We have talked a lot about the onshore/offshore debate being stoked by the Labour Party in the UK. That will continue to be part of the political dialogue. You see it in the House of Lords consultation.

We have talked about the Asia shutdown, I'm not an expert on that. It may just be posturing, and something that's not going to happen but, then again, we didn't think we would wake up one day and find out the US was shut down through UIGEA.

There might be an advertising clampdown. There are a lot of people who think gambling should go the way of tobacco and if you know anything about tobacco advertising, it's that there is no tobacco advertising. This is an issue.

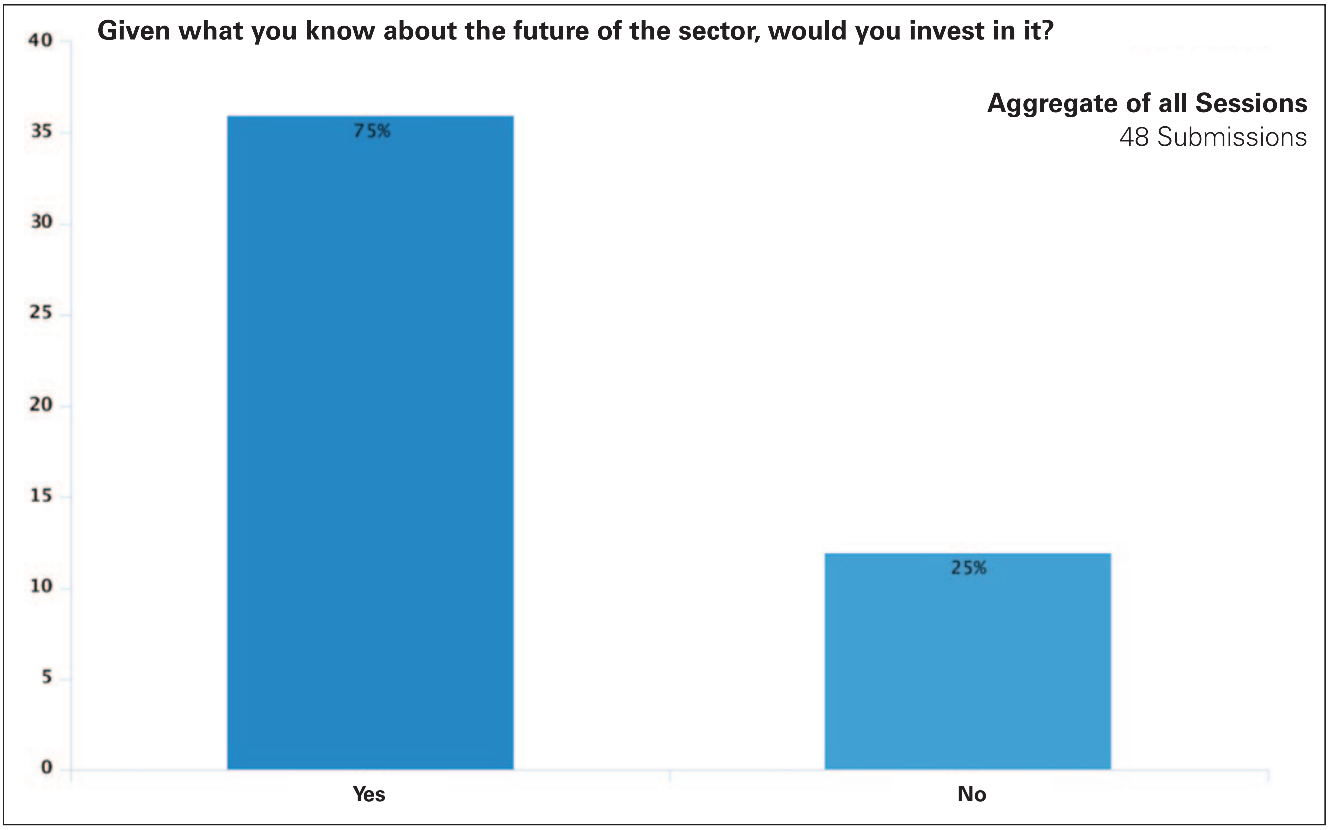
What is your duty of care? To what extent are you as an operator responsible for what your customers spend? Or what they play on and what happens if they get into trouble? This is not unique to this industry but there are a lot of people pushing for a broader duty of care agenda.

Finally, there's the public health issue. If we end up on the public health agenda, we're going to be far further away than where we want to be. That also means that we, as an industry, have a challenge to make sure we don't get there.

So, given everything I have said today, would you invest in this industry or not? Let's ask the audience.

It's great to have optimists in the crowd! That's fantastic. I was hoping it would be higher, I'd hoped it would be a home run but obviously there is a little scepticism about.

Personally, I still think the industry has got a brilliant future. It may have slower growth rates but, if you look at the numbers, it is still growing. It still has wonderful opportunities outside of the regulated markets, and for those who are able to build market share within those regulated markets. But we have work to do and as the RGA, soon to become BGC, we are going to continue to work on it.



Lyle Wraxall

Chief Executive Officer, Isle of Man Digital Agency

“By forming closer, strategic partnerships with eGaming businesses, we will be able to better articulate a proposition for the Island. We will better understand the opportunities, as well as remove some of the barriers that may exist today. Ultimately I would like us to be known as the jurisdiction that not only rolls out the red carpet when you arrive, but continues to support and value all of the businesses that are already here.”

The Industry View

Moderator: Russell Kelly

Senior Partner, KPMG

Panellists:

Lyndsay Wright

Director of Sustainability, William Hill

Wes Himes

Chief Executive, Remote Gambling Association

Magnus Grinneback

Chief Executive Officer, Mayfly Entertainment

John Coleman

Chief Executive Officer, Microgaming

In what has become a traditional end session to the Summit, KPMG Senior Partner Russell Kelly invited key industry figures onto the stage to quiz them on their thoughts about the state of play in the online gaming sector. In keeping with the 10th anniversary theme, the panellists were asked to reflect particularly on the changes they had witnessed over the past 10 years and their expectations for the next decade.

Russell Kelly: First of all, let's start by looking back 10 years ago to when we started the eGaming Summit series. At the time, everybody was still reeling from the loss of the US markets after the Unlawful Internet Gambling Enforcement Act (UIGEA) in 2006, and they were looking for some certainty, they were looking for regulation and for recognition. Do you think the industry got that over these last 10 years, did they get what they were looking for?

John Coleman: I think it was quite predictable what the past 10 years would bring. When I looked at the notes from back then, increased regulation within the industry was regarded as a threat. We understood there were going to be certain blockers along the way, certain key markets that we would be losing in the move towards regulation. Ten years ago, it was principally a dot.com world: regulated was certainly the minority. But the industry has adapted particularly well over the challenges it has faced.

Let's be honest, not many industries could sustain a loss of 50% of its potential market. How many industries can you think of that can sustain that kind of loss and adapt and move on? So, if the industry over that past 10 years has done anything, or demonstrated anything, it has shown that it is highly adaptive, it will thrive and it will continue to move on. Whilst the industry has faced challenges - and there are many at the moment - we very rarely talk about unprofitable gaming companies. So we are dealing with businesses that have the resources to adapt and move quickly.

Russell Kelly: Yes, it is a relative position. Gaming is a profitable industry and always has been. Lyndsay, as both an online and offline operator, what is your view on how regulation has evolved over this period?

Lyndsay Wright: It's fair to say we've ended up in a place where we've had completely contrasting experiences between the two. I joined Hills back in 2008 so I have done that 10-year window that we are talking about. Looking at the businesses, retail was still growing at that point, and a lot of people were challenging us and saying isn't digital just going to be the death of retail? Actually, retail is still there, clinging on. It is still there because from a customer perspective, they still love that experience. Its biggest challenge hasn't been where the customer shift has happened, its biggest challenge without a doubt has been regulation and of how, probably 10 years ago, and certainly 5 years ago, we failed to judge the mood and failed to judge the pendulum swing. The pendulum swing has clearly been more extreme than we have experienced in the past. That's something quite salutary when we think about online, and I think Wes Himes earlier was spot on in terms of where the risk now lies, and where the focus is clearly heading.

If I look at what online was like at the time, we were a couple of years into our relationship with Playtech and we were having to think about the longevity of a post-Playtech life. For us it really has been that migration from being a land-based business to a digital capability. Being able to find the talent - and the technology capability - and being able to attract that into the organisation.

Russell Kelly: That's certainly been quite an evolution, for your business in particular. Magnus, you're involved in Asian sports betting primarily, and you heard Bill Mummery talk earlier about the way volumes have increased in terms of bet numbers. What's your view on how the Asian market has adapted and evolved over this 10-year period?

Magnus Grinneback: Asia is quite a different market to the UK, so it's an interesting subject to talk about. Ten years ago Asia was broadly a model built on agents running around collecting cash that they then found ways of placing bets with various operators. This still exists to a relatively large degree but during this time there has been quite a big shift, “Whilst the industry has faced challenges - and there are many at the moment - we very rarely talk about unprofitable gaming companies. So we are dealing with businesses that have the resources to adapt and move quickly.”

largely driven by Bet365, who have pioneered more of a western model into Asia with checks on the customers, payment up front, withdrawal of winnings etc. That model is still a smaller part of the overall market but it has grown and I think it will continue to do so.

Russell Kelly: Wes, as an industry body representing the whole spectrum of operators, what do you think the industry has seen as some of its key challenges over this 10-year period?

Wes Himes: Your question at the very beginning was “has the industry got what it has wanted over the last 10 years?” If you look at the growth figures, you would probably agree. But there is a question whether, in that pursuit of growing the business, getting market share and expanding new businesses, have things been building up in the background that are now causing the regulatory challenges that we see today.

Right now, you can’t pinpoint any one challenge, you can’t say its credit cards or affordability or treatment or whatever it might be. We are on a much larger scale now which is all about the mood music and trust. So we can’t put out fires, we just have to cleanse the whole bit. We need to pivot - and we hope the Betting and Gaming Council will be part of that pivot point - and push a culture change through the industry, from the largest operators to the smallest ones. The largest operators are doing some wonderful stuff. Some of the small ones are too, they are just not very good at communicating it. But we need to turn around what are essentially very low trust levels, particularly amongst our customers, which should be the most worrying.

Russell Kelly: One of the things that has driven the trust agenda over the last few years in particular has been the Fixed Odds Betting Terminal (FOBT) debate. Lyndsay, as an operator with land-based shops, is that a key issue for you?

Lyndsay Wright: If you think about what happened and look at 2012 being the point where trust really started to come off, a lot of that goes back two years previously to when the Campaign for Fairer Gambling started. They started out with one goal in mind, which was to get FOBT down to £2 in the betting shops. They were laser-focused and effective in terms of their media and lobbying campaigns. The failure of the industry to recognise that early enough, and to respond to it, created an environment that allowed an incredibly febrile political environment to grow. Where there was so little trust that the companies would do the right thing, it was just a very straight-forward decision in the end to do it to the companies instead.

If we think about what we learnt from that, recognising this trust issue has been absolutely fundamental. The other change we are pleased to see is one industry body coming through. There was so much in-fighting within the industry, with some thinking they might benefit as a result of the detriment to the book-makers, that we all failed to recognise it’s actually the entire industry that then loses. Addressing those two pieces over the last couple of years - and where we go over the next decade - is pivotal.

Russell Kelly: Those are going to be very key drivers. Let’s move now to technology. Ten years ago markets were still working on dial-up or very slow broadband speeds, or possibly the earlier stage iPhones. Technology changes must have had a huge impact for your business.

John Coleman: There’s no doubt. We had seen the change coming. In 2004 we started developing around an old Nokia phone with a tiny screen. It was a horrendous user experience, and very challenging to do it, but you could see the shift beginning to happen. It was obvious that mobile, or adapting to mobile, would be the predominant technology shift, or device shift, over the 10 years, and it has proven to be so.

Every single month you can see good, single-digit growth, or shift-off from desktop on to a mobile device. That has been accelerated by broadband speeds. This sounds ridiculous, but some years ago we used to develop games, and at the time, the software was probably 1 or 2 GB. If you went to a household with limited broadband, in certain countries that was one month’s broadband supply, possibly more than they could achieve. Yet, the games were downloaded, and players continued to play. That’s not that long ago.

Now you can get your device, you can download a sports betting app, or a casino app, and you can be playing in a minute or two minutes. That was unimaginable at the time. Certainly for us as a business, where we have seen the growth is predominantly in broadband speeds and the mobile phone.

Russell Kelly: It’s also what you have to develop for now - the sort of application you had to develop 10 years ago was very different?

John Coleman: We started off in C# development in our games, and then everybody moved to Flash and now it’s H5. When you’re a technology company and have around 250-300 games in Flash, you now think: “I’ve got to change everything again. I’ve got to build up the skill set in H5 and I’ve also got to figure out what I do with these previously developed games. Do I migrate them, at additional cost? Do I shut them down?” So there are challenges that we have to figure out along the way but certainly that technology shift, that skill shift, has been hard. Plus the cost of recruiting H5 developers and that type of skill set for anyone in this business is extremely expensive.

Russell Kelly: Magnus, you must have seen technology and, certainly the way In-Play developed, really changing your market and the way your clients interact with you?

Magnus Grinneback: Absolutely. In-Play was developing already in 2008 when I started in the industry. It wasn’t particularly good. There was a limited number of markets and it was mostly football. It wasn’t done efficiently but at least it was there. When mobiles became more and more

popular, there was demand for faster markets and faster settlements. It almost seems quaint these days that someone places a bet before the match, watches it and then checks if they've won or not. But if you only had a desktop computer on dial-up modem, that's what it was.

With the constant availability, people wanted to bet and get settlement as they watched so they could continue to bet and get the excitement of it. That drove an awful lot of interesting developments. Cash-out, for instance, has been fantastic. You see more corner markets and all these short-term non-traditional ways of betting, and mobile contributed to that.

Just to give you some perspective on how big this is for us, today we take 90% of everything on various mobile channels. Basically, our desktop site these days is only an adaptation of a mobile site. Not the other way round where you make a desktop site and it becomes mobile-friendly: it's a mobile site that happens to be desktop-friendly. It's just not worth maintaining it anymore. And, in terms of In-Play vs pre-match, we probably do 85% In-Play. On some sports it's probably 90% plus. The availability and the more short-term, faster settlements have really driven lots of product development and we have a much more compelling product as a result of it.

Russell Kelly: I presume you are seeing the same, Lyndsay?

Lyndsay Wright: Very much so. The globalisation almost of the trading capability has been fascinating over recent years. I can remember, more than 10 years ago, Ralph Topping thumping the board room table asking what are we going to do about In-Play?! At that point, on a Saturday afternoon we would have two traders sitting watching a game, running five markets if you were lucky, with the traders on either side manually changing the odds at any given moment in time. When we went over to serious automation, and then total automation of the In-Play capability, it unlocked such an ability for these guys to think about what different bet types we wanted to be able to offer and to get into the five - minute markets, then the two-minute market, and then the one-minute markets. I still find it extraordinary that, when we talk to the new US customer base, they go "you can bet while the game is on?"! We've taken this so much for granted in terms of the evolution of the quality of a product and experience for customers here. The Americans are going to love this when they eventually cotton on to it!

Wes Himes: Just on the technology point, we are all au fait with the technology nowadays but the minute you walk out of that door into the Houses of Parliament, or the Halls of Government, there is a much different perception about technology. That it's inherently bad (and this isn't just with this industry, it is with the Facebooks and the Googles in the world), it's easily accessible - kids can go on it - and it can be controlled and shut down. So you're asked why can't you identify vulnerable customers and shut down all advertising to them. You can try explaining about the logged in environment and the non-logged in environment but one of the problems is that technology itself has begun to be distrusted. One of the hardest things for us is not only do we have an argument, we also have a lot of education and understanding to try to get across. As well as understanding how we can harness the technology to actually meet some of these regulatory challenges.

Russell Kelly: Certainly making people understand security and safety is very important. Looking forward now towards the next 10 years, Lyndsay mentioned the US and when you look at the US environment, its banking payments and infrastructure is very different from what we see in Europe in terms of how easily you can move money, and the way the legislation prohibits that. Also technology, in terms of broadband speeds in some parts of the US, is nothing like it is in Europe. So will the US drive growth in this sector or will it be slower, with growth coming out of Asia?

"Obviously there is competition from other like-minded jurisdictions, but right now it seems the strategy that's been put in place is keeping you one step ahead."

Wes Himes: Most people would be very bullish on the US. It only takes a few dominoes to fall for people to go from being a foreign operator to a domestic state operator, and you see the experiences in Europe to prove that. It obviously carries a huge asterisk which is what happens with national elections? Anybody pioneering in the US always has that trepidation that tomorrow they wake up and the Department of Justice takes a completely new view of the various Acts, or the legislature promulgates an Act to prevent it. But the US is a golden opportunity to expand business and create what will be yet another regulated market.

Russell Kelly: Magnus, what about Asia? Where do you think the growth is coming from there and how do you see the Asian markets developing? Will they regulate?

Magnus Grinneback: That is a good question, without a particularly good answer. First of all, Asia is not an especially homogenous place. If you look at the big nations, let's take China for example, China has state-owned lotteries that offer something that resembles sports betting. It's not a great product but it is a sports betting product. China Welfare Lottery offers something that resembles slot machines. Again, they are not great slot machines but they are there, not online, but they exist in physical locations. So, will China regulate? I think that is a very long process. I think it will come, with online lottery first. They've been at that since 2010, without any significant movement. It might happen tomorrow, it might take another 10 years: I have no idea.

They've built a large infrastructure for horse racing. It's really weird - you go there and watch the races and there is no betting at all. There are fantastic facilities but it's really boring. So, that needs to be regulated. Then, what is going to happen next? Is it going to be online sports betting and/or online casinos? Perhaps, although, in my view, this is not going to happen imminently.

Moreover, if it does happen, it might benefit some companies but the vast majority of those companies, if not all, will be Chinese. China has a history of shutting out foreigners. There might be an element of opportunity to supply systems but I strongly doubt that any foreign company will ever be regulated in China to accept online sports betting and online casino. I can't see it but I have been wrong many times before and this might be one of them!

John Coleman: If you are a public company, you have no choice but to be in the US. Is the US profitable right now? No. But for shareholder value, it is very, very important to be in the US.

As private companies, you have a different profile and you may follow a different path. Will there be more growth in the shorter term in places like Asia, South America, and Africa as opposed to the US? Yes. The US will take time. It's not going to be easy. It is state by state. It wouldn't surprise me if we are still talking about it in 10 years and we haven't got all the way through. It will take some time to develop, but when it does, it will be the largest gaming market in the world.

Lyndsay Wright: John makes an interesting point about the conundrum of a private company vs a public company. For us, it was a bit of a no-brainer when the Professional and Amateur Sports Protection Act (PASPA) got overturned because one thing we did right was to buy three tiny little sports betting companies in Nevada in 2012. That has given us a profitable business to start with, that then becomes a bedrock for investing in these bigger opportunities as they are coming through.

We all have to be cognisant that you could absolutely turn this into a money pit. The way we have tried to approach this - and we have a massive opportunity because we have been a land-based business - is to continue that roll-out strategy with profits coming through to then support the digital expansion. The biggest challenge is that we see states coming through faster than we thought they were going to, and we are seeing a decent number of them coming through with remote registration for mobile. This is the piece that will drive the fastest growth rate out of those new states as they open up. Certainly near-term - and for a public listed company - it will be critical to be seen to be capitalising on those growth rates as opportunities come out of the US. I am quite grateful that we did have a bit of a head start in terms of being able to get in there and make the most of the relationships we already had.

Magnus Grinneback: I would like to add a slightly different perspective. For public companies, it makes total sense. I don't doubt that the US will be a large market but I have strong reservations about who it will be for. Again, I am not convinced that European companies will be the winners in this market. Unless you are a very large PLC, I think that it is a high risk venture to get into. It would eat all your compliance resources and a lot of technical resources. You need to share your revenues with multiple partners. Some people will make lots of money in the US but a lot of people will lose a lot as well.

Russell Kelly: Let's get a bit closer to home with the industry here on the Isle of Man. We've heard comments about how 10 years ago it was 7-9% of our GDP, now it is over 20%. So the Isle of Man is quite dependent on online gaming and the wider sector that supports it. Lyndsay and Wes, neither of you have an operation on the Isle of Man, how do you perceive the Isle of Man?

Wes Himes: In terms of a regulated jurisdiction, there is a lot to be proud of. What we've seen over the last 10 years - and what has been predicted for the next 10 years - is indicative of the work that has been done. I am very impressed by the community and how much it has got behind developing this side of the business.

What happens when you get into the future is probably predicated on what happens politically. A different government in London, what does that mean for the Isle of Man? But in terms of the business and the wider global business, there is still some genuine future growth here.

I appreciate the point made earlier about finding that inflection point when you have to start diversifying but, currently, on the trajectory for the next 10 years, you are still well positioned. Obviously there is competition from other like-minded jurisdictions, but right now it seems the strategy that's been put in place is keeping you one step ahead.

Russell Kelly: Lyndsay, your offshore base is Malta. What were the attractions Malta offered?

Lyndsay Wright: I am going to admit I don't know much about the Isle of Man. This is my first trip today and I have really enjoyed being here. My role has not required me to look at the Isle of Man as a jurisdiction previously, and I have been massively impressed. The community feeling here and the pride that goes along with the standards that have been demonstrated here today are fantastic.

William Hill went to Gibraltar in 2009 and to Malta at the beginning of this year. We were obviously having to think about what our post-Brexit strategy would look like, so we had already started thinking about Malta as a jurisdiction. We were thinking about where we would find the talent - one of our constant challenges - that would be able to really support us as we were heading towards a splitting of the UK and the international dimensions of our existing online business. It ended up being a decision really driven by the acquisition of Mr Green who already had a very well-established team within Malta. That drove us to it in the end.

Russell Kelly: Magnus and John, you both run businesses from here. What does the Isle of Man need to do to continue its prominence in this industry?

John Coleman: It's always difficult. You have probably heard before how passionate I am, and Microgaming is, about the Isle of Man. But it's going to be a challenging 10 years for the gaming industry. I appreciate everything that has been said, but the world has changed, and the Isle of Man probably needs to adapt. I don't think anyone in the gaming industry is comfortable with 20% or more of the Island's income coming from online gaming. So I would start by saying that I wish it was less than that, and I think the Island generally needs to find the next online gaming to sustain that level of growth. I suspect you won't find it from this industry.

When we came here in 2001, this was the obvious choice for us. It ticked all the boxes, with good regulation that clearly we found a protection. We had a government that was open and willing for dialogue, and it was an island that was open for this business. But things have shifted along the way. So if we were starting our business again from scratch, it is highly unlikely we would be in the Isle of Man. Mostly likely, right now, we would be setting up home in Malta. That's just the fact of life. That's the way we have evolved.

So, over the next 10 years, my desire and my hope, is that something other than eGaming becomes the dominant force. But I do think eGaming will be a significant part of the Island for the next 10 years, absolutely.

Russell Kelly: Magnus, any thoughts or comments?

Magnus Grinneback: We came here for a specific reason. We wanted to establish an operator that could function towards Asia and it has worked very well. We needed banks, we needed to have a regulator that was supportive, and that we could work with, and there needed to be a technical infrastructure that functioned towards Asia and understood latency problems etc. We found that here. I am probably more optimistic than John, we found this and I think it is still there.

If you want things to develop, it's not rocket science. We need to make sure that when we bring people over that immigration works. There have been changes recently and we are bringing in a new batch of people over to the Island shortly so we will get to test that and see how it comes through - well I hope! If the Island wants to continue to grow, you need to make sure that there is good quality office space around. We looked at a lot of offices last year and ended up renovating something ourselves. That was great, we could afford to do it and it's wonderful but not everyone can do that.

So, focus on the infrastructure. The airport - I like small airports and Ronaldsway is perfect in that sense - but otherwise I'm not sure it is on the top 10 list of airports anywhere. You need to make a good first impression when you get people over here, thinking about establishing themselves here. It is simple. It is expensive unfortunately, but make sure that things work. The VAT situation is not great if you want to do anything towards Europe. So the Isle of Man's niche, I think, will have to be grey markets and the good news for the Island is that over the last 10 years, we've gone from everything being grey to everyone trying to be 100% regulated. Now, at least in my view, the pendulum is swinging back to operators being far more tolerant of grey markets.

John Coleman: If I can just add, in case I didn't come across as hopeful, you have probably seen the level of investment we've made this year! What I'm saying is there has to be a level of pragmatism, just for the Island generally. When you hear that one of the reasons to build more houses in the Isle of Man is the online gaming industry, that's a very local discussion and I just worry that there is a lot riding on the shoulders of the online gaming industry. All I am saying is just be careful. It is not the sole bullet.

Russell Kelly: I would agree with that. It is a lot of responsibility to put on their shoulders.

Thank you all for your views today, and thanks to all the speakers and panellists throughout the day. Without you, and the time you give up in preparation, we would not have a summit. I would also like to thank all of our sponsors, again we would not have a summit without their continued support.

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Closing Words

The Hon. Laurence Skelly MHK

Minister for Enterprise, Isle of Man Government

Fastyr mie, good afternoon ladies and gentlemen. First of all I would like to say a huge thank you to Russell Kelly and the KPMG team who have done a phenomenal job yet again. Their vision, their confidence and their continued support for this vital and important sector for the Isle of Man is very well received by Government. I'd also like to recognise the event sponsors: Boston Link, Capital International Group (may I add my congratulations on the banking licence - that is a real milestone), Continent 8 who have been here from the very start, Keystone Law, Comply Global, Manx FX Limited, Manx Telecom, Microgaming, Mishcon de Reya, The Stars Group and Wiggin. Also we, as a Government, have sponsored it too, through Digital Isle of Man and Locate Isle of Man. I would also like to thank the media partners: Gambling Compliance, Gambling Insider and iGaming Business.

eGaming is an important and vital sector for the Isle of Man. There is no doubt about it. It has been on a remarkable, successful journey these last 10 years. From a 9% to 21% sector share of the economy. Yes, there is a certain amount of vulnerability there but if you go back 10 - 15 years on this Island, we were 34% and above reliant on the finance industry. There is better balance here now. And it is worth recognising that the eGaming industry feeds the wider digital economy which represents over 30% of our economy here on the Island.

It is important that you recognise that we, as a Government, are here to partner with you. We are here to partner with you as you evolve and you innovate - and that is exactly what we have been trying to do ourselves too. Two years ago we launched the Department for Enterprise, with the subtle change "for" enterprise, not "of" enterprise. The reason for that is we are here to enable and facilitate the growth in the economy.

We also launched the Executive Agency model which had a primary function to promote, product develop and input into policy. Digital Isle of Man has hit the ground running. They are one year old. I want to thank Lydia Barbara and the whole volunteer team who contribute to that executive agency. When I say they have hit the ground running, it is worth recognising they have adopted a new approach to eGaming. There is a renewed focus on organic growth. We are here to truly partner with you through that continual evolution and innovation.

We have launched the Blockchain office and I had a meeting just today about an exciting prospect. We are here to help, support and guide through regulatory and business challenges this exciting new dimension for our economy. To date 27 applications have actually been granted for Blockchain and many of them are connected to the eGaming industry.

We have also introduced a business-to-business software licensing regime, for which we have had six applications since it was launched in February. We are working on the national broadband strategy, which you will be hearing a lot more of in the very near future, a significant body of work across Government. And, of course, we did reform the work permits a little while ago, and I can tell that is working because my inbox is empty! So it is working well. And that is because we listened to you.

We are now exploring new opportunities: esports, big data, AI, tech trials. These are all active work streams that our digital agency is working through on behalf of the digital economy.

This is all set against a very challenging environment. Unprecedented times, with political and economic turmoil all around us. We are quite used to that on the Isle of Man. We have lived with adversity all our lives - look at our history.

So, you might see chaos, a lack of political consensus across the water, leading to business uncertainty, which is very unhealthy for any economy. But on the Isle of Man, I would suggest to you, we are strong, we are secure and we are stable.

We are strong because we have a diverse economy, an agile economy, continually evolving, and international businesses choose us to be their home. We are secure because we are well-established. We are well regulated and accept that is a fine balance. And we are also well respected, which is what we want as a nation and I am sure you want as a business too. Last but not least, we are stable politically through the thousand-year-old parliament we have called Tynwald. We are governed by independence and, therefore, we govern by consensus, and that consensus establishes strong business-friendly policies.

That is why I believe the Isle of Man is the natural choice for eGaming. Not just for the last 10 years, and not just today, but for the future. Gura mie ayd, thank you.

"We are strong because we have a diverse economy, an agile economy, continually evolving, and international businesses choose us to be their home. We are secure because we are well-established. We are well regulated and accept that is a fine balance. And we are also well respected, which is what we want as a nation and I am sure you want as a business too. Last but not least, we are stable politically through the thousand-year-old parliament we have called Tynwald. We are governed by independence and, therefore, we govern by consensus, and that consensus establishes strong business-friendly policies."

KPMG

KPMG in the Isle of Man

+44 1624 681000

eGaming@kpmg.co.im

kpmg.co.im