KPMG in Malta Gaming eSummit Report 2017

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A Word from the Sponsor

As Malta's only data centre provider with truly global scale, Continent 8 Technologies is delighted to sponsor this year's report of the KPMG in Malta - Gaming eSummit report.

We at Continent 8 are committed to enhancing Malta's position as a pivotal hub on the eGaming world stage. For a number of years now Continent 8 has been uniquely positioned to deliver on a guaranteed global service level that is not just confined to the borders of Malta. The ability to manage internet traffic throughout Europe, North America and Asia enables Continent 8 to effectively mitigate denial of service attacks (DDoS attacks), provide diverse options for private network services, offer secure online cloud back-up and ensure that latency levels for our customer's customers is predictable, reliable and with high availability.

This is excellent news for Malta, as it means that any business based in the jurisdiction with global connectivity requirements has a truly global player they can turn to for a range of hosting and connectivity services - bringing the world to them.

It is my great pleasure to present this year's Summit report, as an in-depth account of all that was discussed at the summit in November, I trust you'll find it a stimulating and informative read. We look forward to seeing everyone again at next year's KPMG in Malta - Gaming eSummit.

Stephen Trimble

Chief Product and Marketing Officer

SiGMA iGaming Malta '18

A note from the SiGMA organisers

Another year, another record-breaking attendance… SiGMA 2017 welcomed approximately 8,000 visitors, breaking all previous records and doubling last year's numbers. The summit saw iGaming delegates networking, discussing industry trends and planning for the future — with everyone coming out a winner.

The fourth edition of SiGMA embraced the challenges and opportunities of a global show, taking the entire event to a whole new level and cementing itself as one of the gaming industry's premier showcase events. As a key player in SiGMA's portfolio of conferences, KPMG has undoubtedly contributed to this success. The KPMG Regulatory eSummit turned out to be an extremely well-attended conference, during which attendees had a chance to broaden their horizons and receive the latest sector updates.

It can be said with a great measure of confidence that SiGMA17 exceeded expectations — the industry can't wait for the organisers to launch next year's edition. Rebecca Liggero has highlighted SiGMA18 as one of 'Five BCH and iGaming industry events to watch in 2018' on CalvinAyre.com, based on her experience at the 2017 edition. «SiGMA's 2017 edition took the entire event to a new level and has certainly helped push Malta as an iGaming jurisdiction to the top of the list.»

Organisers behind SiGMA have big plans for the future, and will be looking for ways to top their last effort yet again.

Venue:
The 2017 iteration of SiGMA saw it move to the biggest venue yet, to accommodate another significant uptick in visitors and exhibitors. The fourth edition of the show took place at the MFCC in Ta' Qali — Malta's largest indoor venue. With 200 exhibitors featured at the show this year, the expo floor was completely maxed out on both days. In 2018 SiGMA is going to return to the Malta Fairs and Conventions Centre. However, as the event is growing in size once more, the surrounding areas will be incorporated to increase capacity.

Startup Pitch:
While SiGMA is proud to attract the industry's big players, newcomers are not being ignored. Following two extremely successful years at SiGMA in the past, Startup Pitch is coming back bigger and better. Once again, it will be brought back to give the most promising startup companies a unique chance to get a space at the expo floor, invitations to networking events, and exposure on SiGMAgazine and the website at no cost. The lucky finalists will be shortlisted to deliver a three-minute pitch to industry veterans in a shark-tank like environment – competing for potential funding, mentoring and contacts.

Recruitment:
In 2017, SiGMA aimed to address recruitment, an area of great importance and interest to the Maltese iGaming landscape. Hundreds of qualified graduates took in the show, gaining exposure to an industry hungry for talent. Looking forward to next year, this feature is expected to gain even more momentum and prominence. 2018 will see SiGMA launch multiple new platforms such as SiGMA Careers — a job posting tool with some serious potential.

Malta Gaming Awards:
The greatest stories of success should be celebrated, not hidden. With twelve categories, each of which isolates a specific contribution to the iGaming industry, the Malta Gaming Awards ceremony shines a spotlight on the winners and raises money for charitable institutions. This year's event has been attended by 330 guests – headlined by the President of Malta, Marie-Louise Coleiro Preca, as the guest of honour. SiGMA18 will again see the most inspiring and innovative achievements of the industry honoured at the Malta Gaming Awards.

Opening Speech

Russell Mifsud, Associate Director, KPMG in Malta

Good morning, ladies and gentlemen. Thank you for joining us today, I'm very proud to be presenting our second Malta KPMG eSummit. These summits have been ongoing for the past 8 years in the Isle of Man and Gibraltar; we brought Malta into the scope of that last year. Today, we'll be offering insight into what's happening within the sphere of iGaming on regulatory matters, on technology, and on strategic intent. We've a combination of the main regulatory conference as well as breakout sessions. In this main room, we'll focus on the regulatory front: the complexities of compliance. We've witnessed the need to anticipate trends on a complexity basis, how this is becoming dearer to operators' hearts, and how, in the end, it comes down to safeguarding and growing one's brand.

It's been a busy year. We've seen market consolidation, new directives, emerging markets, innovation, cybercrime, responsible gaming – all of which are hitting the headlines on a weekly basis. Honing in on other key matters, for example the LCCP out in the UK and what it means for license holders there; on the AML front; the Data Privacy Act; the process of going back to basics; privacy by design. There are tax issues: on the CCCTB (common consolidated corporate tax base) front – all of these are proving to be pain points for operators, and yet a necessity for them to remain ahead of the game. Stemming from the Brexit perspective as well, we've begun to see contingency plans come into play in the UK. These externalities are starting to impact the way in which the industry is working, and how we are starting to address it locally, on a micro-economic basis.

I'll just recap on what's been happening in Malta over the past year. The MGA recently published their interim report, providing a summary of industry activity for the first six months of 2017. It reveals excellent results: growth is up 10.5% compared with the first six months of 2016. The overview of all gaming activity in Malta features in the report, and it's a healthy picture. The next few years in this industry will be very active – we'll be facing disruption and changes, with new gambling legislation in 2018, and regulatory challenges in Europe.

The MGA has also been looking at disruptive technologies, such as distributed ledger technology, and crypto-currencies, and have engaged experts in the field to produce a well-informed document on their use in the gaming sector, to be published in 2018. The MGA is also working to ensure data protection is a priority, hoping to lead the way on this, especially with the new GDPR regulations coming up in May 2018. Equally important is the extensive work by the MGA on the 4th AML Directive implementation mechanisms; although cumbersome to implement, following consultations, as a jurisdiction we are confident we're ready to put in place the new Directive.

With regard to licensing, Malta currently holds about 120 license applications in the pipeline. Typically, we'd have about 50, so there's an increased interest. Brexit is affecting us positively on another level as we're seeing operators based in Gibraltar beginning to consider Malta. All very good news.

In addition, this year the MGA rolled out the Digital Games of Skill with Prize license, targeted for Daily Fantasy Sports operators. The new MGA licensing proposal is pitted to help us maintain our attractiveness, keep us competitive, and keep things engaging for operators based in Malta. Also the initiative by the MGA, to further embrace the video games sector is a positive move. It's amazing how much of the creative intel stems from our industry. In the start-up sphere there is much activity also.

On the educational front, ongoing and planned initiatives from the Ministry of Education, are emerging the address the skills gap, which will add clout to our ecosystem in Malta. Infrastructure is another area under consideration, and we've started to see dedicated forums to come into play. In Malta, operators are encouraged to have a voice, and highlight the key pain points so that the rest of the industry, including regulators, know what needs to be done to keep things as attractive as possible in our jurisdiction.

Today in the main room we're tackling many interesting topics, opening with speeches by one of the major industry influencers here in Malta. Following that, will be a presentation on how the media is re-writing regulation, then a fascinating segment called Battle of the Continents, which provides a detailed SWOT analysis on the opportunities in Asia, Africa and South America. How best to tackle getting into those markets today? Following that we have an esteemed IMGL class, by lawyers who really know their stuff, then a presentation on Gaming in Holland and the expected legislation that is to come into play. Many of us have been monitoring the changes in the Netherlands with a close eye.

Finally, we've a very senior panel of M&A specialists, which I'm excited about. And in our breakout room, we're rolling out sessions that focus on a wide range of issues within this sphere: exploring how the cloud can affect the bottom line; GDPR; AML; a new KPMG diversity initiative called We All Want to Play, noting how women add insight and a competitive edge to organisations. Also updates on the tax front, which both operators and eCommerce entities need to be aware of. Then we have the Economics of Consumer Behaviour, by two of our economists in London, who gave a phenomenal presentation earlier this year at our Gibraltar eGaming summit. Lastly, there will be a session focussing on specific countries, called the Jurisdictional Roundtables.

We take a lot of pride in our KPMG eSummit report, an edited version of everything that will take place today, aiming to provide a thought-leadership piece. Since we engage such expert and reputable speakers at our summits, the best follow-up is to share that insight with the wider industry. Our reports reach an estimated circulation of 50,000 to 70,000 industry stakeholders.

These eSummits would not be possible, were it not for a key sponsor Continent 8, who have provided their generous support over the last eight years to the Isle of Man and Gibraltar. We are especially pleased to have them sponsor this year's Malta eSummit report.

Finally, a big thank you goes out to the SiGMA organisers, who have gone from strength to strength over the last three years and consistently aim for the sky. The SiGMA team have pulled off a truly exceptional exhibition and all round conference this year. Hats off.

I wish you all a good day and hope that you find the sessions as interesting and as engaging as we intend them to be. Thank you.

Opening Words - Overview by Betsson

Jesper Svensson, CEO Betsson Group, Malta

Thank you for inviting me here today. Thank you also to Joe Cuschieri and the MGA for their valued commitment to our sector. Everyone here today is a testament to this industry and to Malta in general. We've seen fantastic growth in our industry and indeed across Malta. During the four years that I've lived here, there have been many positive changes. Betsson Group established in Malta in 2004, and my colleagues say that the island was very different then. The growth over the last 13 years has been tremendous, but for us, we were always thinking, how to take it to the next level. At Betsson, we began with a handful of people, now we've more than 1,000 employees, making us the biggest gaming company on the island. Malta has established itself as THE gaming hub: 10,000 people are employed across 300+ companies, which is astonishing. And more companies are looking to relocate here.

All of which is good for Malta, but this also puts pressure on to the island. For those of us already here, it's clear that change must occur, to cater for the next influx of businesses. This applies not only on a regulatory level, but also on the level of infrastructure. We've seen a welcome increase in salaries, but there's still the question of how many skilled workers we have. We need greater initiatives around education here, particularly on the technology side, to cater to the needs of our sector. There's much work to be done there. Also for companies that employ many expats, bringing people over to Malta is not just about the gaming, or the taxes, it's also about lifestyle. For people with families, they need schools, nurseries and childcare facilities. Malta has some great schools, but more facilities are needed, if we're going to enjoy this continued growth.

We very much look forward to working closely with the authorities, and as an industry we'll continue to give our input, so we can all enjoy this fantastic journey together. That's my message for today. We're happy to be here, we want to stay, and we must work together. There are some challenges ahead, but the opportunities are much bigger so let's come together to ensure that Malta keeps flourishing. Thank you.

The Media is Writing Regulation

Warwick Bartlett, CEO, Global Betting and Gaming Consultancy (GBGC)

The Media is Writing Regulation

Mr Warwick Bartlett, esteemed industry consultant and CEO of the Global Betting and Gaming Consultancy, took the floor and delivered an incisive look at the portrayal of the gambling sector in the UK media. The largely negative media spin on the industry is moulding public opinion and, Mr Bartlett avows, influencing public policy. If allowed to go unchecked, the UK media will continue its anti-gambling campaigns and operators may in turn face the risk of diminishing profits, as Mr Bartlett explained.

"Good morning ladies and gentlemen. I'm delighted to be back in Malta, and many thanks to KPMG for inviting me to their summit. I've been in the gambling business for 51 years. I'm in it because I love it. I love the people involved in the business, and the customers, and I'll cross the road to defend the industry against anyone. Today I'm going to talk about regulation in Europe and how the media is influencing regulation. I'll also be offering you some solutions to this problem.

Excludes Lottery	US$ (Source – GBGC, Global Gambling Report)
United Kingdom	5777
France	1126
Italy	1124
Germany	879
Sweden	879
Spain	481
Greece	412
Denmark	401
Ireland	377
Czech Republic	211

The above table shows how the UK effectively produces the highest gross gaming revenue (GGR) in Europe. If you add all the other countries together, they almost equal the GGR of the UK. The UK is so strong partly owing to 15% gross profit tax and to reasonable regulation. This table is a clear indication that the potential for growth in Europe is quite phenomenal, given fair taxation and reasonable regulation. There's no reason why Germany, France and Italy should not equal or surpass the UK. We know also that the propensity to gamble in Italy, Greece, and Sweden is higher than the UK.

Is that likely to happen with so much negative publicity coming out of the UK on gambling related issues? The answer is a resounding NO. Other countries look to the UK, the most advanced eGaming country in the world, as a reference point for the future, and if the flow from the media is negative they are unlikely to change their existing laws and regulation. Why would they take that risk?

Regardless of that context, the market is still in a growth phase. My company, GBGC, predicts that from 2016 to 2022 the market will have grown 29% in Europe, and 82% of the entire market's gross gaming revenue will be regulated.

The biggest headwind facing the industry is the way attitudes to gambling are being influenced by media. This in turn is changing the way governments and politicians view the industry and the policies they will introduce.

In the UK we've had legalised gambling since 1963. It has never been difficult to go to a casino, play bingo, or just have a bet. But today the focus on gambling advertising, problem gambling, and under-age gambling and advertising is more prevalent than it has ever been.

To complain about newspapers is a bit like a sailor complaining about the sea, or so the argument runs. All that the industry is doing is just "having a moan", and not trying to reset the agenda.

However, the media onslaught against the industry has been continuous, much of it based on fiction and not fact, and there is no end in sight. It is very serious. To remind everyone of the power of the media, and how it was demonstrated in 2006, when MGM, Las Vegas Sands, and Wynn Resorts all opened offices in London because the Labour Government at the time created enabling legislation for Super Casinos. But, the media began a campaign, and managed to influence the debate sufficiently to stop it in its tracks.

Indeed, recent coverage by the Sunday Times, which has a readership of 3 million, also illustrates how events can be distorted to suit the case for a clampdown on gambling. The newspaper alleged that operators were deliberately targeting children, with cartoon characters etc. Yet, we all know that children would not get past the KYC firewall, and they wouldn't have the means to pay for an online bet. The industry's reaction to the Sunday Times article was zero, no reaction at all. So, the Gambling Commission was forced to take action and the Sunday Times proclaimed victory on its front page.

This was followed by further negative coverage on television. The BBC featured addictive gambling during the main 10 o'clock news, at the time when Brexit negotiations were fraught, North Korea was putting H bombs on rockets to reach California, there were floods in Texas, and shootings in Las Vegas. Gambling took precedence, over all these disastrous events.

The industry now must think seriously about everything it does. It's obvious that the agencies that advise you on advertising do not understand the prevailing political sensitivity. They more than anyone need to be properly briefed before they come up with advertising that will cause a reaction, that can affect future regulation. You may view the Advertising Standards Authority (ASA) fines as a cost to do business, but those occurrences total up to a data point, which informs Government of your non-compliance as an industry, which in turn provides ammunition to persuade Government for more regulation and higher taxes.

My view is that the industry has given up trying to defend itself because a retort is given a few mere paragraphs in the press followed by 20 paragraphs that are negative; so, the industry has given in. But this means the agenda of the future is being set by others, who do not have your interests at heart.

Of course, it is very sad that 0.7% of the UK population have addictive gambling problems, which equates to about 400,000 people. I should mention that a large portion of those people are addicted to the lottery. However, other countries where gambling is restricted have a higher ratio. If we look for a moment at other addictions, the UK has a serious drug problem, with 11.3% of 16 to 34 year-olds taking cannabis regularly. It is estimated that 6% of young men regularly take cocaine, and London is regarded as the drug capital of Europe. But if you do an internet search on the BBC regarding drug use, it's all about the USA and Australia.

An indication of how serious the situation has become was highlighted when Money Week, a magazine that informs investors on which stocks to buy, asked the question, "Is UK Gambling out of Control?"

Another website, 'Politics Home', which advises Members of Parliament and is subscription only, highlighted the Sunday Times campaign, and cited research by the Campaign for Fairer Gambling (CFG). You might expect this organisation, the CFG, to have thousands of members, especially if we, in the industry are doing a poor job. In fact, they have less than five members! Yet their claims are given widespread coverage across the media.

The UK Gambling Commission has stated that it will partly base future policy on consumer surveys. A look at the last survey reveals that 34% of people think that gambling can be fair and trusted. This would suggest that 66% of people think gambling is NOT fair and trusted. Why, then, is it so popular? But the survey goes on to reveal that only half of survey participants, actually take part in gambling. So, they have no reference as to whether it is fair or not. It would be far better to put that question to those who do gamble, the people who do, in fact, use the service.

Another statistic to arise from the survey is that 39% of people think that gambling is associated with criminal activity. This is

quite a high number, but we must ask, what is their reference, how are they being informed on gambling? They are being informed via news reports in The Daily Mail, The Guardian, the BBC, Channel 4, The Times and The Sunday Times. Also, many TV soap operas in the UK show criminality in gambling. In addition, Hollywood films portray gambling, where it is mostly illegal in the USA. The States of course has a huge illegal sports betting market, with criminal associations.

None of this would not be serious, were it not for the fact that the Gambling Commission has said it will rely on polls, to help formulate future policy.

Earlier this year, at G2E 2017 in Las Vegas, participants who wanted to persuade the US Government to legalise sports betting cited the UK as a crime free jurisdiction. We have had legalised gambling for 54 years yet 39% still think the industry is associated with crime. The UK Gambling Commission has been operating since 2005, and the responsibility for gambling has resided with the Department of Culture Media and Sport since 2001. Their joint narrative for gambling has been wholly negative, and this is reflected in the data.

The question of whether gambling is fair, and can trusted, has been asked of people since 2008, and the Gambling Commission came into being in 2007. In 2008, 49% of respondents said it was fair and could be trusted, yet this number fell to 34% in 2016. We must ask ourselves, what

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>
> **- Warwick Bartlett**

has happened between 2008 and 2016, to cause a collapse in consumer confidence in gambling? Are the operators providing poor value? It's unlikely, as pay-outs have never been higher. Is customer service worse now than it was then? Not in my experience.

In my opinion it's the vilification of the industry by the media, that has caused both the DDCMS and the Gambling Commission to adopt this negative narrative. Of course, on occasion the industry hasn't helped itself, as we all know. Going forward, ask yourself this simple question, "Is this policy providing ammunition to those whose only agenda is to restrict supply, introduce more regulation and raise taxes?" If the answer is YES, then don't do it. As an industry, you also need to ask yourselves, should you be going on television at all? I think you should, but the key is, do your homework first. Anticipate every question you may be asked, and think of an answer. Your arguments should be based on fact; if they're not, the media will crucify you. And be true to yourself: the camera has a way of seeing into your soul.

To help us redress the balance, it's important to argue on the issues that count; the three central issues here are: taxation, morality, and public health.

The first is taxation. If a UK consumer spends €100 euros a month on gambling, then suddenly gambling was abolished, the government would lose on tax, wouldn't they? Actually no, because that consumer would spend their money on something else, where VAT would be paid. The use of lost taxes as an argument, simply doesn't stand up. Dominic Lawson wrote in the Sunday Times, and drew attention to the Government's tax and costing issue of the tobacco industry. He quoted from a report which showed the UK Government made a profit from smokers of £14.6 billion a year. But the move towards persuading people not to smoke is relentless, because it is "the right thing" to do: it damages health, and monetary issues are secondary.

The second issue is morality. Whether we like it or not, gambling is still regarded as a sin, along with tobacco, alcohol and drugs. If I focus on just one tabloid newspaper, the editor in chief of the Daily Mail is a man called Paul Dacre, who hates gambling. He has led the campaign against FOBT's and super casinos. He is reputed to never embark on a campaign unless he is sure to win, and once said, "Dull content doesn't sell newspapers, and boring doesn't pay the mortgage". He has certainly been sensationalist in his paper, when it comes to gambling. He is a moralist, and some of his campaigns are justifiable. When he talks to readers about moral issues he is starting from a high point of success; he is credible. The industry has never been able to counter the arguments against morality in gambling. The attitude of companies is, "It's always been this way; we just have to live with it."

The third issue is public health. There was a moment when the UK government realised you cannot cure addictive gamblers with treatment, so the focus turned to prevention. At this point it became a public health issue. Yet the NHS spends very little on gambling addiction. The gambling companies have regrettably become passengers to the arguments. But there is ample research, which most of us don't know about, that states that gambling in moderation is beneficial. You won't see that research featured anywhere in the media.

- **Two-thirds of Americans have a Facebook account**
- **45% of Americans get their news from Facebook's news feed**
- **Facebook's content is mostly generated by the users**
- **Between March 2015 and November 2016, 128 million people in the US created 9 billion Facebook posts, shares, likes and comments**
- **The content in social media is sorted by algorithms and not human editors**
- **You see in your newsfeed only what the algorithm thinks you will like**

What will decide the future of this industry is whether you are able to argue successfully the justification for gambling from a moral and public health standpoint. If the industry is unable to do so, there will be continued declines in profitability.

I truly believe, that our industry can learn a lot from the last US Presidential Election.

There is not one newspaper on the planet that supports Donald Trump, of the networks he has CNN, ABC, NBC, BBC all opposed. Yet he won. The New York Times said the probability of a Clinton win was 85%. Hilary Clinton used traditional, paid-for media. Donald Trump used social media; as he said, "Why not, it's free." The reasons for his statement are clear:

The benefit of the above is, your detractors don't know who you are talking to, and what your message is, which is the opposite to television, radio, and the printed media.

There are a few lessons that we, in our industry, can we learn from other specific PR disasters. The oil giant BP needed to salvage their reputation after the massive Deepwater Horizon oil spill in the Gulf of Mexico in 2010. To do so, they spent US $500m on press relations. Earlier this year, the case of a United Airlines passenger being assaulted by staff, and the YouTube video that went viral, forced the airline to improve customer service and invest in PR. Also, vehicle manufacturer Volkswagen had to deal with their debacle on cheating on emissions levels, and as a result they've massively invested in PR. Toyota too, the biggest selling car manufacturer in the US, had the entire US media against them. They had to save their reputation after a technical glitch affecting the accelerator pedals on their cars, which resulted in fatal accidents. Toyota is a case in point, as they used social media to great effect. Taxi company UBER recently lost its licence for London; it's reported to be spending close to a million US dollars on PR. All of these organisations have survived, and for the most part, have won back their campaigns.

To return to gambling and gaming, many people now live off this industry: search engine optimisers, affiliates, software suppliers, accountants, law firms, and advertising agencies. I know I'm not popular in saying it, but shouldn't everyone contribute to a campaign, to counter the negative PR that already exists? You cannot expect operators to do all the running on this. If everyone was included, it would also demonstrate the importance of the industry in terms of jobs and wealth creation. In terms of funding, I would estimate a cost of €250 euros each company each year. You've much work to do, and the challenge is taking the first step, after that, the second step is easy, and soon you will be running. Thank you for listening."

Battle of the Continents – South America vs. Asia vs. Africa

John Kamara, Director, Global Gaming Africa

Jesper Jensen, CEO, iGaming Asia

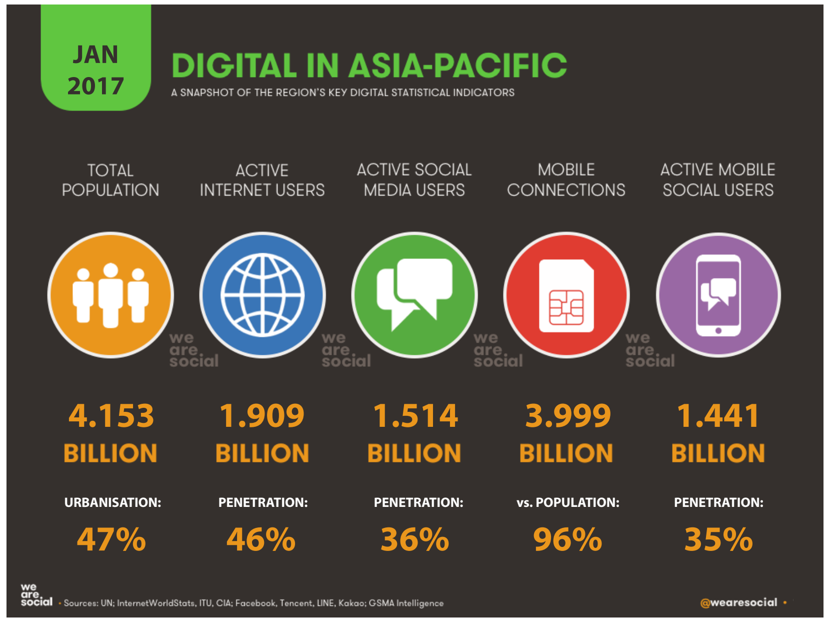
Lorenzo Caci, Director of Sales, Sportradar

Harmen Brenninkmeijer, Managing Partner, Dynamic Partners International Ltd.

Russell Mifsud of KPMG in Malta introduced the first panel session with three sector experts proclaiming the advantages of each of their chosen territories. Offering a SWOT analysis on each area, the panellists focussed on the opportunities, threats, potential profit margins and, how to properly target each particular continent. Representing Asia was Jesper Jensen, CEO, iGaming Asia; for South America was Lorenzo Caci, Director of Sales, SportsRadar South America, and for Africa, John Kamara, Director of Global Gaming Africa. The session was moderated by Harmen Brenninkmeijer, MD, Dynamic Partners International Ltd.

Harmen Brenninkmeijer: Welcome everyone! Here we have a trio of industry specialists ready to inform you about the exciting eGaming opportunities across the three continents of Latin America, Africa and Asia. After listening to these experienced veterans, you can decide for yourself which territory sounds the most promising. Let's get the ball rolling with Asia. Please, Jesper, give us an outline of your continent.

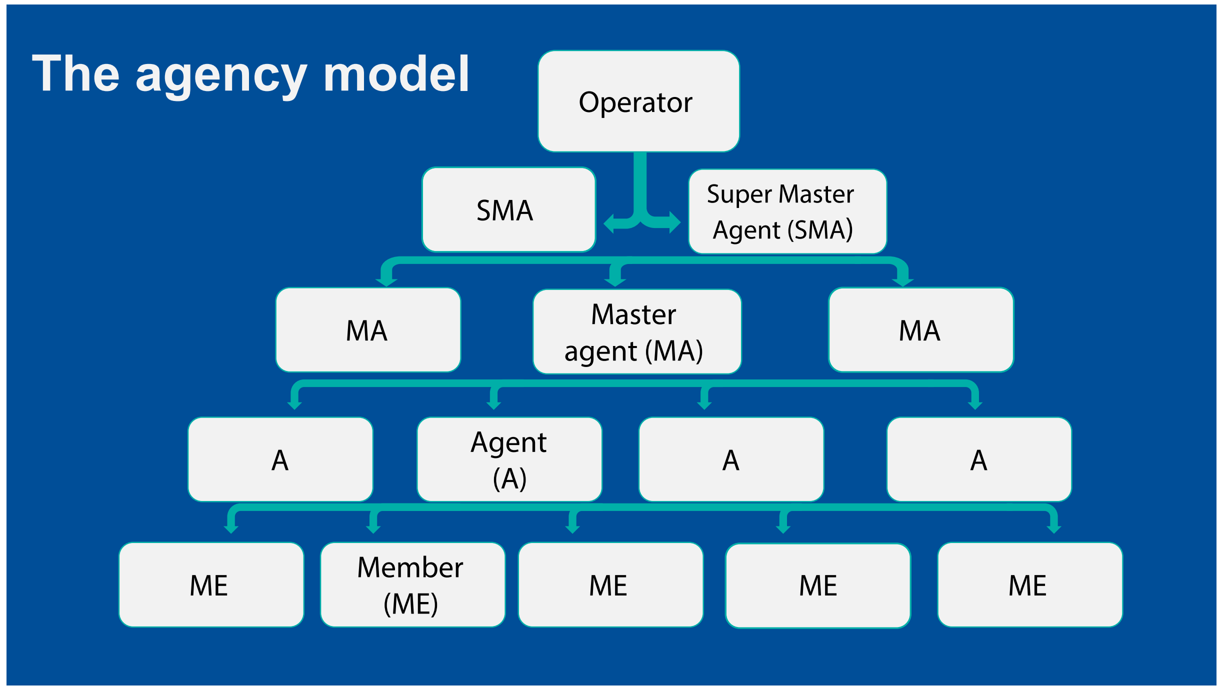
Jesper Jensen: Thank you Harmen. I'm part of a small consultancy firm called iGaming Asia; we're established in Makati in the Philippines, and we advise the government, the regulator, operators and various service providers. The biggest strength for Asia lies in the numbers: mobile users top 1.3 billion which is staggering compared to other continents. We've many new millennials coming through and it's the high to middle classes using mobiles, which is growing the internet penetration. Asia's total population is approximately 4.1 billion; half of this figure is connected to the internet. There are many non-urban sites, particularly in China; everyone in the bigger cities is connected. Social media is on the rise, soon the whole world will have Facebook. In China there's a popular messaging app called WeChat, which can handle payments too.



It's a fact that 55% of the world's population is in Asia, and it's growing; an ever-growing population means market opportunity. You can see the rise of digital distribution, and compare it to other continents – Africa is on its way, South America is a bit lower – but Asia is really taking off. Divided into four main regions, South Asia really means India, East Asia is China, Korea, and Japan. Southeast Asia absorbs the remaining countries. There isn't much contribution from Central Asia as it is uninhabitable desert.

Annual growth in Asia is booming. In the last two years alone, if you add 15% in terms of internet use, that's over 247 million people, which is a wealth of new internet users, at the right age to start gambling. The characteristics of the Asian market make it radically different to Europe. In terms of payment options, it's heavily credit-focused. Imagine you make a bet today with a friend, normally you wouldn't pay into a wallet, you'd bet on credit, so whoever wins must pay up afterwards – that's how it works in Asia. I know, as I'm with one of Asia's leading Sports Books, that per week we give out 2 to 5 billion Euros in credit to the users. We effectively act like a credit card company. One threat, when functioning like this, is you need to make sure the money comes back. But it's also an opportunity because the liquidity is so high, it goes to sports and non-sports betting.

Affiliates are a different matter. In Asia there's a risk-sharing model with agents. The right agent will do the marketing for you and bring in players; they take a cut of that. At month end, if users win, they pay the agents. It's a pyramid hierarchy, so you take payments upside-down, but there's a huge turnover. Betting levels are higher than in Europe and an average sports bet is about 200 Euros. The one thing you can't do in Asia is know your customer. There's no KYC from a regulatory point of view; the agents hold the data, and your customer is an account number. People wish to remain anonymous, especially the Chinese. This allows people to have multiple accounts, and can be a problem when running bonus campaigns. But with bonuses, using agents gives you better commission on turnover.



Sports betting is heavy in Asia, and has very low margins. Compared with Malta, for example, where margins are between 7 to 20%, in Asia it's about 2%. This enables you to have greater volume, and you don't need to consider other bookmakers, as the price coming from Asia is always what we call "right". For example, with Bet365, they have approximately 1,200 additional betting times – in Asia it's the other way around: we have binary markets. You either win or lose. If you enter the Asian market, you must grasp the agency model.

Lorenzo Caci: Good morning everyone. Let's move from Asia to the great opportunities of the "Samba" continent, where two big languages dominate amongst a population of 620 million potential users under the age of 25. South America is divided by two main languages, Portuguese and Spanish, where Portuguese is just ahead of Spanish with about 250 million people speaking the language out of the 400 million plus population. As a continent we hold most of the World Cup trophies, with football our great passion. It therefore is the focus for much of our user base. Like Asia, South America is an emerging market, but unlike Asia, we have much higher margins. The three big markets are Brazil, Mexico and Columbia. Columbia is the only regulated market in South America. Our markets are mostly grey, but the success of Columbia should provide people with the faith and opportunity to extend out to the rest of the continent, without there being too many regulatory frameworks. Another important market is Peru.

Football dominates the betting behaviours of the continent. It is the lead in sports betting. We follow a traditional model In South America, where pre-match betting is king. But the potential is in live betting and multiple betting slips, as opposed to single stakes. Shops and retail businesses are still strong in Latin America, partly because broadband internet is very expensive. Mexico leads the way in terms of purchasing via mobiles. The predicted forecast for the next four years is for a 50% growth in mobile use, which is about 450 million people. People in Brazil spend the most amount of time on the internet, followed by Uruguay and Chile. Unlike Asia, in Latin America we have many facilitating locations where users can go to top up, as well as online opportunities for transactions. Brazil is the biggest market with 300 million users, and a US dollar Sports Book. Facebook dominates social media use - affiliates can invest on here because player recruitment is very high, and users can be tagged. The annual CPA is 135 Euros. This slide reveals the opportunity in Latin America:

LATAM – Size Of The Opportunity

Latin America – size of the opportunity
Brazil – forecast of 380m USD of sportsbook + casino GGR in 2015
Colombia – forecast of 82m USD of sportsbook + casino GGR in 2016
Mexico – forecast of 51m USD of sportsbook + casino GGR in 2016
Chile – forecast of 32m USD of sportsbook + casino GGR in 2014
Argentina – forecast of 19m USD of sportsbook + casino GGR in 2014

Harmen Brenninkmeijer: Thank you Lorenzo. Turning now to John, our expert on Africa.

John Kamara: Hello everyone. My name is John Kamara and I'm representing Africa. Today we're really talking about emerging markets. Asia is already emerged, and South America probably is. But Africa is a properly emerging market. According to the World Bank and the UN, Africa is full of "brilliance" – young, clever, educated people. It's also one of the fastest growing continents with 1.26 billion people, and our working age population is set to reach 450 million in 20 years. When discussing internet penetration, it's all about mobile, which is great news for gaming operators.

The legal landscape is plain to see and more stable than you would think. Gaming generates revenue for many countries, and several of them have regulations in place to indicate they're ready for business. The key countries to have gaming laws are those with traditional casinos, such as South Africa, Kenya, Mozambique, Mauritius, Uganda. But this is slowly spreading across the continent.

In 2016, an annual report by the World Economic Forum, listed the top 10 best-performing African nations based on GDP, Employment, Urbanization, and Disposable Income. They are: Mauritius, South Africa, Rwanda, Botswana, Morocco, Namibia, Algeria, Tunisia, Kenya, and the Ivory Coast. I should underline that countries which are ranking in terms of how much disposal income they have is important – considering that gaming is a form of entertainment and disposable income is the value.

Legal Landscape

The Legal landscape for Gaming specifically sports products in Africa is a lot more stable than you would think from the outside looking inwards.

Africa is still very grey in most countries. The key countries to have gaming laws are those with traditional casino's i.e South Africa, Kenya, Uganda, Mozambique, Mauritius, Swaziland, Nigeria, Tanzania and some of the Island.

Regulated Countries in East Africa:
Kenya, Uganda. Tanzania, Rwanda.

Regulated Countries in West Africa:
Nigeria, Ghana, Ivory Coast, Senegal, Burkina-Faso, Liberia, Sierria Leone, Togo, Niger etc.

Regulated Countries in South Africa
South Africa, Botswana, Mozambique, Zimbabwe, Zambia, Angola, Lesotho, Namibia

Central Africa
Angola, Congo DRC, Congo Brazaville, Gabon, Cameroun

North Africa:
Morocco, Tunisia

Other islands : Mauritius, Seychelles, Zanzibar
Most markets in Africa for Sports betting is highly regulated.

Another important point concerns the value of trade in Africa. We're a growing economy, and one driver for this is our intra-Africa trade. Its current value is US $170 billion (according the African Export-Import Bank, Afrexim Bank) but the traffic rate is expected to rise to US $250 billion by 2021, based on 22% of trading inside the continent. By default, this means more disposable income to sustain entertainment-based industries, including gaming.

The key trends in Africa are infrastructure, and technology development. Job creation is a priority and many indirect investments are coming to Africa from Asia. Therefore Asia sees us as a growing economy and an emerging market. We have fast and attractive policy implementation in several African countries, deciding to open their markets for business.

Urbanization is another trend. There's internal migration across multiple regions in the continent, with a reduction in smaller cities and a growth in urban cities. By 2030, we expect there to be 55 cities with larger populations of between 1 to 5 million people. Africa's 20 principal cities are becoming larger, and more competitive. Organisations within these cities are also growing. There's much growth in employment, due in part to indirect investments in many sectors from America, Asia and Europe. A study of 102 African cities found an average growth rate of 3.4% p.a. for the period 2001-2016. This did vary from country to country. I think these are the key trends to consider when discussing emerging markets.

If we look at Africa's GDP ranking in the world, only one or two African countries get into the top 30 so technically we are not an emerged market, we're still growing which means huge scope for growth in Africa. Yet in South America, Brazil makes the top 10, and in Asia, 3 Asian countries are in the global top 10. As an investor, you look at markets that are emerging and at those already mature, and decide based on the value of the growth model.

Intra-Africa trade is only at 11%, giving us much room to grow. The population data tells you that we're also the youngest continent in the world – it's a fact. Looking at the risks and rewards: there's a massive opportunity for low investment with high returns. This is balanced by the challenge and political nature of some of the grey markets. Our young population – 60% of the Continent is under age 27 – also means we have a number of low income earners, but the leisure spend is still there.

NOSTRADAMUS: Key Predictions for Gaming 2017-2019

1. **Growth in the Online casino market will be a key trend for growth over the next two years.**
2. **Lotteries in Africa will begin to take their rightful place as the strongest gaming product. We will have a Pan-African lottery by 2019**
3. **We will see more Pan-African sports companies with an influx of mobile money being a key driver.**
4. **Sports exchange will become a key part of growth for Pan-African sports companies.**
5. **Other key products like Bingo, Fantasy sports etc will become a key source of added revenue in East African markets most especially.**
6. **Nigeria will see a major shift to mobile betting as a key source of revenue by 2019.**

Predictions for gaming in Africa for 2017 to 2019 effectively states we'll be producing some of the fastest growing gaming companies in the continent. It's a new dawn for gaming! You may have heard that two African gaming companies, at just 3 years old, have been able to sponsor teams in the premier league and in the MBA. The future of gaming in Africa is, we believe, purely mobile.

Harmen Brenninkmeijer: Thanks John. Let's move to focus on our SWOT analysis – the strengths, weaknesses, opportunities and threats of each continent. Starting with the weaknesses: in Africa it's the lack of internet infrastructure. With Latin America, it's the fact of having two languages, and about Brazil taking 50% of the business and the 13 other countries taking the rest. Asia has its lack of KYC and its incredible credit levels – necessary, perhaps, for business. How do you respond to the weaknesses in each of your respective continents?

John Kamara: When digital marketing began in Africa, we lacked the infrastructure to put in broadband. But that weakness became a strength because now there's massive mobile penetration in Africa and we're the continent with the highest volume of cheap smart phones: 80 dollars in Africa will buy you a proper smart phone. Most telecommunication companies realised there wasn't much point investing in traditional internet. Instead they invested in mobile internet and it's paying off. It presents us in the gaming industry, with an ideal opportunity to focus on mobiles. The growth and the strength of our continent is on the mobile device.

Lorenzo Caci: In Latin America, our weakness is our passion for football. The market was really driven by this passion: it's like a religion there. This can be disadvantageous, because, it's a social activity, where you place bets with everyone gathered around one TV screen, screaming at a live football match. Also, shops and retail are still king there.

Harmen Brenninkmeijer: If I decided today to enter the Latin American market, looking at Brazil and thirteen other countries, the different languages, the state of the internet and the fact that most bets go through shops, which demands a higher investment, where should I go?

Lorenzo Caci: I would say, go to Brazil. It is "grey" but we just accept its grey side. Of the other countries, Colombia is a good one. There's a clear process of regulation there now, it's quite transparent and the existing operators are embracing a less risky environment.

Harmen Brenninkmeijer: Thank you Lorenzo. With Asia, there's a huge amount of credit that must be provided. As a European operator, how do I get into Asia, which has more money than anywhere else in the world, and reap the benefit of this, Jesper?

Jesper Jensen: The answer is to come out to Asia, attend the conferences and team up with some of the companies operating there. Yes, credit is an issue, but the cash side provides an opportunity with 4.26 billion potential users. Half of these customers use cash and normal payment methods. One threat, particularly for China, is a recent crackdown on payments. But as long as you get it right, in Indonesia, with 230 million people, it's mostly bank accounts. Just a mobile phone and a simple message to a number will get you credit there, paying in via the bank. Compare that to Germany with 80 million people! Two main companies have been cracking it in Indonesia and they're now the second largest poker network in the world, after PokerStars. The numbers are staggering.

Harmen Brenninkmeijer: Thank you, let's start talking about the threats. I see many threats, particularly on the regulatory side. Africa has done a great job considering the short period since it began in creating a licencing regime in several countries. Was it led by South Africa in the mid-90s? Certainly, much exposure was given to the continent then. If I step into Africa today to build a business, what are the major threats, John?

John Kamara: Many of the policymakers still don't understand gaming, so we have threats around taxation, and in some countries, they decided to change taxation overnight. The media also presents a threat, and taking a moral tone, they've hooked on to the idea of "responsible gaming". We weren't really prepared for that, as an emerging market. But this same threat gives us the opportunity to create an enabling market, we can begin to educate our policymakers and legislators on how to regulate this market. So as an operator, one of the first things you'd see coming into Africa is the problem of policymaking and taxation threats, but from the consumer side there's the issue of responsible gaming, which may affect the sustainability of the industry.

Harmen Brenninkmeijer: Okay thanks. Lorenzo, you have some of those similar problems in Latin America, although we do see some progress with Colombia. What are your threats?

Lorenzo Caci: One threat is the poor internet connectivity: there are very remote places in Latin America and the expense for installing internet can be extortionate. That's another reason why retail and cash businesses are still strong. Another threat to investment is the difference of cultures between the other 13 countries. Even if the language is common, the cultures are completely different and that doesn't help scalability of operations.

Harmen Brenninkmeijer: Yes, I see. How do we deal with the threats in Asia, Jesper?

Jesper Jensen: The biggest threat in Asia right now is around regulatory. The only place in Asia you can operate from is the Philippines, which has a regulatory framework – nowhere else. After the new President, Rodrigo Duterte, was elected, he slammed gambling. POGO, the new regulatory body, was created and there's a bit of a mystery as to what's going on. There's room for bigger operators, and huge entry fees of up to half a million dollars. They have fifty licences now, but there are more than 500 companies just in the Philippines. If anyone is going out there, you need a lot of cash and patience. Just to obtain an office permit is very difficult, so bear that in mind.

Harmen Brenninkmeijer: Let's move on to talk about opportunities, and I'd like to open the floor on this – feel free to chip in here. If you had to sum it up in three comments, what would you say are the best opportunities? Why should I choose Africa, John?

John Kamara: One, the regulatory framework is becoming more favourable. Two, the mobile opportunity means you can reach a lot of customers quickly and we're developing cheaper data infrastructure. For example, today in Malta, at this summit, I'm using my African cell phone for data – it's that cheap. Thirdly, as well as our booming young population, in the past 7 years we've had an influx of 1.2 million Chinese people move to Africa, who represent a real opportunity.

Jesper Jensen: From my perspective, frankly the opportunity in Asia is the money. Since 2016, some 283 million new users have come on board. That's four times the size of Germany's total population! With the right capital, go into Asia, find the right partners and the right infrastructure, and you'll be rewarded. When people ask, why go to Asia? I always say China; it's such a massive opportunity. But which part? China is vast, so focus on just one area. You can of course enter other countries: we have excellent growth in Japan and Korea right now. Taiwan is getting there. Select your markets and use your capital wisely.

Lorenzo Caci: Latin America does have higher margins than Asia (in some cases double digits) but also the potential development of moving about 80% of sports betting away from the three-way market that exists now. Our markets are maturing. In Asia, a lot of betting is live; in South America, the majority is still pre-match, but everything still goes on. As I already mentioned, it's a good place for affiliates because there are low-tagged accounts. Many acquisition opportunities exist for the different segments, not only operators but for affiliates as well.

Harmen Brenninkmeijer: Thanks Lorenzo. Moving to my last panel question, if we're sitting here one year, three, or even five years from now, what will we discuss in relation to Latin America, Africa and Asia? What might have happened during that period?

John Kamara: Basically, in three to five years, we'll be the continent with the greatest development in terms of trade. For Africa, trade is a huge factor, and I mean insular trading among the 54 countries; this is the biggest driver for our growth. On the back of that, much development around multiple different sectors – with gaming being an important one – means our many nations will have a lot more disposable income. We also expect mobile data penetration to reach about 72% in Africa, over the next five to seven years.

Lorenzo Caci: I foresee that Brazil will win the World Cup again in 2018! But seriously, Brazil will grow in tandem with the maturation of the sports betting market. This in turn will bring entrepreneurs to invest more in local operations. This should widen the opportunity for joint ventures with European operators, and for those looking to acquire, instead of going it alone. The serious point about Brazil winning the World Cup is that it did herald and explosion with sports betting on my continent. This will still affect it for the next two years.

Delegate question: I'm a strategic advisor for a leisure distributor. Latin America is an attractive continent, and one question our clients ask us regards the market in general. How do you enter any of these markets? Is acquisition, joint venture or partnership the best route?

Harmen Brenninkmeijer: Thank you – that's an excellent question and one everybody would like to answer. Beginning with John, please.

John Kamara: In African markets, yes, either acquisition or local partnership is good. We see small African companies coming into gaming from sports to lottery (a few go into card games) but local partnership is certainly dynamic. Specific, local knowledge is very valuable – you learn from a someone who truly understands how to get you into the market. People always assume that a local partnership must mean investment in your business, but this isn't necessarily so. It may just be people who've guided your set-up as you began to acquire your customer base. Africa also affords you a great ability to enter into partnerships that you'd never consider doing in Europe with other sectors, that bring value into the gaming industry.

Jesper Jensen: My answer is similar for Asia. You need to have a local partner. In terms of mergers and acquisitions, even today companies are looking to make acquisitions in Asia despite the difficulties due to regulator's stance.

Harmen Brenninkmeijer: Is it because it is unaffordable?

Jesper Jensen: It is partly about affordability, but also about size: it's just so big out there. My advice, as mentioned earlier, is to go to Asia, and speak with some of the bigger, recognised B2B companies like Oriental Gaming and BBIN. See what you can do with those guys. You'll gain local knowledge and avoid the basic mistakes of most start-ups.

Lorenzo Caci: I've seen success stories in Latin America, and sound track records with European joint ventures in that market. There are local operations ready to take over or partner with larger European operations, and from Asia as well, where together, they attack the local market. The environment for this is friendlier in South America as against Asia, or even Africa. There are big opportunities for all of that.

Harmen Brenninkmeijer: This subject is fascinating. Jesper, please give us your 3 to 5-year vision on Asia. Will it still be as profitable?

Jesper Jensen: We'll hopefully be looking at a stable regulatory environment. That's our priority, otherwise people won't invest in a licence where they don't know what's coming tomorrow. The other point is about the cash market in China – will it go up or down? The question follows a big crackdown from the Chinese government on all payments. There's a lot depending on local payment solutions right now. My prediction on that front would be that I think it'll go up on the credit market.

Harmen Brenninkmeijer: Great, credit will continue! Thank you everyone, and please approach any of the members of the panel or myself. We're all very active in this particular space and would love to help you.

> **Brazil will grow in tandem with the maturation of the sports betting market. This in turn will bring entrepreneurs to invest more in local operations. This should widen the opportunity for joint ventures with European operators, and for those looking to acquire, instead of going it alone.**
>
> **- Lorenzo Caci**

Masterclass by the esteemed IMGL on European regulations

Joerg Hofmann, Senior Partner, Melchers, and Immediate Past President of IMGL

Stephen Ketteley, Partner, Wiggin LLP

Morten Ronde, Director, International Masters of Gaming Law

Corinne Valletta, Head of Regulatory Affairs And Group Compliance, Betsson Group

Stephen Ketteley: Good morning everyone. My panel today has been carefully selected in order to focus on the areas that we, as lawyers and regulators, feel the industry is currently concerned with. Germany as a jurisdiction is a hot topic, so Joerg Hofmann is here. Sweden too, which is where Morten Ronde and Corinne Valletta come in. In addition, the relationship between operators and regulators is an interesting topic in itself. Being from the UK myself, there's lots to debate there, and we'll consider a couple more conceptual arguments around the general direction the industry is heading, before opening the floor to questions. Joerg, please begin our session by explaining what's going on in Germany.

Joerg Hofmann: Many things are happening in Germany, and not all of them positive! The good news concerns a taxation issue for online operators. In Germany, operators must pay VAT on top of the tax base of gross gaming revenue (GGR). German politicians and representatives from the Federal Minister of Finance have discussed selecting the tax base by collecting a tax based on stakes. But that would be a disaster. Just recently, the Federal Ministry confirmed that the tax base is definitely GGR which is good news! On a less positive note, we heard the Federal Court's decision that the total internet casino ban – the interdiction of online casinos, poker rooms and scratch cards – doesn't violate European Union law or German constitutional law. I see this as the wrong decision. But as one of the highest courts in Germany, it'll have a massive impact on jurisprudence, certainly in terms of enforcements by regulatory bodies against online casino operators. There are many such pending cases in Germany. We must protect our freedom of services and we're talking about European Union law. This core line of defence for the industry just got a bit harder. It will also have an impact on the risk evaluation. The law hasn't change, but one must consider a new approach regarding applying criminal law. Private prosecutors could in theory now start prosecuting the industry. This won't happen yet, because there's only a brief press release of the court available, and it'll be at least a month before more details follow. With a fuller picture, we'll be able to detect if it's a wrong and just a political decision. This case began in 2011, and much has happened since then in Germany on the legal development side. Of course, there are new aspects to it! The court decision remains – we must accept that fact – but we hope that the European Court of Justice will look at it. With respect to risk evaluation, we must consider something, but right now the option to drop out of the market simply isn't an option. We must fight for the rights. I believe EU law still applies, and it will be protective, but this court ruling has given us an obstacle.

More optimistically, it's not just about litigation; we have a political process in place. As Germany is composed of many states, there must be agreement before federal laws come into force. Gambling is currently regulated in the Interstate Treaty which is co-signed by 16 German states. Going back to the *Ince* case in February 2016, where the Court of Justice of the European Union (CJEU) ruled that Germany must not impose sanctions against operators based on the German online gambling legislation that has already been found to be against EU law by national Courts. It went on to state that the current Interstate Treaty with its 'de facto' monopoly violates EU law. The Treaty offers no chance for an efficient proceeding of licencing in Germany, and, with respect to sports betting, is illegal! This is because the state offers its own sports betting products in Germany. The state doesn't offer any online casino products. The state-owned sports betting operations concern the retail business only. We don't have a state monopoly in the online casino market.

Taxation is a big issue and it seems extra-ordinary that the State collects VAT on casino games and tax on stakes from sports betting operators, but isn't able to offer a licence. There's no distinguishing between legal and illegal operations: they all pay tax. An amended version of the Interstate Treaty is set to be ratified by the end of the year and would come into effect from the 1st January 2018, providing interim licencing for a maximum of 35 operators. But if one single state doesn't ratify, it won't come into force. Schleswig-Holstein announced in September that they won't ratify the Treaty, so the model may collapse. Politicians in North Rhine-Westphalia also voiced their opposition to ratifying. So, overnight there may be a review of German regulation because the current Interstate Treaty isn't wholly in line with European Union law. There is pressure to change, and via parliamentarians and a political process, it could lead to a new platform of regulation in Germany.

Regarding tax, we have intelligence that a group of German tax investigators monitored the gaming market in Malta, Gibraltar, Curacao, Isle of Man, and tried to identify operators who serve customers in Germany but who aren't paying taxes. This is a facile conclusion. Lawyers and these tax advisers had a meeting, and the lawyers were told to spread the news that letters would go out to operators who apparently never paid taxes, by which time it could be too late for the operator to file voluntary self-disclosures, to avoid criminal sanctions. They've said they'll wait a while before sending the letters. We don't know who's affected or how much money is involved, yet.

Stephen Ketteley: Joerg, I've a question. We can construct sound legal arguments for supplying into Germany – even if they've been a bit challenged by the 888 ruling – but practically, what do you see happening with payment providers and the banks in Germany? Are they being put under pressure? Will there be practical consequences before any legal consequences?

Joerg Hofmann: Great question! With respect to the B2B business providers or payment processors, if the decision of the Federal Administrative Court is right, then it is a criminal offence. It's not the principal offender – that would be the operator only or the player involved – but it could be aiding and abetting if you provide services or assist the industry. Of greater concern to the banking industry and the payment providers is not just this decision, but its media appearance now. In light of the "Paradise Papers", in the German media, these industries are seen as illegal, criminal, or even as money launderers. Where payment processors and banks are involved, it's a heavy conversation. What's needed is a proper public relation initiative to educate the German market and the politicians on the proper facts, and not just media hysteria.

Stephen Ketteley: There's always been a close relationship between Malta as a jurisdiction and the Swedish market. Many businesses are located here, and taking business from the Swedish market. We continue to wait for the Swedish market to open. Morten, please give us an overview of what's happening in Sweden, and what we can expect?

Morten Ronde: Yes, of course. Obviously, Sweden doesn't have the biggest population in Europe but is a very important market, especially for larger operators like the Betsson Group. Sweden is in a completely different position to Germany and on a fast-track towards the proper licencing of online gambling. Following a 2016 inquiry, a report in early 2017 produced draft laws which were put out to public consultation. Then, came the issuing of technical standards in October. In a European context, the speed of this process was unique. Just this week the secondary draft regulations are coming out, so we've almost everything we need, ready to review! It's unusual to be able to assess the whole system in advance and it looks quite promising. There's a wide licencing scope, and similar conditions to those in Denmark: an 18% GGR tax is at a reasonable level. The Government is re-working the draft, it could end up materially different to how it looks now. But my reading is that since the secondary regulation is out now, it must mean that the Swedish Gambling Authority is fairly sure the outcome is going to look similar to what's currently proposed. Assuming everything is going well, we can expect the Swedish parliament to process this in early 2018 and possibly even adopt the law in 2018 before the summer break. That would allow the licencing process to be open in late 2018 or early 2019, which would be a tremendous success for the industry.

Stephen Ketteley: Corrine, as one of the largest operators facing the Swedish market, how are you finding the process, the interaction with the government and the regulator?

Corinne Valletta: It's working well. When the 2016 inquiry began we saw that the regulators were taking a pragmatic approach to the drafting of the regulation. They're in a privileged position because they can look to fellow regulators and see how it's done, where they've failed, and apply it accordingly. I agree with Morten, it looks promising. The regulator is listening, we are collaborating, and our ongoing consultations consist of balanced, good discussions. Everything was rolled out before the political process started so it should be good. Obviously, we'll have to see what happens in parliament.

Stephen Ketteley: Traditionally, we've had four offshore licencing hubs, with Malta being one of them. When Gibraltar exits the EU, only be one of those hubs will reside in the EU. The freedom of movement for Maltese operators remains an important cornerstone for their supply into many European jurisdictions. When you look at Sweden and the infringement proceedings it seems to have had an impact, and we're going to have an open licencing regime. We've seen in the Czech Republic, and in Poland to a degree, that European freedoms are not being as well observed as they could be. Where you think the European legal argument sits today? Is it being eroded, and if so, what are the justifications, moving forward, to supply from Malta into the dot com market within Europe?

Corinne Valletta: That's a pertinent question in this current climate. It's no secret that the freedom of services that operators have always relied upon, has been partially eaten away. It's true, but I would emphasise that the position hasn't changed, and we should continue to rely on the freedoms. To a certain extent, jurisdictions and governments across Europe would like to profit from the industry and we've allowed them that scrutiny because, in a fair environment, it's fine. We can apply for local licences as we've always done.

But even today, in this industry, we still have the problem of states maintaining an environment which isn't sustainable from a regulatory point of view. Excessively restrictive measures make it difficult for operators to function fairly with a good offering to the consumer. It's made worse by the fact that we've proof that good regulation does work, for example, the reaction from Sweden following the measures that have been taken by the EU; also, good examples like Denmark and Italy. Channelling is working; operators and their governments are making money. There's never been a better time to continue to rely on the freedom of services and we can expect this to be protected – otherwise we'll be lost.

Stephen Ketteley: Germany particularly is a market where the European arguments form the basis of supply. From your perspective then, how much interest is paid to the freedoms enshrined in the treaties, which allow potential cross-border supply? Following Corinne's remarks, how much can we rely on the Commission to protect those freedoms?

Joerg Hofmann: From our view, the freedom of service is still a solid argument. The question remains about applying it in countries or states where there is no proper regulation in place. In Germany, apart from that ruling which confirmed the legality of the interdiction, not long ago, hundreds of court proceedings were based on the European Union argument and many of them were successful, preliminary proceedings suspending interdiction. The conflict arose when suddenly 16 "Laenders" (German states), 16 regulators, and 16 parliaments, entered the arena. They were no longer talking about player protection but about consolidating monopoly structures, in an effort to bypass this argument. The Commission began a pilot proceeding against Germany about 2 years ago and we've been waiting for them to initiate an infringement proceeding. In a way, the law is the problem because of procedure: someone must apply the law but if nobody does, and everyone simply waits, the industry lags. It becomes a practical, or political, issue, rather than a legal one. Currently, the industry doesn't have the protection of the EU Commission that it deserves.

Morten Ronde: If I may add my view, I find the European argument means less and less. In Western Europe it had a big impact on countries who were "born members" of the EU but newer members (such as Eastern European countries just starting to licence online gambling) don't hold the European principles as close to their hearts as Western European countries do. They've seen what's happened in Western Europe and how ineffectively the European Commission handles infringement cases. Belgium has been on the infringement list since 2013, as have many countries and very little action has been taken. Newer member states think, why should we be the ones adopting these principles? Why not regulate us how we want it? Unfortunately, we're seeing this in countries such as Poland, the Czech Republic and Slovakia.

Stephen Ketteley: We may end up looking for different legal arguments to supply cross border. There are rumours about the Commission moving to withdraw some of these proceedings – for reasons not yet clear – but if the legal arguments remain sound under the treaties, they will stay that way regardless of whether the Commission do, or don't do, anything about it. It'll be interesting to see what finally emerges from the Commission.

Joerg Hofmann: As Morten referred to, some jurisdictions have "fake regulation", where regulation is apparently in place, but once you apply for a licence, you get told that conditions are not competitive for foreign operators. One example is in the Czech Republic where you can apply, but you'll never get a license because they currently don't manage to finalise your application. The Czech Republic is due to review its regulatory landscape next year. Other examples are Belgium and France, where you apply but the license conditions are such that the scope of offers, limitations and taxation, make it unattractive to convert from a grey market to a regulated market. It's an issue, and it buys time for countries – years in some cases.

Stephen Ketteley: Thanks, Joerg. We'll move on now to an outline of the current UK gambling market. At their recent "Raising Standards" Conference, the Gambling Commission Chair, Sarah Harrison, clearly indicated in her speech which direction the regulator wants to go. Last year, she cited areas in need of improvement, such as customer terms and conditions, data protection, money laundering, and social responsibility. Much has happened this year, particularly on regulatory intervention, and it hasn't stopped. The UK GC collaborate with other agencies such as our consumer watchdog, the Competition and Markets Authority. The CMA have spoken up, and what their Project Director said will fundamentally change the way that the industry promotes their services. The bonus structure offered by many operators is deemed unfair and potentially illegal. The industry must pay attention to this because it will have a major effect on the entire distribution chain. The Advertising Standards Authority have also intervened, regarding the use of child-friendly imagery on websites (particularly within game tiles) and in advertising. This caused problems for some of my clients because they didn't understand what it meant, and when it did become clear, there was disbelief. People are reflecting on what they do and how it's presented to the wider world. A warning across the bows of the industry has been issued and the Commission won't tolerate operators who flout advertising rules, and this flows into relationships with affiliates. The case this year where a large operator was fined for failure to control their affiliates, suggests the Commission could question the whole compliance structure of a business, when clear requirements are not embraced. Ms Harrison's speech delivered a stark warning to those who don't share that value and purpose in protecting consumers (particularly around social responsibility). They'll face an uncertain future in this industry. Our clients reacted to this, but I'm amazed when people don't realise that senior executives with personal management licences are taking risks, if they don't get a grip on their businesses. The Commission has yet to sanction any individual on this, but they've threatened to. Add to that the statements by the regulator in the context of investigations, principally regarding 888.com and on Gala Coral, both of which were social responsibility-led. The Commission is also still concerned how money-laundering checks work (or don't work) in this industry.

The Commissioner's speech reminds us how data-driven and how data-rich the online sector is, compared to land-based. I know from experience, that when seeking explanations, the Commission produce a chart detailing a player's journey from signing up, to closing down. Every interaction, spikes in deposits, withdrawals, play time, and frequency of returning to the site, is all laid out in front of the operator. Their message is: this is all your data. You, the operator, had this, yet when this spike happened, you didn't act. The industry must reflect on its data and use it for compliance purposes, not just commercially. The Commission is losing patience on this. Talking to everyone here at the summit, I've noticed how we've one regulator in the UK, the GC, and how there are regulatory interventions in Australia and the US too, but not in many other places. Is this due to a difference of structure in the way businesses are regulated, and public/private sector relationships? In your jurisdiction, where does the industry currently sit with its regulators, and has the UK GC gone too far as a regulatory body?

Joerg Hofmann: It's true the industry is growing more tightly regulated, with a new level of scrutiny. In the UK, I've seen a focus on affiliates and on the liability for affiliate marketing behaviour, but in reality, they're going after the operator, as they must pay the fines. Accordingly, some operators terminate the affiliate agreements, others set in place new codes of conduct. It's a kind of self-regulation, like what happened in the German insurance industry 3 or 4 years ago when affiliates had a lot of freedom. The insurance industry became liable for the actions of affiliates, so care is needed. On another level, you can't just talk about regulation as a whole, but consider multiple jurisdictions and compare the quality of regulation. In my experience, the main regulator himself – the Chairman of a Commission – his personality and approach to the industry, matters a lot. Is he or she open-minded? This doesn't mean corrupt, but more someone who is well-informed, and develops his own way of dealing with things. It's interesting to see this differ from country to country. Sometimes there are difficulties following the appointment of a new regulator, who is the most relevant person in this office. The best example of this is in UK: it's different now.

Stephen Ketteley: Corinne, I'd like your view on the interaction between the UK and other jurisdictions? Do you see it as isolated, albeit the biggest online gambling market in the world, or could it flow into other jurisdictions?

Corinne Valletta: Whether we like it or not, the regulator is catching up. We've been talking about our systems, and how we can apply compliance, in order to prevent and detect anomalies. Regulators are just coming to realise that timing is critical; in the UK, since 2005, all the important stuff was already settled. We must expect more from our capable systems and use them to fit with compliance objectives; I'm aware of the risks and of the volatile nature of this industry, but it's essential to maintain its safety. Our industry is at the forefront of technology development and that's more reason to be careful. We must reach a balance in what we're doing, and regulators should allow us the time. The UK Gambling Commission has a preoccupation with the protection of the consumer, how this must be at the heart of all regulation. Of course, we'd like that too, and more can be done, but we need to pace ourselves as we're already doing a lot. Stacks of regulation is coming at us from all fronts, and even on specific initiatives in different countries, there are different regulations that we must comply with. We must complete all this work, and keep the consumer at heart. We also must maintain consumer interest in our regulated games. Do people really want pop-ups every few seconds, regarding their spending, or time played? Won't this throw them off? It's a dichotomy. It's something that we must watch; perhaps as a sector we must re-think the way we do things. Unfortunately, some aggressive commercial practices in the past gave the industry the name that it has. Let's face it, it's the gambling industry, it's an easy target.

> **"In this industry we still have the problem of states maintaining an environment which isn't sustainable from a regulatory point of view. Excessively restrictive measures make it difficult for operators to function fairly with a good offering to the consumer."**
>
> **- Corinne Valletta**

Stephen Ketteley: The Gambling Commissioner said that she is simply reminding the industry of its relationship with the customer, and the best way to treat them. Some quite shocking statistics emerged in connection to this; it's possible they can be interpreted in different ways, but it's all part of an anti-gambling sentiment that we have in the UK right now. Morten, you have a broad view of many jurisdictions. In the UK, to me it feels like death by a thousand cuts for our industry. Do you see there being a general societal backlash against gambling in other places too?

Morten Ronde: There are two levels here: there's public perception, and then there's enforcement, and the different approaches to it. Firstly, the public perception towards gambling is increasingly negative across Europe because of the massive exposure of advertising. In the countries I visit, people say it's too much, there are gambling adverts everywhere, and during football matches, 90% of adverts are betting. Ordinary people are offended: something must be done. On a second level, negative media becomes political and reaches the regulators, and in some countries regulators feel pressured to act, but then something must intervene, because usually it's dealt with in a reasonable way in most European countries. In Denmark, my country, it's not because the regulator has just begun to look at advertising. Throughout the licencing period a team was devoted to it, and fed back to the operators, with the occasional rebuke, to keep them in line. I'm puzzled by the UK approach and – at the risk of being controversial – I see the UK industry as being hung out to dry now. Not long ago, everything was okay, now it's not: is it the industry's fault? I'm not defending the recent court cases, but I would ask, what happened to enforcement before now? There must be some shared liability between the regulators and the operators.

Stephen Ketteley: Thanks. Now Joerg, in Europe's most populace jurisdiction, what's the relationship like between the Germans and gambling? Is it positive, tolerated or negative?

Joerg Hofmann: If you look at the player numbers and the sheer number of stakes in Germany, you'll see the population is open-minded to gambling. Millions of Germans gamble and love it. Yet public perception doesn't reflect this fact, and our politicians aren't well-informed. News headlines on gambling would read as 80% negative, the attitude is unfriendly to the industry. And regulators tend to concentrate on enforcement rather than recommending new regulation. If we see regulation tightening, the key to survive is still compliance. Upcoming challenges next year include data protection guidelines and continued application of the 4th AML Directive. The risk for operators is too great: a heavy fine, or the loss of a licence, or being blacklisted. It's best to monitor developments, and engage the help of experts when needed.

Stephen Ketteley: Thanks, Joerg. So, public perception surrounding gambling in Germany is 80% negative, which makes 20% neutral or positive – in the UK we would take that! Thank you very much to my panel for all their shared insights today.

The Dutch Online Gaming Market: Characteristics, Size, and Regulatory Developments

Willem van Oort, Founder, Gaming in Holland

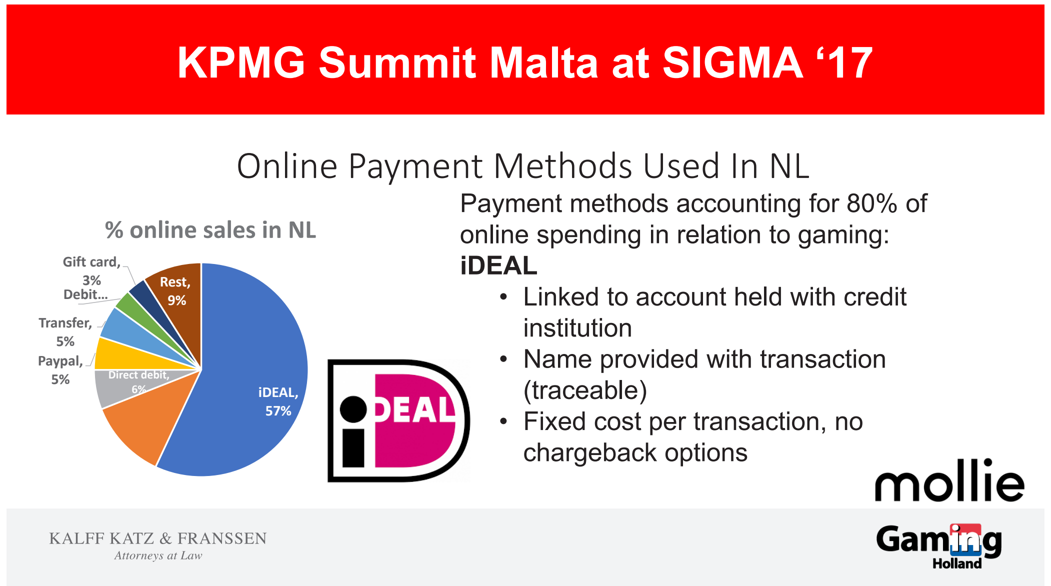
Dr Alan Littler, Gaming Lawyer, Kalff Katz & Franssen

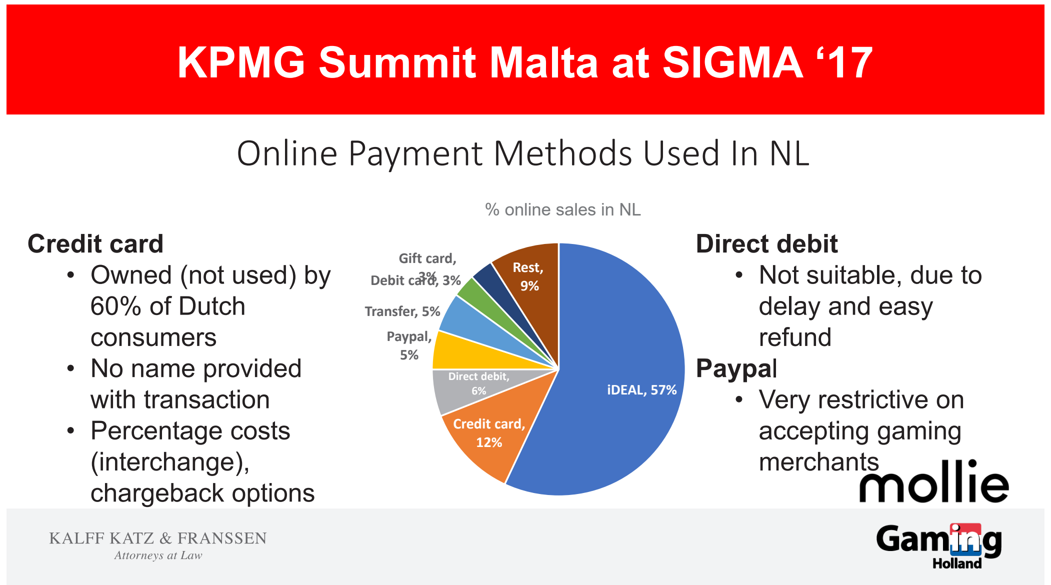
Willem van Oort: Good morning everyone. The Dutch market is unique, and our aim is to inform you about it today. I'm a gaming consultant from the Netherlands with several years' involvement in the Dutch market. My friend Alan is a lawyer with Kalff, Katz and Franssen who specialises in gaming, and he will provide you with an overview on the regulatory side.

Holland ranks 7th in the EU in terms of GDP per capita, which is €52,000, and has a population of 17 million people. There's very high broadband penetration in the Netherlands and strong e-commerce culture, last year this market was 20 billion Euros. In 2016 Holland attained €2.5 billion GGR, of which 280 million GGR was online and not regulated. Our 2021 forecast puts us at €2.7 billion GGR (assuming the online market is regulated in 2019) with a €500 million contribution from online.

With those figures, the Netherlands will maintain its ranking as the 7th largest gambling market in the EU.

Generally, Dutch consumers are loyal players, whether it's casino or other betting. And typically, we've seen some M&A in the last few years, with two local brands being acquired by Betsson and affiliate acquisitions by GIG and Catena. In 2011 we had the first non-English evolution gaming tables, which was quite pioneering – that's typical Dutch, they like their localised products. And of course, there's no historic popularity for betting in the Netherlands – unlike the UK – which means there's massive opportunity for growth post-regulation. Consumer spend differs in Holland compared to the UK and in Germany, and this is highlighted by the ways that Dutch players pay.





It's a fact that 57% of Dutch consumers use an eWallet called "Ideal" when they gamble online; indeed, eWallets are the main payment method in the Netherlands. It's a very typical Dutch characteristic of the market that credit cards, direct debit and PayPal lag behind. Post-regulation we expect this to remain the preferred method of payment. Now, I'll pass over to Alan for the Dutch legal and regulatory update.

Alan Littler: I'll give you a brief update on the regulatory aspects of the Dutch market, where we are now and where we're going. The good news is there is no bad news! However, the process of reforming the market has stagnated. Basically, online gambling is prohibited, so in 2014 a Remote Gaming Bill was submitted to Parliament, and has been with the Upper House since October 2016. Following our national elections in March, our government took six months to form, which meant nothing happened to the bill; we're still waiting. Fortunately, a former opposition party, now in government, appears friendlier towards the idea of regulating and wants to finish the business of the previous Cabinet. And I should mention that there's a considerable de facto market, despite the prohibition in place.

You may know that the Gaming Authority has taken a particular approach to enforcement, in the period ahead of licensing. Parliament passed a motion in 2011 which called for none of the locally unlicensed operators present on the market to be awarded a licence, once the regime is in place. This gave the government a big headache because obviously they want the big names on board and active in the market. Therefore, they've had to pacify Parliament in all the debates to date. Under the current regime, in June 2012 the Gaming Authority announced its prioritisation criteria with regards to enforcement, and the three main points are: offering games of chance via a website with a ".nl" extension; offering games of chance via a website in the Dutch language; and advertising games of chance by radio, television or print media and which is directed at the Netherlands. But the GA has blurred the edges of this over time. There were statements that there shouldn't have been any online advertising, directed towards the Netherlands, around sports events back in 2014, 2016, as well as indications of a move towards a risk -based approach to enforcement by the GA. Things became more uncertain in June this year, when a Press Release stated that as of 1st June a new approach that the GA was coming into effect. This did away with the certainty introduced by the three original criteria, and brought in the uncertainty of a much lengthier non-exhaustive list of points.

Basically, if the GA spotted a website with the Dutch flag, or other insignia such as clogs or windmills, they'd say, yes, you comply with the original criteria, but are still targeting the Dutch market, therefore you are at a risk of enforcement. That same Press Release referred to a common payment method popular in the Netherlands – implicitly this is iDEAL. Since June, the question of what should be done with iDEAL has been vexing operators. Will it trigger enforcement? No action has yet been taken based on this new approach, and we should get a clearer idea in the coming months.

I'll expand now on the situation relating to payment service providers (PSPs). The ban in the Netherlands on promoting unlicensed gambling relates to advertising too, and people have long debated whether that covers payment providers. In 2014, the GA signed a covenant with various payment providers indicating that they wouldn't be subject to enforcement as long as they didn't take operators on board who had been fined, or they kicked out existing operators from their client base once the fines against those operators had become irrevocable. In October 2016 a decision from a lower court held that the prohibition on promoting now includes payment services. That decision has been appealed, and we're awaiting the decision of the Council of State, but it's slightly postponed. If that goes the GA's way, then it's likely they'll try and scrap the covenant which could have a chilling effect upon some of the PSPs whether signatories or not. That'll be interesting – if payment avenues freeze up!

The GA has also aired concerns about social gaming and loot boxes, that the games lead minors and younger people into gambling. It is not clear whether social games fall within the remit of the GA – we await a consultation on this, which may have implications for those who sit just outside of that definition. Once in place, the Remote Gaming Bill will have two broad categories of licence: one is a betting licence and the other is a casino licence. Within these categories many product verticals will be offered (to the exclusion of spread betting and online lotteries). Of course, the tax rate is of interest. The bill proposed a 20% rate based on GGR, with the aim of capturing 80% of the market with the locally licenced regime. But MPs passed a motion which pushed up that rate to 29%. Now, 29% is the headline figure which land-based operators pay; in reality, there are peculiarities and their effective rate is much less. But a rate of 29% for remote gaming will undermine the channelization objective.

There are other levies and charges on top, such as a levy of 1.75% on GGR, a licensing fee of €40,000, a bank guarantee of up to €810,000, and a possible minimum contribution to one or more good causes. The amendment which introduced the higher rate also introduced the possibility of the rate coming down by up to 4 percentage points – possible but unlikely at this stage. Other headline features of the bill are that there will be no server requirement in the Netherlands, but a control data bank and a heavy duty of care on operators to monitor player behaviour and intervene proactively. In addition, we'll have a central database of excluded players. It's being taken from Holland Casino, the state monopolist with 14 casino venues, and being placed under the auspices of the GA. All remote operators will be required to connect to it (Holland Casino is due to be privatised). Every time a player logs in or enters a land-based venue, the operator must check if the player is on the database, so they know to bar him or not.

Moving on, the 4th AML Directive has not yet been implemented in the Netherlands. The bill was submitted to the Lower House back in October, but there's been very little progress. Returning to taxation, there's a proposal to increase the tax rate to 30.1% but this will only affect the existing land-based operators. The delays over the Remote Gaming Bill mean that state coffers are missing the money which was budgeted, on the assumption that the legislation would already be in place. The 30.1% will apply for a limited period, falling back to 29% within 6 months of the bill coming into force, at which point the GA will be awarding its first remote gaming licences; new market entrants will be paying the 29%.

Interestingly, the coalition agreement by the new Cabinet in October 2017 referred to the need for future operators to have an establishment in the Netherlands. It's not clear what this establishment will be. A few years ago, the discussion focussed on which model we should follow – Belgian or Danish? Fortunately, we opted for Danish (the Belgian model was deemed inappropriate not least because it is incompatible with EU law). Also, we have monopolies on the land-based market in the Netherlands and so therefore that would be replicated online, and the intention of the bill is for there to be a degree of competition. We must wait to see how the Ministry addresses this particular wish, and how they do it. It's too late to make amendments to the bill as it's currently before the Upper House. They may attempt to add another bill, but that would delay the overall reform process. They may add it to secondary regulations. In terms of secondary regulations we expect a consultation process early next year, which would be important and beneficial for us to know the finer details of the new regime. We also expect the Upper House will vote on the bill early in 2018 too. They can only pass or reject the bill: it's basically a win or a lose situation.

In addition to the Ministry's consultation on the secondary regulations, the GA has often stated that it will run a consultation process on the licencing process and the application forms, so we must wait for that. They've also said it will require six months to process applications. Current pointers indicate the market could open in the second or third quarter of 2019. So, applications could start at the end of 2018. The GA are keen to have a "Big Bang" approach so, get your application in by a certain date, and if successful, you will all get your licences on the same day. How we will manage the transition from the current situation to that new situation, remains to be seen.

Willem van Oort: Thanks Alan for that quick update on the regulatory side. Finally, let me share some news. As a gaming consultant I set up a Dutch business community focused on the whole industry – betting, gaming and lotteries – called "Gaming in Holland". We have 2,500 members so far. Every June we organise an annual event in the centre of Amsterdam. It takes the form of an expo and features many exhibitors, such as Microgaming, Dutch Roulette Design, JC Decaux, Cash Support, and Eurocoin. There was talk of ICE coming to Amsterdam but that's unlikely. We effectively had the top 10 local and international providers supporting the Gaming in Holland either directly or indirectly. We had visitors from 26 countries which is great for our small country. Please do come and see us in Holland in June.

And finally, may I express my thanks to the whole KPMG team for giving us the opportunity to speak to you all about our market.

> **The [Dutch] Gaming Authority are keen to have a "Big Bang" approach so, get your application in by a certain date, and if successful, you will all get your licences on the same day. How we will manage the transition from the current situation to that new situation, remains to be seen.**
>
> **- Dr Alan Littler**

Mergers and Acquisitions – the latest news, rationale and expectations for the future

Karl Diacono, Director, GVC
Simon French, Leisure Analyst & Senior Executive, Liverpool office, Cenkos Securities
Hermione Arciola, Director, KPMG in Malta
Susan Breen, Partner, Mishcon de Reya
Marcus Nylen, Chief Operating Officer, Leo Vegas
Markus Nasholm, M&A Director, Catena Media
Petra Zackrisson, Vice President of Corporate Development, Betsson

Hermione Arciola: Good Afternoon. Let's begin this panel with an overview of the merger and acquisition trends over the past 12 months. Simon, could you please describe the M&A landscape for us and how the environment has changed, compared to a year ago?

Simon French: With pleasure. So, there's been much talk but not much action. Over the past year we've seen integration from mergers that had previously completed, such as Ladbrokes/Coral, GVC/Bwin Party, PaddyPower/Betfair. There's been speculation around large scale mergers, and talks between 888 Rank and William Hill, Amaya and William Hill. Most M&A activity focused on the smaller end of the spectrum, for example Kindred buying 32Red; Betsson buying Netplay. Some larger players have broken into the smaller niches in the market, and speculation around the bigger transactions continues, so we can expect a busy 12 months to come.

Hermione Arciola: How have these transactions been financed?

Simon French: More recently it's been equity finance, whether that's pure cash for vendors, or them receiving paper in the acquiring company. We're now seeing more debt coming into the market; the attitude of mainstream banks towards the online gaming sector has changed somewhat dramatically this year. This trend will continue, indeed, we had the Stars Group say that they're prepared to rise to 6.25 times debt to EBITDA to finance some of their activity. We had some bonds issued in Sweden at the smaller end of the market, so debt is taking over equity.

Susan Breen: I agree, and the drivers for upcoming M&A are interesting. Most mid to large companies prioritise growth targets, whether it's organic, or by M&A. It does vary between companies, whether it's B2B or B2C. I'd say the top 10 risks are bunched around regulatory in its widest sense. Owing to the weight of regulatory uncertainty, there will be a major challenge to achieve those growth targets, which is where M&A comes in. The key focus for many in the sector is data protection, AML, and cyber security; this confluence of threats will fundamentally change the way people do business. It'll also impact on costs, so smaller entities will likely look for an opportunity to consolidate. It's much better, for those companies to be together and strong rather than fade out of the market. For those with the right bank balance to acquire strategically it's a great opportunity. All this will happen in the regulated space, but inevitably, as the market becomes saturated, larger companies may look at other territories still in pre-regulation phase, such as Brazil and Columbia in Latin America, Africa, and Asia.

Hermione Arciola: Turning to the operators and affiliates, what role does M&A play in your respective strategies? Is it key to your strategy, or not on your radar?

Marcus Nylen: I believe that there are different routes to take. For us at LeoVegas it's been our fundamental strategy to grow organically. It's the best way to build a long-term profitable company with growth. Focus on your core, which are your customers, product, marketing strategies, and staff. We have made two acquisitions this year so, clearly, we are open to business opportunities, be it people, be it ideas, assets, companies – as long as there is an evident fit for us.

Petra Zackrisson: I agree. Betsson has consciously included M&A as a part of our strategy from the very start. We planned to grow both organically and via acquisitions, but the fundamentals must be there, so organic growth comes first: you must build a solid company before adding new parts to it. Don't undertake M&A for its own sake, only when it's complimentary to your strategy.

Karl Diacono: I agree also. GVC has a history of conducting M&A. We did some small deals and gained experience with acquisitions in Latin America; then a deal with William Hill where we acquired Sporting Bet. The recent Bwin transaction has shown that we can deliver when we do M&A. It has raised our public profile in this area. I agree with the others – it must fit overall.

Markus Nasholm: The affiliate space is less consolidated than the operator space, so to acquire market share, we had to grow with M&A in the beginning. Now we've good growth organically (about 30%) but we must continue to expand with M&A, as we all occupy a strategic marketplace. We're constantly looking at deals to provide specific capability in-house. We've done 25 deals since our IPO in 2016, although we expect the speed of acquisitions to slow down somewhat, and focus more on the bigger acquisitions.

Hermione Arciola: So, when you're seeking potential targets, what do you look for? Does it vary, depending on the rationale of each transaction? What criteria comes into play?

Marcus Nylen: For us it's important to find an obvious fit for the company, and not disturb the momentum of our current business. It could be a specific market with a very specific acquisition, it could be brand positioning, or it could be knowledge. Acquisitions all contain a big risk, and buying these companies has been a long process for us. You must conduct thorough due diligence, and assess the culture – this is extremely important. At LeoVegas, we specifically do a "CUD", a culture due diligence.

Petra Zackrisson: Of course, the fit is an important element, but we also look for companies that are delivering EBIT and growth in the market. As a multi-brand company, we're looking for strong brands that suit us. The culture fit is important, and yes, it mustn't disturb your current business: something which is underestimated in a lot of deals, and sometimes leads to failed transactions.

Karl Diacono: There are different approaches to cultures. In our transactions we conduct due diligence and via that, are able to identify the key people we need. If culturally, they fit, you can "parachute" your own culture into that organisation. It takes a lot of pre-deal preparation to do that. The drivers for M&A can be manifold: entry into new markets, needing more talent, and new technology. When it all fits into your overall strategy then there's potential for a deal.

Markus Nasholm: It's also opportunistic. We need to grow so growth is key: that's the first thing we look at. In a big transaction, culture is also key. We've turned down acquisitions on the basis that they didn't fit culturally. Growth and margin are the two key things for us in all transactions, along with product fit.

Hermione Arciola: Are synergies an important factor?

Petra Zackrisson: Yes, synergies are critical to a deal, in the sense of what we call cost and revenue synergies. Clearly, Betsson are not buying companies only for synergies. When I compare different targets that all deliver the EBIT and growth, in addition to them being in relevant markets with strong brands or other strategic fit to us, then I prefer the companies running on third party, as our long-term plan has always been to migrate our acquisitions to our own platform. We are also considering migrating our acquisitions to our current provider contracts, which due to volume tend to be lower than the companies we are acquiring can be getting, as a synergy. Then it is the revenue synergies/efficiencies from getting stronger marketing organisation, potentially better tools, more providers, better payment systems. Looking at our M&A history one can see that we've acquired different types of companies, based on different strategic reasons.

Karl Diacono: For us it's the opposite, although it depends on what kind of synergies. We don't always hone in on cost synergies because, we're here to grow as well. We already have momentum in our business and we buy the companies for a reason: they do something very well. If you start looking at synergies and cost cutting, it can create turmoil and disturb business. People are important to us, so we don't discuss cost synergies too early on. We adopt a very careful approach in our integration, and approach to acquisition face.

Hermione Arciola: You've all mentioned growth prospects. Does this mean that you normally look for entities in their early growth phase, to ensure you benefit from their growth peak? Or do you consider all entities independent of the stage they are in their lifecycle?

Markus Nasholm: Not necessarily. Most large transactions between mature companies are synergy-driven, so the opportunities for a growth phase can come later. But, when you enter a market where you have a small presence, you can grow quickly by acquisition. Other times, you're buying a big player to boost value to your shareholders.

Hermione Arciola: What are the challenges that gaming entities currently face, when they come to acquire or sell, Susan?

Susan Breen: If you look at the legal due diligence around buying or selling, the principles are still the same, but there's a shift of emphasis owing to a more complex regulatory environment. In the UK, where I practice (although with global clients) the level of regulatory scrutiny is increasing, as are the fines. The UK Gambling Commission has been forthright about what it wants to see happen in the sector. It's wise to analyse the legal risks of your acquisition, and there's been a shift, to look back at how the target business has handled matters historically. A case in point is the regulatory due diligence around customer protection: in a recent large operator consolidation where the operator got fined, an aggravating factor for the fine was that the target had had similar breaches of regulation in the past. This does seem very unfair, and begs the question, how do we acquire businesses going forward? Do we consider every potential legacy issue? The UK GC's message is that lessons must be learned by the larger operators, and if not, we're going to help you learn them. You may or may not agree with that approach to regulatory oversight, but it's now an important focus on acquisition due diligence, in terms of how much time and effort you put into analysing a business before purchase.

Hermione Arciola: From your own experiences, and the challenges you've faced in transactions you've been involved in, do you have anything to add?

Simon French: My view is, without the regulatory backdrop we would have seen a lot more M&A. When Amaya was trying to merge with William Hill, the big issue for WH shareholders was the "Kentucky liability" which is still unsolved. Without that, that transaction may have occurred. In the UK, without the regulatory intervention around machines and maximum stakes, we would have seen decisive action vis-a-vis Ladbrokes Coral or William Hill, so it isn't just regulatory intervention, but also the regulatory backdrop, that's causing M&A to stagnate. As for challenges, these will always exist, but they are controllable. One thing you can't control or take responsibility for is a change in the local regulatory climate, which can impact the market where you have the business.

Petra Zackrisson: At Betsson I've been doing M&As for four and half years. Our legal due diligences, and those around AML are becoming more extensive; it's very challenging. You must consider all the historic risks, and every gaming company has done something wrong, even if it wasn't wrong at the time. Doing acquisition without risk simply doesn't exist, it's about how well you protect yourself, but increasingly, it's becoming the main issue, which isn't good. Does the local regulator look at historic risks? The fines in the UK demonstrate that we must do our job well.

Karl Diacono: I agree. Regulation is a moving goalpost and, together with compliance, is one of the biggest challenges that we do face. If you look at the cost increase that companies carry today, just to remain compliant and within regulation, it's becoming a bit of an issue.

Hermione Arciola: From my experience one key factor in the success of a transaction is how one handles post-deal integration; I'm sure you've all been through it. What challenges have you faced in this area, and can you share some tips with us?

Marcus Nylen: Most of our acquisitions involved an element of technology, the businesses had a platform that we wanted to transfer our business onto. Our biggest challenge was always the migration. You won't get it 100% right, but we prepared by ensuring we had the talent on board once we did the transaction. You must invest in the right people. Also, be brutal: you've got the keys to the business, so go in on Day 1 and get things done between closing and completion.

Petra Zackrisson: I agree, people are the main challenge. It's essential to retain key employees that sit on the knowledge. If it's a migration you'd better keep the guys who know how it works until you are fully migrated. In running the business, you can't afford to lose those few key people: if they walk, then half of the value of the company also walks. A main challenge for us has been identifying those key people at an early stage, even before closing the deal, and making sure that we'd incentivised them and got to know them. It would be hard to run that business without those guys! Especially if you buy an entrepreneurial company where the founders are those key people. They won't automatically be incentivised to work hard night and day – as they did before the acquisition, and before receiving a big sum of cash – so you must work to keep them on board.

Markus Nasholm: I agree with Petra. It's especially true in the affiliate space. We buy small companies where the founders are the key employees; they do lose some interest in running the company once they've got the money. We try to transfer the knowledge and everything, as quickly as possible internally, so we can run it ourselves. It's a challenge.

Marcus Nylen: I'd simplify it by saying that buying a company is extremely challenging. Huge amounts of time, commitment and energy are required, particularly post-acquisition. For example, since we bought a company in Italy four months ago, I've spent every second week in Milan! It's about being present, sharing your values and culture. One tricky thing is stakeholder management. Two companies can make for two kinds of businesses. One key person from each organisation will have their own historical legacy in terms of contacts, agreements, supplier contacts etc. Suddenly they're both in the same room and the question is, so who's the stakeholder here? Usually then people start chatting, and soon one meeting becomes a knowledge-share project, instead of doing what you're supposed to do – your business. It's a balance, to ensure that you bring out the best in people every day, without losing their faith or their culture or their energy.

Hermione Arciola: Right now, is it difficult or easy for gaming entities to tap the capital markets?

Simon French: It's never been easier for gaming companies with strong management, sensible strategies, and which are growth orientated to approach the capital markets. There's a huge amount of capital out there, equity and debt, and it's cheaper than ever, certainly in the case of the debt markets. Significant sums are available for approx. 200 basis points over Euro bought. A few years ago, the group of entities willing to lend was smaller, and the cost of that financing was much higher, so that backdrop facilitates M&A. If it's the earnings enhancement that attracts – because debt is cheaper to do the deal – then that might be what helps give a green light at board level. Smaller entities may go into emerging markets, such as Africa: we'll see activity there in the next 12 to 18 months. Access for capital for them will prove relatively easy because investors want growth, and it doesn't matter whether that investor is in London, Stockholm, or New York. If you're participating in markets which have top line growth characteristics doubling year on year, you have economies of scale and can deliver impressive bottom line growth, then investors will be prepared to pay big multiples for those businesses. If anything, the big risk is for companies that get caught in the middle, and haven't grown fast enough to participate in capital and M&A at the top of the market, but are too big to be considered fast-growing niche operators.

Hermione Arciola: LeoVegas has recently been listed and Catena Media has in fact shifted to the main market. What was that experience like, and what does it mean for your companies?

Marcus Nylen: Well, being a public company gives you credibility in the financial markets and in the eyes of the customers, which is important. Another important aspect is, it means liquidity in the financial markets. However, one of the negatives is communication in the company. We believe in transparency but as a public company, you can't talk about everything that you do and that's been frustrating. Also, when you're public, you must remember your main purpose is to sell your product and be a great company, and not pay too much attention to what's best from a financial aspect. Sure, acquisition is a great way of leveraging, to buy companies, it ticks the financial markets, but it may not be the best long-term solution to building a stable and profitable company.

Marcus Nasholm: For us, when we IPO'd on Nasdaq it opened the debt market as well, so we could issue a traded bond. Being on a recognised exchange also gives a rubber-stamp quality on the company because you have to have a certain level of corporate governance and transparency in the organisation including publishing quarterly reports. When listed on the main exchange, Nasdaq Stockholm mid-cap, it gave the company further proof of the quality of the organisation, processes and procedures, and resulted in that pension funds can invest, and international institutions that wouldn't normally invest in secondary markets. It's been good for the liquidity of the share and good for corporate governance, but the downsides are investor relations, press releases and no longer being able to disclose things internally.

Marcus Nylen: The listing process is painful, most people who go through it say it's hell on earth because they're working 24/7 for six months, but for the company it's business as usual; it's just the beginning. Putting yourself forward to be listed entails work. The documentation we accumulated for these listings is useful, however: the processes, guidelines, the policies and procedures which were approved according to the framework. These are good tools that we use in our daily business too.

Karl Diacono: For us at GVC, we moved significantly from the A market to being in the FTSE 250. One big challenge was marrying the expectations of shareholders and the executive team. You want to grow the company, and incentivise staff, but the market restricts you. Governance is what it is, and you must stick by the code, but it comes at a cost. Scrutiny can be a good thing, but speculation is unhelpful – people saying you're doing things that you aren't. You need to manage the market and what's going on. The process has been challenging but it's also served us well.

> **Somebody must take the plunge into new markets because with fewer and larger operators dominating the space and trying to maintain margins in key markets, the costs of doing business will continue to increase. I think fortune favours the brave: it'll be Africa first, probably.**
>
> **- Susan Breen**

Petra Zackrisson: It's the same for us at Betsson. Moving off to the large cap brings its demands, and requirements on us are very high. Firstly, there are pros and cons to being listed, and you must always try to balance it in a good way. Good parts with the structuring include the documentation and clear governance which helps you as a company. Being listed gives you more credibility as a company, and allows you access to investors and different types of shareholders.

Karl Diacono: For us, after the successful results of the Bwin, it certainly boosted our credit rating, and as a result our financing has become much cheaper because of where we are today. After one deal, you show you can do it, you gain credibility. People start running after you to give you money at a better price!

Hermione Arciola: Moving on, are there still opportunities for start-ups within this industry? Do they have space to grow, or is it a case of them hoping to be taken over by one of the giants?

Karl Diacono: It's become more difficult and more expensive. I've been in this industry since 1998, when kids used to start a business on their laptops, and do really well for themselves. That doesn't happen anymore. The opportunities now are more in new technologies and FinTech. The businesses around gaming can create value – people who really want to can see the openings.

Petra Zackrisson: We should also differentiate between the regulated market and the grey markets. In regulated, it's becoming more challenging for start-ups owing to regulatory challenges and compliance requirements which are expensive. But smart entrepreneurs can still start up, check out the greyer markets, and in time and be acquired or partner up with bigger operators.

Marcus Nylen: Look, this industry is the best for start-ups, there will always be room for entrepreneurs and disruptive thinking. But from an operator's perspective the cost of entry will increase, as regulation grows tougher. Basically, we're all providing a product, and there is so much more we can do in this industry, many ways to improve, a lot of room for entrepreneurs.

Simon French: The opportunity for start-ups lies in the adjacent areas, particularly around data protection. Small companies, who have contracts with global banks to protect their data, are emerging. Gaming companies should start working with these start-ups. With UK sports books, the cost of getting up-to-the-minute live data feeds across all sports is about £100,000 a month. That's a massive barrier to entry for any sports book. Interestingly, around casino, we've seen some of the newer UK casinos adopt different approaches to bonusing and free spins. They're differentiating themselves as start-ups in a crowded market by having a very simplified approach to bonusing and in how they attract new customers: we could see that move across other companies.

Susan Breen: I agree: eSports platforms, and eSports operators where there are lower barriers to entry still present the best opportunities for start-ups. Opportunities will also lie around games product development and software innovation.

Hermione Arciola: Are there any questions from the floor? No takers. Well then I'll move on to my last question for the panel, which is, what trends are you all predicting for 2018?

Marcus Nasholm: Further market consolidation from our end, but also, business as usual.

Marcus Nylen: More acquisitions in the industry, some consolidation, much energy and effort! The Data Protection Act will be a drain on the energy of many operators. It'll be interesting to follow regulation over the next 2 years because it will have a major impact on this business.

Susan Breen: I'd echo that. No business likes uncertainty, and a lot of regulatory uncertainty is an impediment to growth; markets don't like it either as it impacts value. We'll see choices being made by mid to large businesses, some focusing on their core strengths and home territories; others very much adopting and embracing an M&A strategy. Somebody must take the plunge into new markets because with fewer and larger operators dominating the space and trying to maintain margins in key markets, the costs of doing business will continue to increase. I think fortune favours the brave: it'll be Africa first, probably.

Petra Zackrisson: I agree. We'll see European players looking beyond Europe partly due to an extremely challenging regulatory environment at home. Operators will focus and potentially enter markets that are similar, in terms of the compliance requirements for their technology. Even big companies can't afford to be compliant in all markets, because the stress on their technical platform is just immense. I don't see, in 2018 or 2019, that the EU will even look at the gaming from a European perspective, as there are other industries before ours, we're just a baby one!

Simon French: That's right. If I draw parallels between online gaming and the brewing industry of 5-10 years ago: each country had several market leaders, then M&A boiled it down to three global companies with 8 to 10 brands. At the other end, you had niche craft brewers. This can be replicated in gaming with niche operators in certain markets and products. That's where the market is going, partly because 2019 looks hideous from a regulatory perspective, and Sweden, the Netherlands, Australia, and the UK will see tighter regulation and higher taxes. The Stars Group have publicly said they want to buy a sports book and can raise the cash (that 6.25 times debt to EBITDA) which gives them \$2 or \$3 billion dollars of fire power to buy. If successful, it will be a complete game-changer. Karl from GVC has just said they'll look at more M&A activity. William Hill spoke about the merger between their Australian business and Crownbet; 888 are clearly open to M&A. Continental European operators are also active, so expect a lot of M&A in 2018.

Markus Nasholm: Affiliation will continue to consolidate but there will still be space for everyone next year; it's unlikely that we'll see the massive consolidation that we've seen among operators.

Hermione Arciola: Interesting times ahead! My sincere thanks to the entire panel. It's been a pleasure preparing for this, and an even greater pleasure participating in it with all of you.

Opportunities in today's dynamic environment

Stephen Abela, Director, KPMG Crimsonwing

Dimitris Mitsas, Sales Lead for Business Applications, Microsoft

Justin Psaila, Chief Financial Officer, Gaming Innovation Group

The trio's principal aim was to offer delegates an overview of the essential software tools available for companies today and the services offered by KPMG Crimsonwing around Microsoft technologies; MS Dynamics 365; and Microsoft NAV.

Essentially an international services provider, Mr Abela explained how KPMG Crimsonwing supports organisations in business transformation enabled by technology, with a specific focus on ERP, CRM, eCommerce and IT integration. Beginning life as Magus International in Malta in 1998, Crimsonwing now has a workforce of 450 across Malta, London, the Netherlands, and India, with their largest office still in Malta. Their markets are in Europe and North America with clients from diverse industries, including iGaming. They support small firms of 5 to 10 users, as well as larger organisations with thousands of users.

KPMG acquired Crimsonwing in February of 2015 and immediately rolled out their new strategy: to support business transformations enabled by technology, together with Microsoft. Together, they combine advanced technologies, industry insight and established excellence in managing complex global business issues to transform companies in the areas most critical to their success. These include data and analytics, cloud transformation, compliance and risk, customer relationship management and enterprise resource planning.

The strategic alignment between KPMG and Microsoft is on a global level. KPMG have acquired other companies similar to Crimsonwing in other regions of the world and are developing practices within existing KPMG offices around Microsoft technologies.

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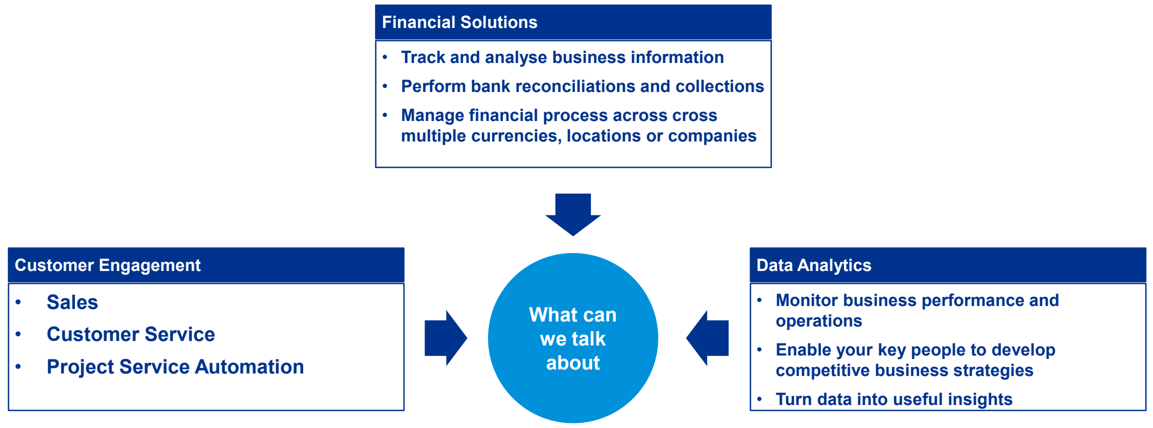


This alliance is based on 3 pillars, namely:

- Enterprise Resource Planning and Customer Relationship Management
- Data & Analytics (D&A)
- Cloud Transformation and Compliance (CTC)

Revealing the main products in each of these pillars, Mr Abela explained how D365 combines ERP and CRM into one platform, and is available in two modes – Enterprise Edition and the lighter version, Business Edition. Power Business Intelligence (BI) is the latest data analytical tool that works alongside Office 365, and D365 and can read data directly from systems or intermediary data warehouses. The products are all available on the cloud and leverage the outstanding tools found on the Azure ecosystem. Mr Abela concluded his talk by affirming that these solutions are fully relevant to the iGaming industry and how certain clients, such as GIG, are already running parts of their business on Microsoft platforms.

Mr Dimitris Mitsas then took the helm to explain how businesses can best equip themselves for this New Digital Era. Technology, explained Mr Mitsas, is omnipresent, and plays an increasing role in business transformation, shaping growth, disrupting industry landscapes and providing the catalyst for new models, products, services and experiences. The three primary driving forces behind this great Digital Transformation are data, analytics, and the cloud.

Mr Mitsas sees the Digital Transformation as the next industrial revolution, blurring the physical and the digital divide, and impacts not only businesses but society overall. Quoting an industry insider: "Data is the fuel of the digital era…and it's becoming more pervasive and open", Mr Mitsas elaborated how the industry is changing everywhere– indeed the only constant is change – and that customer satisfaction and employee productivity are key metrics for every organisation.

According to Mr Mitsas, Microsoft led the disruption in the software market by merging the ERP & CRM silos into "Dynamics 365". As an Intelligent Business Application platform, it combines processes and functionalities from both silos. Among its other features are:

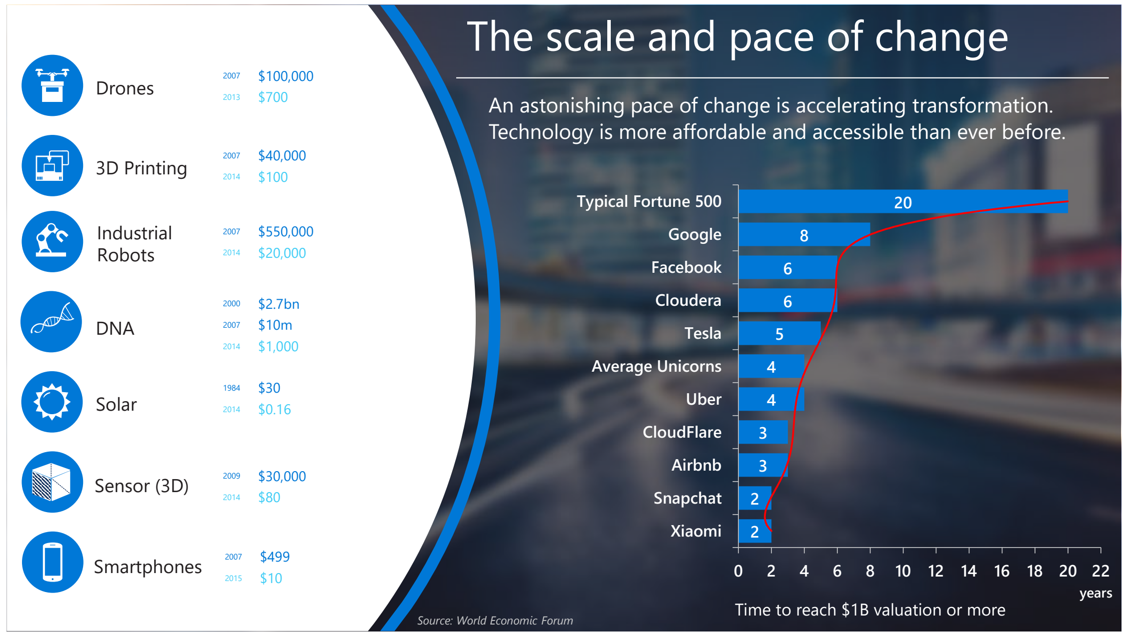
- A business process user interface guidance for the next best action – so companies can streamline internal & external business processes
- Its unified business applications are available online, as a hybrid or on-premise, and are natively integrated with the rest of MS technologies
- A familiar Microsoft User interface with much lower learning curve
- It allows you to conduct business anytime, anywhere – includes mobile experience so users can leverage business logic while enabling rich offline & mobile interactions.

Highlighting other key benefits to using the Dynamics 365 platform, in particular the potential impact on the area of sales and marketing, Mr Mitsas continued: "Dynamics 365 offers customers a 360' view – how to monitor interaction & activities and embrace an OMNI channel approach. Users will no longer need to depend on human memory! It also gives you Alerts & Reminders, so you don't lose a deal because you forgot to follow up, something we all could do with. And it shortens the sales cycle, so you can have an Automated Sales process, as well as greater mobility. This in turn can boost productivity and reduce costs." In addition, D365 enables faster upselling, so it's easy to reference a sales history and learn about repeat success stories, or learn from lost deals. Similarly, one can achieve actionable insights, such as next best action or cross-team collaboration.

The Dynamics 365 platform plays a key role also when it comes to customer service, in Call Centres, Help Desks and Ticketing. Engaging customers and building relationships has never been easier, thanks to a wealth of key features, including:

- Customer Satisfaction – better response time, no duplicate feedbacks, customer preferences and history
- Customer communication – Engage via multiple channels / Build and develop customer relationships
- Customer Opinion – Survey / Why did we lose that customer?

Mr Mitsas stated that from the perspective of business process automation, "Dynamics 365 is the best platform to create a 'unified view', because it streamlines processes in several areas, including compliance with its necessary workflows, auditing and approvals. For business analysis, the platform can cope with Dashboards and Dynamic Reports, and Native integration with Excel & Power BI."



How can Dynamics 365 enable businesses to attract talent? Mr Mitsas outlined how the platform moves on the "Prepare & Attract" front, attracting candidates and streamlining the hiring process to serve candidates, hiring managers and the business. It also serves an ongoing purpose to "engage and onboard", helping new hires feel welcome, productive and valuable, with quick provisions, training and sharing of resources.

Lastly, Mr Mitsas explained the role of Dynamics 365 in Finance & Operations for businesses: "In Finance, the platform can facilitate faster processing and decrease time to present results. Users can make more confident decisions using roll-based workspaces with embedded analytics and BI. In terms of supply chain, the platform can automate prospect-to-cash processes, by integrating with Dynamics 365 for Sales. It can also streamline procurement costs and enable faster responses to customer demand."

Justin Psaila, Chief Financial Officer at Gaming Innovation Group, thanked his co-presenters before moving on to speak about the improvements at GIG since switching to Microsoft NAV. "'You can work hard, but if you don't work smart, you'll work hard for the rest of your life' – that's a quotation I really believe in!" avowed Mr Psaila. Two years previously, GIG employed 60 people, and operated one casino brand through Guts.com, in addition to doing performance marketing through to affiliate sites. When GIG realised that their company was headed for significant growth, they sought an alternative to their standard accounting package. Mr Psaila, "With MS NAV it was love at first sight. As accountants, we adore Excel, and with MS NAV, it's an integrated package, so we saw the potential straight away. When you consider the volume of reporting – internally to management, management accounts, presentations to group management – you need a direct link between NAV and Excel. We coded our figures into it and were able to get the data live. From then on, it's just a matter of refreshing. Our time was invested in internalising the figures, and producing a comprehensive report. In doing so, we've made sure we're delivering the right message."

Tracing the commercial history of GIG, Mr Psaila continued, "GIG is a PLC, listed in 2015 on the Oslo Stock Exchange and operating on both the B2C and B2B levels. On B2C, our seven brands include casino, sports and poker products, whilst on the B2B front we offer a platform service, performance marketing through affiliates and sports. The complexity of our reporting, and the data that we must provide on a quarterly basis to the Stock Exchange, is significant: without NAV it would be a nightmare to adhere to the tight deadlines on stock reporting."

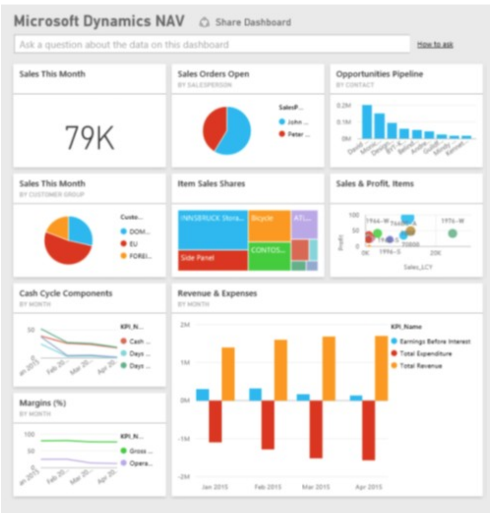
> **Digital Transformation is the next industrial revolution, blurring the physical and the digital divide. The industry is changing everywhere – indeed the only constant is change – and that customer satisfaction and employee productivity are key metrics for every organisation.**
>
> **- Dimitris Mitsas**

Offering an example of the efficiency of MS NAV, Mr Psaila referred to the previous invoicing system at GIG: "When I joined GIG, there was a process of manually entering invoices and posting the payment onto the software which was too time consuming. With NAV, the only manual part is booking the invoice – the rest is automated. Since we made the shift to MS NAV in 2016, we've cut our processing times by 50%."

Mr Psaila outlined the further benefits, as a listed company, to using MS NAV: "Being listed on the stock exchange requires quarterly statements. Through MS NAV we were able to move away from Excel to the solution of a fully-automated consolidation package, so there's far less human error in the handling of data. At GIG, we offer many services, and you can imagine the complexity of intra-group adjustments. The great intelligence of NAV is in it being a multi-dimension concept, in the sense that we could fragment data into several dimensions to gain full visibility of what's happening and how can we show that in reporting.

Business Intelligence

- Multi dimensions concept
- Data analysis (budgets, markets, channels, brands, products)



When looking at revenues, continued Mr Psaila, it's easy to see which revenue is coming from which casino site, and for markets, which revenue is coming from which country. "We can also detect which product, whether it's sports, casino, poker, and via which channel the revenue is coming: mobile or desktop. Once this fragmented data is put into NAV and exported straight to Excel the sky's the limit, as to how many and what type of reports you can produce, and the analysis of the data that you can achieve." In addition, as GIG operate in various currencies, with MS NAV there's the added benefit of a multi-currency approach: "It allows us to analyse which currencies we might have some exposure with and hedge accordingly to mitigate any exchange element that we might incur."

Mr Psaila concluded his talk by predicting a bright future at GIG: "The MS NAV software has helped us understand that the sky is the limit; our potential to achieve is fantastic. Our platform service is iGaming Cloud, and we're looking to the future to see if it can be integrated directly. This would eliminate manual bookkeeping into the software, and reduce human error so our time is better invested towards analysing the data. We've just acquired Qlik Sense, a BI software product, which produces data driven dashboards. This can be integrated and is fed with financial data not specifically related to customer transactions. The net effect is, we're producing much more insight into data, for management review."

You may find more information about KPMG and Microsoft Business solutions to help transform your business and accelerate growth at https://home.kpmg.com/xx/en/home/services/advisory/risk-consulting/it-advisory-services/kpmg-and-microsoft-alliance.html

Get Data Privacy Right

Eric Muscat, Partner, KPMG in Malta
Adrian Mizzi, Director, KPMG in Malta
Curt Gauci, Managing Director, Kinetix
Dr Ian Gauci, Lawyer, GTG Advocates
Justin Cosnett, Head of Solution Architecture, Continent 8

Mr Muscat began his session with a brief overview of the importance of the upcoming General Data Protection Regulation (GDPR) for the iGaming industry. "As a partner with KPMG, responsible for IT Advisory Services, we took on the responsibility of GDPR because of the huge element of IT operations and changes that must be tackled, but also, as part of the services that we offer in iGaming, we must address the legal aspect too. GDPR has become a regular subject of discussion in business environments, and most of us have been considering what it means to us as an organisation and how best to get an initiative going. Many of you attending today have begun addressing some of the issues around GDPR but will still have doubts, questions, and concerns of what it actually represents."

Welcoming his panel, Mr Muscat continued: "Firstly, we have Dr Ian Gauci, a lawyer from GTG Associates, and an authority on personal data protection to a number of local and international businesses. Dr Gauci is also a lecturer at the University of Malta. Adrian Mizzi is a Director and colleague from KPMG and a seasoned IT professional who has contributed extensively to two telco start-ups in Malta, Go and Melita. Adrian has been at the forefront of privacy and security by design, and advises on data protection, information security, IT architecture and GDPR. Justin Cosnett is Head of Solution Architecture at Continent 8 with extensive experience in the data centre business, and very close to the issues of information security and data protection. Lastly, we have Curt Gauci, Managing Director of Kinetix. He designs and implements IT solutions and has been working on delivering solutions such as Microsoft Office 365 on the Cloud, configured to manage and control unstructured data traffic flowing through the network."

Mr Muscat stated that GDPR attracted attention initially because of penalties, which could be up to 4% of a company's global revenue, or £20 million, whichever is higher. "Those numbers will attract the attention of any shareholder and director! But, for now let's focus on getting data privacy right, as we believe GDPR is an opportunity to build trust with your customers and employees, and to 'up the game' in the way you handle data. As the lifeblood of all iGaming entities, data provides tremendous value for businesses, especially when combined with predictive analytics. Having control over that data is an imperative today, to grow and to manage risk. GDPR deals with a subset of your data, but the good practice that GDPR can infuse will impact your entire organisation."

Outlining a few basics regarding the context and scope for GDPR, Mr Muscat said that the regulations are about the protection of natural persons, the right to protection of personal data and the free movement of personal data within the EU.

Context & Scope

Protection of natural persons

Right to protection of personal data

Free movement of personal data within the EU

Processing of personal data

wholly or partly by automated means or forming part of a filing system

where the establishment of controller or processor is in the EU wherever the processing takes place

data subjects who are in the EU wherever the controller or processor are established

The processor processes personal data on behalf of the controller

"It's clear that the impact of GDPR will reach across the globe, making it a gold standard for privacy worldwide. The principles aren't new, but based on guidelines from 1980 on the protection of privacy and trans-border flows. Updated in 2013, these principles served for years as the foundation for privacy laws around the world. One example is the data quality principle. Personal data should be relevant to the purposes for which they are to be used and to the extent necessary for those purposes, should be accurate, complete and kept up to date. Another example is the principle concerning security safeguards: personal data should be protected by reasonable security safeguards against such risks as loss or unauthorised access, destruction, use, modification or disclosure of data. This is still applicable today and very much part of GDPR. The accountability principle, where a data controller should be accountable for complying with measures which give effect to all these principles, still applies today and GDPR will bring in the processor with equal responsibilities. It's is effectively a continuation of what you have already, with enhanced obligations and a standard that's harmonised across the EU, and this must be a good thing!"

"GDPR may not be new, but it does represent a transition across Europe of how we handle data. For many of you operating cross-border, it's good news – you'll have a harmonised standard to consult and abide by, instead of different territories with different regulations. What's changed? Let's start with Malta and compare it to other jurisdictions. Ian, your views first please."

Discussion Points

Role of the DPO	Legitimate interest	Consent & withrawal	Individual's rights	Subject Access Requests
Data Classification	Automated individual decision making & profiling	Pseudonymisation	RTBF	Data Portability
Data Retention	Privacy by design	Cross border data transfers	Vendor Management	Joint Controllers
Breach Notification	Lead supervisory authority / one-stop-shop	Security Measures	DP Impact Assessments	Consequences – Penalties

Dr Ian Gauci: Thank you. Looking at the principles, the major substance is there, and has been, since the 1995-96 directives. A recent addition under the GDPR is data breach notification and to a certain extent this was already applicable under a separate Directive to the Telecoms industry. And the 'privacy by design' concept originates Ontario in the 1990s. The GDPR intrinsically builds on existing criteria and parameters, and it does not reinvent the wheel. It caters for existing lacunas and needs nascent from the high level of personal data which is being processed electronically. In fact, in the Telecoms industry in the 1990s, there was a recognised need for privacy legislation, so the directive 97/66 came in. With the new paradigm of social media and digital economy, the data subject has changed its societal profile and also has a digital identity, this will also be the case for minors under the GDPR. The main thrust behind the GDPR is the sovereignty of the individual, who should have total visibility, control over his personal data and where legitimate also dictate its use. The GDPR is an enabler for the data subject as well as for the industry from a tactical point of view. Compliance equates to trust from the data subjects which will be equitable to reputation as well, so within this context the GDPR is an enabler for both the data subject as well as the industry. Theoretically this might make the GDPR redundant because once the individual truly holds absolute power on his personal data, particular where DLT comes into play and you have decentralisation and disintermediation, and the personal data is controlled and channelled from the data user and is no longer is sparse unknown silos the GDPR remit would have been attained. Let me expand a little more on other elements which make GDPR an enabler. Because it is technology neutral and it is made in a fashion where smart lawyers with smart technical people can find optimum solutions. That's the major change between the GDPR and the previous legislation.

Eric Muscat: So, hearing about specific incidents and cases, one thing to emerge often is the right to erasure, or 'to be forgotten'. From a practical point of view, please discuss the right of erasure and the impact it's having on organisations, Adrian.

Adrian Mizzi: It's true. There's nothing new about GDPR! Since 2002 we've had Chapter 440 - the Data Protection Act in Malta, so we should be already largely compliant. Really, not much will change. Yet many are mystified by GDPR, how much of a concern is it? If your architecture is designed with the client in mind and you have compartmentalised the data so you have player ID, and there's no obvious connection to an individual, you shouldn't be too concerned. If you have a messy architecture and you barely know your customers, because you're still struggling with BI, then you should be concerned. If a request regarding the 'right to be forgotten' comes in, the problem won't be about whether you can erase, but about the fact you don't have the data under one roof and can't answer questions regarding the information you're storing.

From my experience with gaming clients, often you get the architecture completely right. So, a request about needing to be forgotten becomes a business decision. It could be as simple as pressing a button and deleting the data. If we delve into the substance of the GDPR, it says specifically if you need the data for other legitimate reasons, and not purely for statistics, then you'll want to delete the data periodically. Before May 2018, I'd urge everyone to take a serious look at your architecture first, understand your business, and do an assessment of how many requests you get about the right to be forgotten. One client of mine has never had such a request, so why should he worry about it?

Eric Muscat: There is a need to be worried, in case of fines, but we'll discuss that later. From a data centre business point of view, and the nature of the clients you get, what are your biggest concerns about GDPR, Justin?

Justin Cosnett: From a data centre perspective, and a security service perspective, we've had surprisingly few discussions with clients about how they are affected by Continent 8 Services. Over the last two or three years, many clients have started implementing ISO, and require us to have ISO or a similar certification and accreditation like PCIDSS. The positive way we looked at it was, once we had completed ISO what were the kind of parallels between ISO and GDPR? What could we take from our existing risk assessments, where we'd looked at the customer data we held, or what our customers held about their own customers? We found it much easier to try and put in internal processes and procedures. From a service perspective, we don't have some of the risks, in terms of penalties, that some our customers do for their businesses and their securing of customer data. We are not only responsible for the physical security of a data centre, but with other services we provide, such as back-up, where a customer's data is being stored or collected by us, then taken off site or stored elsewhere. It's a big concern, and we have proactively documented our services, letting customers know whether these services shouldn't have any particular concerns from a GDPR perspective. Conversley "these do", and we'll be going to customers about tightening up their contracts with us, to make sure they meet their own internal risk assessments and policies and procedures.

Eric Muscat: So, Justin, you're saying that basically any operator using third parties, such as sub-contractors, needs to be looking also at what the relationship or the responsibility with these third parties is?

Justin Cosnett: Yes absolutely. But there's not been much engagement so far to us by our customers, its been the other way around. We're trying to be proactive, and get ahead of the potential storm. People may realise it late, and think they've looked at their internal architecture. But for some of our services, such as exporting data to the Cloud to have it backed up, customers should be asking "what's our underlying contract there, and how well are we protected"? You might find yourself responsible for a huge penalty or fine related to the size of the business, but that might not be true of your supplier.

Eric Muscat: One concern we're seeing is over the appointment of a data protection officer (DPO). The guidelines include Working Party 29 but there's still some confusion on a DPO's specific responsibilities. Ian, how would you deal with the appointment of a DPO, and can you compare his responsibilities with those of the controller and the processor?

Dr Ian Gauci: The controller/processor relationship ties in perfectly with what Justin was saying. One major difficulty in applying the GDPR is that in certain instances establishing exactly the relationship and whether on is a processor, controller or co controller is a little tricky, aside the fact that there's equal responsibility between processor and controller. Under the GDPR in all these relationships you need to have agreements specifying roles and responsibilities. A simple test to determine if one is a processor is, if the controller tells you to delete it, whether you delete it or not, that would be the basic test. If you don't delete it, you have other criteria for not deleting it (example legal ones), for those specific criteria, you would be become a controller. If you have a particular function where you're hosting personal data for a client, and something happens, and because you're responsible for the administration, you decide with the controller what to do with that personal data and have access to that personal data, then that would make you a co-controller. So, different obligations come into play, because different rights of the individual come into play. On the topic of DPO, gaming is quite heavy on data processing particular electronically, so we're presuming that on a B2C level, the DPA will impose or enforce that there is a DPO. The Article 29 Working Party was adamant: where large chunks of data and technologies are involved, you must appoint a DPO.

As for the official role of a DPO, we need to keep in mind that ultimately it's the Controller (CEO)not the DPO who is responsible in the eyes of the Authority and the data subjects, whether you have a DPO or not. One of the major shifts between the old data protection Directive and the GDPR, is GDPR is like anti money laundering, or competition law: it shifts the element of risk. You are to assess your risk, do your tests in every processing facet, so you can establish the risks and then based on those risks, your obligations and the rights of the individuals you process the data adhering to a principle accountability and data protection by design. The principle of accountability is a new tenant of GDPR and pursuant to it you must show that you are compliant *ab initio*.

From a different point of view, and irrespective of the legal obligation mandating the appointment of a DPO in certain instances I think it's important if your controller appoints a DPO, an expert who can guide the company through this new dimension of corporate governance. Why? Because of the heavy fines. No, not only that, its reputation at stake, and these matters should be discussed at board level. In my view, if you appoint somebody you can trust, it would be a value added, even on the principle of accountability. From May 2018, GDPR will start and it's a living thing just as much your privacy programme is a living thing. You need to appoint somebody who is focused, present and capable and who can guide the company in this journey.

Eric Muscat: You've pinpointed the importance of the DPO's responsibility and, the principle that the DPO is answerable to the top-most level in the organisation. Adrian?

Adrian Mizzi: Sure. As part of a recent GDPR assessment, I asked my gaming client, who is the DPO? In fact, there wasn't a single person responsible for data in that organisation, which was worrying. There's a nod towards the CTO, or even the CIO, but the reality is that the responsibility lies with the CEO. If you can't answer the basic question about who's responsible for data, then you have a problem. Ultimately it must be the person guarding the data who calls the shots, and how do you decide between anti-money laundering or the 'right to be forgotten'? Often the decision is handed over to IT, but it becomes impossible. Taking the game of chess as a specific example: you play against individuals, and moves are stored but also the moves are seen, because people like to study chess games. This opens a debate about whether data generated by my own activity, is mine, or not. Some lawyers could argue the case, is it personal or not? Imagine there's a tournament, and one chess player has this right to be forgotten and he instructs the platform to delete his data. What happens to the ranking system? Does it make sense to delete the data? What happens if a chess player says delete my games, because I'm losing and I'm ashamed of it? Can he invoke the right to be forgotten? On the other hand, for example with slots, if you're playing under an avatar or nickname and there's no obvious relation to the individual, one probably won't get the request of the right to be forgotten because it just doesn't make sense. But in a business where you get a lot of requests, what can you do? It may be due to a lack of several things – IT architecture, knowledge, systems, or even a lack of a clear business strategy. It's crucial to understand the risk portfolio of each company so those organisations which are struggling with GDPR, should have a DPO. For those with their house in order, it can be the CIO, or even the CTO, as he lives by the data, and can answer most of the questions. My concern is for those organisations where the call centre is receiving multiple requests to delete this, or that

> **GDPR may not be new, but it does represent a transition across Europe of how we handle data. For many of you operating cross-border, it's good news – you'll have a harmonised standard to consult and abide by, instead of different territories with different regulations.**
>
> **- Eric Muscat**

data, and they have no person to refer it to. If your business is under fire already – for example, under investigation for a role in anti-money laundering, and there's a struggle between what you give and what you store, then you must put in place a DPO.

Dr Ian Gauci: It is important that it is not a CTO or a CIO, and I can cite a Bavarian case. In Bavaria they're advanced in this area and many of our current data protection principles originate from Germany, even the concept of the 'omnibus' approach. The case makes sense as applied to the GDPR. The verdict was you can't have a CIO or CTO being the data protection officer in an official capacity, because these roles must be monitored: they can't monitor themselves. As Adrian said, much of the processing and decision-making is already being undertaken by both the CIO and CTO, so there must be another, separate individual in situ who can advise them on decisions over safeguarding an individual's rights.

Eric Muscat: Moving on to the operational side, one area where Curt is operating, is in helping organisations specifically with data traffic that's not well structured; when data flows through your email system and productivity tools, and creates a very different scenario. What's happening in the market, and what decisions are we trying to take there, Curt?

Curt Gauci: It seems that no new obligations are being imposed on organisations, when it comes to data management platforms and in terms of technology. Technology can help us fulfil compliance, but, we must be compliant by May 2018. Once compliant, we want to stay compliant, and there are many processes to go through: supervision, cataloguing, etc. Technology is there to assist in formulating the data life cycle so that an organisation can facilitate the compliance as well as automate the compliance at a later stage: it's important to identify where the personal data resides. By residing in the structure data – as mentioned before – it's easy to identify because we have fields and tables which define it, but it'll also live in documents, and in emails. We must govern and protect that personal data by labelling it, assigning certain retention policies to that data. Then we can fulfil our obligations, such as 'right to be forgotten'. On a database you can find the records relating to a customer, and delete them, but within documents and emails, it's more challenging. We already have tools where we can consider the productivity platform and identify where that data resides, and provide it to the end user, as well as delete it, if required.

Delegate question: I'm curious about the scenario Mr Mizzi created with the chess player. Did he have the right to be forgotten or not?

Adrian Mizzi: You'd need to check the contract with online chess players, as there would be certain T&Cs. If there's no clause about consent, that they have the right to be forgotten, yes, I think they have the right to be forgotten by default, but if you put it in the agreement - and online there is this habit that you ask for consent - you can make it a point that it cannot be deleted. From an infrastructure point of view, if you have an already-built system then it may not be economically feasible to remove them because one can argue that it will ruin the system. You can have a scenario where Magnus Carlsson is first in the tournament, and Joe Bloggs second, but you remove Joe Bloggs from the ranking because he claims the right to be forgotten. It doesn't make sense – unless you show something like '2. Name not disclosed' in the ranking. So again the idea is to have proper game design with this in mind.

Dr Ian Gauci: Let's spell it out further with other cases regarding the right to be forgotten. That Google case, which is still ongoing, and there was an interesting case in Canada. The 'right to be forgotten' is the right of erasure, and you have the right to block as well, but under the GDPR it's not absolute. GDPR is interesting because it is an enabler, and if you manage to justify it in your processes legitimately, balance your rights with the rights of the individual be accountable and adopt a data protection by design, if somebody objects and goes to a DPA and you have done your homework well and are compliant with the GDPR you can defend it.

Some instances will be logical and pretty straight forward (example where there is a legal obligation or the legitimate interest is manifestly clear). There may be others however which would be more problematic. For example, in GDPR you have one absolute tenant, an individual, irrespective of whether consent is used or a legitimate interest, can opt out any time from direct marketing. Now, let us tie this with the right of erasure. If the same client aside from the opt out of direct marketing also ask for the right of erasure. I would presume that you still need to keep that email address so that future correspondence or marketing material won't go out to the individual. These are the problematic questions to ask now.

Another crucial part here, is in the follow-up: will operators keep tabs on requests for rights of erasure, or keep records, because that is still personal data? As an industry you must begin to formulate ideas, and start discussing with the data protection authorities. Particularly in the gaming industry, you're going to find processes, and anomalies which don't exist in other sectors. The GDPR is a great enabler, but you must also enable yourselves.

Adrian Mizzi: Thankfully, there is a technology solution to Ian's question. Using a combination of anonymization and pseudonymisation techniques. It's complex in that, you can garble the data. Basically, if I go along to play, I may get coded into 7694, but there's no obvious relation that 7694 is me, Adrian. However, if Adrian comes back okay, the algorithm would say Adrian is 7694, so, the next time I visit, without having access to my name, I can solve that problem. This is one of the things which Ian meant when he said there's a technology angle of how to solve the problem. In such cases, you do a pseudonymisation of the data and it's one example where you wouldn't delete the data.

Dr Ian Gauci: Its important here to distinguish between Pseudonymising and anonymising. Pseudonymisation is still personal data, Anonymisation is like a permanent reverse hash where you can't trace the identity of the individual, so it becomes non-personal data; therefore, GDPR does not apply. Pseudonymisation is a bit different, because you still correlate internally or through third parties with whom you trust, with certain other information, and that information becomes personal data, and falls under the definition of personal data. The base line is very simple, the less personal data you process (ergo retain) the better, not only because of legitimate compliance but also because of costs. When you are conducting an entire privacy programme and sorting through data which you don't require, you need to realise that aside from the risks, and the more you have, the more requests you get, the more security risks you'll run, there are more processes and the costs rise. In your privacy programme you should cater for all these instances, and say, If I don't require under no particular facet, anonymise it, if I need it for analytical purposes or else delete. In that case that is not applicable for a data access request. That is not applicable for any correction of data. That is not applicable for appoint-ability. Why? GDPR does not apply to it because it is anonymous data or deleted data.

Eric Muscat: Thank you. Any other questions?

Delegate: Not every company is able to hire a new person to be a DPO. In a mid- to small-size iGaming company, how do we arrange this? My second question regards the right to access information. Assuming you must comply with a very short timeframe of 24 hours, as there's a suspicious account under investigation, is my company obliged to give all the information it has on a client? Even when it isn't a confirmed fraud, merely a suspicious account? And if we do provide it, will it obviously be used for a right to be forgotten?

Adrian Mizzi: I'll answer the first question. As a smaller operator, you probably don't have a business case for a data protection officer. But, you must see it from a risk point of view, as the law states you must perform a risk assessment. Sure, nobody wants to do one, but it makes sense. The fines are huge, realistically, what's the probability of getting a fine? Probably quite low, but you'll do the right thing, otherwise you wouldn't be in business; your players would go to competitors. Following a risk assessment – and we do these all the time – we may say in your case, you need a full time DPO. Or, if you've already a strong legal team or risk department, someone could be trained up to become the DPO.

Dr Ian Gauci: I'll try to respond to both questions. Let's start from the premise that you're in gaming and you've been doing B2C, you must have a DPO. You're not sure about the Class 4 because it's less data processing centric and its predominately business to buisnesss. Clarification will need to be sought here from the DPA. The DPO can either be someone internal or outsourced. In each instance however, when the choice is made on who should be the DPO, he will have to be chosen because of the trust, skill and knowledge of Data Protection. Even if you have somebody, they must be trained, and needs to have particular clauses in the agreement because he needs to be independent. He can't be fired because he opposed a CIO or the CEO on data protection issues: that's very important. If you're operating in countries like UK or in Germany, a DPO might also need to be somebody who, apart from having training, must be certified, like an accountant, every year. In the GDPR, it would depend on how each party in a jurisdiction would transpose a GDPR.

Regarding your other question, it's a month for data access, but less for a security breach. You'd contact the DPA and then in certain instances inform the data subjects. Specifically for data access requests, in the GDPR that if you read it correctly there are certain little things where you can check during this process like for example purpose and the identity of the data subject. If you have a bulk request in certain instances the GDPR allows you to take that request as all individual requests. If you see recitals where you have, and this ties in with what Curt was saying, you can also have an automated process where the individual through this automated process, there is a data access request the individual will pull the data, so it is not pushed.

Eric Muscat: And you have run a risk assessment and it is documented. This is a standard concept that where you're showing you've done your homework up front obviously in front of a regulator you are much stronger because you have tried your best. There are some technical terms I'm sure.

Dr Ian Gauci: For a data protection authority, if two plus two is equal four they will not be appeased by the answer but they will tell you show me the whole workings. That is the accountability.

Justin Cosnett: It's interesting, because my view is slightly from the outside – I'm obviously not in a gaming operator, but I liaise with a lot of them. It seems logical to me, from the descriptions being given, that the current compliance team involved in making sure you meet with your regulators' requirements would be the area I'd look at first, for "where is my DPO going to be or sit". Because they are already watching your CTO, CIO, CEOs' activities anyway, and also, they will have a view on the kind of conflict between "I have to maintain this data and a copy of this data and this personal data to meet my regulatory requirement plus I might be asked to delete it, remove it or not store it for too long". So they kind of then have an oversight on both areas so that would make logical sense to me.

Adrian Mizzi: It also depends on the life cycle of the organisation. In a mature gaming organisation, the compliance team may be overwhelmed already with non-GDPR work, and won't have the time to build up the skills. Then, it makes sense to have someone sitting within compliance. But a start-up would be a different story, because you're unlikely to get many GDPR requests at the start. You still must be careful, however, if reported, you may get fined. I imagine that there will be future fines with the larger organisation, the Googles, the Facebooks of this world, but as in so many industries, what starts at the top trickles down to the bottom. Unfortunately, you must be very careful, even if you are a small entity.

Eric Muscat: Are there any other questions from the floor?

Delegate: My question regards a DPO. If a Maltese company operates in the UK and Germany, they must check the local laws of these countries. In that case, does the DPO need a specific qualification? Or is one purpose of the GDPR to abolish the fragmentation?

Dr Ian Gauci: The GDPR allows you to choose a lead jurisdiction under specific circumstances. The Article 29 Working Party establishes criteria, for example the principle establishment. If you establish a lead jurisdiction in Malta and you're interfacing with countries like France, Germany, Belgium, Spain, who are draconian in their approach, as can be seen from case law, Google, Facebook etc, then you also need to follow the data processing criteria pursuant to their legislation, be fully complaint even with their laws and your DPO must familiarise himself, or employ good lawyers on the ground. Sometimes I tell my clients to forget Malta for the time being. If you're compliant with French law and your DPO is well versed, and has a good relationship with the authority, that's important, and is one of the considerations when fines are imposed. So, even if you have somebody in Malta you need to be cognisant of these jurisdictions. Lastly, I'll just point out, that this new process in the legislation is new. We don't know exactly how it'll work in practice.

Eric Muscat: Thank you Ian. There are no further questions, but I've a final subject that we should discuss: harmonisation of fines. Let's try to avoid jurisdiction shopping! How do we see this evolving over the next two, three, four years?

Dr Ian Gauci: The GDPR is aimed at harmonisation. It isn't fully clear yet, and there will be some caveats (as we've seen with certain member states being very smart on how to adopt) but specifically on fines. For example, when you breach consent, it's deemed to be a maximum breach. If you lie or don't collaborate with the authorities – these would effect maximum fines, that 4% on gross annual revenues of the undertaking. It's the same definition under competition law so if you have a group of companies it's 4% on the group of companies, or £20 million whichever is highest. There's a lower threshold which is 2% or £10,000, for marginal contraventions, however we're expecting Article 29 Working Party to produce further harmonisation. At the 4%, or £20 million, you still have a lot of latitude. The next lot of guidelines on how to administer the fines within those thresholds could be dangerous because it'll take away flexibility from data protection authorities to a certain extent. If you have a contravention in state X or state Y which is similar, irrespective of the trans-border issue, in that case it's the national DPA which is responsible however in principle the fines should be the same.

Curt Gauci: My concluding remark is, don't think of the law, think of the business: at the end of the day it's about getting the business right. Of course, we must abide by the laws but think of GDPR as a business problem, not of a legal problem and you'll find the journey to success by following that line of thought.

Eric Muscat: Thank you Curt, and many thanks to all my panel. My recommendation is that if you're into your GDPR journey, keep going. If you haven't started, then I suggest you do!

#We all Want to Play

Alice Hero, Advisor, KPMG in Malta

Micky Swindale, Head of Advisory, KPMG Isle of Man and Gibraltar

Dr Simona Camilleri, Head of Legal, Cubits

Louise Wendel, Head of Legal, Catena Media

Carla Maree Vella, CEO, Optimzer Invest

Abby Cosgrave, VP Legal at Betsson AB & General Counsel at Betsson Operational Group

Alice Hero, Advisor at KPMG in Malta, welcomed delegates to the breakout session on the #WeAllWantToPlay initiative, along with her co-panellists, Micky Swindale of KPMG Isle of Man and Gibraltar, Dr. Simona Camilleri, Head of Legal at Cubits, Louise Wendel, Head of Legal at Catena Media, Carla Maree Vella, CEO at Optimizer Invest and Abby Cosgrave - VP Legal at Betsson AB & General Counsel at Betsson Operational Group.

#WeAllWantToPlay is KPMG's Diversity Initiative for the Gambling & Betting Sector, which showcases KPMG's commitment to social change within the industry. This session will explore the opportunities and challenges facing women in the Gambling and Betting Sectors and marks the start of a new gender diversity initiative out in Malta that aims to create an enabling ecosystem for female talent in the Gaming Industry. It's key mission? Taking the issue beyond a specialist diversity effort and into mainstream talent management and corporate strategy.

It's a well-known fact that women are typically under-represented on Boards in all industries, but why is it particularly so in Gaming, one of the most creative and innovative industries out there? KPMG have carried out studies on the topic which evidence the fact that our clients in all sectors will achieve greater commercial success, combined with lower risk and greater engagement levels, by diversifying their Boards, their talent and their customer bases. In addition to this, research by some of the world's most influential institutions, including the World Bank, Goldman Sachs, the International Monetary Fund, Ernst & Young, the World Economic Forum, McKinsey & Company, and others, has clearly demonstrated that women's full economic participation leads to greater competitiveness.

It seems to be quite clear from a multitude of sources, improving gender representation in the workplace benefits everyone—it is good for our workplace culture, our professional development, our society, our personal lives, and the financial bottom line. But these gains are only attainable with the cooperation and support of our male colleagues, mentors, and sponsors.

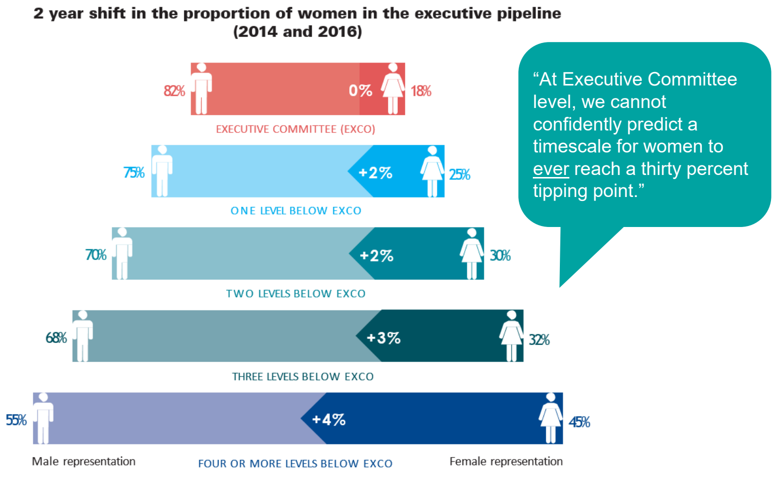
We cannot fully empower women and girls without also engaging men and boys, and when we do, we find out that gender equality is a good thing for men as well as women. Because the majority of senior leaders in today's business world are still men, they are in the best position to influence cultural and organisational change.

Micky Swindale: Firstly, may I just say, I'm delighted to see so many men in the room. Our panel may not be diverse today – but given the propensity for all-male panels at gaming events, we feel justified in having an all-women panel at this event! We're hoping to have a sane and facts-based debate about diversity, and I'll briefly go through our work which highlights this important issue.

Over the last four years KPMG has been researching, in depth, diversity in the workplace. Cracking the Code in 2014 looked at perceptions about women and the way in which diversity was being viewed and addressed, particularly in FTSE 100 companies. In January 2016 came View from the Top, where we consulted chief executives about their attitudes towards diversity, what was working and what wasn't working. In April 2016 we compiled the Think Future study, to garner the views of male and female graduates and undergraduates when making career choices and which sectors they wanted to join. In July 2016 we came back to the original grouping of Cracking the Code and looked at progress made over those two years, in our published report, Revisiting the Executive Pipeline.
On the boards of FTSE 100 companies at exec co level in 2014, only 18% were women. Participation increased below that level, but only when you get to four or more levels below exec co, do you get anything like approaching parity. The 30% Club was set up as a collaborative initiative with the aim that by the end of 2015 there would be 30% participation on boards by women. When KPMG revisited our research in 2016, we found only very limited increases - at four levels below exec co, the increase in female participation was only 4%, then this gradually dropped until we get to exec co level, where there had been no change whatsoever. The conclusion of the report was that if we continued at that rate, we couldn't see a time when 30% would ever be reached. So there's clear inequality here, AND it's an area where progress seems to be glacial.

So, panel, have you seen a similar pace of change within your companies?

Progress



Percentage of women occupying positions at each level in the executive pipeline across our sample of FTSE organisations as at the beginning of 2016.

Dr Simona Camilleri: I was lucky to have worked with the Betclic Everest Group where the CEO was a woman, as was the CFO and the Head of Regulatory Affairs. But that was exceptional. It was great to have a female CEO surrounding herself with other women, and it made for an equal board. Prior to that my experience was very much a male-dominated boardroom, in a multi-national Nasdaq listed entity They did appoint a woman to the Board, but she was placed in an HR role; and it felt like lip service or complying with a legal quota for public boards really rather than a commitment really to the idea of gender diversity.. I think this inequality is palpable and there's no real reason for it, although there could be a hint there that a more traditional land based gaming environment was the main focus of business and this may have had something to do with it. Many capable women bring a lot to the table and to the bottom line of business, as well a sense of balance and interest to the work place.

Louise Wendel: At Catena Media we have a female Chair of the board, and three of the six executive management are women. Of thirty global line managers, eleven are female: that's the next generation of female leaders coming up. There's still much work to do but I think we're on the right path. At Catena we've recruited approximately 98 people in the last year, and although we haven't been able to focus on recruiting women per se, we are putting energy and effort into that for 2018. It's one of our outspoken missions for next year.

Abby Cosgrave: My experience is largely positive as well! I joined Betsson Group in 2014, in a mid-level position, and my progression has been amazing. The company is very supportive. Four out of six of our corporate management team at Betsson AB are women. I myself manage a team of thirteen legal and compliance experts, eight of whom are women. One of our senior management team is in the room now, supporting me! I find Betsson a very pro-female environment to work in.

Carla Maree Vella: My background is similar. I started at mid-manager level and was pushed, because my bosses saw that I delivered. It isn't just about luck. Opportunities are offered to people based on their abilities, it doesn't matter if you are female or male. This is especially true within the gambling sector. Sitting here, we're all women, not only working in senior roles, but dedicated to the gaming sector which has a typical focus on females in senior roles. As Louise said, Catena has a definite view for having women on the board, and it doesn't stop there, it spreads across the portfolio of companies within Optimizer Invest.

Micky Swindale: Those are positive stories, more so than I typically hear, which is encouraging. Susan Breen from Mishcon said to me, early on in our discussions on this topic, "don't talk about the moral case for diversity, talk about the business case. You can't expect people to engage with diversity, because it's "the right thing" to do." So, let's just go through the reasons for diversity, and we would welcome your feedback, please.

For companies across the spectrum, and not just gaming, it falls into three areas: the talent business case, the customer business case and the moral business case. For the talent business case, there's much research from the last 5-10 years about whether diverse boards perform better, and if so, how much better. McKinsey looked at this in terms of race, gender, and social mobility, and the statistics are compelling. As KPMG's Global Head of Relationships, Isobelle Allen, put it, it's about getting different perspectives on to boards. To quote her, "We're going through a period of unprecedented change and what worked in the past is not likely to work in the future and no single person has the answer." We must adopt a different approach to looking at issues including different leadership styles. A board room of people with the same background, views and values, is a very blinkered board. And it isn't just about the board room, but about winning that talent in the first place. From our Think Future study, 60% of graduates are female, but clearly, when they're considering career choices, and sectors, they avoid those which they perceive to be male-dominated.

Ladies, please share your thoughts on the talent business case. It sounds like it's understood amongst your companies, but is it being understood more widely?

Abby Cosgrave: Taking a broader look at gambling, I discussed earlier today about British horse racing and female representation on their companies' boards. I imagine it's hard to find women who would actively want to engage in that, and that's partly about the language around the roles. This week I've been reviewing our company job adverts, for various roles, for example trading versus what you'd seeing an advert recruiting a lawyer or compliance expert. In legal and compliance, we seek people with particular skills and the language in our recruitment adverts reflects that we are undertaking skills based recruitment. Gaming experience is, of course, a bonus, but crucially, I'm looking for someone who is capable in the job. The language in adverts is key to ensuring that people with the correct skillset apply. For example, in our Trading department, our Trading Director would love to have more women on board – however, he has said, how do you find them with experience? The adverts for roles are based on experience rather than skills. I hate to genderise it this way, but women often self-select themselves out of roles, at the start of the process. We're more than capable of doing a role but, we tend to look at job adverts and think no, no I won't do it, I can't do it. But if you do apply, you might well get the job and the advert for the role, can in itself, encourage that by pointing to transferable skills rather than actual experience. It's very important for companies to put in place the right language in job adverts.

The Talent Business Case

- Areas of improved performance by diverse boards:

- **42% performed better in terms of sales;**
- **66% performed better in terms of return on capital invested, and;**
- **53% performed better in terms of a return on equity.**

(McKinsey)

"This is where the women agenda comes into play, not as a gender issue, but a different way of looking at things and a different working style. Women challenge the status quo in a different way and bring a different perspective to boards."

(Isabelle Allen, KPMG)

- Accessing new talent:

- **60% of graduates are female**

> **We must adopt a different approach to looking at issues including different leadership styles. A board room of people with the same background, views and values, is a very blinkered board.**
>
> **- Micky Swindale**

Micky Swindale: You're right and the research confirms that. Women tend only to apply for a job if they're absolutely sure they have all the skills and can show an experienced track record. Men don't feel that they must tick all the boxes – that's the clear difference.

Louise Wendel: Two weeks ago I had that precise experience with a job candidate! I had to tell her to not sell herself short, because she was very capable, and could do the job.

Alice Hero: Should we be making efforts to change the perception of the industry from the outside? Our stats show that 60% of graduates are female, yet how many of them are looking at gaming as a viable sector for them? Is it our responsibility, to change that perception? Or is it the responsibility of the gaming operators, or other key stakeholders?

Carla Maree Vella: Yes, it's partly up to us women in the sector. Following Sigma last year, I gave permission to the photo editors to use my picture in their magazine. A small step – but still a conscious decision to help encourage women towards gaming. I see many women looking for a new job, who say, 'I want to apply but, I'm not good enough'. Why? There are lots of talented women in Malta, in gaming, and also not in gaming. I believe you must make time for people, have coffee with them. Every month I spend about four hours talking with women, and men too, about their next career step, or progression. Most of them are open and say they want to do this, or that. So, I say, how do we get you there? People need to be listened to – I do too, sometimes – and it's so important to make time for them.

Dr Simona Camilleri: Online gaming is a young industry, which is why we've all had quite a good experience in terms of equal boards, and participation by women at executive level. To take up Abby's important point about Trading – that's a male-dominated department in any company, and if you plan to get to make CEO one day, then your understanding of trading in a sports online gaming firm is critical. That's something which we, as women, could be working on. On the tech side, computer programming and coding is also traditionally male-dominated: women tend to stay away. It's not just about hierarchies, you might find for example that the accounting or legal department is full of women, but they stay away from other industries entirely and are therefore not seen as having the robust experience or capability in a number of critical fields to make CEO. So, we need to get back to educating, and enabling women, to build the right skills set. This is important also in tailoring the product for different segments of the market, women also are consumers of gaming products, typically more of casino type games than sportsbetting, but that is changing and poker and other table games are an avenue where leading women are leaving their mark. Also, being able to promote yourself as someone who actually plays the games, and understands what the company is doing, is important. We all have an image of older women going into casinos, but younger women need to be gaming too. It's about showing a vested interest in the sector, and counter-acting the male domination at the top.

Louise Wendel: I agree, we must change the perception, and the way that the industries portray it as well, because otherwise we will never appeal to women.

Micky Swindale: Of course, it's not just female talent that we're trying to appeal to. It's also women customers. Unless you are providing a gender-specific product or service, you have a potential 50/50 split in your market. If your customer base is less than that, you have an opportunity, but, outside of bingo, that opportunity isn't really being grasped. Now, we know that women make most of the buying decisions in households. Taking financial services for example, companies have been very alive to this fact and in their advertising they really focus on women. But they're not so good at backing it up with female talent in the boardroom. Another point is that the media and the public are increasingly sceptical about companies that pay lip service to gender diversity.

A report, released in the UK by Greenpark the FTSE 100 leadership diversity index, is a thorough piece of research. Trevor Phillips, formerly Head of the Equality and Human Rights Commission in the UK and now Chair of the Diversity Analytics Division for this grouping, points out that it simply isn't fair that a woman must be three times more educated than a man in order to make it onto a FTSE 100 board. A lack of diversity is increasingly viewed as a commercial 'own goal' and for UK companies in a post-Brexit world, that's important. This report concluded that business leaders just don't get it. For many of you here in Malta, and for those of you working for Scandinavian companies, that experience is somewhat different.

As a woman, voicing the moral business case for greater diversity, can be a little uncomfortable, because I've a vested interest. But, since I became a partner at KPMG I've felt much more comfortable talking about diversity because arguably I have no more promotions to seek. Ladies, do you steer away from the moral business case? Do you prefer to stick to the commercial facts?

Dr Simona Camilleri: It's a tricky subject, but yes I prefer to stick to commercial facts. They strengthen your argument. At the same time, we should aim to break a particular cycle of thinking, where women are choosing not to take on certain jobs in certain sectors, which may be a reflection of their confidence, or the lack of support in their current workplaces. I can see both sides, the moral and the business case. A quorum is required to break the pattern for the initial stage and to make it "normal" and "usual practice" prior more on merits. Changing attitudes will help us find an equal path to the top. I agree, women do need to continually prove their case. Ideally, it shouldn't be a gender issue, we should all just be judged solely on our merits; what we each bring to the table, and our results.

Abby Cosgrave: I'm a huge believer in aptitude, attitude and ability, across the board. However, I speak up if I witness discrimination as and when I see it, whether positive or negative. I have come across many instances historically, before gaming, my background was in media, also very women orientated; in fact there were even more women were in powerful positions but before that I started out as a trainee solicitor in the sports law sector and that was a very tough environment to be in as a female. You were spoken down to a lot. Getting promotions was hard, and on occasion, you were actively sent to do deals for reasons that weren't to do with your ability at all. I haven't come across that in gaming though – just positive experiences here.

Dr Simona Camilleri: Before moving to online gaming, I worked for a land-based firm in London. The Chairman would walk into my office and ask me which was my favourite Spice Girl and whether I ate pasta or not in the evening! Then he'd go and talk to the Commercial Director about work issues, and the Commercial Director would have to translate them to me. It was very different in the land-based UK business, mostly 55 year-old white men, but always amusing. I see a big difference with online gaming. Now I'm working in cryptocurrencies, which is technology driven; but I'd say that it too, is tending towards a more a male-dominated environment, because there are so few women programmers, working on blockchain.

Micky Swindale: Interesting. At the Gibraltar summit last April we ran an audience poll asking people what percentage of the executive team at their place of work was female? The results showed that 75% of them had 10% or less women on their executive boards. So, we ran a similar poll at the Isle of Man summit in September and got a similar result. But clearly it's a different picture within your companies, the statistics are very different. I wonder whether your more positive experience of diversity, is the reason why you all feel empowered, and enabled to discuss it? Let's move on to the customer business case.

These are UK statistics, but they are indicative. The UK Gambling Commission released their NatCen report on gambling behaviour in the UK. Whilst the interest of women in gambling is not far behind men, the percentage of women who gambled online was only a third of the percentage of men, so there is a missed opportunity there. But when you consider a particular area that's heavily marketed to women that participation is much higher. Then look at online gaming as opposed to gambling: the story is very different. 52% of gamers are female. Their interest in this area and in playing games, is equal to that of men. Gaming companies are missing a trick! Much of the advertising for any vertical outside bingo doesn't look like you're trying to attract a female audience. Bingo used to be pink through and through, but the tone of bingo advertising has changed dramatically and produced a commercially pleasing result with around 30% male participation now. Is there a missed opportunity here in the way that we're marketing to women?

The Customer Business Case

- August 2017 – UKGC report on gambling behaviour in the UK:

- **59% of women gamble (66% of men)**
- **5% of women gamble online* (15% of men)**
- **Twice as many women as men play bingo**

- Online gaming – 52% of gamers are female

- Marketing slots, casino, poker and betting - testosterone time!

Carla Maree Vella: Firstly, going for a pink lobby to get women into gambling – Bingo or anything – is a mistake. Those are interesting statistics Micky, and when it comes to the online gaming side of things, I've seen statistics that show that many women are actually getting into it because their partners are into it. When it comes to marketing, is there one specific way you should market to females? Is there a specific way you should market to men? As a brand what method converts more? What are the numbers? If I was building a commercial model, that's where I would go. But I wouldn't go from a gender specific marketing approach.

Micky Swindale: Thanks. Still on this topic, do we have any hard data about what the gender splits are of our customer bases?

Dr Simona Camilleri: Not any hard data, but, when developing a game at Booming Games, a high portion of our target customer base is women. Usually older women because statistically, they have more leisure time, and outlive their partners! The games which are designed for women tend to be quite feature-rich, and longer. Whereas a game designed for a hard gambler is usually short, three "burning 7's", that quick to the result, high stakes game. So, in terms of product development, it is well understood. But there must be many products which could be more attractive to a female audience, taking all those things in mind. Women like more interaction, more features, more variety. A proper study on this would help. At Booming Games, we've not done anything which is 100% gender specific.

Micky Swindale: We found there isn't much hard data on the penetration into a potential female customer base. But a poll at our Isle of Man summit in September gives us a clue. The question was, at the gaming operator that you work for or know best, what percentage of the customer base is female? For over half of respondents, it was less than 25% of their customer base; this suggests, given the potential 50/50 split, and given 52% of gamers are female, there's a large target market to go after.

Let's focus on some of the research that we've done. One primary issue is understanding better the ways in which women are different to men. Without stereotyping, we want to get our perceptions about women right. It's an important part of making the change around diversity, and enabling women to get the same opportunities. Our Cracking the Code research examined perceptions about women, and identified ten myths.

The 10 Myths about Women

- MYTH 1: WOMEN DON'T ASPIRE TO SENIOR LEADERSHIP ROLES
- MYTH 2: WOMEN DON'T STICK IT OUT TO MAKE IT TO THE VERY TOP
- MYTH 3: CHILDREARING STOPS WOMEN GETTING TO THE VERY TOP
- MYTH 4: WOMEN DON'T GET TO THE TOP BECAUSE THEY LACK CONFIDENCE
- MYTH 5: WOMEN LACK THE LEADERSHIP QUALITIES NEEDED AT THE TOP
- MYTH 6: WOMEN DON'T HAVE NETWORKS THAT OPEN DOORS TO THE TOP
- MYTH 7: SENIOR WOMEN LEADERS PULL UP THE LADDER BEHIND THEM
- MYTH 8: HIGH POTENTIAL PROGRAMMES ARE FAST-TRACKING WOMEN
- MYTH 9: FORMAL FLEXIBLE WORKING ARRANGEMENT EASE WOMEN'S ROUTE TO THE TOP
- MYTH 10: THE BUSINESS CASE FOR GENDER DIVERSITY IS WORKING

Myths 1 to 5 relate to behavioural patterns or traits that senior leadership believe women show. The problem with those sort of beliefs, is they tend to lead to solutions to try to 'fix' women which is not a productive way of making long term change. Myths 6 and 7 are about women's social capital – who, rather than what, they know – and the remaining three are about existing interventions to address gender diversity, that the research team felt weren't working. Having considered all ten myths, the conclusion of the Cracking the Code report was that the research simply didn't support them. I quote: "Excuses that rely on any of the myths dispelled in this research will no longer work. It is time for a concerted effort by men and women to address the shocking statistic that a man is four to five times more likely to make it into an exec co role than a woman starting out at the same time."

The first myth suggests that women don't get to the top because they lack confidence. But there's a misunderstanding of what the word confidence means. A male candidate who strides into a room, talks up their abilities, and aces the interview, is confident, or so we think. When a woman decides to apply for a job, and during interviews, she will be intensely self-analytical and brutally honest about her abilities. The problem here, is that if we don't appreciate that difference in approach. You can be faced with a male candidate and a female candidate who are very similar on paper, but, who are you going to employ? This is the key issue and one thing that I've been trying to educate our recruitment team at KPMG about. It's critical to make judgements in a slightly different way when you're interviewing men, or interviewing women. Women simply tend not to over-inflate their own abilities; men do. Ladies, do you agree, that the difference does exist?

Louise Wendel: Yes! That candidate I mentioned earlier, I told her "don't tell yourself short". In fact, I offered the role to a man instead, with a similar background. But he declined the role so I got back to her and she's starting on Monday. In hindsight, she was probably the better candidate but didn't come across as such, owing to a lack of confidence.

Abby Cosgrave: I interpret confidence slightly differently, because I warm to a candidate who tells me what they can't do. I like honesty. I need to know where they are weaker, or stronger. I'm a big believer in owning what you're good at, and what you are not good at. For example, I hate public speaking but I'm here today making myself do it. You must get out there and push yourself. I think, if candidates are honest from the outset about what they can and can't do, it enables management to help that person achieve what they want to achieve. I'm wary of people who claim they can do everything - no-one can – so I don't fall for that one.

Micky Swindale: I remember at our Gibraltar summit in April, the female CEO of a gaming operator there told us of a recent interview – she was running the male candidate through the key requirements for the role, and she asked him, can you do this? He said, yes I can definitely do that, and she said, show me, and opened her laptop. There was a pause, then frantic clicking, then after ten minutes he said he might need half an hour. At which point it was a case of hands up! It's about knowing who you can trust and what you can believe.

Alice Hero: One thing to emerge from all this, would be to implement female mentorship schemes within our organisations. Carla, I know you focus on these. Can you share with us, how effective you feel they have been?

Carla Maree Vella: Of course. Like I said before, my personal time, with those who need it. I see it as an outreach programme, and that I'm available, but not over-available – I made that mistake before – as some people may exploit it. I believe it's extremely important to put yourself out there and enable others. I'm a huge ambassador of enablement. As I mentioned, sometimes I too need pushing, so if I can help someone else, then, in essence, it all comes back, it plays full circle.

Louise Wendel: I fully agree – we must get better at helping each other getting to the top.

Carla Maree Vella: Is that a gender thing?

Micky Swindale: Not specifically, but, the research which took into account various approaches to diversity, showed that formal diversity initiatives are less successful than sponsorship, and role modelling by senior women, which have a greater impact.

Louise Wendel: Here's the thing – men have been pushing each other for decades, and now we must start as well. I think it is a gender issue, in which case, we must do as they do.

Simona: I had a male mentor, a senior person in the company who pushed me quite hard; I wasn't permitted to take minutes, and was put in at the deep end immediately. It was a great experience though of course difficult. I find it isn't so much a gender issue, but more one of confidence. Women prefer not to make mistakes and are afraid of being reproached. In my department, I tend to throw people in at the deep end, and say, sink or swim. Obviously I hope they'll swim! The way to enjoy your work is to take full ownership of what you're doing from start to finish, sometimes making mistakes but have a good team backing you up, and be proud of the result. In Italy, kids are confident and talk openly. In Malta, the educational system is changing gradually, there is still a male/female divide, more stereotypical roles are assumed. I see it with girls who join the office and say, give me the easy jobs.

Micky Swindale: Returning now to our 10 myths, the one about child rearing stopping women from reaching the very top. If that is a perception then what is the reality? Our research showed that it slows down women's progress very marginally. Promotion gaps actually emerge much earlier than that; motherhood can make the journey more effortful but it doesn't prevent women from the top jobs. We compared senior men and women, with and without children, and how many had achieved five or more promotions to get to where they were. Statistically, there was no significant difference in the number of promotions between women with children and women without children. In fact the only difference was between men and women both without children so, which is curious! So, how do women think motherhood impacted their career? Whilst they're concerned about it when starting their family, with hindsight, senior women view it as 'a pitstop in a Grand Prix', with many pointing to the positive effects in terms of broadening their perspective, enhancing their organisational skills, developing their empathy and making them determined to succeed.

Abby Cosgrave: That's good news. Becoming a parent is a topic that's close to my heart being 6 months pregnant at the moment, but it's unfortunate that it is a responsibility that still gets tied to women (as mothers) the most. In Malta, we're often dealing with an expatriate workforce, and you see couples who do have children inevitably move away; things change. The man almost always goes back to work, the woman doesn't always. As companies, we must actively support BOTH parents. You can do a lot with packages: prolong maternity leave, exchange with paternity leave, or help finance the visits of grandparents from overseas, introduce flexible working patterns. Expatriates don't have that immediate family support, we as employers can help, especially in our industry, where staff turnover is higher than other sectors.

Micky Swindale: In Sweden, they get this right, don't they, Louise?

Louise Wendel: Yes. I'm Swedish and a single mum; my son is now 7 and in the past five years, I've held three different jobs as Head of Legal. Being a mum hasn't stopped me, although sometimes it's tough. In Sweden, as you know we pay high taxes, up to 55%, which gives us subsidised childcare. I could leave my child in kindergarten from 7am in the morning until 5.30pm in the evening. I didn't do that every day, but I could have, which gave me the opportunity to work full time. In Malta it's harder to work full time because the schools finish early: you'd need a nanny. Sweden is a bit of a utopia in this way, and I agree with Abby that as an employer, you can do many things to make it easier for women to work. If, after childbirth, you're constantly worrying about your baby, you won't be a good employee, or perform well – then take some time. We must make it flexible, find individual solutions, even other career paths. It is absolutely doable! I think we're getting there.

Micky Swindale: Our last study is about businesses being supportive. Murray Edwards College is a female-only college at Cambridge University, and they carried out a survey of their entire living alumni. They asked what impediments to career progress they had faced, and you'd expect balancing work and family to emerge top; it came in at 22%, but it wasn't top. What came highest was workplace culture at 38%, and the specific issues mentioned are, frankly, shocking. Then a group of 40 men from many sectors, at varying levels of seniority, examined the survey. They came up with suggestions to address those biases, and the work place cultures that those biases created. They concluded that women were less likely to be recruited in stereotypically male fields, less likely to be given high profile assignments and less likely to be promoted into leadership roles, and more likely to be side lined into roles which are not client-facing or critical to the profit and loss of an organisation, negatively judged in performance reviews and to leave the organisation or to stay in mid-level roles. We need the involvement of men, to help change long-entrenched workplace cultures. No-one is setting out to deliberately exclude women and many things lead to workplace cultures not being hugely supportive to women; sometimes it's the result of socialised male behaviour and of unconscious bias and it's only by working together that we can really make significant change. Any closing comments?

Louise Wendel: We all know the future is female!

Abby Cosgrave: The We All Want to Play initiative is a great that the dual ownership of this issue (sitting with both men and women), strikes a really positive tone.

Alice Hero: One last comment is that we're hoping this discussion doesn't just start today and end today when we all leave this room. We're going to continue it beyond Sigma, and out into the industry and hopefully see some positive change. Thank you all very much.

4th AML Directive: Challenges & Opportunities

Alex Azzopardi, Director, KPMG in Malta
Elaine McCormack, Senior Manager, KPMG in the Isle of Man
Malcolm Wright, Thompson Reuters
Kevin Plumpton, CEO, Diligex

Alex Azzopardi, Director at KPMG in Malta, welcomed delegates to the breakout session on the 4th Anti-Money Laundering Directive, along with his co-presenters, Elaine McCormack of KPMG Isle of Man, Malcolm Wright of Thomson Reuters, and Kevin Plumpton, CEO of Diligex. Mr Azzopardi: "We're here to discuss the challenges and opportunities that could arise from the inclusion of the online gaming sector within the 4th AML Directive scope. The aim of the session is to be interactive, so our speakers will deliver in turn their own presentation, before moving on to engage with delegates."

Elaine McCormack recently joined KPMG Isle of Man, bringing 30 years of experience with her from the financial services industry; Elaine works in both the AML and gaming space. Malcolm Wright is Global Head of the Anti-Money Laundering and Financial Crime at Thompson Reuters; Malcolm has covered a number of roles within the company and has an ICA accreditation. Kevin Plumpton brought a legal angle to the discussion as a lawyer specialising in the Anti-Money Laundering field, and the founder of Diligex, a law firm in Malta with local and international clients.

Elaine McCormack: The 4th Anti-Money Laundering Directive: I'll look at what it is, why it's being brought in, what the key changes are, and how to put those into your daily practices. I'll also detail the hotspots that emerged during our benchmarking exercises with various firms. Essentially, the European Union's 4th AMLD comprises new reforms to the existing EU AML rules. Adopted in 2015, EU member states had until 26th June 2017 to implement it into their national legislation, however, 17 states hadn't fully implemented by that deadline and now the EU is taking infringement proceedings for non-compliance. Directives are different from regulations, as they're binding as to the result they're trying to achieve, but they don't have any self-executing measures and they allow member states leeway as to how to bring these in. The main objective of the 4th AMLD is to improve the tools that are in place to counter money-laundering and terrorist financing.

For many years I worked in banking, and as a regulator, and saw first-hand how regulation fits in the traditional financial services industry. Whereas in the gaming sector, regulation is relatively new. With technology, it's never been easier for criminals to move money across the globe, very quickly and to cover their tracks, but the 4th Directive aims to make it harder for them to do this. One of key changes brought in by the Directive, is that gaming is now termed as an "obliged entity" meaning it must comply with these AML CFT rules. The Directive also puts a greater emphasis on a risk-based approach. You have limited resources; you must focus them in the right direction and use them wisely. Regarding leeway – the Directive must apply to the casino sector (land-based & online) but member states have some leeway to exempt some lower risk services from applying it, provided they conduct a full risk assessment to determine which services are lower risk. The foundation for this is a business risk assessment, which is important, but you also need to risk assess your customer, because each customer poses a different risk to your business. That will drive your due diligence changes.

With regard to due diligence, the 4th Directive removes the blanket exemption for applying simplified due diligence for certain entities. If you want to categorise something as lower risk and apply simplified due diligence, you must do a full risk assessment to justify why it is lower risk. For standard risk customers: previously the requirement was to verify the identity of any customer that purchased or exchanged chips of €2000 or more. That will change now to anybody that withdraws €2000 or more, and then going up the scale to higher risk customers requiring enhanced due diligence, the scope has widened for politically exposed people (PEPs) and now includes domestic as well as international PEPs.

The practical requirements for businesses to implement include: having your MLRO (or responsible officer) looking in depth at the 4th Directive if they haven't already done so; conduct a gap analysis between what your business currently does, and what the requirements say, so you can update your policies and procedures; and conducting your risk assessment if you haven't already done that. One of the hotspots that we found during our benchmarking exercises at KPMG, was out-of-date risk assessments. Get additional CDD for your local PEPs where you need to, but also conduct staff training – another one of our hotspots – on the changes coming in.

Of all the hotspots we uncovered, governance is the most important of these, and is an organisation's commitment to good practices in terms of AML CFT. Please remember: this is real financial crime, with a real victim at the other end. There's an impact on your company and your reputation if you get this wrong, so it's very important to set that tone from the top. Keep your own business risk assessment - regularly updated, certainly annually, and definitely at times of significant change in the company. The regulators will give you guidance as to how often to update customer risk assessments, depending on their rating, but ensure you regularly look at these because customer circumstances change so make sure it's up to date. Policies and procedures: in many businesses we visited, staff didn't know where to find their company policies and procedures. It's good practice to put them on your intranet site so staff have full and easy access to them. Regarding staff, it is very important to make sure your MLRO is visible in the business, so people know who to report their suspicions to. Staff training must be up to date, and delivered on a regular basis; also test the knowledge of your staff following training to ensure the training has been fully understood. The last hotspot from our benchmarking is customers and inadequate documentation: it seems that somebody always falls through the cracks. We were surprised at how often, when visiting a business, we'd find they haven't fully identified the customer, but that didn't stop them operating the account. If you are going to allow any exceptions to your policies there has to be a short period of time where you can get the missing information you need to comply with regulations, and somebody shouldn't be able to just operate an account without the customer being fully identified. Screening customers is also very important: your customers' circumstances can change, so it's important to keep regularly screening them.

A closing remark, regarding Malta: it is one of the 17 member states that still hasn't fully implemented the 4th Directive. I would urge you to keep a watching brief, as I understand implementation of this is imminent, and that your FATF 5th round assessment is also due in 2018, which will be undertaken by Moneyval. From my experience with our Moneyval visit in the Isle of Man, this meant huge areas of change, both legislative changes prior to the visit, and follow up actions following the visit. One of the highlighted areas for us, was the need for improvements in internal controls in gambling and I'm sure that will also be an area of focus for the Malta assessment. Finally, the 5th AMLD is also on the horizon, and is still going through the EU legislative process right now. It isn't yet finalised, so is subject to debate as to how it will look in its finalised form, but another one to keep a watching brief on.

Alex Azzopardi: Thank you Elaine. Malcolm?

Malcolm Wright: Allow me first to bring to your attention a report produced in the UK by the Gaming AML Group in April, which you can download for free. It's a great document, to give you an idea of some of the risks faced by remote gaming companies. https://www.gamlg.org

Sadly, there's a real, human cost to money-laundering, and what we do goes far beyond just checking boxes from compliance. Human trafficking, drugs – all of those behaviours where money flows through the system and allows people to continue their crimes. Compliance is about stopping these behaviours and preventing them to make the world a safer place.

There was a case last year, where the UK financial regulator fined an overseas bank in London, and they also took action directly against the MLRO. This highlights that beyond a corporate responsibility, in some situations there's a personal liability, and this will apply in Malta. There must be a level of governance and a tone from the top, that everybody in the organisation understands. In the case mentioned the FCA clearly stated, "There is an abundance of guidance for firms on how to comply with AML and financial crime requirements and no excuse for failing to follow it. The FCA will not hesitate to take action against firms and senior individuals who fall short of our standards. As in this case, such action may include using our powers to restrict a firm's continuing business." The gaming sector would do well to heed this advice - and apply some of the work that the banks do to its own sector.

There are 7 steps in successful AML / CFT culture. The first one is tone from the top: ensuring that your board and all your chairmen understand the importance of having this framework in place. It isn't just a series of checkboxes; there is a huge reputational risk. If one firm gets it wrong, it could take down the entire industry; it's important that everybody is playing at the same level. In the UK this was recognised and put into a report mentioned earlier where all of the operators collaborated to produce a benchmark across the industry.

Then you look at the management layers - and ensure they're part of this cultural approach, so they can spread that down through the the organisation. Our third step is quality – ensuring that your systems actually work. You must ensure your policies, KYC processes and tools are functioning correctly and do so over time, with repeated testing of processes, procedures, people and technology. Is the business worth the risk? This is very current - the risk-based approach - and important. There will be certain customers – even whole sectors – you don't want to do business with. You need to understand that because it puts your organisations at risk. Our fifth step regards resources: do you have enough people? In the UK the FCA says there's no excuse for insufficient resources to conduct compliance. It is not an excuse to say I have only one or two people, I can't afford any more. You should have enough people; every part of the organisation can be a touch point from AML and CFT compliance. It's about making sure that everyone in the organisation is aware of their role and aware of their responsibilities. Training and communication, the regular communication of what and why, is key: don't keep the message at the top. Everybody in the organisation needs to understand what their role is, and what the escalation paths are if they see something unusual. I have always been amazed when I visit organisations and the staff have no idea who their MLRO is.

Moving onto our governance framework: it's about setting in place that culture. Underneath we have all of the tasks, roles and responsibilities, particularly at your senior management level. What are the audit frameworks? What's the governance around those processes and procedures that you have in place, and what are your policies? So what is your on boarding policy? How do you treat domestic PEP? How do you treat an international PEP? How do you treat customers when they buy particular product types? And once you know what document to collect and have collected them, how do you store and process them? It's also important to consider staff recruitment and staff performance. Are you actually recruiting people who have the necessary experience to do the job, or are you compromising by just filling seats? Ensuring your people that are properly trained, with proper metrics around how they do their performance and their performance reviews is key. What are you measuring their success on? Training and awareness are key too, as is record keeping. The GDPR is on its way and will have a significant impact on the data we store and how we store it.

If we start looking at those things you do on a daily basis, the most important is considering the risk based approach. Looking at your product types, looking at your customer types and assessing on a player by player basis the risks they pose. Are they players that we actually want on board and are they players that we actually want to work with? In the middle we have screening, so we have the three pillars of good KYC or AML. Sanctions / PEP screening that you perform on players, the transaction behaviour and what they are doing and finally is your pay in and pay out - how is the money actually moving in and out of the system? And being able to put in place controls, procedures, processes to ensure that they are robust and that you are actually capturing all the necessary information and making a system that you can detect the suspicion well with. And then finally your escalation process - if you have a domestic PEP, you have just on boarded them, who does that get escalated to? Who makes that decision as to whether you are going to on board that player or not? Does that go to your board? Does somebody in the front line make that decision? All of these things need to be put in place and tested.

There are many tools that can support you, and tell you what regulations apply to you, what new changes will affect your policies and that can automatically map into the work that you are doing. There are tools to assist you with screening. There are tools to assist you with enhanced due diligence reports and services. There are some transaction monitoring systems to look at payments. And finally e-learning, where you can have auditable logs of who has done what training, where they've done it, and when. There are many services that we, at Thomson Reuters, can offer in this space to help you navigate the 4th Directive. They include: enhanced due diligence, screening, PEP lists, and sanctions lists.
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Alex Azzopardi: The gaming sector in Malta is licensed by the MGA and in their regulations there are requirements relating to anti-money laundering. Once the 4th AMLD becomes transposed into local legislation, will there be a practical change, or is it just a formality?

Kevin Plumpton: When we introduce the subject to operators, they seem to be doing a lot of training and are aware of the introduction of the directive but not the real implications. In the UK, the regulator is aggressively informing all UK operators that they need to increase their resources to assess the players' source of funds. So our experience is that there is awareness on the 4th Directive, and training of staff, but the effective change is that operators have yet to implement anything on a technical level. You can't carry out the same risk assessment. Before now, you just verified age and the identity, now it's about what risks this customer brings to the table, and his payment methods. This is completely new to our industry, even though gaming, especially in certain jurisdictions, was equipped in terms of fraud and risk. So, in terms of source of wealth and funds, this is the big change that the operator has to accept and adapt to. It is pretty hard to do so in a short time period.

Malcolm Wright: It's worth looking at the macroeconomic picture here. If the gaming industry in Malta accounts for 12% of GDP, and employs around 30,000 people directly, that is a systemic risk to the island's economy, should something go wrong. Also, MONEYVAL will be coming to complete an evaluation next year. The 4th AMLD implementation is late, and it is going to be at some point in 2018. View it in that context, and how other jurisdictions are dealing with this, and you can see that there is a ramp up in enforcement in order to get ready. Be aware of the curve. We know what's in the 4AMLD. There was the sectorial consultation issued in July this year. Be aware of those kinds of things – a lot can be done now to get ready.

Elaine McCormack: I agree, there are changes and I did highlight those in my presentation. There will be more regulatory visits on the lead up to the Moneyval assessment. I mentioned that Moneyval had found improvements in controls were needed within the Isle of Man sector and that won't have gone unnoticed by other different jurisdictions and certainly in Malta.

Delegate question: Regarding the money laundering reporting officer, what would the MLRO need to look out for in the changes, in the modus operandi of how anti money laundering has to be looked at once the 4AMLD becomes effective? What would be the role that the MLRO now needs to cover?

Elaine McCormack: A gap analysis is absolutely key. Companies need to read the 4th AMLD to determine what are the changes that it's going to mean to your operation. Also what emerged from both my own presentation, and from Malcolm's, is that support from the management at the top is absolutely vital. It is really important that the MLRO has sufficient time and access to all the resources to fully discharge their liabilities because, for the MLRO, their neck's on the block. It's a very responsible position and when failings happen, they will be in the firing line.

Kevin Plumpton: I fully agree. Two points for me are key: firstly, corporate governance. Often in the past, the role of MLRO was seen as minor, and not taken seriously. By this I mean, by the individual appointed, as well as how they are received in the wider company. We must move away from that approach, and emphasise the importance of the role, not only in terms of the resources available but also in terms of corporate governance. They should report directly to the board of the company, rather than to the operational side of the company. A sort of restructuring would allow for risk analysis to be freely carried out by the MLRO, so he has real space and the proper tools. Secondly, the importance of training, when taking a risk-based approach. It's not just ticking the box; it's essential that all levels of the company receive training, and it's beneficial for staff who are not directly in compliance. You start to understand that taking a short cut might mean a higher risk for your whole team. Lastly, you are safeguarding your reputation, on a macro level, even in your company. You don't want a bad reputation resulting from something that didn't get picked up on time.

Malcolm Wright: I agree. Also, collaboration is important so you don't feel like you're alone. The MLRO's job can feel a bit like fighting the battle single-handedly. There is a Malta Compliance Association (http://www.maco.org.mt/) which embraces a wider group of people, and borrows ideas from the rest of the industry. Talking to people helps to build awareness and knowledge and support, if you are in the role of MLRO, go seek support from groups because that wider knowledge can help. And, don't just look at customer risk, look at your employee risk as well. Ensure that you have on boarded in the right way, that you're performing due diligence, that you have the right monitoring controls in place internally as well as externally.

Alex Azzopardi: 2018 will be a busy year: the introduction of the 4th AMLD and of GDPR. In discussions with various industry players, it seems that certain obligations might conflict - between the GDPR requirements which will take data protection to quite a new level, and the 4th AMLD. Malcolm, Elaine, Kevin: please give me your thoughts on this.

Malcolm Wright: GDPR requires you to hold as little information with consent as possible, and AML requires you to hold as much information as possible. In a way, they're opposite. Both, however, must be aligned. The data you hold must be relevant for the purpose, and you need consent to hold it. But more importantly it's the security around that data. Almost on a daily basis there's a hack – yesterday it was Uber, last month it was Equifax –at some point it will be a gaming company! Ensuring you have a Chief Data Officer in place is going to be important, ensuring that you have not only processes and the procedures but also the detection systems in place to be able to identify if you have been breached, and to report it within 72 hours, which is quite a challenge. Lastly, under GDPR there's a whole section around effecting people's access to data, to information or to services, if automated decisions are being made about them. We must look at the risk based approach quite carefully and there will still be a level of human intervention.

Kevin Plumpton: Where the conflict between the two is real, is in practically carrying out your obligations. What we've encountered is that the customer, under the GDPR, assumes that a company's right to access the information you hold about him, is safeguarded completely by the GDPR and the AMLD, and that "tipping off" of any sort, or submitting any suspicion on that customer, is a criminal offence. So we've been asked already, when you're holding sensitive information regarding a customer, in terms of the GDPR, you definitely need to give access even today under data protection. It is not really new, but you do have this element of conflict. You need to address which data is relevant to the client and which is the data which is only relevant to a suspicious transaction. That should be defined very clearly in a policy manual as well as in the terms and conditions provided to your own client. As mentioned, a gap analysis needs to be done in sync with the gap on AML. The second one is the element of profiling, as GDPR bans profiling to a certain extent, whilst the AML directive is encouraging risk profiling of all customers. It's important that you categorise them by jurisdiction, by their behaviour and by their betting, so there's a sort of a contradiction, at least to the layman, trying to abide by both. We need to sit down with the operator and help him find the best solution that doesn't breach any of the regulations.

> **There are 7 steps in successful AML / CFT culture. It isn't just a series of checkboxes; there is a huge reputational risk. If one firm gets it wrong, it could take down the entire industry; it's important that everybody is playing at the same level.**
>
> **- Malcolm Wright**

Elaine McCormack: Don't lose sight of the fact that GDPR also sets out some conditions where the processing of data is actually lawful, and one of those is where it is required by legal obligation. The 4th AMLD is all about preventing money laundering, so, as long as you are collecting, using, and storing data for that purpose, there's no conflict with GDPR.

Alex Azzopardi: It will be a challenge, practically, to be aligned with the 4th AMLD, putting the online gaming industry on the same footing as other industries which have already adopted these requirements. But I believe that some advantages will arise: what benefits do you see accruing from the fact that the 4th AMLD will now also apply for the online gaming industry, for gaming operators?

Elaine McCormack: One benefit is the focus on the risk-based approach and the customer risk assessment. You'll get so much information about that customer, and know what risks they present to your business. That is key because you can then put controls, policies, and processes in place. With that increased information and monitoring, you can focus on player trends, get more information on fraudulent behaviour, and look at your product offering. You might increase sales as a result, but certainly you'll decrease risk and increase your controls.

Kevin Plumpton: I'd repeat that the reputational element is a benefit. If you're operating in this business to make quick money and get out, then this won't help. But, if you're in it for the long term, building respect for your brand, you want to be respected by the regulator as well. Then you win respect from customers (players), who trust you with their money and their participation. We all feel safer playing with the good guys than with the bad guys, and if you can prove that with your compliance and checks, with your reporting, your reputation will increase your client base, and not decrease it. But it all starts from the basic approach.

Delegate question: If you're making a distinction between the bad guy operators and the good guy operators, obliged entities who are abiding by the law, making sure that their compliance procedures are in check. I think that more needs to be done from a regulatory point of view, because currently the bad guys are not being reprimanded for flouting the rules. What's happening is we're seeing a shift of clients, who may not have bad intentions, but for some reason end up shifting to those obliged entities which are more lenient when it comes to AML processes. Do you think there should be in future legislation more emphasis on regulatory bodies reprimanding these obliged entities?

Malcolm Wright: The regulatory arbitrage which you refer to is prevalent and is one of the techniques that criminals do use. After the latest round of the MONEYVAL reviews, we're seeing not only the technical implication, i.e. the laws, but also how well you're enforcing them. If the law is not properly enforced in one particular segment, that will have a reputational effect on the jurisdiction and on the sectors within that jurisdiction. I think naturally we'll start to see regulators having more teeth and seeking to attain more enforcement action, in various jurisdictions. In the UK they are starting to look more closely at FinTech, for example. The gaming sector is already regulated quite heavily; it's about enforcing good behaviour.

Delegate: I'm an external auditor, just visiting. Locally there have been a couple of cases where iGaming companies have also been involved in anti-money laundering activities. Why didn't the auditors pick up this issue? Besides looking at the policies and procedures in place, what else could an auditor do, so if the issue is raised, I as an auditor could move away from that client?

Elaine McCormack: The level of reporting is really key, and what management information goes up to the board. You'd be surprised, at how often the MLRO reports through an operational perspective, and the information never gets right up to the top. Certainly as a former regulator I saw that quite a lot, sometimes there wasn't even that direct reporting line right up to the board, so the management could actually do something about it.

Kevin Plumpton: This question relates less to gaming, and more to service providers. This isn't a new situation. I think the regulator in Malta did a lot over many years to train and help the industry, rather than be tough and just fine the industry. However I feel that as a country sometimes we don't accept certain standards, and we do not change; and our clients in Malta are more resistant to carry out procedures and the checks which after all are very clear in the implementing procedures. We also should look at the reputational damage which can be caused when we do not follow these obligations. They aren't just as a mandatory thing. We're a bit slow to change attitudes in Malta.

Alex Azzopardi: In a number of jurisdictions there is the requirement for an audit of the AML procedures, so the actual compliance with the AML directive is subject to a specific assessment or review. This isn't the case at present in Malta, but this may change after the 4th AMLD becomes effective here. There will be an added layer of comfort or assurance over the actual AML requirements of entities, across the commercial spectrum. Our last question regards cryptocurrencies, at times regarded as something which criminals can use to perpetrate fraud and money laundering. Is this really the case in your view? Or is it scaremongering?

Malcolm Wright: I have a quote from a Europoll report last year, on their internet organised crime threat assessment. They said, "Bitcoin remains the currency of choice for the payment of criminal products and services". Just this week, the UK National Crime Risk Assessment Money Laundering and Terrorist Financing, said "Digital currencies are being used to launder low amounts at high volume" and they see that threat as growing. It isn't scaremongering. It may be still at low volumes compared to cash, and other mechanisms, but it's coming, and moving into other currencies such as Ether or Dash. There are tools to help counter that threat, such as Coinfirm, Elliptic or Chainalysis. They do AML monitoring of virtual currency addresses, so in your normal due diligence for KYC, you can link up with one of those tools, and the address of a player, with their behaviour. You should be able to see if the address is a threat or could it be relatively legitimate?

Elaine McCormack: I think there's a bit of scaremongering out there, but I think one of the issues is that a lot of people don't actually understand virtual currencies. Virtual currency transfers aren't currently monitored by any authority in the EU at the moment, and, I mentioned the 5th money laundering directive, this directive is set to bring in virtual currency as an obliged entity. So, they will have to monitor transactions, report suspicions and apply AML regulations which will level the playing field up.

Kevin Plumpton: I agree that there might be someone using it for his own benefit, but it isn't really scaremongering because it is I, as the end user, who controls the money going in and the money going out. I control both transactions. For example, if I inherit property I can't control how it comes in, so that is a low risk transaction. In the case of crypto-currencies, no-one is checking if there are certain portals, or verifying identity, so I can put money in and get money out. If I can control that transfer of money without passing through the AML channels that are accepted as basic in this industry to avoid and to fight financial crime, the solution is about how can I participate in that? Should I be subject to the same obligations as any other bank or financial institution, as any other provider? I think the way forward is regulating the channel, rather than the currency or how it works.

Alex Azzopardi: Thank you. To summarise, we've discussed that there are going to be important changes in how we treat money laundering with the introduction of the 4th Directive. We've also realised that this is not a tick the box exercise, but there needs to be a judgement - the analysis around how you approach anti-money laundering and your obligations on that Directive. Finally, it's not only about challenges but also about opportunities. If you are in the industry for the long term and you want to be playing in the right way then the 4th Directive should be welcomed by you and of course this is the way we all need to tackle it going forward. I would like to thank my panel, Elaine, Malcolm and Kevin, and wish you all of you a happy remaining Sigma.

Bits, bytes and withholding taxes - Why ecommerce should keep an eye on the OECD and EU's proposals

Dr Juanita Brockdorff, Partner, KPMG in Malta

Dr Peter Hongler, Executive Director, Walder Wyss

Dr Gergely Czoboly, International Tax Consultant, Hungarian Ministry for National Economy

Dr Juanita Brockdorff introduced her panel of experts, who went on to discuss in detail the taxation of the digital economy. Her panel members included Dr Peter Hongler, a Swiss tax expert, working in private practice, and a lecturer at the University of Zurich, Dr Hongler has published an esteemed paper, "Blueprints for a New PE Nexus to Tax Business Income in the Era of a Digital Economy" and lastly, Dr Gergely Czoboly, a Hungarian tax expert and lawyer who acts as consultant to the Ministry of Finance in Hungary as well as being a lecturer at the University of Budapest. Dr Czoboly is a delegate in working parties on the digital economy at both OECD and EU level.

Dr Brockdorff explained that for companies supplying electronic services, the way in which they are taxed is about to fundamentally change. The digital economy began to be taxed differently from the traditional economy, as established by the OECD in 2000, and named the "taxation of e-commerce." There was a lack of activity before the OECD brought out its action plan on BEPS (base erosion and profit shifting) in July 2013, with a view to addressing perceived flaws in international tax rules. Of its fifteen action points, the first one dealt with the taxation of the digital economy. However, in 2014 the OECD prioritised and moved to address the other fourteen action points on the BEPS project instead. An interim report in April 2018 is due from the OECD, with a final report in 2020, which will detail adapted tax rules for the digital economy. This is expected to address the taxation of "internet giants" – complete with acronym GAFA (Google Amazon Facebook Apple). However, a closer look at the working papers reveals it will encompass more than just large multi-nationals. The papers are based on principles and will apply to all electronically supplied services no matter their nature.

The first panel question centred around how companies have traditionally been taxed on their business income, particularly multi-nationals. These are usually defined as an entity which has a presence and is resident in one country, but with activities in another country. In a traditional bricks and mortar economy, what exactly were the rules?

Dr Hongler replied, in effect recommending that a bit of background was needed first. The development of the current tax framework derived from the League of Nations many years ago. The two most important elements of that framework were firstly, the term "permanent establishment", a fixed place of business is required to create a tax liability. For example, a gambling company based in Malta but offering digital services in another country, such as Switzerland, will not pay corporate income taxes in Switzerland unless there is a fixed place of business. Thus, a large multi-national based in the US won't pay taxes in most market states. The second important element was transfer pricing, of which three essential parts are needed to evaluate the appropriate price between related parties in a group: assets, functions and risks. Without these three, one can't attribute income for corporate income tax purposes into the market states. For example, a Maltese gambling company legitimately offers its services in another country without having any personnel / functions in such states, so there is no profit to be attributed to such states. This has resulted in many digital multi-nationals (including local companies in Malta offering gambling services) only paying corporate income taxes in their place of residence, and not in their market states.

Dr Brockdorff commented how everything is completely different in a digital world; whereas before, a company had the security of being taxed in the country where it chose to establish itself, without the risk of suddenly finding they had to pay corporate income tax in the "source" country. Dr Czoboly gave an overview of the difference between the digital economy, compared with a more traditional economy. Citing the many recent changes in media and politics across the globe, pressure to change the international tax platform has risen. The majority of current tax rules were developed in the early 20th century, and deemed to be fair, certain and calculable. But, the way in which they were constructed mean that large multi-nationals pay low taxes. In particular, tech giants Facebook, Google, Amazon, Apple have been targeted by critics, reaching a peak political level after 2008. As frustration over current tax rules increases among politicians and the public, the need for change becomes pressing: people don't like waiting for complex solutions. However, quick fixes for such issues would result in uncertainty and possible double taxation.

Agreeing with Dr Czoboly, Dr Brockdorff went on to speak about the influence of the OECD. Composed of the 33 most developed nations, the OECD and its work has a bearing on the rest of the world too, and on issues of tax, it has triggered the EU to take action. In practise, explained Dr Brockdorff, this creates a problem for companies using digital suppliers, which have a presence in other jurisdictions, (for example Malta) and who are taking full advantage of the infrastructure, regulations and corporate tax system, but suddenly find they also need to service digital economy clients in another EU member state. All that is basically required is a small presence, for example, technical support staff. So, even if they end up having a taxable presence, the permanent establishment the actual compensation, the actual value and therefore their tax bill is what counts. The other state was always going to be limited because the permanent establishment would be compensated on what is known as, for transfer pricing purposes, a cost plus basis. Essentially, even if a company does end up having a taxable presence, one can control the amount of tax in that country by limiting the functions – one could even set up a mirror server in that country. The compensation would be considered a "low value add". This arrangement makes it possible for entrepreneurs to set up in Malta and at the same time be able to service the world.

The panel continued to discuss the main reasons for engaging in a debate about international tax today. The OECD and the EU are principally concerned because countries are quickly realising that the tax competitiveness of different jurisdictions means a degree of tax loss for their own particular country. If, for example, a German company sets up in Malta to service Europe, the tax will be paid in Malta. Exercising control over this used to be more straightforward, as one needed to have an actual place of establishment to sell goods and services. However, with a free digital economy, physical premises are not a necessity: from Malta, for example, one can service Europe online. If, for example, the UK authorities want to tax the traffic or the sales in the UK, how will you get the data? How do you measure the sales? How do you allocate the costs attributable to that jurisdiction? Then there's the transfer pricing argument. One can shift costs from one jurisdiction to the other and that's where the complexity starts, and why we're seeing some ill-advised ideas like the levy or withholding taxes. It's because countries are struggling to determine how to start taxing the digital economy. Yet the digital economy is the economy now and will continue in the future. This debate accelerated after the global financial crisis of 2008, as countries were required to collect monies following the collapse of many financial institutions. The panel moved on to the idea of seeking a solution at the European Union level, ideally some sort of harmonised tax system, or withholding taxes. However, this seems unlikely to occur, and without a rational, pan-European debate leading to a considered solution, one risks compromising the competitiveness of Europe. Digital companies could shift away from Europe to maintain certain advantages elsewhere.

Citing the UK government's recent paper on extending the "Google tax" (the diverted profits tax) Dr Brockdorff explained that in situations where one has an intermediate EU company, and the structuring of that company means it pays royalties out of the UK to another jurisdiction, those royalties would now be subject to withholding tax in the UK. It may not be the ideal solution to taxing the digital economy but, in an effort to respond to international pressure, the UK is displaying a willingness to address the issue. It's possible that Brexit has forced the UK to downward trend its budget implications. If so, their reaction in the government's paper shows them openly admitting they don't want to tax an entity or multi-national, where there is no value creation. The paper also looks at where the manufacturing and development of ideas are, not simply at sales. Since 2015, diverted tax profits have always looked at what would have been the sales base and attributed to it a virtual or digital permanent establishment, and therefore taxed it. The diverted profits tax is a two-part piece of legislation, with the UK offering one example.

Dr Czoboly responded to Dr Brockdorff's comments by pointing to other countries, and the solutions they have tried in this area. For a short period, Italy, France and Hungary recently introduced such regulations. These countries used to be the residence country, and they don't like the position of market country, without permanent establishment and taxing rights. Therefore, they try to change the rules of international taxation, but you can't change double tax agreements overnight, so they tried quick fixes. The UK introduced diverted profits tax, which may be a breach of the double tax agreement, but it seems this is not of great concern to them. Although digital taxes now do not cover B2C situations, only B2B, but it may change in time. Mr Czoboly continued to explain that countries may want to align digital tax rules to capture iGaming too, since data is also relevant in this sector. iGaming companies may be in a situation when they must pay taxes in Malta, and in the 27 other EU countries at the same time. Italy may try to tax iGaming companies, besides the current attempt to tax Facebook and Google. Current practice may catch these companies and it would be without warning: suddenly, in Italy, they would deem a taxable presence for your companies. Hungary tried to tax the tech giants by taxing advertisement revenues, but this wasn't a big concern for iGaming companies. Australia also attempted to introduce such regulations. Double taxation would be the worst outcome, warned Dr Czoboly.

Dr Brockdorff outlined the danger to countries taking unilateral measures, and cited a disclosure by the tax authorities in Israel, in which they intended to issue a bill to all major tech giants based on the number of customers they possessed in Israel. To justify such a bill, one would need to define the basis of their presence in that jurisdiction. In India and Australia, equalisation tax emerged. With several countries taking measures, one ends up having multiple taxation owing to a lack of coordination.

Dr Hongler confirmed that the OECD had a role to play and might co-ordinate a solution. Referring to the OECD's BEPS project of 2013, Dr Hongler explained it was the largest international tax cooperation project in history. Despite trying to re-regulate the taxation of the digital economy, a dispute arose between countries like the US and Germany, who were against change because they benefitted from the system. Yet countries such as India, France, Italy, were in favour of finding a new solution, therefore, at the end of the BEPS project in 2015, no agreement was reached. The OECD promised to prepare another report by 2020. It is worth remembering that members of the G20 and the European Union all want to accelerate the pace of change. With that in mind, the OECD will publish an interim in early 2018 with the aim to develop a global rule – i.e. no unilateral measures such as the equalisation levy in India. Dr Hongler expressed his scepticism at reaching a global solution soon via political negotiation, because the positions of each participant country are simply too opposing.

Dr Brockdorff asked her panel to address the issue of digital permanent establishment, and how the words withholding tax are sometimes interchanged with the term equalisation levy at EU level. Was there a minimum threshold, or connecting factor, for a country to be able to tax a company, even if that company's residence is in a different state?

Dr Hongler responded, that multi-nationals must use the infrastructure in the place where they sell their products. For example, if the game Candy Crush is sold in another state, the operator of that game is using the infrastructure in that state, and they wouldn't be able sell a single app without that infrastructure. An additional reason concerned the tech giants, e.g. Facebook, and the value creation of those companies in certain states: evidently, taxes must be paid. Facebook relies on its members to upload their photos, so its customers are effectively rendering functions of the enterprise. The first argument applies to the online gambling industry, in the debate about solutions we need to find a rule which aligns with the underlying justifications for taxation.

That idea, concurred Dr Brockdorff, seemed more thought-out than the current idea of withholding tax without having a connection. This withholding tax could be either a tax which is credited against corporate income tax or a tax over and above corporate income tax, a final tax. This however, wouldn't fit in with any other credit or exemption in another country, which could be risky.

Earlier this year the EU issued a paper detailing how equalisation levies, advertisement taxes and other digital tax measures were introduced, said Dr Czoboly. The main idea is to credit these taxes against corporate income taxes in the market state. But, explained Dr Czoboly, iGaming companies don't have corporate income taxes in market states, only corporate income taxes in their home states, therefore, there will be no taxes which can be credited. On the other hand, withholding tax, an equalisation levy or another non-creditable tax means a plus cost for one's business. From an economic point of view, tax is only cost for the company. It will lower profits; one doesn't want to pay more taxes, and by applying a withholding tax, it means that from every customer, some of the money will be recorded in the market country. If your company has many customers in iGaming outside of Malta, then those profits may be affected and taxed in other states by withholding taxes. There are technical problems with that kind of taxation, because countries can't easily collect them. The question has become political, and is being addressed at the highest level in Germany, France, Italy and Spain.

Therefore, added Dr Brockdorff, it is technically the addition of another layer of tax, but not a direct gaming tax. Dr Brockdorff viewed it as a withholding tax over and above, and that it referred to one's corporate turnover to revenue, not even being calculated by reference to profits, which is a big divergent point. In a B2C environment, this could be adversely affected, as how would one collect the tax (will you get the players, financial institutions, intermediaries act as withholding tax agents)?

The panel moved on to discuss European growth rates, which are currently below what they could potentially reach. Tax proposals such as those discussed would stifle the current development of the digital economy and how it will develop in the future. The panel agreed a model at a European political level is needed, but unlikely to be reached, as certain countries have many reservations. If an agreement between member states were reached, it should be to pay tax at source or in the activities of the jurisdiction where the consumer is located, such as in gaming – gaming tax being applied where the customer is located (previously it was at the point of supply, now it is at the point of consumption). The panel agreed that the high level of M&A activity since 2008, was due in part to markets closing in Europe, and each country applying its own VAT rules and standards. It became easier for operators to merge, than to keep books of accounts of each country in Europe in which it operated, and the inherent increase in compliance and administrative costs.

Dr Brockdorff described the reactions by specific bodies to the OECD's proposals. The international Chamber of Commerce foresaw that it would introduce straight barriers. The USCIB (the US branch of the ICC) called the proposals deeply flawed. Even the Confédération Fiscale Européenne (CFE) who are tax professionals, voiced their concern that the proposals constitute a tax, and needed much greater thought and planning: otherwise the burden will be passed to the consumer, or in European terms, to the worker.

Since September, when a document was leaked by Reuters regarding a fair and efficient system of taxation for the digital single market, the tone has been softening. The document suggests that an equalisation levy, and a digital "permanent establishment" both need more exploration and development. Given that the EU's long-term goal is to pull in the digital tax in a revived CCCTB allocation, they still need to accomplish something short term, before 2020. Currently, five countries have actively objected, and ten have signed up; others are waiting to see how it will develop.

Dr Brockdorff cited a paper published by The University of Mannheim which considered value creation in digital businesses, and the collection of player data as intellectual property, which is a key saleable asset upon exiting a business. The question to her panel was whether value is really created where the data is processed or managed or controlled instead of where it was collected.

Dr Czoboly mentioned that at a conference in Tallinn he'd attended, one member of the EU parliament mentioned that data is the driver of the modern economy – data is like oil. In traditional economies, the exploitation and drilling of oil makes a lot of tax revenue in the source state where the oil is extracted, and now they see data collection the same way. In a traditional economy the value was always created by people inside of the company, and the services and goods were sold to others. In digital companies like Facebook and Google, a lot of value is created by people too, not inside of that company but outside of it. So, the question of a value creation arises, and this could mean a value in a taxable sense. Dr Hongler expressed his favour for a global solution to change, and cited Uber the taxi company as an example. Where previously its drivers paid taxes on their income in the market state, now, one is effectively carving out 30% as the margin to a digital enterprise, so the states lose money because of the digitalisation of the industry. To keep the same amount of revenue in order to fund infrastructure, change is necessary. A tax system is required which is capable of dealing with the new digitised and automised industry.

Living in a digitised world, traditional entities must recognise the need to digitise, or simply die – whether they're serving their local market or reaching out in a multi-national cross-border context. It was important with these proposals to act collectively, asserted Dr Brockdorff, and for regulators, consultants, and academics, to come together in the search for a solution. Once developed, those rules must make sense and reflect profit and value creation. Taxes ought to be paid, and not some arbitrary revenue or turnover which constitute a quick fix. Europe has struggled with becoming an innovative centre; a decent solution could herald more innovation on the continent.

Dr Brockdorff urged her panel to consider the global perspective – how for example, will the US react? Other markets too, such as Asia – would the knock-on effect mean customers will move to use non-EU based service providers? The market reaction in other parts of the world is bound to have an influence on how the rules are developed.

In addition, continued Dr Brockdorff, a sensible attribution of profits needs to be part of the proposals; indeed, it was one of the main purposes to hold the seminar as part of the KPMG summit. Being involved, and influencing those key stakeholders, was very important. Dr Hongler agreed with this assessment.

The panel considered next what sort of economy they wished to see in Europe, and hoped for one which is vibrant and innovative, including a digital economy which flourishes and creates jobs. Dr Brockdorff explained the difficulty of aiming for an equalisation tax solution, such as India had gone for, partly because of its large markets and sales. To simply change the basis on which companies attribute profit, is it a question of looking at where the customer is? Of course, other elements still create value at the earlier end of the value chain. In addition, there is value in where the software is being developed. Perhaps it is ultimately where the value is, in terms of what should be attributed and ought to be taxed.

A delegate question referred to the EU member states which are meant to vote unanimously on tax matters, and the element commonly referred to as enhanced corporation. Could this proposal for digital taxation go down that route?

Dr Brockdorff responded that there was always the chance of enhanced cooperation (as also the possibility of unilateral action), but, in reality, it appeared doubtful. Certain countries will be tempted to go along that route as soon as they achieved the one third minimum needed out of the 27 countries, which is 9. The current proposals have the support of 10 to move ahead, but that would lead to a two-speed Europe, which essentially nobody wants, and could lead to challenges at local or EU courts by the other countries. If properly thought through, those countries proceeding with enhanced cooperation may end up being disadvantaged compared to the other states who don't adopt those principles, as well as going against fundamental aspects of the EU.

Dr Brockdorff thanked her esteemed panel for their contributions, and thanked delegates for listening.

> **Data is like oil. In traditional economies, the exploitation and drilling of oil makes a lot of tax revenue in the source state where the oil is extracted, and now they see data collection the same way.**
>
> **- Dr Czoboly**

The Economics of Consumer Behaviour and the Gambling Sector

Adam Rivers, Associate Director, KPMG in the UK

Seamus McGowan, Manager, KPMG in the UK

Mr Rivers and Mr McGowan delivered an interesting presentation in the breakout room on the Economics of Consumer Behaviour, and its application to gaming. Mr Rivers is an Associate Director at KPMG in London and works as part of a team of economists with a special focus on regulated industries, including the gambling sector. He is a regular presenter at eGaming summits in Gibraltar and in the Isle of Man and works closely on projects for industry stakeholders. Seamus McGowan is a Manager with KPMG in London and specialises in micro-economics, working with his team using quantitative analyses to help clients address a wide range of commercial, regulatory and strategic challenges.

Mr Rivers began, "I'm a microeconomist, which means I care about consumers, how consumers interact with products, and how firms interact with consumers and each other. In our team, we study how consumers interact with products in regulated markets in order to understand what that means for regulation and firm strategy. Today we're going to talk about how consumers interact with gambling products, how we as economists estimate the demand for gambling products, and what that means for commercial strategy and regulatory policy."

"In economics, demand for a product can be influenced by a range of factors. These factors are important as they help us understand the competitive parameters under which firms are operating. For example, if consumers particularly value price, and price competition is the only parameter firms can compete on, then as an economist, this is an interesting competitive dynamic. It's also interesting to look at how demand is affected by other parameters, for example quality or service, and the relative importance of each of these parameters for consumers. Understanding these factors is of interest, both to operators in terms of how you attract customers, and from an economics perspective, when considering how firms compete for customers."

Mr Rivers stressed the importance of understanding consumers before embarking on regulation. "In the UK, the Gambling Commission have stated their new five points of interest, of which four are rooted in consumers: understanding them and making sure they are protected. This focus on the consumer is not new or surprising. In fact, in many regulated industries, such as energy or financial services, economists are increasingly used to study consumers' and firms' behaviour. Later, I'll be looking at the empirical estimation of demand: how we place numbers on the different parameters that create demand for a gambling product, and why this is important in a regulatory context."

Mr McGowan spoke next, to discuss the features of gambling products, how consumers interact with them, and why that is important from an economics perspective. He also set out to explain a few of the interesting behavioural biases that appear specifically in the gaming sphere. "The classic economic model is interested in the actions of two main type of actor: firms and consumers. Firms typically produce goods and services, and sell them to as many consumers as possible, in order to maximise profits. On the other side, you have consumers who have choices among an array of products and services and obtain satisfaction (utility) by consuming goods and services that correspond to their basic human needs and specific preferences. For example, all people will need to buy certain products like clothing or food.

However there are also other non-essential goods that people will spend their disposable income on depending on their preferences; one person may like to spend their money on football tickets for example while another may prefer designer watches. Underpinning that is the assumption that consumers are both rational and self-interested, and that they set out to maximise their own utility gained from goods and services. For example, if they prefer Product A to Product B on Monday, they will also prefer Product A on Wednesday. This is the traditional view of how economists look at consumer demand."

The demand for gambling

Transposing this traditional economist's view onto the gambling sector, Mr McGowan continued, "Like every other market, in the gambling industry, we consider there to be both price and non-price factors, which typically influence demand. However, the reason that gambling is particularly interesting for an economist, is because price is not as easily observable as it is for other products, for example in a supermarket, where prices are obvious and fixed. In gambling, we have this concept of the 'economic price', which essentially, is how much the consumer will lose on average in the long run; how much they are "paying" to gamble. At a high level, the economic price of gambling is dependent on three factors. The first two are the true probability of winning, and the odds offered. Those two are related, but also different, in the sense that the true probability of winning in roulette might be 36-1, but you'll be offered odds of 35-1 on hitting a number. The other factor is the stake placed – the amount a person could lose – and depends on how much they are willing to gamble in the first place."

"There are also important non-price factors including, for example, branding and marketing. We recently completed a project for a large operator, and found, using the techniques Adam will outline shortly, that branding and marketing can, all else equal, make a significant difference to consumer demand for a product. This was particularly evident when it came to licensed products. Customer experience is important too, and has a significant impact on player behaviour."

"I have just considered the traditional view of the factors that may impact demand for gambling. However gambling is interesting to economists not only for the reasons just laid out, but also because it provides an interesting opportunity to observe 'behavioural' consumers. Behavioural economics is a growing subject which considers the fact, for example, that consumers do not always make optimal choices, or necessarily think rationally. It has been found in gambling that consumers can be both rational, for example at the start of a gambling session, then more behavioural towards the end of a session. The key thing to remember however is that these behaviours are not random; there are certain systematic biases that can be observed. Once you understand how they work, you can analyse them, and a lot could be done with that information – including player protection and work in relation to vulnerable customers."

"Of the many biases which exist in gambling markets, I would like to highlight a few of the most commonly observed ones. The first is known as the Favourite Long-Shot Bias, which was first observed and tested in horse racing markets, and adheres to the theory that players tend to struggle with estimating probabilities. The chances of low-probability events are over-estimated, and the chances of high-probability events are often under-estimated. This bias does not suggest that people necessarily bet on favourites, but it does suggest that people are willing to pay less to bet on favourites: generally, meaning they are willing to pay less of a premium on the odds offered. However, when it comes to long-shots, people may be willing to pay a premium in order to place a bet. An example of this are lottery product, where the odds of winning may be many millions to 1, however people accept far worse odds than this because they are drawn in by the large prize."

"The next bias is called Anchoring and Herding. Anchoring is the bias whereby people tend to anchor their opinion about an event happening, based on previous events. An example can be found in football betting where people may place a large emphasis on how well a team has done in a previous match assuming that it means a win for the next match also. People approach their bets with pre-judgement, based on previous outcomes without understanding that prior match result will already be reflected in the odds offered. Herding is when people disregard their own information in favour of following others. You often see this in horse racing, when a horse is being backed-in: people see it as an attractive horse and it then gets further backing."

"The last biases I will discuss are known as the gambler's fallacy and the hot-hand fallacy. Both are underpinned by the idea that people don't estimate probabilities correctly and incorrectly believe the outcome of one independent event may impact the likelihood of another, also independent event, happening. For example, people have been found to believe that if a number comes up in a game of roulette, it won't reappear again for a while; this is known as the gambler's fallacy. However, this is incorrect – there is no relation between one game of roulette and another. There was a famous instance of this in a Monte Carlo casino, in which black came up 26 times in a row. People lost a lot of money expecting red to land. Not only this but people also assumed, incorrectly, that the wheel would 'balance out' with a run of red! The hot hand fallacy is when people feel they are potentially on a winning streak, and after a couple of wins, they bet large sums because they feel 'lucky'. This is a brief overview of some of the biases evident in the gambling market, and how economists think about consumer behaviour generally."

Mr Rivers took up the helm, "That's a high level framework of how economists think about this market, and an overview of the different product features that can attract customers and pull different levers in order to influence the demand for gambling products. The question for us economists is, now we've built that framework and understand that there are important characteristics to control for, how do we go about using economic tools to *estimate* demand? If we changed one of those parameters, what would the demand response be? What would consumers do? The answer to this question is very useful for operators, in that it can inform commercial strategies. However, it is also very important for regulators, helping them to understand how the regulations they put onto a market, be it restrictions in advertising or bonuses, such as those just issued by the CMA, or a change in tax rates, may get passed on in terms of higher prices and how this could affect overall demand for products. Until 10 to 15 years ago, it was more difficult for operators to consider these questions, because of a lack of data. Imagine a land-based bookmaker as an example: it's a primarily cash-based business and customers are relatively anonymous, making it difficult to track who they are or what they do. Whilst you could change the over-round on a sportsbook, and observe an effect, actually establishing true causality, and being able to say with any level of accuracy, 'I know that feature X is a significant influence on demand' is difficult. Now, with the data we have available, it is possible to assess the impact changing these different demand levers may have on demand."

Understanding demand using economic tools

Understanding the way in which consumers demand products is important both for regulators and operators.

There are various economic tools used by economists – both at many regulators and commercially – to understand these relationships.

These include:

- Survey based analyses - Controlled experiments - Econometric analyses.

This latter type of empirical analysis can be complex and depends substantially on data availability. There is no "one size fits all" approach.

"As economists we use certain tools in order to analyse demand factors. While there are many different tools available, three widely used tools that I will walk you through today are survey-based analyses, controlled experiments, and econometric analyses. All have advantages and limitations; the last one is more advanced and, in my view, is more indicative of where the market is heading."

"Firstly, surveys are an important part of an operator's business: they allow you to put some specific high-level questions to your customers, and if you're thinking of making changes, you can get an idea of what the potential demand response may be. Surveys can also be cost effective – for example, operators can conduct them in-house by employing one marketing team member, and using an online surveying tool. But there can be significant limitations to the responses that you receive, and the weight that you can place on them. One is the difference between what are known as "stated" and "revealed" preferences. This is something of a behavioural bias. Consumers are generally poor at reflecting on what they've done in the past, and at predicting what they'll do in the future. Recently I worked on a retail banking investigation being conducted by the CMA, with one of the survey questions being "how many times in the past year have you used your overdraft facility?" The responses revealed that consumers were bad at remembering what they had done over the past year. So, bear that in mind if you're an operator, and you're about to conduct a survey."

> **It's interesting to look at how demand is affected by other parameters, for example quality or service. Understanding these factors is of interest, both to operators in terms of how you attract customers, and from an economics perspective, when considering how firms compete for customers.**
>
> **- Adam Rivers**

"A second potential limitation, especially in a regulatory setting, is survey design. Recently, I worked on a case, where a client had, unfortunately before we became involved, provided data to a regulator on a contentious issue. However, the survey had been poorly designed. For example, it had some leading questions and there was no randomisation on the multiple-choice questions. In that case, the regulator decided to disregard the evidence. A final point to consider is that surveys often ask questions the consumers find it difficult to answer with accuracy. If you're an operator and you're asking consumers about potential changes to your commercial strategy - for example changing a price point by 5% - the answers to that won't necessarily be reliable, because the question you're asking is inherently difficult for the consumer to calculate."

"Controlled experiments are being increasingly used by operators, to good effect. An example is A/B testing. In this experiment you separate out part of your customer base, and take a small sample, for example 1% of customers in any given jurisdiction. You then change the offer to them in some way: a slightly different level of promotion, or a different RTP on a machine. You then observe the demand response. Now, the nice thing about that, is you can establish causality, because everything else between those two customer groups should have been kept constant. Basically, any change that you see in demand, should be due to the change you've made. Controlled experiments have an advantage in this sense, over the use of a survey. You can also run that experiment in several cycles – one week, then the next – and check that the answers are consistent. One limitation of these types of experiments, however, is technological capability. Whilst there are plenty of new young operators with ample tech capability to do this, we've also discussed this type of testing with operators on old legacy systems, with it being beyond what they are technologically capable of. Finally, there's the potential risk of an adverse effect for some consumers. If you do make a change, and the customers don't like it, you have affected real customers."

"The third and final approach I'd like to discuss is called demand estimation. This moves towards an economics-driven approach. Demand estimation typically uses econometric techniques, the application of mathematical and statistical modelling to estimate outcomes in economic markets. In this setting, as you might observe in a controlled experiment, econometrics it is also used for establishing causation. However, instead of being limited to just one factor, such as price, econometric analysis tries to estimate the effect of every relevant variable that influences demand for the market in question. We used these techniques during recent work with a large betting and gaming operator; an extremely interesting project. The results are confidential, but we can reveal the intuition behind it, and how we came to model our thinking."

Demand estimation

A sophisticated approach to demand estimation can include the use of econometric analysis. Stylistically:
Quantity sold = price + price of competing goods + demand controls + other factors

- **This type of modelling can give you:**
- **Own-price elasticities of demand**
- **Cross-price elasticities of demand**
- **Demand responsiveness to game features**

"We first need to think about the measure of consumer demand we are interested in. When we think about demand, we will often use the quantity of the goods that are being sold – e.g. the number of bets, or spins on a machine. You probably don't want to use gross win in a gambling situation because there is substantial variance; you may not reach the theoretical RTP for quite some time. Spins, or stakes, are likely to be a better example to use. We then need to think about the "controls" that help to explain the level of demand observed. As we explained earlier, demand for a gambling product will be a function of various factors. The most prominent is likely to be the economic price, and price is therefore an important control. However, it is unlikely to be just the price of a good that you are trying to sell that's of concern to the consumer. It's also likely to be the price of the competing goods on your site, stake size, or jackpot size. The latter is a classic example - it can be observed in lottery markets, that when jackpots reach focal points, e.g. the potential jackpot is £50 million or £100 million, that there is a disproportionate uptake in ticket sales. There are further demand controls that may be important, such as non-price features of games. For example, in slots, does it have in-game features, does it have 20 or 40 pay lines? Is it licensed? Does it feature a film or board game branding which gives a feeling of familiarity to the consumer? Or just a creation from my own development studio? Finally, there are other factors that can be important when we are estimating demand, such as the day of the week, or the time of year."

"To implement our econometric model, we need data. The data that we obtain from operators often varies, and is dependent on what is held by the operator over time. Ideally, to estimate demand our data will contain a relatively large number of observations: for example, for each day, and even each game, all of the available information that we think could influence demand would be captured. We would then go on to estimate the relative importance of those things, using econometric techniques. In short, we generate an algorithm that creates a best fit through that data. This algorithm then provides us with numbers called "coefficients", each of which tells us the relative importance of each of these factors on demand for the game in that particular setting. So, how do you go about using this data and information, as an operator or regulator?"

"The number 1 output for operators that we have worked with is the "own price elasticity" of the product, which, in simple terms, is how responsive consumers are to a change in price of that product. For an operator, this can be very useful: it can then understand that if it changes their RTP by 1%, what the demand response is likely to be, provided it keeps everything else constant. We have also estimated cross price elasticities, which measure the extent to which the price of other games or products affect the demand for your product. If, for example, you are an operator with two identically priced slot games, and you increase the economic price of one, you would expect there to be a move away from the higher priced game, to the lower priced one. These types of elasticities are useful when you are thinking about the overall portfolio of games that you have on offer. Finally, demand responsiveness on particular game features can be assessed. For example, if you're an operator and you have paid a one-off license fee, or constructed a revenue share agreement, for a slot with certain branded content, you may want to know if it actually generated value for you or not. The estimate from a well-designed econometric model on that particular feature will tell you, all else equal, whether the branded content had an effect. Was there a statistically significant change in the way that consumers demanded that particular content, purely because of the branding? You can hone it down to that level of detail. When you next negotiate, you're in an advantageous position, because you are more informed as to the value that branding brings to you, as an operator."

"Econometric analysis is not just useful for commercial reasons. It's also important for regulators and tax authorities. What tax authorities are interested in, for example, is the industry elasticity of demand. This measures the reaction of consumers to an industry-wide change in price (as opposed to just the product level). This is important for a tax authority – it tells them, were a change in tax likely to be passed on in the form of higher or lower prices, what the likely demand response would be (and therefore the impact on tax revenues)."

"Summing up, how do we use all the tools we've discussed today, in our work with clients? In the gambling sector we've used it during projects concerning price optimisation, feature optimisation, and we're about to launch a project thinking about portfolio optimisation using those cross-price elasticities, to work out what games should be offered at any given time to consumers. As I've said, they are also very important outside of commercial strategy and are often used by governments when thinking about regulatory and tax strategy."

"On the behavioural side, we are increasingly seeing regulators use behavioural economics to help in their decision-making process. The CMA, FCA and OECD are all issuing papers on behavioural theory, including consumer protection. You may have seen the CMA speech this week about its plans to change the way gambling promotions happen in the UK. The speech contains notes regarding behavioural biases, and how consumers interact with different things. It is a trend which may well also grow, as the UK Gambling Commission matures as a regulator. Indeed, as gambling regulators more generally mature, remembering that eGaming specifically is still a relatively nascent industry, the use of behavioural economics may well come increasingly to the fore."

"We hope you've enjoyed our talk - thank you for joining us."

MGA's New Streamlined Tax & Fee Structure

What You Need To Know

On the 12th July 2017, the Malta Gaming Authority (MGA) published a White Paper launching a consultation process in connection with an overhaul of the current legal and regulatory framework applicable to gaming activities in Malta. The major reforms being proposed aim to repeal all existing legislation and replace it with 'The Gaming Act', a singular primary Act to be complemented by subsidiary legislation covering key areas of regulation and various regulatory directives and guidelines. The current 'multi-licence' system will be replaced with a system comprising two different types of licences – a B2C licence and a B2B licence, thereby addressing the increased product and technology convergence between online and land-based gaming.

The new licensing gaming duty framework streamlines taxation into one flow with two main layers; licence fees shall be made up of *fixed* (License Fee) and *variable* parts (Compliance Contribution).

The new structure is particularly attractive to B2Bs, who will benefit from significant fiscal incentives. Start-ups are also set to benefit greatly from the new structure with a twelve-month moratorium on Compliance Contribution for start-ups fulfilling the criteria considered in the Gaming Licence Fees Regulations, making it easier for them to increase their offering and innovate.

A fixed Licence Fee for Type 1, 2 and 3 of €25,000 shall fall due every twelve months, in advance, operators providing solely controlled skill gaming services (Type 4) are subject to a fixed Licence Fee of €10,000. The *variable* component, known as 'Compliance Contribution', is calculated according to gaming revenue, further varied depending on gaming type. Gaming types shall be four, and each type has been allocated a sliding scale of variable licence fees that will be due in addition to the aforementioned fixed licence fee.

The fixed License fee for Class 4 Licensees (B2B Operators) has increased from the €8,500 under the current regime to a fee range of €25,000 to €35,000 per annum, depending on the level of revenues earned over a year under the new regime. However, under the New Licence Fees Regulations, Class 4 licensees will no longer be required to pay a monthly gaming tax, 'Compliance Contribution', for every operator they supply licensed in an EEA jurisdiction (other than Malta) or another jurisdiction.

Gaming types shall be four, pursuant to the Gaming License Fees Regulation 2017:

Gaming Type 1: Casino-type games and online lotteries whereby operators manage their own risk on repetitive games.

Compliance Contribution for Licence Period	Rate
For every Euro of the first €3,000,000	1.25%
For every Euro of the next €4,500,000	1.00%
For every Euro of the next €5,000,000	0.85%
For every Euro of the next €7,500,000	0.70%
For every Euro of the next €10,000,000	0.55%
For every Euro of the remainder	0.40%

Gaming Type 2: Fixed-odds betting, whereby operators manage their own risk on events based on a matchbook.

Compliance Contribution for Licence Period	Rate
For every Euro of the first €3,000,000	4.00%
For every Euro of the next €4,500,000	3.00%
For every Euro of the next €5,000,000	2.00%
For every Euro of the next €7,500,000	1.00%
For every Euro of the next €10,000,000	0.80%
For every Euro of the next €10,000,000	0.60%
For every Euro of the remainder	0.40%

Minimum Variable Fee €25,000 and Maximum Variable Fee €600,000

There will be a transitory period between 1 January 2018 and 30 June 2018, both dates included, for current licensees to continue paying in accordance with the current legal framework until 30th June 2018. New licensees will be subject to the requirements of the new taxation framework during the transitory period.

A reconciliation will be carried out for all current licensees to calculate the difference between the fees paid under the old regulations for the first six months of 2018 and the fees to be paid for the remaining six months under the new regime. Class 4 licensees (B2B License) will receive a credit for the grand total of dues they incur in excess of the provisions of the New Licence Fees Regulations during the transitory period.

Excess amounts provisionally paid shall be carried forward and available for set-off against any amount payable in terms of the Regulations for reference months July 2018 to December 2018 and any subsequent licence period.

Gaming Type 3: Games of chance not played against the house and wherein the operator is not exposed to gaming risk, but generates revenue by taking a commission or other charge based on the stakes or the prize: player vs. player games such as poker, bingo, betting exchange etc.

Compliance Contribution for Licence Period	Rate
For every Euro of the first €2,000,000	4.00%
For every Euro of the next €3,000,000	3.00%
For every Euro of the next €5,000,000	2.00%
For every Euro of the next €5,000,000	1.00%
For every Euro of the next €5,000,000	0.80%
For every Euro of the next €10,000,000	0.60%
For every Euro of the remainder	0.40%

Minimum Variable Fee €25,000 and Maximum Variable Fee €500,000

Gaming Type 4: Controlled Skill Games

Compliance Contribution for Licence Period	Rate
For every Euro of the first €2,000,000	0.50%
For every Euro of the next €3,000,000	0.75%
For every Euro of the next €5,000,000	1.00%
For every Euro of the next €5,000,000	1.25%
For every Euro of the next €5,000,000	1.50%
For every Euro of the next €10,000,000	1.75%
For every Euro of the remainder	2.00%

Minimum Variable Fee €5,000 and Maximum Variable Fee €500,000

B2B Platforms License Fees	Rate
Games of Chance per annum	€
€ 1 - €5,000,000	25,000
€ 5,000,001 - € 10,000,000	30,000
€ 10,000,001 - and above	35,000

B2C License Fees	Rate
	€
Type 1,2,3	25,000
Solely Type 4	10,000

The Importance of Employee Retention

Employee turnover directly affects an organisation's bottom line. So, this begs the question:
Are organisations doing enough to retain their talent?

Employee retention has been a 'hot topic' across industries for a number of years. A Willis Towers Watson study in 2015 found that more than half of all organisations globally have difficulty retaining their most valued employees. This also proved true to the iGaming industry in a Survey conducted by KPMG's People and Change Advisory team at the 2017 ***Malta iGaming Summit – SiGMA***, with 45% of respondents claiming that 'Talent Retention' is one of the industry's greatest talent challenges.

Employee retention strategies are viewed as organisational interventions implemented to prevent employees from leaving their jobs. Organisations should want to encourage employees to work as best they can at the organisation, for the longest time possible. Employee loyalty gives organisations an advantage over their competition, not only in the form of diminishing costs of recruitment and retraining, but more importantly, because retaining experienced and seasoned employees ensures that all of their know-how stays on board. Losing valuable employees can also have emotional repercussions on those who stay, directly decreasing productivity through diminishing morale and motivation. In fact, research suggests that a high employee turnover rate can cost an organisation up to 200% of an employee's annual salary, depending on the role and seniority. It is for all of these reasons that retaining key talent is mission-critical for organisational success.

Employee Retention through Employee Engagement.

Studies show that across industries...

51% of employees are looking to leave their current jobs (Gallup, 2016)

47% of organisations report that they have had to replace over 20% of their workforce in the last 12 months (Spherion, 2017)

Engaged employees are 59% less likely to look for a job with a different organisation in the next 12 months (Gallup, 2015)

46% of HR professionals say retention is their greatest concern, followed by employee engagement at 36% (SHRM, 2015)

The list of statistics goes on – but what do all these studies really tell us? They illustrate how evident it has become for employee retention and engagement to go hand in hand – an engaged employee is less likely to leave an organisation than a disengaged one.

Engaged employees are committed to their organisation, exhibit higher levels of performance and are overall more motivated to work and contribute to organisational success. Given that the performance of an employee is so crucial to the success of an organisation, it is ideal to have them functioning at their full potential. Employee engagement is what ensures that this potential is being unlocked and what will move an organisation closer towards reaching its business objectives and vision.

In Gallup's 'Work and Education Survey' in 2013 it was reported that two out of every three engaged employees would continue to work at their current job even if they won the lottery. One can appreciate that, despite the low probability of winning the lottery, these results shed light on the value that engaged employees place on their job and employer. It is for this reason that organisations with high levels of employee engagement, have lower turnover rates and less employee retention issues than those organisations that demonstrate lower levels of employee engagement.

Given the above, the KPMG People & Change Advisory team believes that measuring employee engagement is the first step to improved employee retention. Due to the importance of employee engagement, the People & Change team has developed the ***KPMG Employee Engagement Plus Index***[1] – an evidence-based diagnostic tool that enables an organisation to measure their current engagement levels. This tool provides metrics related to scientifically proven drivers of engagement, such as leadership and communication. Such metrics provide insight into the organisation's Talent Management related strengths, areas for improvement, areas of critical concern, and therefore, ultimately, supports the organisation in reaching its final destination of a highly engaged workforce by tackling the root cause of any issues rather than simply the symptoms. In fact, the KPMG survey at *SiGMA (2017)* showed that, further to Talent Retention being identified as the largest talent challenge of the iGaming industry, over 51% of industry professionals flagged 'Communicating well throughout the organisation' as an area that their organisation struggles with, and almost 40% identified 'Leadership and Management' as an area that their organisation should focus on in order to encourage employees to go the extra mile at work.

It is for this reason that the ***KPMG Employee Engagement Plus Index*** was developed; to allow organisations to, not only identify which drivers of engagement (such as leadership and communication) are the lowest scoring, but, further to that, look into what individual determinants of these drivers are influencing these low scores. Having this understanding of what is directly positively or negatively influencing your organisation in terms of employee engagement will then become crucial in guiding your employee retention strategy moving forward.

Therefore, further questions beckon: Should organisations first be taking stock and measuring their employee engagement levels before investing further in employer branding, recruitment drives, employee training and induction programmes? Does the issue of employee retention stem from deeper than you may think?

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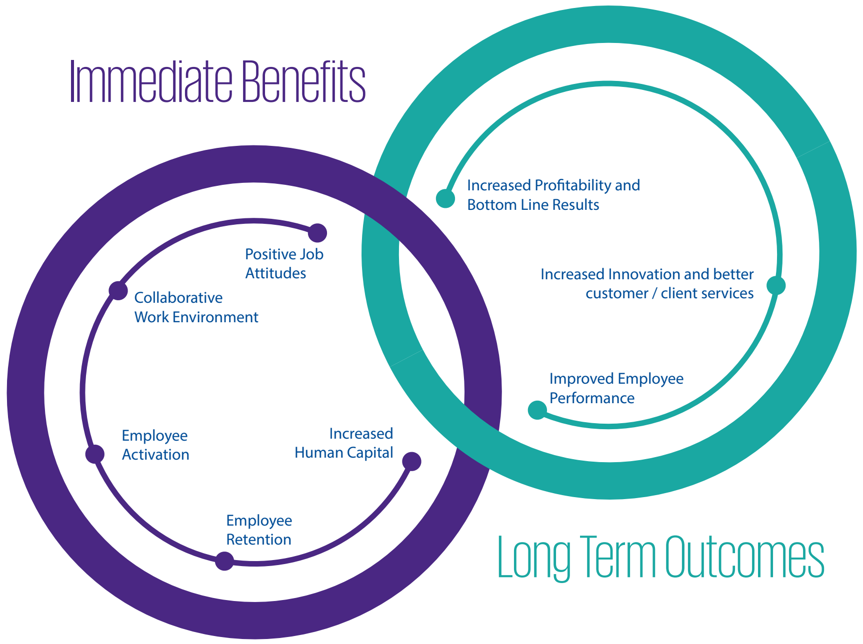

[1] – You may find more information about the KPMG Employee Engagement Plus Index at www.kpmg.com/mt/eepi-malta

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