KPMG eSummit
Gibraltar

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A Word from the Sponsor

We at Continent 8 Technologies are absolutely delighted to be sponsoring this year's KPMG Gibraltar eSummit Report. Gibraltar is uniquely placed at the heart of European eCommerce and features a stable politico/economic environment, low taxation, compact business community, excellent transport links and a strong public/private sector bond. Alongside this, improved and extensive telecommunications networks mean we can continue to provide the very best technology storage solutions at the heart of Europe - we feel proud to call Gibraltar our home.

Here at Continent 8, security, innovation and collaboration are a huge part of our ethos; we feel this is well represented in Gibraltar. Our world-class data centre is situated 500 metres deep inside the very rock of Gibraltar, providing a comprehensive suite of data storage facilities to a global client base.

Many interesting topics came up during this year's eSummit but one resounding cry was for industry collaboration: together, we are stronger. Whether you are a small operator, facing a hit by regulatory changes, or an industry giant concerned about the ever changing political and economic environment, it's clear that we can all embrace the challenges and achieve more, by working together as one cohesive sector.

We hope you enjoy reading this report and look forward to seeing you all at the KPMG eSummit in Gibraltar on 23 March 2017.

Richard Ebbutt

Continent 8 Technologies

Introduction

This report showcases the events of the KPMG Gibraltar one-day eSummit held at the Sunborn Hotel on the 21st April 2016. It is the 6th summit of its kind to be held in Gibraltar, and 12th in a series of eSummits hosted by KPMG, including those held in the Isle of Man. Drawing over 250 delegates from the world of eGaming, as well as 30+ keynote speakers, the eSummit offered a stimulating agenda, exploring many topics such as: The Impact of a Potential Brexit on eGaming, the Commercial Value of Data Analytics, Happy & Unhappy Gamblers, the Impact of HMRC's Changes to VAT, AML Regulation in Europe, recent M&A Activity in the Sector and the evolution of eGaming.

In addition, an interactive element of live polling via the Bizzabo app came into play, whereby delegates could vote on a wide range of issues, from the likelihood of Brexit, to the Horse Racing Levy. The results of these polls are often surprising, and can be found in the relevant sections. Also appearing on the agenda were three IMGL masterclasses on hot topics: eMoney, Technology and Regulation.

The expertise of KPMG in the field of eGaming has increased year on year with this series of eSummits. Speaking on the day itself, Jon Tricker of KPMG Gibraltar: "We're delighted to be hosting this event today in Gibraltar. It brings together clusters of local eBusinesses, as well as operators from the UK and further afield in Europe, in an open forum to discuss the challenges and opportunities in this fast-evolving industry. We're also very fortunate to have a government that wholly supports us, and welcomes new licensees and innovation to the jurisdiction."

Coming hot on the heels of the eSummit, KPMG have additional cause to celebrate, with their success at the eGaming Review B2B Awards. At the ceremony held in London on 1st June, KPMG Isle of Man and Gibraltar scooped up the award for Best Corporate Services Provider of the Year 2016.

It's safe to say that in the eGaming Calendar, the Gibraltar eSummit has become a premier event. As one delegate confided: "It's been a fantastic opportunity to network. Everyone in the industry seems to be here! And I've learnt a lot: the regulatory changes represent a real challenge to us as a small operator. But I'm hopeful we'll overcome these, and can look ahead to a productive year. Overall it's been a really fascinating day… so glad I came."

Taking each presentation and panel debate in turn, this report seeks to provide a detailed account of everything discussed and/or presented. Where required, additional information such as slides or tables are inserted. Of special note is the live polling data, the results of which can be found in the relevant sections. KPMG is very grateful to the following sponsors for their generous support of the Gibraltar eSummit: Continent 8 Technologies, Ramparts European Law Firm, ISOLAS, Hassans International Law Firm, Gibtelecom, GibVault, Cube, W2 Global Data, IDT Finance, IMGL, and Gibraltar Finance (HM Government of Gibraltar).

Welcome Address

The Hon. Albert Isola

Government of Gibraltar

Good morning ladies and gentlemen, and a very warm welcome to the 6th KPMG eSummit here in Gibraltar. My thanks of course to Micky, her team, KPMG and all of the sponsors who combine to put together this magnificent event. I have to say, in the years that I have attended, it seems to get bigger, better and stronger year on year, so my great thanks and congratulations to KPMG and Micky's team.

I'd also like to start off by thanking my own team, my staff at the Gambling Commission who deal with you on a regular basis throughout the year. I don't often get the chance to sit with the eGaming community who interact with them on a daily basis, so I'd like to take the opportunity now if I may to thank them for the enormous amount of work that they put in. I hope and assume that most of you received the Gambling Review yesterday: you will see that in section 530, they very cleverly insert a little item which says that the Gambling Commission requires to be far better resourced. Now obviously, you can see Phill Brear's effort and hand in that section of the report. But without question, it is a testament to their effort and commitment that with the resources they do have, they're able to do the extraordinary work that they do, throughout the year, so a huge thanks to Phill and his team.

The gambling sector remains strong, despite the huge activity in mergers and acquisitions over the past 12-18 months. We still have the same number of licensees that we did this time last year. As licenses tend to be surrendered due to merger activity, new entrants are coming in and it's pleasing from our perspective to see that the numbers of those in employment in the gaming community of Gibraltar still remain above 3,000. Of course, it's cyclical as you know, and there'll be ups and downs, but the strength remains in the core of that number that we manage to maintain.

As we celebrate 20 years in the sector, we now look to the next 20 years. As mentioned, The Gambling Review which was sent out is a document which really does rely on one very crucial aspect: and that is your interaction. We are not submitting a document ready to be stamped in 3 months' time: it's a working document, it's an ideas document. I don't for a second believe that it covers anything and everything; indeed, I expect you, as industry leaders, with an operator's understanding of the daily labours, to take a detailed look and to tell us what you think of it. Areas on which you think we should focus more, or less, and new ideas: we welcome innovation and creativity. Consequently, I really do ask you to please engage with us directly through the GBGA (Gibraltar Betting and Gaming Association). In my letter yesterday, you will have seen I've asked for one-to-one meetings with all of our operators to ensure that we do get a complete view and response from the sector, in terms of how you see what we're doing and how we should be doing it in the next 20 years.

I also have to thank, obviously, the four Peters – Sir Peter Caruana, Peter Montegriffo, Peter Isola and Peter Howitt, for the huge amount of time they've spent in putting this document together. From a cursory read of it, you will gather that a lot of thought and effort has gone into that document. I have to tell you also that there is a second document which I haven't shared as yet, which gives a little more detail in the thinking of the four Peters as to the direction in which we're going. I've not circulated that intentionally and the reason is simple: I don't want to shape your minds as to the direction that you think we should be going and therefore, by holding that back, what I'm seeking to do is to get a better idea from you as to the detail of how and in what way, you believe we should move forward. It really is a programme for interaction, it will succeed or fail on the basis of that interaction; it is not a "fait accompli" by any stretch of the imagination and I really welcome your detailed discussions.

Overriding the Gambling Review is one thing that will not change, and that is our philosophy of quality, reputation and regulation. This remains paramount in our thought processes as to how we move forward in terms of the licensing. It would be so easy to open the door and allow another 10, 15, or 20 operators in. We will stick to the rule that we have now adopted over the past 20 years to ensure that we only engage and marry with quality operators and I

think that's important that you should know that. When reading the document, there may well be things that we've left out, or which we haven't given sufficient consideration to, so please do feel free to come back to us with those ideas, particularly in the areas of creativity and innovation. I think it's important that we stay ahead of the curve in that respect.

So, what are the challenges? Well, you could probably spend a couple of hours talking about the challenges facing us: BREXIT, taxes, Panama Papers, VAT, cybercrime, data protection, the 4th Anti-Money Laundering Directive, integrity in sport, responsible gaming. Those are just a few of the many challenges that we and you, as the operators in this space, face. As a mature and sophisticated industry, we will face these together. Your Government will be your partners in how we deal with each and every one of these issues.

In respect of the Panama papers, I think and hope you do too, that our commitment to international standards in terms of transparency and exchange of information, and our commitment to comply, has put us in a good place, despite the furore this has caused. I see more to come, going further into beneficial ownership across a bigger platform, and overseas territories including Gibraltar and the Crown dependencies, as the G5 have all signed up to an agreement with the United Kingdom bilaterally. I expect that to continue, to grow across a wider space - maybe the EU, maybe the G20 or maybe even the OECD (110 members of that global forum).

In terms of BREXIT, we will continue as we have done, to work very closely with the UK Government. Frankly the 23rd June can't come quickly enough. The issues that have arisen, and the discussions taking place, are, from my perspective, difficult to understand, although clearly we respect them. For anybody that understands the temperament of the surrounding jurisdictions like Spain, Portugal, France, Italy and Germany, to think that you're going to be able to walk away and still gain the benefits of that club, is something that I struggle to understand. As somebody put it to me just a couple of days ago, it's like getting home after a day's work and telling your wife you're going to be leaving her but you'd like it if she wouldn't mind carrying on doing your laundry and your washing! The rules of the club are clear and to expect to be able to achieve the benefits of that membership, without the obligations, is something that I don't quite grasp. We are confident that we will see it through and working with you, we hope, post the 23rd June, to be able to take a step up in terms of the promotion of this jurisdiction by working together.

I think there is no question, and those of you who worked here these past few years will understand this completely, that the Government's commitment to this sector is absolute. My door is open to each and every one of you, to work with you to increase the flow of your business, to grow your business, to pay our taxes and to enable us to continue to develop our wider economy. I have to say that it's been a pleasure working with you for these past 12 months and I am very much looking forward to facing these challenges together and of course engaging directly with you in respect of the Gaming Review.

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Panel Session Riding the Wave: M&A Activity in the Gambling & Betting Sector

Moderator: Kristan King,

Head of Deal Advisory,KPMG Gibraltar & Isle of Man

The first panel session of the summit looked back at the recent wave of M&A activity in the Gambling & Betting sector and considered the drivers behind it. A number of drivers were identified, including cost synergies, scale, new markets and consolidating the supply chain. At the top end, the purchase of bwin.party by GVC Holdings for £900m was designed to increase its platform and boost operating synergies. Smaller deals appear to have been driven by complementary businesses and acquisitions of the newer technologies. Looking ahead to future mergers, regulation was cited as having helped the industry to become more mainstream; this in turn, will open the door to PE-backed investments, particularly at the smaller end of the business scale.

Opening this session, Mr Kristan King welcomed everyone and introduced himself and his subject for debate. He began by conducting the first delegate poll of the day. Testing audience thoughts around M&A, the following question was put to the room: what would be the key drivers of M&A activity over the next 2 years in the eGaming sector in Gibraltar?

Considering 4 possible responses, including cost synergies and competitive scale, delegates used their mobiles to make their choices, via the Bizzabo app or text. The results were to be revealed at the end of the session.

Mr King then went on to introduce his panel, a selection of expert lawyers from the world of media and gambling.

Moderator: "First of all we have Steven Caetano, a commercial lawyer at ISOLAS with extensive experience in eGaming and betting mergers and acquisitions, privacy and media law. Steven was recently lead partner for GVC Holdings in its acquisition of bwin.party Digital Entertainment PLC, handling the Gibraltar aspect of the transaction, and is a regular advisor to the local Gibraltar eGaming community. Then we have David McLeish, a Partner at Wiggin based in London who advises on a full range of corporate, commercial and regulatory matters, principally across the gambling technology sectors. He has a wealth of experience advising on private and public M&A transactions and prior to joining Wiggin, David was General Counsel at a leading gambling software supplier. Next up is Nyreen Llamas, Partner at Hassans. Most of Nyreen's work involves advising the gaming industry in respect of licensing and regulatory matters, as well as corporate and operational aspects of their businesses. And then we have Susan Breen, who leads Mishcon de Reya's Betting and Gaming Group. Susan has been involved in many of the M&A transactions in the gambling and betting sector over the last 15 years, both in Gibraltar and other jurisdictions. And finally, we have Aaron Carpenter. Aaron leads Ramparts' eGaming and commercial practice in Gibraltar and has a number of years' experience in gaming, regulated eCommerce and M&A."

Mr King then asked Ms Breen for her views on the significant deals done over the course of 2015. What were the key drivers there?

Panellists:

David McLeish
Wiggin

Nyreen Llamas
Hassans

Steven Caetano
ISOLAS

Susan Breen
Mishcon de Reya

Aaron Carpenter
Ramparts

Ms Breen: "Looking back, I think the three big deals have a number of common themes. The merger rationales were cost, complementary businesses, scale, increasing the platform, and in one of the large deals, it was actually classified not so much as a merger but as a turnaround, so there was a financial risk play within that deal. In my view those large scale rationales will apply to a greater or lesser extent to the smaller, mid-market deals."

Mr McLeish: "I agree. There's a lot of search for scale to try and deal with some of the challenges the industry faces, some which were mentioned earlier: the change in regulatory landscape, and responsible gaming tools. In addition to that, there's a sense that the competitive landscape and changes in tax regimes mean we are getting to the point where a scale is the place to be. Cost synergies is something which is often cited as a reason to merger, but they shouldn't really be the reason to merge; there are many benefits of merging. I think that if they're your key play then it's probably something which is going to end in an unhappy way".

Moderator: "Nyreen, looking to 2016, do you think that sort of consolidation is going to continue?

Ms Llamas: "Yes, I think so. The truth is that, in the past, the headlines have shown significant mergers amongst operators looking at different propositions, brands, and products. However, I think a lot of the plans going forward will be mergers, or commercial joint ventures relying on the technology expertise where there's a huge growth. Historically, operators have had a lot of in-house technology, and now this has almost gone.

“Regulation does obviously provide a burden, but because of it, there’s been a big adjustment in terms of how the industry itself has changed.”

Of course, they still need technology internally but are looking more and more to platform providers and software content providers to develop the industry further. Operators are realising that these providers are better placed to do this and JV arrangements might be more of a common feature. Recently, we’ve heard about William Hill and NYX’s financing of the OpenBet acquisition. So I suspect there will be quite a lot of activity at that level. I also think that the industry itself has become much more mainstream because of regulation. Regulation does obviously provide a burden, but because of it, there’s been a big adjustment in terms of how the industry itself has changed. Indeed, private equity might have a place in future in driving some of the acquisitions and some of the changes here. So, yes I think 2016 will continue to be a busy year and possibly even 2017.”

Moderator: Aaron, what are your thoughts in view of the consolidation of the supply chain?

Mr Carpenter: “Well I think the William Hill NYX deal is particularly interesting, and addresses a particular problem. Nowadays there are a lot of sportsbooks, many of whom are using the same platform. This makes it hard to differentiate from competitors on the basis of technology and user experience, so anything that enables you to get more control, or a competitive advantage, could be a driver for a deal. In that context, you can see how a deal such as William Hill NYX and OpenBet has come about. This consolidation of the supply chain is a trend which looks set to grow.

Just picking up on a few other points: David mentioned the change in regulatory landscape - that’s not going to stop in 2016; there is a continuing push towards national licensing and point of consumption tax regimes. That, in my mind is a factor that will again increase operators cost base, which is a reason to perhaps look for scale to leverage against costs. Looking to the UK for a moment, and the last two budgets, another factor to consider is that the Treasury is considering adding VAT to marketing and advertising services supplied from the UK on a use and enjoyment basis. And then you’ve got this year’s budget - we’ve had the announcement in terms of taxing free bets - again, you’ve got factors there that are really going to compress margins, and will, if anything, increase the desire to look for acquisitions and mergers rather than decrease it. Basically, companies will try to find ways to maintain their margins.”

Moderator: “That’s very interesting. Steven, we mentioned briefly the private equity activity when looking at the market. It’s certainly something I’ve noticed in the UK with some of the mid-market and even lower mid-market private equity firms, now, seeing the eGaming sector as an area that they want to move to. Is that something that you’ve noticed, and do you think there’s going to be more money coming into the market in that respect?”

Mr Caetano: “Yes, I think the interest of private equity houses in gaming has been there for quite some time already. As the industry has become more mainstream, there’s been more talk of PE interest in funding gaming. As part of our corporate/ gaming practice, we’ve been working with private equity for some years now, albeit very discreetly and I agree with Nyreen, that as public perception of the industry improves, it will continue to drive PE interest in the sector. I also think PE firms have been driving M&A activity behind the scenes for some time now. So, yes, I think it will continue to drive the M&A market over the coming years, as online gaming is already a mainstream industry - 20 years in the making here in Gibraltar.”

Moderator: “I think that you’re right. I notice that in the UK, some of the smaller, lower mid-market firms (meaning not at the top end of the larger deals) are now realising that there are some strong returns to be made in the gaming sector. David, do you think that’s going to be more at the technology end in the supply chain?”

Mr McLeish: “The short answer is yes. Anything which has a story and growth prospects is a potential investment opportunity. One of the things that the larger private equity firms struggle with is the fact they are so global. So the unregulated, and to-be-regulated markets, can represent more of a challenge for them. However, some PE houses are much more advanced in their thinking than others, such as those which have been around the sector for a longer period of time. Inevitably, there are some businesses which won’t be for them in terms of their global reach. If you look at deals done over the last 12-18 months, there’s clearly a lot of equity and interest being unlocked from North American markets in terms of the funding, just look at Amaya and Intertain. In fact, you can see the general trend that’s emerging, not just from European private equity, but also, North American private equity being interested in the European markets, perhaps as a result of the slower than anticipated progress in the US.”

Ms Breen: “I would agree with David. If you actually look at the market and the psychology of a PE investor, they’re focused on interesting and growing sectors, so tech has always been one that’s a fascination. But wrapped around that, what they’re looking for are businesses that can scale quickly, and it’s a virtuous circle: increased scale, better margins and cash flow. So many of the PE investors are over the difficulty of the politically negative view of the industry; they’re happy to look at the shades of grey. Both the B2C and B2B segments of the industry are highly competitive and fragmented. If you look at the size of the pool of potential businesses - we’ve got over 5,000 B2C businesses and 100 B2Bs, you have a market here that is ripe for consolidation given the drivers that we discussed. Many of these companies will already be considering some form of merger activity whether it’s horizontal, or a B2B and B2C tie up. At the Deal Advisory seminar yesterday, KPMG talked about having the cash, being able to do the deal, and the ability to scale by sequential acquisitions. The companies themselves and the funders are ready to do more deals.”

Ms Llamas: “I agree with Susan, I think we are just seeing the start of this and as private equity really gets more involved, the dynamic of the industry itself will change. Nobody has ever categorised the gaming sector as being soft, but private equity investors are notoriously unforgiving and commercially driven. Private equity investors will want to call on their investment and they will be on top of you in terms of board response, undertaking cost/benefit analysis and so on. Basically boards will really be held to account in that scenario. In the context of the US, I think it's already there, it's quite mature, especially in the very big technology PLCs. It will come into Europe and will drive and create even more momentum and movement of the industry across Europe. This will also continue to push the industry more into the mainstream."

Mr King: "Do you think that'll change the spirit of the industry?"

Ms Llamas: "Perhaps not as much initially in the betting sector, but maybe in the gaming."

Mr Caetano: "Also the European gaming industry is a mature industry. The US is perhaps lagging slightly behind and of course the interest is obviously from the US to the European market, that's where it's more mature and more established, so it makes more sense."

Mr McLeish: "It's true that certainly on the operator's side, there has been a lot of activity. I agree, technology may push operators to acquire stakes, like William Hill did in NYX. Or even to acquire technology companies outright to try and give themselves a USP. Over and above that, one of the challenges that remains to be seen, is the multi-brand strategy arising from some of this consolidation, and whether those brands are going to be used in particular markets or for particular products, and how you navigate around that. If you're going to use it for different products, then that doesn't lend itself to going for a big technology play. Equally, with some of the larger operators (such as the listed companies) who have historically taken a more prudent approach to regulatory risk, you can see the chance emerging for there being a reversal of that. Everyone else has managed to navigate their way through and is making high margins in off-white markets. In those circumstances, will there be a re-opening, of markets and could there be a way of accelerating your re-entry point into those markets through M&A?"

Moderator: "Nyreen, thinking about companies that are going to be participating in transactions and looking at new markets, as David was discussing, how do you think they should be preparing for deals? What are the sort of key things that you're seeing through transactions at the moment?"

Ms Llamas: "It depends on a few factors: whether they're operators, or content providers, and whether they want to continue on their own for some time. There's the issue of scaling up because the size of some of the operations, and the size of the technology of some of the operations are so significant that it is becoming difficult for companies of a certain size to remain competitive. But I still think, even though we speak about M&A, there are some very good operations and very strong brands out there that are doing very well on their own, and which continue to focus on their core business and are growing it. The value in all these businesses are ultimately customers , and the retention of customers.

There are some operators (even some of the big ones) that still very much count on the involvement of their founding members and, although they are involved primarily because of financial considerations, many retain a strong emotional attachment to those operations which can impact upon whether a deal goes ahead or not. I remember discussing this with Susan previously. Sometimes, whilst it may seem logical from an outsider's perspective for a certain deal to go ahead, it doesn't because of the decisions or resistance of those founders who may oppose the deal because it doesn't work for them.

So whether M&A is right for one company or the other is quite a subjective question and is very difficult to determine - it just depends whether the right synergies and desire are there. Indeed, even when a deal is done it doesn't always work out. As we have seen in the past, and without mentioning names, we have seen a very large PLC which was itself the product of a merger several years ago now undergoing another large acquisition given that the initial merger did not pan out as expected. Ultimately, businesses have to constantly review and adapt and boards have to constantly assess opportunities."

Mr Carpenter: "And that, on the huge deals at least, the effort that will have to go into the integration, planning and the realising of synergies, which are promised, people have to be careful that that doesn't become a distraction with others who are focusing on a single brand strategy or haven't entered the M&A fray, they could feel that they are in a position to just carry on doing what they're doing and try and make headway while other people are trying to realise the benefits of scale."

Mr Caetano: "Also, as a result of these large M&A deals, there is also potential for smaller deals as consolidation takes place and acquiring parties' review their asset portfolio's and, possibly reorganise acquired assets/divest certain aspects, so there's also potentially a knock-on effect for smaller deals as a result of the bigger ones."

Moderator: "Steven, with your clients in Gibraltar, how do you see the factors impacting them when they're doing deals at the moment?"

Mr Caetano: "The GVC/ bwin.party deal was interesting because an Isle of Man company was acquiring a Gibraltar company, and with that there was an assumption, that it wasn't a great news story for Gibraltar, but as far as I understand it, the IOM "foreign company" acquired the Gibraltar company but is looking to deploy assets to Gibraltar rather than the other way around, which is obviously a good thing for Gibraltar. This shows that it doesn't necessarily mean,

The value in all these businesses are ultimately customers , and the retention of customers.

for example, if a Gibraltar company is the acquirer or the party that is being acquired, that it's going to be necessarily negative or positive for Gibraltar. Sometimes, as in this case, the synergies are such that the acquirer wants to latch onto the existing platform/existing infrastructure, rather than acquire and dismantle. So, it's a very interesting dynamic with no hard fast rule to follow."

Moderator: "Are there specific thoughts in terms of Gibraltar activity at the moment? I know there's a session a little bit later on BREXIT, so we don't want to talk about that to any great extent, but I think it's one point we should perhaps try and briefly touch on. I know Steven and Susan and perhaps Aaron have got some brief thoughts."

Mr Caetano: "As a Gibraltar lawyer and Gibraltarian, BREXIT is a hot topic at the moment, as you can imagine. In terms of the Gibraltar M&A sector, it's hard to predict what impact it could have, but certainly, European facing businesses may have challenges. For UK facing operations, my view is that they should be able to continue in the same fashion that they are now, and enjoy the same benefits, but it's there in the background."

Moderator: "Aaron, what are you seeing in Gibraltar at the moment?"

Mr Carpenter: "I think Steven's hit the nail on the head. If your target is, for example, a UK facing operator, with maybe some interests in the Australian market then, yes there are going to be some operational difficulties and some legal challenges. For example, we don't know how the AML regulation will necessarily be effected this if it happens. Data protection and intellectual property law in both, Gibraltar and the UK are all intertwined with European legislation so, yes there'll be some challenges, but ultimately operators could continue to do business as usual. I think it's more the companies, as Steven said, who are perhaps relying on Article 56 rights, that could face the greater challenges if we do have the Out Vote on 23rd June."

Moderator: "So we've heard some of the factors that have been at play in 2015 and 2016 markets, with consolidation looking for top line growth, looking for good customer books to acquire, looking to broaden into new markets. As clients look forward, do you think M&A has to be part of their strategy, if it isn't at the moment? In terms of trying to achieve some of those objectives?"

Ms Breen: "Inevitably, yes. Because the buy and build strategy, whatever your core product is, works for this industry and I would include those deals which are a defensive play. With the increasing burden of tax and regulation we can see increasing legislative and governmental creep. I don't think we've seen the end of the tax grab and there are a host of regulatory and fiscal changes coming down the line including the focus on taxable presence across different jurisdictions and we haven't heard the last on VAT. The sheer cost burden is going to force businesses to come out of certain markets or look for partnerships. As Nyreen said, those partnerships could be strategic ventures. They can be B2C or B2B or across platform content providers – and you're going to see the drive for the Omni Channel. The question is, how do you capture an increased audience? At its core, what is this industry trying to do? It's trying to attract and keep customers, and it's trying to do it with wider and more interesting content; keep it "sticky" and not go off of the page. You have to partner with innovators. It's what the industry has done well for 15-20 years and it will continue to do that.

I see some operators toying with IPOs but I would not see that as a particularly favourable market for everyone. The only ones that I'm seeing cross my desk are from entrepreneurs who are really wedded to the business: profitable European businesses across sports/casino who don't really want to sell, but think maybe this is actually a good time to extract value while still keeping a strategic stake. If they sell it, it's a pure exit play, even with an earn-out structure.

In summary, 2016 and beyond holds more of the same whatever the size of the business: a squeeze at the small end, unless you have a unique business proposition and in the mid-market, a focus on scale, earnings and competitive advantage. "

Moderator: Interesting. What we're really hearing is that M&A activity is still going to be key in terms of businesses developing their markets, growing their customer bases, and that's going to be the key focus, or should be the key focus. Make sure that you take your cost synergies as you do those deals, and make you sure you drive the financial success from those deals that you do.. Perhaps be flexible: if M&A isn't on your strategy at the moment, regulatory change might drive a change of thought and you'll be able to adapt it.

Ms Breen: "Can I just mention one point which is related to BREXIT? This industry has been very good at innovating and being flexible enough to react to new environments. While the BREXIT debate continues, I think we've all seen a lull in some of the deals that we've been doing. Separately however, from an operational and risk perspective, those involved in the industry need to ensure that the consequences of a BREXIT don't impact on the operation or performance of commercial contracts in place with suppliers or customers. For example, a commercial agreement that has a term that extends beyond the date of an exit which depends upon movement of goods or services, or the impact of VAT around its supply of services, should now be reviewed. Businesses also need to be aware of these issues if they are currently negotiating contracts which could become unprofitable or hard to terminate or amend in the event of a BREXIT. If you lock yourselves into those contracts without having some flexibility to exit or adjust the commercial relationship, you may end up in difficulty. So, operationally, a health check on your commercial contracts to assess the implications from a VAT, tax, services, and insurance perspective would be wise."

Mr King thanked Ms Breen for her excellent advice and moved on to reveal the poll results. The following question was put to the room at the start of the panel session:

What will be the key drivers of M&A activity over the next 2 years in the eGaming sector in Gibraltar?

A. Cost synergies (trying to leverage fixed cost base)
B. New Game Technologies or New Games (broadening the service offering)
C. Competitive Scale (new markets)
D. Another reason

Moderator: Looking at the result of our poll, we can see that option C (competitive scale) was the greatest driver, with B (new games & technologies) close behind it. That does chime largely with what our panel has just discussed.

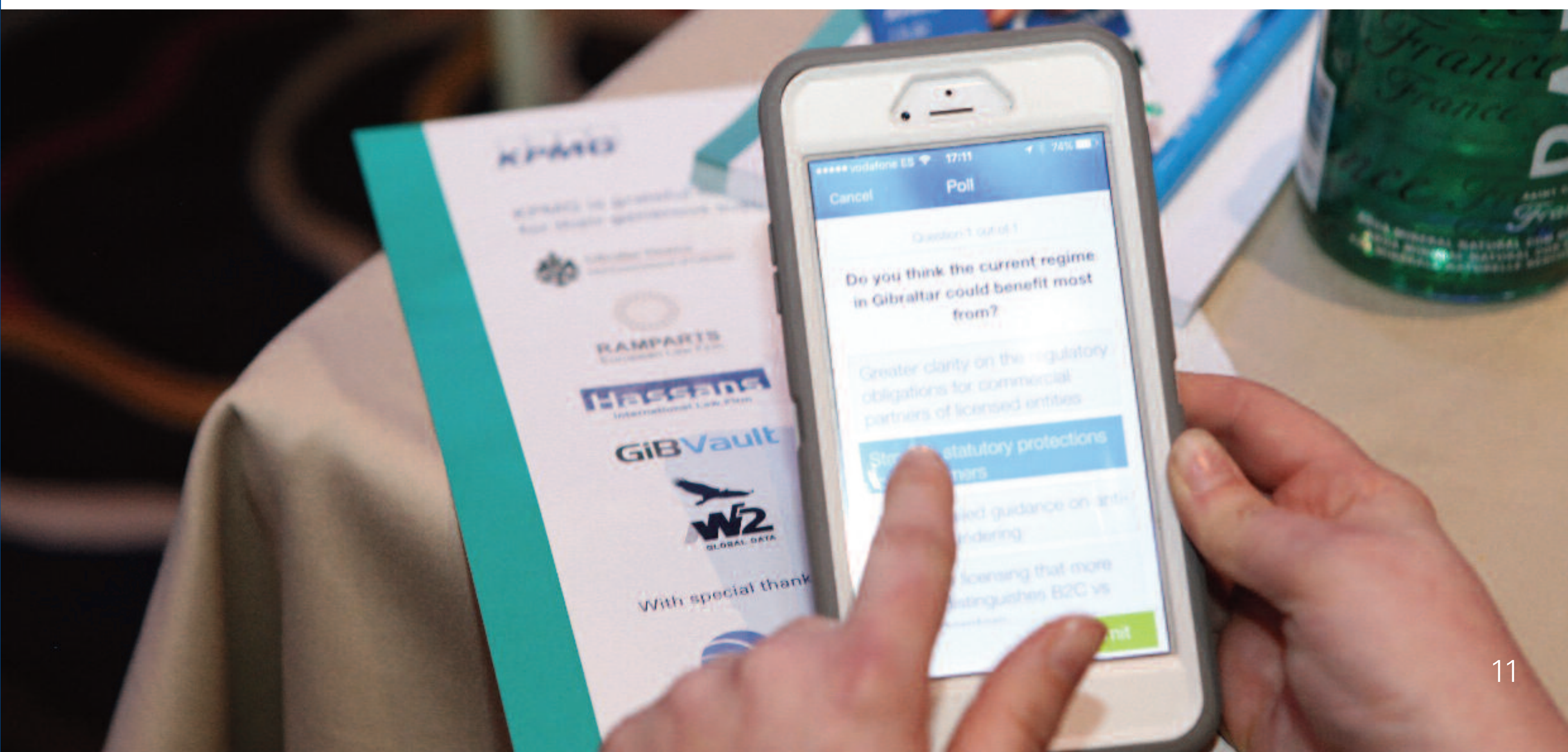
Questions were invited from the floor:

Q. Mr Carpenter, you said you thought there'd be a difference between EU facing and UK facing strategies in BREXIT. Can you elaborate?

Mr Carpenter: I was thinking more for from the point of view of what you are seeking to achieve - if you're looking to increase scale, for example, and your markets are not directly affected by an Out Vote, then that's going to give you a very different position in terms of where you look for potential targets, particularly in respect of Gibraltar. The other issue, just from a risk point of view, comes back to Susan's point, when we talked about contracts and deals. In terms of the markets you're servicing, say if your HQ is in Gibraltar, but you're serving the UK and other non-EU member states, but you also have another EU office, you do have the ability to react, perhaps by moving your EU HQ to wherever that member state may be. Again, it's about being flexible and reacting to it in the correct way, and I think for most people it is pretty high on their risk register and from an operational point of view, I daresay it's something people are looking at already.

And also, if I could just add to what Aaron said, the trend of having to set up an office in a jurisdiction to continue in service, your market is already well established with the country we've had, so setting up an office in a marketplace is already something that gaming operators have been able to do quickly and quite successfully, so I feel it will just be a question of re-adjusting that strategy.

Mr King offered his thanks to the panellists for their expertise, and to the delegates, for listening.



Presentation

United We Stand: Overcoming Regulatory Challenges

Speaker: Paul Morris

Director of Regulatory Affairs, Remote Gambling Association

"Well, it certainly is refreshing to visit a jurisdiction where the contribution that our industry makes is welcomed and also recognised." So began Paul Morris, opening his slide presentation on the topic of regulatory changes, including those affecting Gibraltar operators. Mr Morris thanked his hosts KPMG and mentioned how on this, his first visit to Gibraltar, he'd been struck by the very positive atmosphere compared with that of other markets. As Director of Regulatory Affairs at the Remote Gambling Association, Mr Morris and his team have interests in many markets, both within and outside of the EU, and a wealth of experience in engaging with regulators, legislators and key decision makers in numerous jurisdictions. The RGA's membership (which can be found in full at www.rga.eu.com) includes the biggest operators and B2B companies in the business which gives the team at the RGA considerable insight into the challenges facing operators, and other stakeholders in emerging as well as established remote gambling markets.

Outlining the shape of his talk, Mr Morris aimed to offer solutions for overcoming the barriers presented to the gaming sector by the recent regulatory changes, especially those in international markets. "I'll consider the characteristics of a sustainable market, but also, what happens when things go wrong, and the implications of that. In this context, I'll be looking at the impact on operators, on governments and consumers. I'll also touch very briefly on the European Fourth Anti-Money Laundering Directive. I'll then turn to the British market, looking at the post point of consumption implementation but also highlighting some of the key developments and challenges for the industry in operating in that market. Some of what I say will touch on themes that will be covered throughout the conference by people that are far more specialist in those areas than I, I'll leave the details to those experts but I hope that what I say will set these themes in the broader context."

To provide some background information, Mr Morris considered the impact on markets of point of consumption licensing. "Recent years have seen a number of market reforms by jurisdictions, developing completely new licensing regimes, as well as jurisdictions reforming existing remote licensing regimes. The common element, most noticeably across the EU, is the now well established move to implement point of consumption licensing; in other words, the key determining factor in deciding whether a license is required, is where the customer is based and not where the gambling operation is physically located. For many years, there was a view by lobbyists in the United States, that it should move towards the kind of cross-border federal licensing system that many hoped to see here in the EU.

It is perhaps ironic that the reverse has happened and the EU has ended up with a system very similar to that in the US, where each state can pretty much decide its own rules and companies must obtain multiple licenses in order to operate in multiple states. While the prospect of an EU solution and a form of mutual recognition is further away than ever, the point of consumption reforms not only present challenges but they also present opportunities to access markets. But importantly, the reforms also present significant opportunities for government and regulators to implement a regime that is sustainable, protects consumers and, of course, represents an important source of revenue. Too often, the nature of that reform means those opportunities are lost."

The work of the RGA extends to many jurisdictions: either directly, as in much of Europe, but also indirectly, with allies in territories such as Australia, the US, South Africa and Brazil. In Europe, meanwhile, the gaming sector awaits the EC's updated infringement package (to be published shortly), there is hope that this will produce speedy reform in some of the markets that are clearly in breach of EU law. Legally, it is wrong that these markets have erected barriers to European operators gaining access in favour of incumbent monopolies.

Mr Morris elaborated, "The key issue is that when the reform takes place, the regulatory and tax regimes must be sustainable; after all, one of the main justifications given by member states for introducing point of consumption regulation is in order to protect consumers. However, that only works if the market is attractive to operators, and more importantly, attractive to consumers. Too often, legislators overly focus on enforcement tools, at the expense of considering how the market will function. The common view being, that it doesn't really matter how unsustainable the market is because we will stop unlicensed operators using ISP or financial transaction blocking." Whilst acknowledging that such enforcement measures are a key part of any market reform, but knowing that they cannot ensure the success of the market alone, Mr Morris stated that such measures act as a deterrent and a disruption mechanism but are expensive to implement and resource, also a determined player can circumvent them.

"Having a sustainable market is critical to market reform, meaning enforcement tools can be focused more effectively against the few, rather than the many. So the overall cost of doing business, primarily the total tax burden, is a crucial factor for companies when deciding to enter a particular jurisdiction, and will be crucial in determining whether a jurisdiction's market is successful."

Mr Morris then went on to examine the characteristics of a sustainable market opening. Of the many elements, some of which are inter-related, just a few of the key issues were considered: "So of course taxation; it's clear in our interactions and our understanding of the market that tax must be on a gross profits basis. This creates a level playing field; for operators it allows freedom to provide consumers with greater choice and value without concern about the margin of certain products, but it must also be at a sustainable level. Governments need to understand that in a competitive market, there is a limit to the burden the industry can sustain. Unfortunately, that is a lesson that many are slow to learn. For example, we have seen in the Netherlands that the proposed tax rate is increased from 20% to 29% of gross profits, as a reform passed through Parliament. The Head of the regulator has herself highlighted the risk that the increased tax rate will make enforcement more difficult; this is because some of the costs would have to be passed on to consumers, and consequently, it will make the black markets more attractive to them. We saw earlier this week that the Greek Government has announced that it intends to increase its tax rate to 35%.

So there's also product availability. The regime should enable operators to offer the fullest range of gambling products, if it does not, then players will then turn to the black market to provide those products. We've seen in France that the lack of a regulated online casino market means, by definition, customers must seek out the black market to access those products."

Technical requirements are another issue, as Mr Morris explained: "These of course should be proportionate and take account of good practice. Too often we see jurisdictions reinventing the wheel, or at least cherry-picking technical requirements from other jurisdictions, and this is done without sufficient consideration of what they want to achieve and what's possible. But member states also need to be realistic about the implementation of technical requirements. This is a current challenge for us in Romania, where our focus is on ensuring that operators have sufficient time to implement the necessary technical requirements. Failure to have a sensible transition period represents a significant risk to operators considering entering the market."

Moving on to marketing, Mr Morris recognised the contentious nature of the issue. For the most part, gambling advertising is viewed as a negative, despite there being no evidence of harm. Put in context, Mr Morris referred to the government-led review last year which gave advertising a clean bill of health. An updated version of the Industry Advertising Code was launched in February this year, which has strengthened requirements in a number of areas, including the removal of pre-watershed advertising of sign-up offers for new customers, and more prominence to 'gamble aware' and 'responsible gambling' measures. Mr Morris again: "It is critical that licensed operators can distinguish themselves from the black market; one way is of course for operators to show on their websites that they are licensed and where they are licensed, but it's important that the Gambling Laws permit licensed operators to advertise and market their products and that it is also backed by effecting enforcement against those that are not. So although advertising is often seen as a negative, it is crucial to underpinning any licensing regime by directing players to licensed operators."

For the most part, gambling advertising is viewed as a negative, despite there being no evidence of harm.

"If the regulatory authorities get this wrong and impose tax and regulatory costs that are not sustainable, then operators seeking a licence will not be able to compete with those who choose to remain outside. This will undermine the reforms to the detriment of operators as they won't be able to compete with the black market, to governments, as the market will not function properly and they will not derive tax revenues or achieve their regulatory objectives, but also for consumers as they will not experience the protection of the regulatory regime."

Considering the impact of the Fourth Anti-Money Laundering Directive, due to launch in 2017, Mr Morris explained how its implementation will affect all member states, whether they have established regulations or are due to develop them. The process calls for each member state to develop a national risk assessment, whilst the EC is developing its own supra-national risk assessment. "The challenge for the remote industry is to educate officials about the characteristics of online gambling, the real nature of the money laundering threats and how we seek to mitigate those threats effectively. The danger is, of course, that ill-advised perceptions will lead to the introduction of overly-restricted regulations and early indications are that we are making some progress, for instance, through our direct involvement in the supra-national risk assessment and in individual jurisdictions such as the UK, which has already concluded, in its national assessment, that online gambling is low-risk," according to Mr Morris.

Looking now toward the UK, Mr Morris sought to highlight some of the recent developments there. As one of the largest, if not the largest regulated online gambling market in the world, the UK has long been an attractive one for the industry. "Despite that history, trading conditions have become much harder since the implementation of point of consumption reforms at the end of 2014. Costs for operators have increased dramatically and there is uncertainty about what the market will look like in a few years' time. Although the UK remains a hugely competitive market, with over 150 operators obtaining licenses at the end of 2014, the full impact of the reforms is yet to feed through fully. Moreover, it seems unlikely that this maturing market can sustain that number of operators in the long-term."

So what lies in store for the UK market? Mr Morris painted a mixed picture: "We have already seen some highly publicised merger and acquisition activity, this is primarily driven by the new tax burden, but also reflects the high costs associated with recruitment and the retention of customers. There will also undoubtedly be exits from the market by operators that are less well established in the UK, and who have not been able to get a foothold in the market. So, although common wisdom suggests that the black market is not currently a problem in the UK, that risk cannot be ignored by the UK authorities. Experience since implementation tells us that the UK market remains attractive to operators and to players but as I say, the full impact of the reforms is yet to fully feed through. Some of the developments, such as VAT and gaming duty, will also have an impact. Moreover, there continues to be a conveyor belt of regulatory changes, each of which increase the cost of compliance and the resource needed to ensure that compliance. Some of them also serve to hit profitability, this is not the place to go into a very detailed explanation, but some of the regulatory changes, for instance changes to rules about auto-play, will be important."

Other headline issues include self-exclusion, which is very topical at the moment. Of most relevance is The National Online Self Exclusion Scheme (NOSES). Following considerable work on the NOSES system, which began back in 2014, the Gambling Commission wrote to operators earlier this year explaining that it had in fact concluded that the industry is best placed to lead and manage this Scheme and had asked the RGA to now take it forward. It is also worth reiterating that participation in a NOSES is a licence condition for remote operators. As Mr Morris explained, "We have consequently agreed to take this project on, through the RGA, and although we believe we can deliver it at a lower cost than that estimated by the Commission at around £2m pounds, it will still require significant investment. But it's also important to remember that this presents an opportunity for the industry to introduce a system that will significantly add to existing safeguards for online gambling customers. However, there are fundamental differences between such a scheme being operated by a public body, such as the Gambling Commission, and a private sector body, such as the RGA. Although the technical issues are very similar, there are a whole range of issues, such as legal, funding and governance that are not. As a result, the first step in the process is for us to bring in independent consultants to undertake a thorough scoping study for us. Until that work is completed, we will not be making any decisions about the most appropriate self-exclusion model or what the right vehicle might be for the long-term ownership of the system. We are also very mindful that the system must be accessible to all remote licensees, not just RGA members. It follows that we must proactively find ways to keep the wider online gambling community updated about key developments. Non-RGA members are of course very welcome to contact us for further information, but we are very hopeful that through the trade press and the Gambling Commission itself, we will be able to reach out periodically to every single licensee. This will be critically important as the timetable and cost structure become clearer."

Mr Morris moved on to tackle the matter of the horse race betting levy. In the March budget, the UK Government set out a timetable for reforming the current levy by April 2017, in a way that will require betting operators outside of the UK to contribute to that levy. So operators will incur yet another cost, and there are concerns about what any radical change will look like. "We believe there are still major legal hurdles to overcome, if the Government is to make these amendments, and make them by the 2017 target date. It's safe to say that the Government's plans are giving us serious cause for concern and we are already involved with external consultants who will be advising us on the legal and economic issues. This measure has to be notified on state aid grounds to the European Commission, we already have an outstanding legal challenge against the French levy and cannot rule out following a similar course of action in this instance. However, hopefully that can be avoided. Then there's other tax changes - the Government recently announced its plans to tax free bets on online gaming products and to consult on measures which could lead to VAT being applied on gambling advertising. We are working with the groups that HMRC is establishing in both of those areas to try and head off the worst effects."

"A quick word too about player analytics: the issue of social responsibility in general is, if anything, the key area of interest for the UK regulator and the Government. The industry is under constant pressure to try out and evaluate new measures, these are on top of extensive requirements already contained within LCCP (License Conditions & Codes of Practice). Later this year, the Responsible Gambling Trust (RGT) will publish its research on identifying markers of potentially harmful gambling. Operators have developed and refined their own systems for flagging such activity over many years and have shared best practice. But this research will be key to most operators benchmarking their systems against this external research. We have established our own working group to look at current approaches, and to ensure we are in the best possible position to benchmark our approaches to that research."

Mr Morris also spoke about an additional issue of concern for the GC: "In the UK there has been significant focus on the marketing of freebets and bonuses, in particular the availability of the key terms within the advert. As an industry we have to accept that there is variable practice in this area, and although the situation has improved there is still work to be done. The UKGC has shown in other areas it is prepared to identify publically those (including holder personal licenses) it considers to be below par, and that risk remains. Of course, as a responsible industry we should be trying to get these things right ourselves, but our sense is that this is an area where the UKGC is losing patience".

Mr Morris also noted: "The Commission is not just interested in the transparency of marketing offers but is also concerned that some operator terms - both marketing and general terms – are unfair. It has been working with the Competition and Markets Authority (CMA), who are the legal authority in this area. We have initiated a dialogue with the GC and the CMA to try and understand precisely what their concerns are. As is often the case, terms have developed over time and have gone through the rigours of operators' legal teams, but it is clear that this is an area that will in future be under increased scrutiny by the Commission and other authorities."

"In conclusion, the title of the presentation is overcoming regulatory challenges but I'm afraid there's no silver bullet. We have to accept that most regulators come to the issue of online gambling with the best of intentions but don't have the experience or the knowledge, and that is something the industry has to take a responsibility for. The world in which we operate is complex and becoming even more complex and challenging, so much so, that we could reasonably add regulation to the old saying about nothing being certain except death and taxes. People can bemoan it but there's no avoiding it. As a responsible industry, our response to it should be to accept that improvements can always be made, to welcome those reforms that represent a proportionate response to a real problem and to prevent or improve regulations that are flawed. That can frequently be easier said than done, but there really are no alternatives."

Mr Morris thanked his hosts KPMG and his audience, before inviting questions from the floor.

Q. – Regarding your comment about the VAT question - which I know is being discussed later so please don't go into great detail - has something been published yet?

Mr Morris - Unfortunately, I was running short of time and had to rush through that slide so I'll set out where we are. We are engaged with HMRC and they are going to run a series of workshops with relevant stakeholders including the gambling industry in the next month or so. In advance of that, they have circulated what you could call a "discussion paper", which sets out the rationale for the change and asks questions of the industry. In order to bring forward firm proposals HMRC will need to consult on changes before they could be implemented and it is possible it could publish a consultation before the summer.

Q. – With regard to the self-exclusion database, why did the Gambling Commission push it back to the industry?

Mr Morris –The Gambling Commission wrote to every licensee explaining that their preferred approach was that the industry should lead and manage the scheme. What's clear is that we put an awful lot of effort with the Gambling Commission since 2014 to consider the issues. They, for their own reasons, have decided that it's not for them to run. I don't think I can add anything further to what they said in their letter, which is that they think the industry is best placed to do that.

Q. - Is it because it is too hard to do?

Mr Morris – It is clear that there are additional challenges for the industry to do this, which is not to say it would have been easy for the regulator However, the discussions with the Gambling Commission since 2014 included consideration of the technical specification which is probably the more straightforward element. Some of the more problematic and challenging issues I mentioned in my presentation are those that we now have to consider as a commercial entity such as governance, and funding. These would perhaps be easier for the Gambling Commission to address — for example, it has an existing fees structure and mechanism for collecting fees, and governance arrangements.

In conclusion, it would be a challenge for whoever did this. There are additional challenges for the industry to implement this but it is worth remembering that participating in a NOSES is a licence condition for remote operators. We are committed to looking in detail at what's possible and when and how we can deliver that.

Panel Session

Forward Thinking: The potential impact of Brexit on the gaming industry and Update on the Review of Gambling Regulation in Gibraltar

A topical and stimulating panel session followed on from the coffee break, providing an update on the Review of Gambling Legislation in Gibraltar, and a discussion on the potential impact of a "Brexit" vote. Featuring again a 'live polling' feature, the session invited delegates to respond to questions via the Bizzabo app on their mobile phones. Jon Tricker Managing Director of KPMG Gibraltar moderated the panel, which consisted of four top gaming lawyers in the jurisdiction – all sharing the first name Peter! After introducing the team, Mr Tricker raised the poll questions and asked delegates to consider their responses.

Moderator: Jon Tricker

Managing Director, KPMG Gibraltar

Panellists:

Peter Howitt

Ramparts Law

Peter Isola

ISOLAS

Sir Peter Caruana, KCMG, QC

former Chief Minister of Gibraltar

Peter Montegriffo, QC

Hassans

Poll Question 1.

What do you think the regime in Gibraltar could benefit most from?

A. Greater clarity on the regulatory obligations for commercial partners of licensed entities
B. Stronger statutory protections for consumers
C. More detailed guidance on anti-money laundering
D. Bespoke licensing that more clearly distinguishes B2C vs B2B operators
E. Something else

Poll Question 2.

What is the best thing about the current Gibraltar regulatory regime?

A. Simpler compliance requirements compared to other licensed jurisdictions
B. Greater importance attached to regulation by people rather than by rule books
C. A supportive macro environment (government and regulator attitude to online gaming) for the sector
D. Speed of decision making by the regulator
E. Something else

The moderator then asked Peter Isola to provide some background for the paper Gambling Review which had just been published for consultation with the industry. It's important to remember that the aim of the review is to strengthen and build on Gibraltar's strong licensing and regulatory reputation in the area of gambling and to modernize various aspects of the licensing and enforcement provisions.

Mr Isola outlined the main motivations and drivers for the Review: "Obviously over the years, Gibraltar has done very well with eGaming. This is a timely paper as we've not had a review of legislation for 10 years. Gibraltar has always been ahead of the curve: we are a premier jurisdiction and want to keep going that way. That is really the motivation behind the paper; we want to engage with operators. As Minister Albert Isola said this morning, it is very much a first bite; it is important to keep the dialogue open, to keep coming to Government with your ideas. We are aware we haven't addressed on a number of soft issues, with regard to economic recovery, and some changes with licensing, perhaps a license which only caters for B2C, we need to cater for B2B also. We need to look at support services, at licensing to the perimeter, how best to keep operating Gibraltar companies. We used to have the tax exempt and the qualifying companies which allowed the regulator to have a look and see what was coming in and then decide whether it would need licensing or not. So I think for all those reasons we needed to modernise. In terms of regulation, we are very lucky to have Phill Brear, and I think he needs greater resources for the great work that he does."

Mr Isola stressed the need for clarity on enforcement of the powers that the regulator will have going forward: "The operators need to understand clearly what their obligations are going to be. An operator mentioned to me that in terms of segregation of funds, in the UK it is perhaps slightly different to what we understand here: they can keep the money within the payment processing system, so perhaps a segregation won't quite work. We'll have to look at that. So we're very open, but we're lawyers, not operators, and we very much need your input."

Moderator: "Let's look at our first poll results: two main thoughts here. Firstly, greater clarity on regulatory obligations for commercial partners, drew the greatest response, which is interesting. Secondly, a bespoke licensing regime that more clearly distinguishes B2C and B2B operators. In terms of licensing for commercial partners, Peter Montegriffo, please would you go into some of the detail on the proposed changes in the paper?"

Mr Montegriffo – "In the general context of licensing our proposals are straightforward. As some of you might have seen in the paper distributed last night, we are proposing to recommend two things when it comes to licensing. Currently, what triggers the need for a licence is whether you have a piece of remote gambling equipment in Gibraltar. It's the old UK definition – and we want to be able to look at that, because, as Peter Isola was suggesting, that's made it difficult to police the perimeter. When people do things that fall outside the confines of that definition, it can create potential reputational damage.

Secondly, if I look at your question on B2B and B2C it is clear these models are regarded as quite different, as are the support services that go beyond them. We felt that there was a need to hone in and make relevant the licensing and regulatory regime for each, and indeed make provision for a third category of support licenses, which would open up the jurisdiction to a structured diversification. I think one driver for us was our desire to see the industry diversify. It's already happening in reality although the licensing regime doesn't really accommodate it. There is a real opportunity for diversification to be undertaken in a more structured fashion, which provides regulatory underpinning. So the ideas we're putting out in terms of B2C, B2B and support services, address that range of issues.

Now, with regard to support services in affiliate business, we're basically suggesting almost a codification of what is current practice. At the moment, the regulator does require a B2C operator that uses B2B services, to have a series of approvals. We're looking towards codifying that or providing some statutory underpinning for it. The detail of this is not described to any great degree but the principle is well recognised. There is an interest obviously to make sure that commercial partners dealing with operators at least go through a minimal level of approval with the regulator and his team.

So to sum up, manifestly our current position is out of step with the way the industry has developed. To some extent the proposed regulation is designed to help us catch up, but to a larger extent, we want to create the sort of environment in Gibraltar which will provide regulatory support to the diversification that we think is vital."

Moderator – "The paper also mentions enforcement; there are some proposals to bring in a stronger regime. Peter Caruana, please share your thoughts. Is there a threat to Gibraltar in having a stronger enforcement regime?"

Sir Peter – It's not particularly a stronger enforcement regime. I would rather describe it as a more transparent and more user friendly enforcement regime. In this exercise we are not driven by the view that something is broken and needs fixing. We are driven by the need to ensure that in a changing industry, reputation matters; the protection of our reputation as a territory is significant. Moreover, the corporate reputations of our operators are increasingly subjected to testing by criteria that are themselves changing. It's important that our regulatory framework is up to scrutiny and seen by the outside world as placing Gibraltar where we've been for many years: at the forefront of regulation of this industry.

So, it's not about identifying a need per se. Many of the regulatory changes that we propose are to assist the industry. For example, how many people know that a decision made today under our regulatory system, is not appealable it is unilateral and binding and that is not, in our view, the way forward for the future. For many years the partnership in Gibraltar in the financial services sector, and in online gambling, has been the core of our success; and that is an exquisite equilibrium between the proper measure of regulation that enhances and protects our reputation as a jurisdiction, provides a safe environment for companies to operate in, whilst at the same time, allows business to be done safely and successfully. Our proposals remain aimed at that. Now the industry has evolved, and many activities have appeared at the periphery, in a physical and qualitative sense. On the physical side, there is activity which raises question marks as to its legitimacy. On the qualitative side, those activities that can be done from Gibraltar without a licence, such as the marketing of gambling (the latter being carried out from another jurisdiction) which, if it goes wrong, will damage our reputation as much, if not perhaps more, than if one of our own operators suffered a problem of that sort. Therefore, a collective effort to protect our common interests in reputation through regulation, requires us to make available to the licensing authority, which is the Government and to the regulator, the powers to protect the jurisdiction and operators from a) unfair competition, and b) the activities of people who are not presently caught in a regulatory net, and which can be dangerous to our reputation. Certainly, the present approach to regulation, as Phill Brear has led on, is an important ingredient of our success, but we can do more."

Mr Isola added that, under current legislation, the power the regulator has is what could be termed 'nuclear', so a license may be suspended or even cancelled. "What is really needed is the power to get the information to work with you and to have gradients of powers, rather than this sort of nuclear option. I think that could really help the industry in that respect."

Moderator: "Another issue arising from the paper is to do with the need for additional resources for the Gambling Commission. Peter, you mentioned how important Phill Brear has been for the industry, but is there a danger that the Gambling Commission may start to look more like the Financial Services Commission?"

Sir Peter: "Not really. The Financial Services Commission is a much more complicated beast because it regulates so many different kinds of activity and needs to be properly resourced for each. In effect, each of them is a separate industry. In the online gaming industry, we're not in that position and therefore, the scale is necessarily different and smaller. But you know, we're a very small regulator. It's clear that the regulated community, that ultimately pays for the regulatory cost, does not favour unnecessary regulatory cost burden. But the regulated community supports the Gibraltar Government in the importance that it attaches to regulation, because it's a big marketing tool. The sort of regulatory changes that we are suggesting would require an increase in resources; but it wouldn't be very material when spread around the operators. Indeed, unlike others, this is an industry in which the Government can also support the regulatory cost."

Moderator: "Turning now to regulation enforcement, there's the issue of segregation of player liabilities, and a recommendation to adopt a UK model. Peter Howitt, would you be able to explain that and the thought processes behind it?"

Mr Howitt: "The recommendation is to go even further than the UK model and to improve on it. Returning to the comments made, the point of the review from our perspective is to ensure that it's not a radical departure from something that's working. We're looking to optimise the things that do work, and when we looked at some of the key issues, protection of consumers is a fundamental issue in any regulatory environment. We already had operators having to deal with the UK legislation and the requirements in terms of advising customers about the safety of their funds. Looking at another area of regulation, eMoney and payments, we realised that the statutory mechanism there could be brought into the gaming sector without any significant cost to operators, and which would give customer liability a priority over other creditors. There is no obvious reason why they shouldn't have a priority and I think the benefits outweigh the burdens. When the UK changes came in, I was talking to some UK operators who said, if we have to say something about protecting customer funds, it would be nice to offer more than just the statutory minimum. If we could say Gibraltar does more, but without there necessarily being a huge cost, that would potentially be a competitive advantage, or at the very least a good marketing tool. We believe that the change to protect consumers is fundamentally important. We're also thinking about how, if you do it well and you work with the industry, you can use it to benefit you in terms of public perception. So we're always trying to make sure we're thinking about the perception of Gibraltar as a jurisdiction, as much as the architecture that runs it."

Sir Peter: "I agree. We are acutely conscious of the need for Gibraltar operators to remain competitive and not to be saddled with unnecessary operating costs, which could further impact on shrinking margins in this industry. There is no comparable jurisdiction that actually protects customer funds, despite claims to such. Ultimately, protection can only be achieved by treating customer wallets as if they were solicitor's client's accounts and the money segregated and not forming part of the operator's balance sheet. I am not aware that there is any jurisdiction that does that. The most that is done (as per the UK model) is a physical segregation of funds: you put them in a separate account from your company operating account. But there's no legal separation, so funds continue to belong to the company, and there is a debtor/creditor relationship, as with a bank account, rather than client's money, as with a solicitor's client account.

Nothing in our paper suggests anything different. In fact, we advised the Government not to impose any legal segregation of funds. What we did suggest, which would be a novelty in respect of physical separation of funds, is that in the event of insolvency, customers should have priority of access to the monies in that physically separated account. That provides the high possibility of protection but not the guarantee of legal protection. Now that is a considerable amount greater protection than any other jurisdiction, including the United Kingdom, gives. The Government should consider it, only if they agree with our view (as many do already) that the cost implications are not huge."

Moderator: "Before we move onto Brexit, let's see the poll results to the second question. It was, what's the best thing about the current regulatory regime? Most people picked answer C: a supportive macro environment (Government and regulatory attitude to online gaming) for the sector. Peter, your thoughts on this please."

Mr Howitt: "Well that response comes as no surprise because, it's a thing that Gibraltar is very good at. And as a jurisdiction we ought to remember to sell that when speaking to people who are considering locating in Europe or coming to Europe. We saw the way the UK went about the changes in point of consumption: rather than trying to level the playing field to encourage people to come back to the UK, they made any serious operator nervous about whether this was the right macro environment to be investing. Business people will obviously be interested in legal issues, but not that much. What they're really interested in is, "Is this a safe place for me to have a serious investment that can have a long-term chance of success?" That comes with having a good regulatory and legal environment, but more importantly, having an integrated environment where the Government supports that industry. Online gaming doesn't always have friends in the world, it's an industry that's had to fight for its existence and survival. So having a place where you're wanted, where we'll look after you, where we'll think about what you need to succeed and will be careful about it, so that we don't damage the jurisdiction, is absolutely fundamental. It's important in financial services too, in fact becoming more important in financial services as we start to see a degree of fragmentation in Europe, despite some of the European legislation there."

Moderator: "Let's move on to Brexit. There's a lot of fear on Main Street, not only in terms of the gaming sector but just in general, on the potential impact in Gibraltar. I think first it's worth putting some of that fear into context, so, the bookies currently have Brexit clearly in second place, so it's a 2-1 shot, meaning that it's felt unlikely. We've got a couple more polling questions. These are a lot simpler.

Question 1.

What is your view on the most likely outcome for the Brexit vote?

A. Remain

B. Brexit

C. Undecided

Question 2.

How will you vote?

A. Remain

B. Brexit

C. Undecided

If I may put the question to you, Peter Montegriffo, will the UK vote to leave the EU on 23rd June?"

Mr Montegriffo laughed: "Well if I knew that of course, I would be much more important than I am! And wiser too. Of course, it's a matter for the British electorate but I not only hope that the UK votes to stay in, I believe that it will. So what we need to do is navigate the next 8 weeks as best as possible. To put the whole issue into context: obviously, the impact of a potential Brexit could be considerable, but the difficulty we have is that a Brexit is not a defined state. A Brexit will depend on a whole number of variables which are uncertain at the present moment. Precisely what would the UK want to negotiate with Europe? Would it be the UK, or would it be England finding its way in the wider world if Scotland pulls apart? What Europe are we talking about? There are many formulations and different trade bodies within Europe. So it's difficult to do more right now than simply think in broad terms about the issues that you'd need to address."

"In the context of Gibraltar specifically, let's firstly consider the amount of business that we all have which is UK facing, and which we think we have a very good chance of preserving, because that doesn't depend on European rights: it depends on a bilateral agreement between Gibraltar and the UK. This business would be salvageable and is something which we are rightfully entitled to hang onto, so a big part of the Brexit threat may be mitigated."

"Secondly, of course, there is the whole dot.com general expansion of our business. Proper, regulated markets in Europe are important for us but we're looking towards diversifying, and there is a world outside the European Union which is also important."

Thirdly, there are opportunities outside the constraints of Europe. Europe does come with great benefits but it comes with great obligations as well. The Minister was absolutely right when he said that it's difficult to see how we could have those same rights without obligations, but there are broader opportunities out there. Historically, Gibraltar has always done well to navigate its way through difficulties, even if you go way back to the time when Spain shut the frontier. In the 1950's and 1960's for example, Gibraltar was a great point of interaction and trade with Spain. We had thousands of workers who came in and out. There was a huge amount of tourism. Our airport was in fact the major conduit into the Costa del Sol. So for us and this industry, even in a worst case scenario, there would be a readjustment, but one that I think we could cope with. It would require some reinvention, and we'll think how to go about that, if we find ourselves in that situation on 24th June.

Moderator: "So, briefly, do you think it will happen? Do you think ultimately the vote will be to leave the EU? What's your personal opinion?"

Mr Montegriffo: "I don't think the vote will be to leave. Look, we all have friends in the UK, some of you are from the UK and you have your own opinion. I find it very hard to believe that a sophisticated electorate like the UK will disregard such a chorus of considered, friendly opinion. There are world leaders, people like President Obama, (with whom the UK has a special relationship) and many European countries with whom the UK has close relations, lining up to give advice regarding the economic and social benefits of staying in Europe. They are doing so not just because it's in their self-interest, but because they have come to a considered view about what's best all round (including for Britain).

Now of course, the UK will make up its own mind but I do believe that the likely outcome is that there will be a vote to stay. However, the vote to leave might be much bigger than we can speculate today: it could be a sizeable minority. From a Gibraltar perspective, I believe that the more that the arguments are set out, the more overwhelming the case becomes to stay. Not only in economic terms, but also in terms of security, and very importantly in terms of the future of the European project generally. The other day Michael Gove set out his case for Brexit. He said it would allow the UK to reassert its sovereignty; he also said "and it will liberalise or will bring liberation to Europe" which was an extraordinary thing to say. It was as if he was suggesting continental Europeans may be encouraged by a Brexit vote and actually rebel against the model themselves.

Well, if that is what he was really suggesting, an implosion of the European model, we all know what happens to Europe when it starts to break apart! We've got a long history of two millennia of wreaking havoc in the continent which, by the way, the UK can't insulate itself from. So the European project is not just economic: it's about security and keeping the peace, and I think as the arguments start to be made, the British electorate will understand more of this. Of course, there's a visceral reaction in some quarters but I'm convinced that you can trust the good sense of the electorate to get it right."

Moderator: "Let's have a look at our poll question and result. Does the audience share the view that the vote will be to remain within the EU? Wow! I think that's quite decisive, 83% think we will be in the EU in just over a couple of months' time.

And the next question was, how will you vote? Ok, so even more would vote to remain, 87%. Of course there's a Gibraltar angle to this and I think we all feel very closely towards Gibraltar. Very interesting! Ok, so let's assume that Brexit happens, Peter Isola, what would be the immediate impact?"

Mr Isola: "I find it very difficult to start on the premise of Brexit will happen as I firmly believe it won't. However, if it did happen, operators rely on the freedom of services, so one would be looking at what arrangement we might have after or on that occurrence. There will be plenty of time to look at that if it were to happen. If you look at the UK, the media is full of it: you've got the charismatic Boris Johnson on the campaign trail, it's easy to make headlines to suggest Brexit is great, and Peter referred earlier to Michael Gove and his philosophy. At the end of the day, when you look at the reports coming out, such as the UK Treasury Report, the PwC Report, the LSE Report which said we constantly find that by reducing trade, Brexit would lower living standards. The pound is going to be affected, it's going to affect people's money in their pocket - I just cannot see it happening in any shape or form.

Only yesterday in The Times was a headline "unemployment rise fuels fears of Brexit slowdown". In the context that Brexit did occur, and it will obviously depend very much on what the UK negotiates, and to what extent we can piggyback on the back of the UK. Obviously, that would raise issues as to whether we are a part of the economic area EFTA and all the rest of it. Spain would be difficult in allowing us to piggyback in that way, but operators would be looking and seeing how freedom of service would be affected. Obviously the frontier flow would be affected, as something like 60% of gaming employees live in Spain, so it's a crucial factor. One would hope that Spain, if there was a Brexit, would think "ok, this is a question of time" and that there would be a reasonable flow at the frontier. We have to face reality and these would be the problems that would arise. Underpinning that view, is that I don't think Brexit will happen, but I'll happily be shot down, and obviously, as you mentioned, I wouldn't bet against the bookies."

Moderator: But, if the vote is to leave on the 23rd June, what are the mechanics for Gibraltar? Does it mean that from 24th June we have an immediate change to the status quo?

Sir Peter: No. Under the treaty there is a 2-year period for the UK to negotiate its Brexit agreement. That period can be extended, albeit it would require unanimity amongst member states to do so, but there's no reason to suppose unanimity on that question would not be available. As Peter Isola has said, in terms of the outcome as it affects Gibraltar, much depends on what the UK is able to achieve. I think that there is an excessive amount of optimism in the UK, but for us, it depends on what we're allowed to piggyback on (just to borrow his phrase) and the extent to which we get the benefit of the same exit agreement as the UK. I share the view of the audience: I don't think Brexit is going to happen, nor will the margin even be close. If it does happen, the consequences to Gibraltar will be economic, but mainly political. I share the Government's view that they are not life threatening consequences, but all change involves disruption and uncertainty, which leads to insecurity and to postpone business decisions, and things of that sort. Specifically, for this industry, a Brexit would take Gibraltar back a step. The gambling industry everywhere has changed a lot: technological change, cheaper places to operate out of in terms of manpower, that has lead companies to take activities away from Gibraltar and place them in other cheaper jurisdictions, but without severing their connection with Gibraltar. If there were Brexit, the consequences for the online gaming industry will not, in my view, be an exodus, it will not cause online gaming companies to seriously doubt whether Gibraltar is a place that they should remain or perhaps even establish in. It may lead to a reconfiguration of the sort of activities that you wouldn't now choose to do in Gibraltar and might take elsewhere, and a newcomer might never establish in Gibraltar, but that's fine. Because in Gib, one of our big advantages is that the Government is accommodative, that we're nimble, that we're agile, we're able to reposition, to reposition ourselves in terms of what we can be useful to for the industry.

I think other industries will face greater challenges than the online gaming industry. The political dimension is a different one, which will affect mostly lifestyle issues. So it's very important to go out to vote so that the majority in Gibraltar for 'Brexin' or 'Bremain' is as big as possible because to stay in Europe suits us, certainly politically, and economically it will just avoid disruption and the need to reposition and re-jig and reconfigure."

Moderator: So, if I'm clear, as an operator, if I have a period of at least two years after the vote, I'm best to wait and see what happens?

Sir Peter: Well yes, and perhaps an implementation transition period, after the agreement, and then a lot longer than two years.

Moderator - Even considering that, which indicates that there's no immediate threat, Peter, are there other reasons, even assuming that there's a Brexit, at some point down the line, are there reasons to feel optimistic about the industry in Gibraltar and how it might look?

Mr Howitt – Well, it would be an easier question to answer if we didn't have the issue with Spain, which is always there. You know, the UK doesn't have that so when it thinks about Brexit, it's thinking in very different terms. But because we rely on cross-border workers so much, fundamentally, the impact on Gibraltar would depend on to what extent would the ability to have movement of workers into the airport and across the border, still apply? We've got a period of 2 years' minimum where we will have the same rights, if there is an exit, and there's so much uncertainty about what would happen in that period, it's very difficult to say. There's room for optimism in terms of the fact that the industry has already pivoted away in some cases from continental Europe and looked more at Africa, Asia and South America because of commercial reasons. They've been looking in financial services and gaming. We've seen with compression of margins that operators are always looking elsewhere where there are new opportunities and new growth markets. The loss potential of the ability to have freedom of services argument or a passport, aren't necessarily that troubling when you look at a business that has a global outlook. And sometimes, as you know, the gaming operators here already have a local license in other European member states, despite being in the EU. So there are lots of things where I think it wouldn't actually be such a big shock to the industry. The question to the UK electorate is, do you want to leave the EU, but what we don't know is, what will you join if you leave the EU? That's really the question, and when we know the answer to that, then I think we'll have more confidence in our ability to understand the impact on Gibraltar."

Sir Peter Caruana added a final point about the issue of free movement for workers: "We mustn't rush to assume that Brexit equals problems at the border. Spain has reputational issues to consider too in a modern Europe. There will be plenty of time to work things out, they will not become more stringent at the border straightaway, and may not do so at all, even if that is what is feared. They certainly will not close it."

Moderator: "The best thing we can do then, is to make sure that we vote to remain and as far as possible, those operators in Gibraltar, to make sure their employees vote for remain, so that we give a resounding YES that reflects what people say and that they will go out and vote in force. Then we won't have to worry about Brexit. Thank you to my panel, and to you, for listening."

Presentation
Turning Data Analytics to Commercial Value

Paul Henninger and Nathan Beaver, KPMG UK

An engaging talk demonstrating how Data Analytics elicits commercial value was held in the main room. Two experts in the field, Paul Henninger and Nathan Beaver of KPMG UK, presented the session with slides. They paid particular focus to the strategic use of data analytics to maximise the value of free play for gaming operators, which is very topical in light of the UK Chancellor's recent proposals. The concept of Big Data has been around for some time, but the application of analytics is relatively new; certainly with current technologies the speed and efficiency of BDA brings fresh benefits to individual companies. As more industries conduct market research, BDA is rated a valuable tool, able to examine large amounts of data to uncover hidden patterns, correlations and other insights about customer behaviour. It is especially useful in online gambling as the customer's entire behaviour pattern is online and traceable. Data compiled from this, together with external factors, will compose a keenly accurate picture of said customer, and can be used to predict future play & spend patterns.

Mr Beaver opened the presentation with a few words on big data: "We'd like to bring to life some of the problems we're helping organisations with and some of the challenges you're facing, around how to turn data into commercial opportunity. Frankly, I'm a bit bored at the concept of big data; everybody's talking about it. You can't get through an airport, a train station or open a newspaper without seeing something about big data. The unfortunate truth is that big data clichés are kind of true. For example, this slide, showing the Google 24-hr economy, demonstrates the huge volume of data that's being created every day."

"Now, to give you another statistic, in the last year alone, we have created globally, more data than we have in the entire history of mankind. With the advent of machine to machine, growth of the internet, and more of you posting, accessing and engaging online through mobile devices, that number is going to drastically increase. Why is that? Well, it's because every day that you wake up, you create what we call a vapour trail of data and of information. The challenge of organisations now is to think, how can we harness, understand and capture this vapour trail in order to understand more about you, the customer: how you behave, what your motivation is? The answer can be reached via the right analytics approach, which can convert that data into information about that customer."

Mr Beaver moved on to highlight the sales process of a major airline, and the use of data analytics in refining this process. "The basic need here is you, the customer, wanting to travel from point A to point B. You get on a plane in London and want to travel to Madrid. So you're travelling along, that's great and they can price your ticket according to the volume of seats on the plane. But actually, if the airline can begin to understand why you're going to Madrid, what's your journey through London to the airport, what you do on your flight to Madrid, what you're going to be doing in Madrid, what activities are you going there for - for a sporting event, concert, or conference - then they can begin to think differently about how they price to you, and they can be more dynamic around their pricing and about their cross-sell and their up-sell opportunities. If for example, they understand you're going to Madrid for a conference, where the conference is and what hotels are within that area, therefore, they can think about what they cross sell to you in terms of additional products and services, not just in line with your ticket."

"The whole premise now behind this cliché of big data is how can you begin to understand the motivation and behaviours of your customers by utilising information that exists outside of your organisation."

As an industry and as a sector, eGaming is one of the richest in terms of capturing data about customers, probably second only to financial services. "You know who your customers are, where they live, you know when they play, where they play and how they play, you understand what they play and you understand,

"The challenge presented to gaming institutions by changes to the UK tax law, which may or may not come in the wake of Brexit, will be something that affects us all."

fundamentally, your P&L around that customer. But that is an inside-out view of your customer," explained Mr Beaver.

"The challenge for the industry," he continued, "and this is a cross-sector challenge as well, is how can you marry that information with a vast quantity of data that also sits outside of the organisation, and pull those two data sets together in order to be able to better understand and drive a business outcome. The problem with big data, is it's a bit like working in a lab at a bench and doing tests and experiments. You could sit there for days, months, years doing tests and experiments but you're fundamentally in a lab: you need a hypothesis to hang it off. It's the same principle in data, you need a business outcome that you can hang your approach analysis off. So in the industry, this could be how you want to increase wallet share, or how you can more effectively offer and promote to your customers, and how you can better understand their spending patterns. So by marrying this external and internal data, you can forecast customer spend, and begin to understand what the right reactivation for a customer may be."

To put it into context, Mr Beaver gave an example of a gaming customer who is 'fading' in the sense that their online activity has dipped. "So, the customer is beginning to fade from your site, and you think, I'll throw them a £10 bet, a free £50 bet or some kind of offer, and you'll offer that to everybody. But the fact is that we all react differently to a different kind of incentive and promotion, and so what you need to do, is to understand the behavioural cohorts of your customers. So if you want to re-engage and reactivate customer A, actually A would really benefit from a personalised telephone call. If you want to reactivate customer B, it could be a special offer around a bet on their favourite football team, for example. It's understanding an individual's behaviour to the point where you know which is the right trigger to pull, in order to generate the right business outcome that you're trying to achieve."

In a different context, Mr Henninger moved on to show how others outside of the gambling sector have taken the recipe and the same approach to address some of the challenges that they've been facing.

Mr Henninger: "The challenge presented to gaming institutions by changes to the UK tax law, which may or may not come in the wake of Brexit,

will be something that affects us all. At the moment we don't know whether that will be less of a problem or more of a problem! What we do know is that the Finance Bill (published March 2016) intends to tax free play more aggressively. That presents a problem: on the one hand, we're going to have to pay more money for offers that we present to clients and the free play that results from it, and we'll try to minimise that. That is a reasonable approach. But on the other hand, this gives us an opportunity to figure out how we can optimise the results of that. The point that Nathan was making, when you present that offer to someone, is how to do it in a way that's most likely to result in an economic and entertaining outcome that results in them playing more. In that sense, analytics is best used not to try to answer every question under the sun, but when these types of opportunities are created, where you've got change in the scarcity on some of our resources, i.e. all of a sudden it's more expensive to make offers. So it's about seizing an opportunity to better target people, and to achieve the ideal outcome. And, in a couple of cases, where you've spent less money, and essentially achieved better results."

Mr Henninger moved on to illustrate the relevance of this with examples where KPMG have successfully applied data analytics in other industries:

"We've worked with a couple of clients to try to understand that principle. If you consider the retail industry for example, we focussed on why people are interested in eating sandwiches. The answer to that is simple - you eat a sandwich because you're hungry, but what motivates you, what is the journey by which you come to walk into a restaurant or coffee shop, and select a particular item to eat, is complicated. So, in this case, we worked with a large food retailer who had expanded globally. [slide no. 30] The problem that needed addressing was that they no longer had confidence in the parameters of the model they'd been using: opening up a store on a corner is better, lots of people walking by is good, 2-for-1 offers were good, but their success rate was uneven. The client was either far more successful in locations where they opened, or far less successful, and it was unclear why there was such a differential. Way less successful because he'd created a wastage problem, way more successful because he wasn't taking advantage of the opportunity that was presented by people who were interested in purchasing food and beverages at that location. So what we did was define the problem differently. We looked at what people bought and what people consumed, but also at all the data available, as Nathan said, from these vapour trails which point to how a customer arrives at their purchase. Where do they live? Where do they work? How long does it take for them to get there? What are people like who do that there? What type of economic situation are they in? What are their feelings about education, opinions about Brexit, etc.? From the hundreds of different sources of browsing information, including crime stats, you can form a picture. It's not about making assumptions; it's more about defining the customer, based on data analysis. Who are these people who come into our stores? How can we understand why they're buying a sandwich or a pot of fruit or a soup or a salad? Or why are they walking out? Is it because things are too busy? Essentially, what we did here was find answers to those questions. Our data analytics enabled us to understand that next week on Tuesday, at 10 o'clock in the morning, in Leeds, on a particular street, what's likely to happen is, Mr Smith will walk in, buy a coffee and an egg salad sandwich, and an apple. But – and this we know from the vapour trail – he has a loyalty card, and he likes cake, so on Tuesdays, we're promoting cake, to LC customers, near the tills, and, hey presto! Mr Smith adds a cake to his purchase."

"Essentially, if we can get that right enough, what's 'likely to happen', can become a 'what will happen'. So you, as a client, will know with a greater degree of accuracy, how many sandwiches people will buy, how many pots of fruit and coffees etc. That becomes incredibly valuable information in terms of determining whether you want to open a store here, or there, what you do about it, how many sandwiches do you need? Also, which offers are best? How do I get people to buy more stuff? What's going to make a difference, or what's a waste of time?"

Convenience and proximity play a big role too in decision making, whether you are buying a sandwich or placing a bet. Mr Henninger again, "If your office is located in the business quarter, are you likely to buy your lunch there? Or go further afield? Or, if you come out of a public transportation point, how far away is the closest restaurant, what other restaurants are in your sightline, and all of that information we've scaled down to data that we can use to build into a model. In the context of gaming, from a physical point of view, you've got stores, so that same information exists. Of course you can just pull your phone out of your pocket – that too is convenient. But on a sunny day, with the Everton game coming up, why not take the 5-minute stroll to the betting shop, just along from the office? It's understanding what motivates your customer, when, and why."

Mr Henninger put the customer in context. "Currently, you've got a fragmented view of the customer from how they interact with you, via technology. Essentially, you're trying to put Humpty Dumpty back together again, as you bring together information into a single customer view. That is a worthwhile effort, but you wind up with a view of the customer which is fundamentally one dimensional. All you know is everything there is to know about how they a) interact with you specifically (not your competitors), and b) consume the service that you're offering them. You don't know why they got there, do they have children, do they drive to work, do they take the train, did they go on holiday, where did they go on holiday, what did they do whilst they were there and so on. All sorts of information can be gathered and computed so when someone clicks onto your site, you're well informed as to what got them there and what they are therefore likely to be interested in. It's a statistically solvable problem."

Mr Henninger explained that it's not only a solvable problem in terms of the retail sector but also in other areas, such as lending, by using a similar approach to figure out who's creditworthy. Colossal amounts of back data exist on people, on their likelihood of paying back a loan, derived from credit histories. "It's interesting because banks have tended not to look at the external factors which drive their customers; historically they've tended to see them as quite linear: spenders or savers, risk-takers or non-movers. When a more holistic approach is adopted, via a whole host of questions and data analytics, a bank manager will discover what really motivates his client to spend, or save or invest. The bank is better placed to understand who's likely to need a loan, pay back a loan, or even be interested in having a loan. Developing a rich picture of customer behaviour can be incredibly useful to corporations. In this particular case, we were able to improve the accuracy of the model that folks are using by 17%, which is not a huge number, but is a massive increase in their ability to address a credit market and frankly, simply, to understand the customer."

So the question really is, how can we apply this to gaming? The answer is not simple, but it is relatively straightforward. Mr Henninger again, "As Nathan suggested, a huge amount of information about how people game is available. What are the historical spikes in their behaviour? How do they compare to other people in their cohort? The important thing to put into context is customer behaviour, in terms of how they're using your services, and to provide that broader data context to understand who is likely to behave in what way, and why. Once we do that, there are interesting things that we can do in terms of wallet share. Are they spending as much money as you would expect them to spend, given what you know about them? Are they headed in a negative direction and is that salvageable? Can offers be used to bump them in the right direction, or would it be a waste of time? And all of that information, on some level, goes back to replicating a personal relationship with the customer which helps you serve them in a better way. So you can provide them with what they want to derive from your service, but also, economically optimise what you're trying to do, from a growth and cost point of view."

Mr Beaver concluded the session: "Basically the recipe is simple but complex. It's simple in that it's all around how you combine external data and internal data, to understand the customer behaviour that led them to a decision. It's complex because what you're then trying to do is understand all of that data, its relative strength and its correlation amongst itself, and you're trying to then use that to drive a decision. So, analytics tell you the best way to push a deal, and the customer's likelihood of visiting, returning to, or exiting from your site, but the challenge then for the organisation is how you execute upon it. Really it's not just the data analytics telling you what to do, it's the organisation pulling the lever and actually delivering the change. A final point to make is the one that Paul made earlier around the challenge of free play tax that's come in. For us, we see that as an opportunity. Everyone will be doing the right thing working out what their tax strategy is, but it also presents an opportunity to think differently about how to optimise marketing and promotion spend. It's a chance to work out the right product, and the right promotion for the right customer at the right time, in order to maximise the benefits of that spend and generate you the greatest return."

"All sorts of information can be gathered and computed so when someone clicks onto your site, you're well informed as to what got them there and what they are therefore likely to be interested in. It's a statistically solvable problem."


KPMG
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Presentation: Happy and Unhappy Gamblers

Professor David Forrest

Economics Professor, University of Liverpool

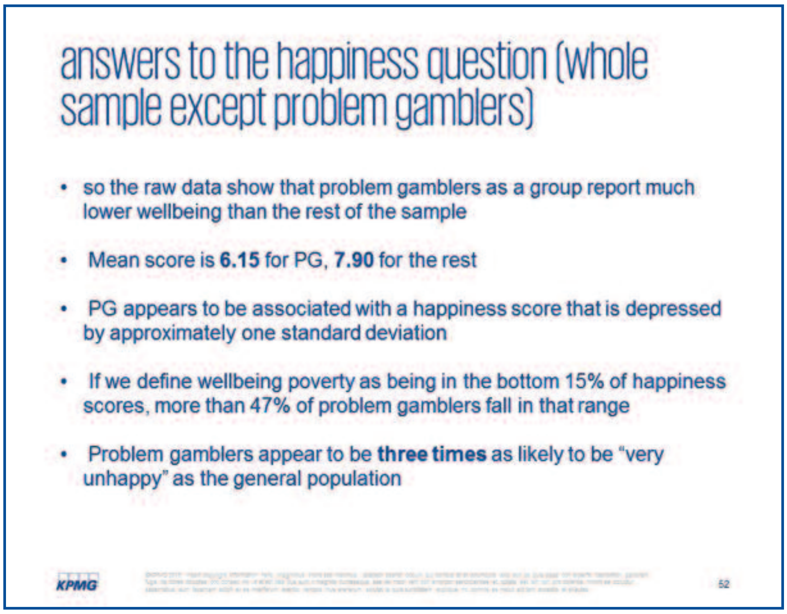
A fascinating look at the impact of gambling on customer wellbeing was provided by Professor David Forrest, Economics professor at Liverpool University. Based on a Prevalence Survey carried out by the British Gambling Commission in 2010, Professor Forrest analysed the results of over 8,000 British adult respondents. A baseline model was constructed and used to assess contributors to wellbeing. The information gathered revealed much about gambling participation & behaviours, and the survey screened - discreetly - for problem gambling, using specific tools (PGSI and DSM-IV). At Professor Forrest's instigation, the survey also asked the "happiness" question, which is unusual for surveys in the gambling industry. Perhaps the most surprising result, however, was not that problem gamblers tend to be unhappy, but that the majority of gamblers are, in fact, happy.

"Taking all things together, on a scale of 1-10, how happy would you say you are these days?" – the Happiness Question

Professor Forrest began his presentation by alluding to the idea of 'happiness' as it appears in surveys across the globe, for anything from retail market research to NASA space programs. Indeed, in 2011 a UN resolution invited member states to collect 'happiness' data and use the data to inform public policy. Governments now routinely include a question regarding happiness in national census polls. But its application to the business of gambling and its inclusion in surveys taken by gamblers has thus far been absent. So the findings by Professor Forrest can be seen as providing fresh insight into the motivations of gamblers, and the link between their gambling behavior and their level of wellbeing .

It is clear that data collected from the respondents was credible, explained Professor Forrest, as the use of a statistical model "reveals intuitively plausible patterns in answers that are stable over time and space". Referring to factors such as marriage and good health, which tend to increase happiness, Professor Forrest pointed to the fact that a "predicted happiness score" is based on several key indicators. Depending on how consistently & logically the respondent scores, the survey will assess whether a person's answers are considered and responsible, and therefore can be taken with confidence. "Moreover, psychologists' validation studies find high correlation between individuals' happiness scores and other indicators of mental wellbeing (e.g. how often the subject smiles) and other people's assessment of the subject's state of mind: happiness score is "a useful measure of wellbeing"."

The large numbers of people required to take part in such surveys are necessary to build an accurate picture of gambling behaviours and assess a ‘happiness’ quotient. Fortunately, the BGC tends to conduct large-scale surveys: this one held 7,500 respondents. As Professor Forrest explained, “I will show you from the BGPS (British Gambling Prevalence Survey) data how the pattern of wellbeing looks, linked to gambling behaviour. The legitimacy of a gambling industry depends on its conduct taking into account the propensity of some of its customers to behave in a self-harming way. But it also depends on the belief that gambling does some good for the majority of customers, perhaps even raising their quality of life. We therefore need to consider the wellbeing of problem gamblers, of ‘safe’ gamblers, and perhaps also of those in-between (at-risk gamblers).”



If you consider firstly problem gamblers, in fact the BGPS survey screens showed this to be only 0.7 – 0.9% of the general population. Given that in Great Britain the gambling community comprises around 11 million adults, that appears to be a low percentage. Actually, according to the BGPS, 73% of the British public will admit to gambling of some sort; this includes those who may buy one lottery ticket once a year. The population of Great Britain today stands at just over 64 million, so put into context, of the gambling community, only 0.04% are noted as “problem gamblers”. There have been identified a further 3.5 million regular or frequent gamblers who are seen as “at risk”, making up 7% of the general population. But to return to the biggest concern, just under 1% of the general population are problem gamblers: in reality this is 448,000 people who have an actual addiction that can affect health & wellbeing.

Professor Forrest explained the results of the happiness question as applied to the BGPS: "The majority of people appear to be happy. About 70% of people answer 8, 9 10 on a 10-point scale. In fact, if we take answers 1-6, that amounts to pretty well exactly 15% of people who answer 1-6. The other 85 answer 7-10. So most people report themselves as pretty happy or indeed extremely happy at level 10 and this is true everywhere, for the most part. Now I'll put up the chart for the sub-set of respondents who were diagnosed as problem gamblers and you will see it looks very different from the people in the survey who were not problem gamblers and very different from the charts for all the happiness surveys that you ever see. This chart shows still that there are significant numbers of people answering 8, 9 or 10, but more interesting, now, is that there are many people who are reporting themselves to be in what I call well-being poverty. What I call well-being poverty is thinking your life is so bad, you answer between 1 and 6. So 15% of the general population answer between 1 and 6, but 47% of problem gamblers answer between 1 and 6. So this first sign is that problem gamblers are, unfortunately, exceptionally unhappy people. You might think that you're getting away with the maths because the charts show all of it. In fact, we need statistical modelling because it might be that the problem gamblers fall disproportionately into demographic groups who are known to be unusually unhappy compared with the general population. For example, always and everywhere, young people are less happy than old people. Always and everywhere in these surveys, ethnic minorities in the particular country are pretty unhappy and also, on the whole, men tend to be less happy than women. So problem gambler profiles, very often problem gamblers fall into these categories of young, male ethnic minority, so they might not be unhappy because they are problem gamblers, they may be unhappy because they are in the demographic groups which tend to be unhappy anyway compared with the rest of the population. So you need a statistical model to control for all the different and demographic and life circumstances so you can isolate the impact of being, say, a problem gambler."

"We would be able to find, for example, that having a partner rather than living alone, bumps up your predicted happiness score by 0.7 points..."

Professor Forrest went on to explain how to construct a statistical model to cope with all the variables: "The standard methodology is first you construct a statistical model to predict happiness. You try to get the mathematical equation that will best fit the data in terms of predictive power. In that equation, you use things that are found everywhere to matter to people. Definitely you need to include demographic variables, such as the family structure in which the person lives, their state of health, their job status (retired/employed/unemployed), and their level of income, because all these things are going to have a significant influence on people's wellbeing. So you build a baseline model to get it to best fit the data and then you add your special interest variables, which in our case, are variables describing the gambling behaviour of individuals as they reported it in the BGPS. These are standard variables which affect people's happiness and I call them life circumstances."

The principle exploratory in the baseline model are: ethnicity, age, education level, marital status, presence of children, household income, labour force status, alcohol use, smoking status. The model was based on information collected from respondents in the BGPS, to predict an individual's response to the happiness question, on the basis of these variables. Luckily, the prevalence survey collected information on all these things and the results of the baseline model were completely uncontroversial. They revealed that the people answering the BGPS are just like everyone else in terms of what matters to them.

Professor Forrest again, "It would be fun to look at how these things impact on happiness, but we've not quite got enough time today. We would be able to find, for example, that having a partner rather than living alone, bumps up your predicted happiness score by 0.7 points, and that's a lot, because remember, most people answer just in the range 8-10, so 0.7 is a big shift in terms of what the model predicts."

"We could talk about the impact of children. One of the few insignificant variables was the presence of children in the household. In the male equation, that's insignificant – men seem blissfully indifferent to the presence of children. In the female model, there was a statistically significant negative sign indicating that women, in households with children, were less happy than women in households who have no children. This perhaps reflects the fact that an undue part of childcare falls on women and as a result, notches down their happiness."

"I put in alcohol use and smoking status because these are two consumptions which perhaps capture things like willingness to take risk, which might also be characteristic of gamblers, so it's a way of trying to standardise for personality type, but in fact those variables didn't do much. The only thing either of them did was, amongst women, heavy drinking was associated with depressed happiness score, but otherwise, smoking and alcohol information didn't add anything to the model.

After building the baseline model, the next thing I did was to add gambling variables and I actually have two sets of results but I'm just going to present one. Each set of results corresponds to information based on one of the problem gambling screens. I'm going to show you the modelling where the gambling variables were as revealed by the PGSI screen."

"Now here are the gambling variables we added. The problem gambling severity index asks people a number of questions which are intended to reveal either psychological symptoms of addiction or harm resulting from gambling. For example, addiction is captured by when you lose, so do you have to go back to try to win what you've lost, and is harm is represented by questions like "have you ever lost a relationship because of gambling"? The majority of people who gamble, answer "no" to everything and get a zero score: 90% of gamblers answer zero.

You then, progressively, as you endorse more and more items, you get classified as low risk, moderate risk or a full-blown problem gambler, for which you need a score of 8 or more. Now these 4 variables are added onto that great long equation with income, children and smoking status and everything else. These are added to the equation and the model is re-estimated again. These 4 categories are all people who gamble and the adjustment you need to make from the equation here is the adjustment I make: if the person is a moderate risk gambler relative to not being a gambler at all, not being a gambler at all is the reference category and then the equation says what adjustment in happiness score you predict if you're told that the individual is in one of these types of gambler instead of being a non-gambler.

focus first on no-risk gambler

	Males	Females
No-risk gambler	0.157***	0.026
Low-risk gambler	-0.124	-0.546***
Moderate-risk gambler	-0.672***	-0.897***
Problem gambler	-1.173***	-0.953*

As it's a long equation I'm just going to take one item out and explain that. The first item I'm going to look at is the variable called no risk gambler. This tells us how much adjustment we make to a predicted happiness score if you are holding all those lifetime circumstances constant, but then you make the person a "no risk gambler" instead of a "non-gambler", and in the male equation, for no risk gambler compared with non-gambler, we have to raise the predicted happiness by 0.157 points and the fact that there's 3 stars, that's a measure of how statistically significant it is. Three stars means extremely statistically significant. We can be very confident in this result that no risk gamblers, that is people who gamble safely, are happier on average than non-gamblers, taking into account all those life circumstances that are in the model.

When we confined it to white males, the result was much stronger. This is quite a modest increase in happiness but it gets bumped up significantly if we just look at whites, perhaps reflecting that amongst white British males, gambling is a more accepted part of the culture, fewer feelings of guilt and so on.

Amongst women, there are no stars next to that number 0.026 and this means that it's not all statistically significant. We've got no firm evidence that being a safe gambler makes any difference to women compared with being a non-gambler.

A little footnote to that is when we put in a separate variable for "plays bingo", as playing bingo did have a significant effect positive on women's wellbeing. However, this bingo related variable applied only to land venues.

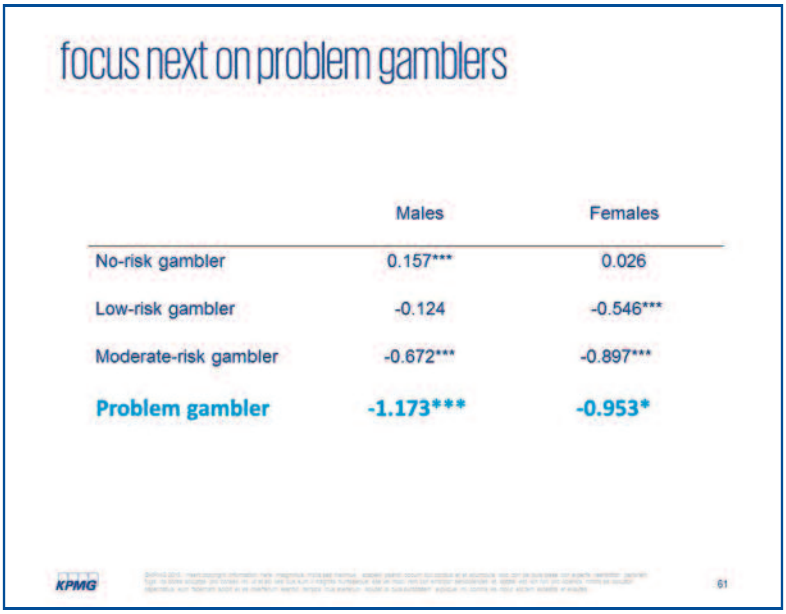
So what we've got here is that men on the whole, if they're gamblers and the majority are safe gamblers, are a cheerier lot than people in similar life circumstances who don't bother with gambling at all. Now this isn't necessarily causation because it may be not that being a safe gambler is such fun that it makes you happier, it might be that happy types are the people who go out and gamble. Risk takers, happy-go-lucky etc. We don't know. We don't know the causation but we cannot rule out that gambling, if done responsibly, appears to offer many things that psychologists identify in that minority part of psychology called positive psychology, which doesn't look at disorders but what makes people pleased, this part of psychology says that having excitement, having an escape, going to an environment which is sociable, feeling that you're gaining control over something you do rather than being under someone else's orders, all these things in positive psychology are supposed to be good for your mental health. So maybe it's possible that the causation does indeed run from safe gambling to greater happiness.

(I see someone has taken a picture of this! It's because this is very good news for the industry that the large majority of its customers are happier than those miserable few who don't gamble.)

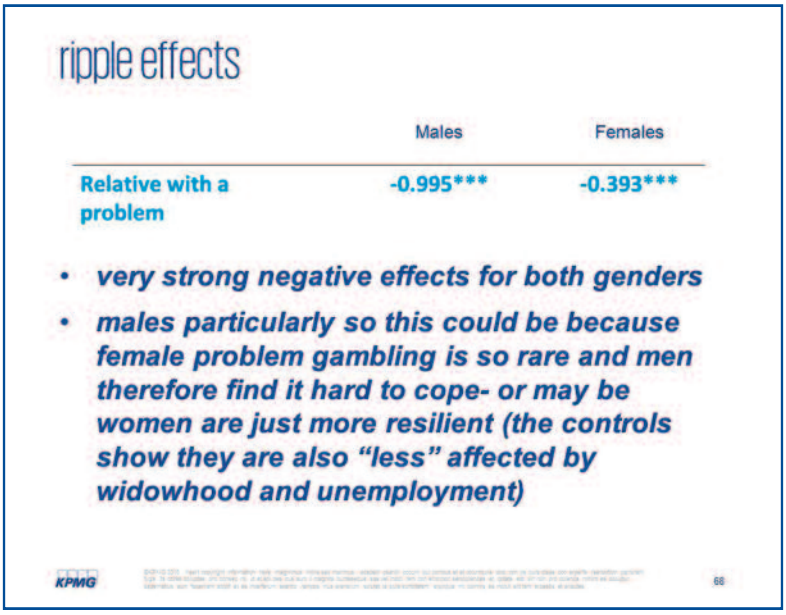
The bad news follows the good. Now I focus on problem gamblers, which is another term in this great big long equation.

"We can be very confident in this result that no risk gamblers, that is people who gamble safely, are happier on average than non-gamblers,..."

Here, the news is absolutely disastrous because if we look at the male column, if you're a problem gambler compared to the reference group of non-gamblers, we have to lower your predicted happiness score by almost 1.2 points on the 10-point scale. That is an enormous shift. That's the sort of shift you see normally only amongst, say, cancer patients. Remember, most people are answering in the range 8, 9, 10, so in the population, half a point is a big movement and this is more than a point. We get a lesser change if we change the health variable from average to very bad. Male problem gamblers are extremely unhappy people. It's not explained away by their life circumstances because the rest of the model accounts for demography, ethnic status, income etc. This is the bad news. The industry often says problem gambling, well it's not many people, and maybe it's true it's not many people, but those people are suffering within the population and within the study of other disorders, an exceptionally depressed level of wellbeing. Now that's the males.



The females produce about the same result. The loss of 1 point on the happiness scale if a problem gambler. There's only 1 star because it's not quite as statistically significant as the male result, but that's mainly because there are few female problem gamblers to study, so your degree of confidence reduces when you don't have many cases to study, but it's still statistically significant at conventional levels. So the news from this slide for problem gamblers, is that wellbeing goes down by at least a point on the 10-point scale, which is a severe effect.



Now, again, this is not evidence of causation. Problem gamblers are likely to have multiple disorders. It may be their general mental makeup which leads them into problem gambling but it would lead them into being unhappy people anyway. If problem gambling is a symptom of unhappiness rather than the cause, that could well be, there's no ability of this model to identify causation. On the other hand, there's still a big lesson here for public policy and for the industry, it's that, as a group, problem gamblers suffer exceptionally low wellbeing: they are a very vulnerable group. In the online survey, according to the prevalence survey, they comprise 15% of customers and therefore there is a very strong duty of care in my view to make sure that the problems of these problem gamblers are not made worse by the practices of the industry, which is why there is such a wide welcome for the fact that many parts of the industry appear now to be addressing responsible gambling issues more seriously.

Now what about the group in between. We've dealt with the quite happy, safe gamblers and we've dealt with the really badly off problem gamblers, but what about those people who do endorse some of the items on the screen, but not enough to be classified as a problem gambler. These are variously called "low risk" gamblers and "moderate risk" gamblers. Now this is possibly the most surprising result in the study. It's that especially for women, even endorsement of some items on the problem gambling screen, is sufficient for us to sharply downgrade the predicted happiness score of the subject. That is, it's not just problem gamblers who suffer depressed wellbeing, it's also those who are close to being problem gamblers. Now this is, if anything, even worse news for the industry because there are three times as many moderate risk gamblers in the population as full-blown problem gamblers and these results suggest that we should be worried about those people as well. Once again, I don't find it convincing that they are miserable because of their gambling activity, but they are people who are vulnerable because they are having mental health problems. The answers to this question has shown in psychology to be a good indicator of mental health. There's something about these people that makes them vulnerable and we should worry about them and we should tread carefully when we're dealing with them as customers.

I'd like to consider the ripple effects in a completely separate model now. It started with the baseline model and then we looked at the impact of having a relative who is a problem gambler because the prevalence survey asked each respondent "do you have a close relative who has a gambling problem?" and in this model, what I do is explain the impact of that on wellbeing and it's a serious effect again, especially in the male column. There is a dramatic depression of wellbeing amongst men if they report that they have a close relative with a gambling problem. Now notice that although there is an adverse effect on both men and women, it's the men who seem to suffer more. Now very often the close relative will be a spouse, so very often, this will be reflecting the effect on a male of having a wife who is a problem gambler and it's a very severe effect. Perhaps it's more severe amongst men than it is amongst women because female problem gambling is unusual and so will carry more stigma. Alternatively, it could be that men are just less resilient to problems than women. We had in that big long list of things in the model, remember we had family structure, family status, and one of the variable was widow and in the male equation, if the man was a widow, that was about as bad as being a problem gambler. We had to take a point off his predicted happiness, but I'm afraid that in the female model, it didn't seem to affect them very much being a widow."

"It is worth noting that within the gambling sector, the shift to eGaming offers some hope since it offers the best conditions for using automated systems to identify problem gamblers from their patterns of play. But identification has not yet been shown to be straightforward and the next task after that is to find out what interventions might be effective. In my view, we have some way to go before these issues are resolved. The journey is worth making because effective targeted interventions are the one policy that breaks away from the need for a trade-off between the interests of safe gamblers (let them have fun) and the need to mitigate harm to problem gamblers (restrict gambling). We can strive to intervene in the category of 'low-risk' and 'moderate risk' gamblers to minimise harm done in the longer term."

"My overall conclusion is really that we should be very careful not to worsen the problems of problem gamblers. They are seriously unhappy people. It's not enough for the industry to say only 1% of the population are problem gamblers. They are a far higher proportion of your customers and they're as badly off, in terms of wellbeing, as cancer patients. So we have to formulate policies with the goal of allowing people to gamble sensibly and have fun and be happy gamblers, but make sure there are no features to the gambling that make the problem gamblers' problems worse."

The Latest Challenge: The Nature & Impact of HMRC's Proposed Changes to VAT

Sandra Skuszka

Head of VAT Services, KPMG, Isle of Man & Gibraltar

Mike Camburn

Indirect Tax Partner, KPMG, London UK

An informative talk on the upcoming proposed changes to VAT was held in the main room, led by VAT specialists Sandra Skuszka and Mike Camburn, both of KPMG. As the new tax year unfolds, companies will need to prepare for those changes and put in place measures to cope with their impact on the gambling industry.

Ms Skuszka: "We're here to talk to you today about the latest VAT challenge which is coming up in the next year or so, and its impact on the gambling sector. HMRC announced that they will be 'considering a wider review of offshore based avoidance in the VAT exempt sectors'. VAT exempt sectors includes the finance sector, insurance sector and, of course, the gaming sector as betting and gaming is exempt from VAT. HMRC are looking at this with a view to introducing additional Use & Enjoyment measures for services such as advertising in the following year."

"Under current UK regulations, advertising services are treated as general B2B services: the place of supply is not where the supplier belongs, but where the customer is. This means services are taxed where the customer belongs rather than in the domain of supplier. For example, if you had a UK supplier of services and a UK customer, that's a domestic supply. In those circumstances the supplier would be responsible for charging VAT on those advertising services to a UK customer.

In terms of the basic rules, when a UK supplier provides services for example to a French business, the place of supply is France rather than the UK. The French business would have to account for any VAT due under French regulations, not UK ones, so the customer would pay VAT to the French authorities. Now if that customer was a gaming customer, they wouldn't be able to claim that VAT back. Similarly the place of supply for a non-EU customer is currently where the customer belongs. Although Gibraltar is in the EU they are not in the EU for VAT purposes, so a supply of advertising services from a UK supplier to a Gibraltar customer means VAT would not be due on that supply. Basically the supplier doesn't charge VAT and the Gibraltar customer doesn't have to apply VAT. These are the current rules and that's how it's applied at the moment."

"With regard to Use & Enjoyment, what is the UK proposing to implement at this stage? Use and Enjoyment Rules come under Article 59a, and if you look at that specifically, it states: *"In order to prevent double taxation, non-taxation or distortion of competition, member states may, with regards to services, put the place of supply, which governs Article 44, which is the general B2B rules, consider the place of supply of any or all of those services if situated outside the community as being situated within their territory if effective use and enjoyment takes place in their territory."*

In practise this means that if you have a non-EU customer, for example a Gibraltar gaming business, and a UK supplier of advertising services, and it's considered that those advertising services are used and enjoyed in the UK, the UK supplier would have to apply UK VAT. So the place of supply would shift to where those services are used and enjoyed."

"To put it in a more commercial context, take the sponsorship of a football club, for example. This involves various logos placed in different places, broadcast across many countries. Can you say that the sponsorship service is actually used and enjoyed in the UK? It's not wholly clear, but in accordance with the Athesia Druck case, advertising services are considered to be used and enjoyed where the advertising material has emanated from. HMRC already apply use and enjoyment rules to lots of different services and have guidance on their website, which states that effective use and enjoyment takes place where the recipient actually consumes services, irrespective of the contractual arrangements, payments or beneficial interest. So it's clear what the changes would potentially mean to a company positioned outside of the EU that provides exempt services. It won't affect a company that is positioned in the Isle of Man or in Malta, it will only affect those companies that are positioned outside the EU."

"Working groups are forming to comprise various regulatory bodies including those that represent the the betting and gaming industry such as the RGA and GBGA."

Mr Camburn pointed out that some terms used in the new regulations may not necessarily yet be defined in law, and therefore we find ourselves at the fronties of VAT law once aain. Referring to a slide, he explained the chronology of all of the recent proposals surrounding VAT. "The first we heard of this was from the post-election budget of last year, 2015. There was a brief comment on a proposed review of offshore-based avoidance in VAT exempt sectors which clearly incorporated the betting and gaming sector. The term 'review' has now changed to one of 'consultation'; a review would seem to imply they are going into something with an open mind, whereas consultation typically means that they are going into something with a view to taking action."

"Earlier this year, we heard noises as the Treasury began to form a consultation document. Since the recent budget in March, there's been a lot of activity. Working groups are forming to comprise various regulatory bodies including those that represent the the betting and gaming industry such as the RGA and GBGA. Specific accounting firms are being asked to attend a working party, of which KPMG is a member. It's worth stating that this isn't a change which is just going to impact betting and gaming; potentially, it can hit all financial services."

"In the last couple of weeks we've had an informal working paper issued by HMRC in the UK. It sets out a number of areas which they are considering, four of which apply in the context of betting and gaming. Point one, how does advertising impact on your industry? What are the trends? It is digital or is it still very much traditional media spend? Point two, is advertising targeted on a geolocation basis? i.e., are you looking at particular jurisdictions with specific adverts etc.? And their third point is to consider what the impact is on the regulation on advertising. Does the fact that you have to comply with various rules impact on the sort of adverts that you can show?

Lastly (point four), would operators be capable of self-certifying, or providing a certificate to suppliers of media, to be able to determine where those services are used and enjoyed? There are three possible approaches: one is that VAT is applied across all advertising and marketing services, regardless of what sector it applies to. Secondly, VAT is simply applied across all exempt sectors, everything from land and property, medical services, financial institutions, banks, insurance, fund management, B2B lending, and of course, betting & gaming. The third option is it just gets ring-fenced around specific sectors such as insurance or betting & gaming."

"I'm certain the chances of the first option happening are very slim. Introducing VAT across everything would be like a sledge hammer to crack a very small nut. The likelihood is that it's going to be number three, whereby they'll look to ring-fence certain sectors and VAT will be introduced on that particular basis."

"There is clearly going to be a financial impact on the operators who will have to start paying VAT. However, the actual onus to determine whether VAT needs to be charged or not will be the problem of your suppliers, not you [as operators]. Suppliers will need to be able to determine whether or not, in the various contracts they hold, they ought to be charging VAT. This will be very difficult. I've already mentioned global versus local contracting. You could have a global contract with the likes of Omnicom, WPP, full of provision of advertising as it appertains to your market and not to anyone in the European Union, or the Far East, (of which the UK may be a small constituent part) and you'd need to be able to go back to your supplier and say, 'Hang on! Don't charge me VAT, as this all relates to my Far East market, or my South American or European one'".

Mr Camburn outlined that you don't need to be an advertiser to provide advertising services. "The term 'advertising' will incorporate marketing, PR and those similar activities. Advertising has got a very broad definition from an EU perspective. There were a number of cases back in the early 90's whereby various member states were infracted for the way in which they were applying or defining advertising, and what the courts said was that advertising can be extremely wide and incorporate cocktail parties for example, and other promotional events. T here are creative aspects to making an advertisement, then there's the actual underlying media placement, be it in traditional media form or on digital media."

"I mentioned earlier that HMRC were asking the question, 'Would it be possible for operators to self-certify?' Really what HMRC have at the back of their minds is, that by using a 'reasonable methodology', you could demonstrate to HMRC that the services are or aren't being used and enjoyed within the UK. That is an important distinction that operators need to grasp."

Moving on to the issue of global and local contracting, "This throws up additional issues, and one point I haven't made yet, is that there's a perception that just switching on and off VAT of suppliers is easy. Anybody who gets involved in ERP (enterprise resource planning) systems know that it's not that easy. It's very difficult, so this is potentially very onerous on suppliers themselves."

doing this, whereby suppliers could arguably discharge the VAT in full and then you would need to go through a reclaim process with HMRC in the UK to get back some VAT. It's messy, but technically doable. Operators will need to provide some form of customer metadata around where these customers are located, potential revenues, and transactions themselves. Again, we're looking at what is a reasonable methodology in this particular regard."

Explaining how this has worked in the Danish market, "There's a point here around how advertising is actually undertaken. For example, we know that Denmark has introduced these provisions, and what the Danish tax authorities have done when the advertising is of a digital nature, i.e. it's a banner or online, they tend to ignore that, whereas if it's down the more traditional media route, they tend to tax that. I do see an inherent logic around that because digital advertising is kind of global, and it's very difficult to pin it down to one particular jurisdiction."

"If you consider how branding and intellectual property bring value, this is really a callout to the broader tax picture. You see an advert which is targeted towards a certain sporting event, and underlying it, you see the name of the operator associated with that: ultimately, that's building brand awareness. With any element of an advertisement, you would have to say there are global or brand elements to it which just can't ordinarily be said to relate to one specific jurisdiction."

> "Suppliers will need to be able to determine whether or not, in the various contracts they hold, they ought to be charging VAT."

"It will also have an impact on operators. If implemented, this will form an absolute cost to the industry: the estimate of VAT 'saved' by HMRC will be £200-300 million. It's a big number. We've taken some ad-hoc soundings from a number of operators, and we think this is the likely impact. It reflects other jurisdictions outside of the EU as well as Gibraltar. Also, as mentioned, all forms of advertising are potentially impacted. It will be absolutely critical during this consultation process that the definition of advertising is agreed upon, otherwise you'll get all sorts of services pulled into it which will simply increase that cost."

Some form of relief may come through the 13th Directive Claim Mechanism. "Luckily for you, we don't have time for a technical explanation of how the 13th Directive Reclaim Mechanism works! But I will say it provides another way of

Is this a tactical switch by HMRC to target so-called 'avoidance'? "Historically, what HMRC have done is suggest that operators in offshore locations don't have enough 'substance' - human and technical resources - to be properly established offshore. It's of testament to the Gibraltar regulatory regime that the conditions [of holding a licence] you need to fulfil mean that you're all properly established here. In other jurisdictions those requirements are non-existent or quite lax.

"Where the UK goes in terms of Use & Enjoyment, means that it's not unrealistic to assume that other EU member states will seek to do the same."

HMRC have alluded to the point that if operators are [properly] based in Gibraltar, the only way in which to tax them would be change the rules so that VAT is applied on where the services are "used and enjoyed". What they've clearly identified is that advertising and marketing is a very large element of the operator spend which is currently free of VAT."

"Where the UK goes in terms of Use & Enjoyment, means that it's not unrealistic to assume that other EU member states will seek to do the same. Strangely, these rules did apply in Italy, but the Italians threw in the towel as it was too difficult to implement; the Spanish do apply it but in a rather ad-hoc way. Denmark is quite sophisticated in terms of what they do, as mentioned earlier. In our view, an emotive argument or cry does not work and makes you an easy target: we saw what happened with the Point of Consumption Tax, and the ensuing front page agendas around tax avoidance etc. However, we think a credible, technical approach will draw dividends in terms of how the changes could be implemented."

Clearly the best approach for the industry is to be collaborative: "An important point to remember is that HMRC do allow industry-wide agreements around certain aspects of how the tax is managed. So something collaborative, whereby you [operators] all agree to look at, for the sake of argument, revenues, customers, or something else, which points to a methodology, which will ultimately drive a number, would be a good idea. Where you get to a position to say, 'Well ok, we'll only pay VAT on 20% of the media spend, or 10% of the media spend, or whatever the case may be'. There's strength in collaboration, don't lose sight of that."

"From a practical perspective it's a good idea to think about longer term contracts now, particularly those where T-shirt sponsorships, stadium sponsorships, etc. will be directly impacted by this. Some grandfathering is probable, but not guaranteed, nor is the length of any such provision."

As a final point, Mr Camburn urged delegates to consider the wider business impact and operational structure. "Those who operate within the EU are not technically impacted by this, so there may be some options just to think about how the business is currently being operated, with a view to perhaps minimising the impact of these changes when they arise."

Ms Skuszka and Mr Camburn thereby concluded their presentation with a few poll questions. Delegates voted via the Bizzabo app or via text.

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Question 1:

Do you buy advertising or marketing services from UK suppliers?

A. Yes – 69%
B. No – 21%
C. Don't know – 8%

Question 2:

Do you buy advertising or marketing services from UK suppliers purely to target UK players?

A. Yes – 40%
B. No – 45%
C. Don't know – 13%

Question 3:

Would it have a material impact on your financial results if VAT is applied to such services?

A. Yes – 65%
B. No – 20%
C. Don't know – 15%

Ms Skuszka commented on the answer to poll question 1, "There's a big yes there, but not as much impact as we would have thought. That's not surprising considering the marketing spend for all gaming companies."

Presentation

Security Priorities: AML Regulation in Europe

Dr Thaer Sabri, Electronic Money Association

Chief Executive

The second presentation of the day was a fascinating talk given by Dr Thaer Sabri, Chief Executive of the Electronic Money Association. Dr Sabri began with a brief overview of the EMA: "The Electronic Money Association is essentially a trade body for eMoney institutions and innovative payment service providers. Some of them are acquirers, some gateways, but what they all have in common is new innovative means of payment, and as a result of that, needing a new way of interpreting the law or facing some barriers to business." Members of the EMA include large eCommerce businesses such as Airbnb, Facebook Payments International Ltd., and Google Payment Ltd., smaller providers such as Skrill as well as more established providers such as American Express.

Dr Sabri then proceeded to outline the scope of his talk, which would focus on the new Anti-Money Laundering legislation, in essence the 4th Money Laundering Directive. "I will also combine it with what's happened as a result of the Paris attacks, which is a re-opening of that directive, and that is where some of the security priorities come in. But I'd like to broadly cover the changes in the AML regime that will impact industry; you'll be familiar with the inclusion of gaming providers within the scope of the directive." Dr Sabri advised how "the most significant parts" of the directive would be considered, but not the entire text. During the negotiation and adoption process, the EMA worked hard to try and mitigate some of the restrictions that were being introduced, but then, and after adoption, the attacks in Paris and Brussels have re-opened the legislation; and we are expecting the amended text to be proposed in June 2016" confided Dr Sabri.

Dr Sabri began by talking about the 4MLD, and the timetable for its implementation. Adopted in June 2015, the directive is due for implementation into national law by June 2017. At the moment that makes it a two-year timetable, but that may be subject to change: "Previous directives have not involved the European Banking Authority, which now has a prominent role in drafting Guidelines and Regulatory Technical Standards ("RTS") relating to the legislation. Dr Sabri also alluded to the time gap between the 3rd and 4th Directives, as the 3rd Directive was adopted back in 2005: eleven years is long time for financial services related legislation to remain in place without amendment.

"The European Banking Authority has been tasked under both the 4MLD as well as the Payment Services Directive to develop a range of Guidelines and RTS. There is an enormous amount of work to do, and frequently the delegated areas correspond to difficult questions that could not be resolved during the period of adoption. It should also be noted that 'Guidelines' will in practice be treated by firms as obligatory, as the requirement is to 'make every effort to comply'. If you're a compliance person or you're advising your firm of its obligations and saying, 'Well it's a guideline', people tend to kind of look away and say 'Thank you very much, maybe we'll do it, maybe we won't'. It's not that kind of guideline!"

Dr Sabri continued, "RTS have direct legal status; once developed by the EBA, they then get adopted by the European Commission as a regulation: a piece of legislation that has direct effect in the EU. So again, its impact is considerable, legislatively speaking."

Part of what the EBA are required to develop under 4MLD are guidelines for risk factors that need to be considered when undertaking simplified due diligence, or conversely enhanced due diligence. 'Simplified due diligence' allows a lighter approach to customer due diligence (CDD) or KYC (know your customer) and 'enhanced due diligence', involves additional CDD processes being adopted. As Dr Sabri explained, "For example, if it's a high risk country or if it's a politically exposed person, or if you think the risk of money laundering is high, and these cannot be sufficiently mitigated, then enhanced due diligence may be appropriate. There are also guidelines for competent authorities on their risk based approach to supervision, to assist regulators in implementing an effective risk based approach. It means a firm can direct its resources to the area where it's most needed and it accepts that a zero failure regime is not expected. If you put in place a risk based policy and you follow that policy, then it should result in the firm addressing the greatest risks and it accepts that there may be far less emphasis on areas of lowest risk."

Dr Sabri continued, "There is also an RTS being developed in relation to third country risk, which is where services are offered in a third non EU country, but where the EU firm cannot ensure compliance with the EU regime. This can relate to the AML regime or to data protection restrictions, preventing compliance. The EBA is required to develop an RTS to address such situations, which could include a requirement withdraw from the market."

There was also an update on fund transfer regulations. "The fund transfer regulation used to be called the wire transfer regulation: it was Recommendation 7, and came into effect after 9/11. It required payment service providers to attach 'complete information on the payer' to the message so that destination and intermediate countries that might see that fund transfer go through, would be able to tell who originated the transfer. Law enforcement can then also track or trace a fund transfer easily, without having to go through each intermediate jurisdiction, trying to track a payment to its source. It also places obligations on the payment service provider, first of all to attach the information, and on the recipient provider to confirm its completeness, and for intermediate service providers, to send it on."

"The revised regulation now states that in addition to originator information, beneficiary information must also be attached. You might think, 'Well, without beneficiary information, how do you know where to send it anyway?' But the amount of information that is required is greater, and also, intermediary providers have to look to see that it's complete. If it's not, they have to warn the sending provider, and if it persists, end the business relationship with the sending payment service providers. It also requires the provider to consider whether to make a suspicious activity report regarding the failure. So as a regulation, this has a direct effect on business."

Dr Sabri went on to outline the relevance of this for UK operators: "Of course, in many countries where there is gambling licensing, anti-money laundering obligations already apply – that's a given. So, if you apply to be licensed as a gambling service provider in the UK, they expect you to be compliant with AML already. What the directive brings here is the first harmonised approach to anti-money laundering at a European level for gambling service providers. What does that mean? Let's look first at what the provisions are: If you've got a business relationship and this is in common with all other obligated entities, then you have to identify and verify your customer. There is an exemption for single or linked transactions of €2000 or less, so if it is single transactions or linked transactions less that €2000, then you don't have to verify. Member states can however exempt lower risk products from compliance with the AML regime, so when it comes to the implementation of the directive, I would expect the gaming trade bodies to engage with the regulators, to clarify and seek to influence the perimeter of exemption. An alternative approach would be to be more specific and to seek specific allowances for lower risk transactions, for example."

There are many other parts of the 4MLD which concern the eGaming industry. It essentially applies all of money laundering regulation as a package. Dr Sabri again, "Beginning with customer due diligence, it requires you to monitor the business relationship, monitor transactions, keep records (usually for a minimum of 5 years), undertake training, put in place policies and procedures, appoint a nominated officer and make suspicious activity reports, where this is appropriate. That's the package."

However, there are one or two details in the 4MLD which Dr Sabri was keen to point out: "Firstly, the money laundering offence itself doesn't require you to be regulated to be captured by it. If proceeds of crime come through the system and a firm was complicit in some way, then that would be a money laundering offence. But that's not what we're talking about here. What we're talking about here is an obligation on the gaming service provider, as an obligated entity, to have systems and processes to look for evidence of other people doing money laundering using their system. So in essence we have two offences – and the offence here is in not meeting the regulatory expectations of having systems to look for this activity. There doesn't need to have been a money laundering event at all: not having the systems, not doing proper customer due diligence when you ought to, is an offence. Of course, the underlying offence of money laundering persists anyway; it's always been there." Dr Sabri continued to mention the variation in what constitutes a proceed of crime, "This is related to the predicate offence. In some countries only the proceeds of serious offences (predicate offences) can give rise to proceeds of crimes for AML purposes. In others, such as the UK, all offences are predicate and can give rise to a proceed. Increasingly, this 'all crimes' approach is being adopted across the world. It means that a successful credit card fraud would give rise to a proceed that would require a suspicious activity report to be filed."

Law enforcement can then also track or trace a fund transfer easily, without having to go through each intermediate jurisdiction, trying to track a payment to its source.

"I would like to talk about the general application of simplified due diligence (SDD) provisions which are probably one of the biggest changes, and which have a practical consequence for businesses."

Dr Sabri went on to explain how the Directive will impact on the relationship between customer spend and due diligence: "Under the Third Directive we have currently a simplified due diligence approach which is specific to e-money, which states that if a customer transacts €2,500 per year or less, and there are no suspicions of money laundering, customer due diligence is not required, with the exception of monitoring of the relationship. The new regime provides for a similar but more restricted regime for e-money, but in addition provides for a general SDD provision for all obliged entities.

Simplified due diligence now means a response to every aspect of due diligence - identification, verification, beneficial owner, purpose of the relationship. However, obliged entities have flexibility and it's risk based. So, a firm can identify, it can request a name and address, but then postpone verification to a particular point in time when it thinks the level of risk should trigger verification. This could be a transaction threshold or a time limit or both. .This is the good news, as it enables much flexibility and continues to enable access for new users. These provisions can be utilised by any payment product, they could apply to a money transfer, they could, depending on the risk posed, apply to a gaming product. If a firm recruits a customer, if it can demonstrate low risk, then it may be able to require registration and postpone verification, subject to transaction thresholds."

Dr Sabri moved on to underline the requirement to perform risk assessments, when applying the 4MLD, "You have to show low risk, in order to benefit from SDD, but more importantly, a risk assessment is required for the entire product portfolio. This needs to be informed by risks associated with the product, the channels, the geography, market etc. It also must be informed by the local National Risk Assessment and by the intra EU risk assessment undertaken by the European Commission. It should be noted that products can start off as high or medium risk, and then be subject to mitigating measures, such as reducing turnover, or introducing controls or restrictions, reducing the overall risk.

Record keeping requirements are worth mentioning as those relating to transactions appear to have increased from 5 years from the date of the transaction, to 5 years from the end of the business relationship with the customer. This is a considerable change and will have an impact on record retention policies and operational arrangements.

There is a requirement for member states to create central registers of beneficial owners, and for all companies to identify their own beneficial owners. Details of beneficial owners need to be kept and sent on to the register, with the consequence that regulated entities will be able to consult the registers to establish the beneficial owners of companies in the EU."

Dr Sabri moved swiftly towards the end of his presentation, with a word about the active role of the EMA in the face of all the EU legislation, and to mention a new initiative that was announced following the Paris attacks, to restrict exemptions relating to prepaid cards and vouchers. This will need to be tracked, and interested parties should make their own submissions to the European Commission, or they are welcome to coordinate with the EMA to ensure a proportionate response that increases security but does not suffocate business.

"The Commission also asked member states to bring forward the implementation of 4MLD from June next year to the end of this year, December 2016. This means a lot of work by member states and by industry in a very short timescale. Current evidence is that this is unlikely to be achieved, with the exception of a few countries, that notably include France and Germany. Service providers should therefore track and contribute to legislative proposals as they are published to ensure a proportionate implementation," concluded Dr Sabri.

Panel Session
Evolution of eGaming: The Operator's View

Moderator: Phill Brear

Gambling Commissioner, Government of Gibraltar

Panellists:

Andy Hornby

Gala Coral

Brendan Hughes

BoyleSports

Dr David von Rosen von Hoewel

Lottoland

Jon Moss

Bet365

The final panel session of the eSummit was a lively look at eGaming from the operator's perspective, exploring topics such as the benefits of public vs. private; the optimum age of your targeted consumer; a maturation of the relationship between industry and government (both in the UK and in Gibraltar); how to ensure the industry acts as a cohesive whole; and briefly, Brexit. The moderator and panellists share a wealth of experience in the sector, across a broad range of markets. Phill Brear, Gambling Commissioner and Head of Gambling Regulation at the Government of Gibraltar, opened proceedings:

"This conference is a bit of a landmark event for us, because each year, it's another stake in the ground in effect as to the nature and diversity of the Gibraltar industry and the success of the Gibraltarindustry. This panel hasn't been put together just by happenstance, these people were personally invited by me for a specific reason, and that's to quietly address one of the elephants in the room. These four gentlemen and their companies have all been licensed in Gibraltar in the last 3 or 4 years, they came here at the height of the POC storm. At that time, people were asking, "Can Gibraltar ride out this latest wave?" and in my annual report, I was making it quite clear that yes,that was the case.

“Five years ago, there were 3,000 people employed in this industry, today, there are still 3,000 people employed. A thousand of them are employed by these four gentlemen. That’s a massive shift of people around the operators of Gibraltar, but it’s also a testament to the stability, resilience and nature of the industry here. Five years ago, these guys were not part of the landscape, but they are now, with more beside them. From my perspective, the GIB industry goes from strength to strength. Of course, rationalisations efficiencies, mergers, and acquisitions are a natural consequence; there will be ebbs and flows in size and scale, but as I say, the industry is as strong now as ever in the past, despite, and possibly even because of, the way Gibraltar handles some of the headwinds.”

“Their other common feature is they’re all privately owned companies. That may soon change for one, or possibly even more of them, but it is an interesting feature of the industry that despite all of the chatter over the last few years about IPO’s listings and the like, the industry remains largely privately owned.”

“First we have Jon Moss, Head of International Development at Bet365, which as you know, is one of the world’s largest remote gambling companies, privately owned. Bet365 has an international focus, and is a multiple licence holder in Europe, with markets far beyond it. Bet365 obtained its first GIB licence as long ago as 2007, but that was a relatively small operation. Since 2014, it’s very substantially expanded its offer from GIB and, as I say, now employs close to 400 people.”

“Next we have Andy Hornby, Head of Retail for the Gala Coral Group. Andy is running 2,000+ betting shops as well as the fastest growing British remote gambling site. And, as most of you know, Gala Coral is currently in the throes of merger talks and competition markets authority examination with regard to their possible relationship with Ladbrokes. So Andy particularly may have some additional boundaries to negotiate in any discussion today, which I’ll try and be sensitive to. Gala Coral has had a long association with Gibraltar, licensed here in 2012, in its current form and presence, it too has close to 400 employees.”

“Then we have David von Rosen. David is Chief Strategy Officer for Lottoland, which provides the opportunity for its customers to place bets on lotteries. Lottoland was licensed here in 2012, is rapidly growing in scale and reach from Gibraltar and recently awarded the biggest prize ever from here - €14,000,000 (£12,000,000). That is some 3 to 4 times the size of any prize that I am aware of, coming out of Gib. Where that would normally have sent the lights flickering in the CFO for the door, for David, that’s business as usual! When we call it “bets on lotteries”, I think we should call it “bets on lotteries with enhanced prizes”, because even the underlying lotteries didn’t offer that prize. For David, just another day at work.”

“And finally, we have Brendan Hughes. Brendan is the Commercial Director for BoyleSports. BoyleSports is an established shop and online brand in Ireland and growing in the UK for many years. It was licensed here in Gibraltar only last year and is still relatively small in presence, but for me, is very indicative of a well-known betting operator, landing in Gibraltar in very recent times. Brendan is no stranger to Gibraltar, having ridden the wave of PokerStrategy.com as its COO. Like all our panellists, Brendan too has experience outside this sector that remains a key part in the development of his company into international markets.”

Moderator: So, my first question comes in two parts. Does recent history in this sector tell us that PLCs will offer better customer service and security, better products and innovation, online or off, than private companies? And secondly, if shareholder interest is the first priority of . the executives and directors, where is the customer in that queue? Jon, your views first, please.

Mr Moss: Just to reinforce what Phill said, we started here in 2007 with 7 employees and I was in the office yesterday and there’s 390 Bet365 people here now in Gibraltar, and that’s very good for us and it is indeed a success story for Gibraltar. As for the private vs. public question, Bet365 is a private company and intends to stay that way. Having worked for a few companies in the industry, the focus on the customer and the focus on innovation at Bet365 is quite extraordinary; it’s outside my business experience anywhere else, and it’s absolutely driven from the top, whether that is offering more products, whether it’s offering great odds, whether it’s paying customers more quickly, the customer is absolutely number one. I wouldn’t agree, however, that private companies do that differently to public companies – we probably have the ability to make longer term investment decisions in markets and products without having to report costs and revenue on a quarterly basis, but I’d be surprised if the public companies did have less focus on the customer because that would, of course, be a false economy.

Mr Hornby: As you said earlier Phill, assuming the merger with Ladbrokes goes through, Gala Coral will soon be public. Our new management team arrived 5 years ago and we set up out here in Gibraltar in 2012. I think there is an advantage to being in a private company when you are starting a big investment programme. In our case, we had a huge retail estate in the UK and were taking the decision that we wanted to build an online business. We had a set of shareholders who were prepared to take a very long term view, and we made it clear it was going to take 4 or 5 years for them to see the full return. Hopefully, 5 years on, they agree that happened and hence the exit with the merger with Ladbrokes.

So I do think in this sector, particularly online gaming and sports betting, it is easier in a private environment to at least set the parameters of long-term investment. You can't say precisely when the payback will come through, however. Having said that, I think there are some analysts and institutions in the city who are starting to really encourage a longer-term view in this sector. As Phill and perhaps the others know, there's a big movement to stop quarterly reporting, which, in our sector, is definitely a good idea because the volatility of margins in sports betting on a quarterly basis. So we won't need to waste time explaining why it was a good Grand National or a bad Grand National. My personal view for this sector is, it doesn't have to be public or private but, there's an advantage in communicating to the PLC world, the longer-term view that it's easier to sell as a private company. And lastly, I agree with Jon that if you don't focus on the customer in this space, you die, regardless. It's not the ownership structure per se drives that, it's the attitude of the people running the company.

Moderator: My question is deliberately provocative because I do detect a higher level of short-termism in PLCs than within the private sector. David, as you are sort of sat to the edge of this. Please share your thoughts on private v public.

Mr von Rosen: I wouldn't necessarily make it a question of being public or private, rather of scale, size and age maybe. Obviously, public companies tend to be older and bigger in size so therefore they have had more time to improve their product, so usually their product is a little bit more optimised from that perspective. Taking customer service, to my mind there isn't a huge difference between PLCs and private companies. However, I've seen very small private companies whose customer service is so individual and good, where even the boss takes care of customer service, that gives them a big advantage. We recently acquired a very small company, 6 people only, with exceptional customer care. And when it comes to innovation, smaller and younger companies, tend to have an advantage over larger ones because they're more flexible and faster. It's like they are the speedy sports boat rather than the big tanker which needs more time to manoeuvre. So there are pros and cons on both sides. But above all, it has to be the customer who has to be put in the centre, and this goes for public and for private companies. I believe if you have a happy customer, you have a happy shareholder. Then again, you have shareholders for public companies as well as for limited ones.

Moderator: I shall bite my tongue and now invite Brendan to complete the lot on this – I think I'm going to lose 4-1!

Mr Hughes: I think some of the coverage in recent months in the UK market would indicate that even PLCs can be called out for not protecting customers adequately, so no, I don't agree that it's a matter of private vs. public. It's really more a matter of governance and objectives. BoyleSports is a business that's been owned by John Boyle himself for 30 years; he built the business up and we're the second largest bookie in Ireland. We've got 25% market share and we certainly find it easier to take a longer-term view than anyone who's reporting on a quarterly basis. We report on an annual, quarterly, weekly and even daily basis, but we don't have the same pressures from people who don't understand our business and are asking questions about it. So John himself is very close to the business and there's a strong realisation from him, in the retail world, that looking after your customer, providing value and great service, is what makes and builds a sustainable revenue in the long-run. Our goal is to carry that into the digital world and then to international markets. When there are so many different motivations and objectives around ownership, then of course regulation does play a part in ensuring that we all look after our customers. Certainly I don't see it as being about private or public.

Moderator: Let's move now to consumer demographic: it seems to me that the one sector where the US leads and the UK follows, does not apply is remote gambling. Any reader of the trade press can't have missed that the new Americanisation is that of "The Millennials", the target audience looming on the horizon. Now of course true Millennials can't gamble for about another 20 months or so when they're all 18+. It will be many years before Millennials outnumber even my generation of the baby boomers, or that of my much younger panellists, who I'm told are called "Generation Y", because they're the ones who ask the difficult questions. But what struck me about this emerging obsession with the millennials, is that it appears, to lack economic sense, because it's commonly accepted that younger people have less disposable income and they like to spend it on other things. And there are fewer of them. So, can I invite the panel to please explain to this dinosaur, the wide-spread obsession with youth as a target market? Am I missing something? Andy, please.

Mr Hornby: I completely agree with you on this one. People who look at our industry and think retail gambling is largely an older age group, and online gambling is largely a younger age group, well, it is just not true. It is true that the average age, if you look at a spread of the retail business, is older than the average age of the online business, but actually, within the online business, there is a very good spread of age. Secondly, when people look at customer numbers versus the actual total spend you are receiving, it's even more misleading, with older, often retired customers, being both extremely valuable in terms of their spending, but also in terms of their loyalty to the brand. And thirdly, the more that the market has gone mobile rather than desktop, the more that is the case and that the spread of age is actually broader. So I personally think you make a very good point here. It isn't sensible for us all to be over targeting, let's call it the under 25s; I really do think you have to be moving wider. There are early signs, if you look at TV campaigns for example, that people are starting to be less furiously focussed on the younger market, but it's got further to go.

Moderator: Well, as someone who turns down the volume when the gambling adverts come on, I'll skip that bit! David, who I'm pretty confident is the youngest member of the panel, your views on this?

Mr von Rosen: I think you're right, however, we have an entirely different approach to it. What you said is especially true for lotto, because the older the customer gets, the more likely he is to go online, and certainly he has more money to spend per week. So yes, we would like to expand our number of mature players. However, they're not as easy to get. So our approach is different: we try firstly to target younger people. Why is that? Because younger people tend to be easier to get, they tend to adapt to new offers and new technology much faster: they are the early adopters.

> "There's a focus on people who like sports and people who like to bet on sports, so we advertise before the game, and at half time."

When I look at the history of any successful online or internet service, like WhatsApp or Facebook, even the internet itself, it was young people who led the way, and then the older generation follow. So first, young people start using the internet, then their parents, and finally their grandparents are using it, so that's exactly why we target younger people. This doesn't just mean 18 plus, it means 25, 30, 35 -year olds, which is exactly our target here at Lottoland. If, in the end, we have 85 year-olds playing online, that's great too. Really, the first step is younger people, then the middle-aged, then the elderly. Because we see that with whatever product innovation we put out there, the younger go on it first and then the others follow. For lotto and for Lottoland, we have chosen a way to target the younger people, whilst not forgetting the others, knowing that this way works better.

Mr Hughes: I think what we'reall seeing is a radical shift in customer behaviour. From migration from retail to digital channels, from phone to desktop, and then from desktop to mobile. For us at BoyleSports, we don't focus on a younger generation per se, but adapt to the changing behaviours of those younger customers. The millennials were certainly born in a different world than me, which is to say they were born in a world where they're used to mobile and tablet as their way of interacting. So for us and Generation Y, they're more likely to be multi-channel consumers. Increasingly we're digitising the retail environment, whether it's SSBTs or terminals and touchscreens and information points. But actually, the newer generation is more likely to be single channel in terms of more mobile-focussed or touchscreen-focussed. We're trying to adapt to their demands: they want it faster, they want it simpler and they want it more relevant and timely to them. That's a shift in how you deliver a product, rather than an age focus shift.

Mr Moss: One of your opening remarks wasn't true Phill, and that was about all the panellists being much younger than you! So, focus on the youth market – for us at Bet365, at least, there isn't a focus on the youth market at all. There's a focus on people who like sports and people who like to bet on sports, so we advertise before the game, and at half time. Now that tends to be men rather than women watching the game and it tends to be younger rather than older people, but that is not a targeting of those people, it's a targeting of people who like sports. I think, if we just targeted 19 year-olds, they might not know who Ray Winstone was! So basically, the focus is on people who like sport, not a particular age group.

Moderator: I asked this question because as a consumer, and as a member of the baby boomer generation, I see industries adapting their products to my needs, tastes and values. Whether it's cars, mobiles, domestic goods or services – there is definitely a shift in the marketing spend of some big providers to the "silver surfers".

“With the recent introduction of a tax and a licence around remote gambling in the Irish market, the markets and opportunities have opened up a little bit, because the lines between retail and digital are blurring.”

Moderator: is that a product of the sensitivity of the Irish Government or the cleverness of the Irish industry?

Mr Hughes explained how, having watched the UK market closely, Ireland has learnt a lot. Some Irish operators are more directly involved in the UK market as the Irish market is still a bit immature in how it's regulated and managed by Government. "They've just failed to deal with it in a meaningful way, but everything that we hear scares us in terms of multipliers on the taxation that we're already paying, more restrictive measures around AML and around responsible gambling. We're already doing an awful lot on those topics to protect our customers. A major part of that is to be clear and agree that we can communicate as a body about the things that we are doing."

The moderator then asked Mr Hughes to provide an example of a new development in the Irish Gambling industry.

Mr Hughes: FOBTs, which is a critical topic in the UK market, have just been banned in the Irish market, so that simplifies things to an extent. With the recent introduction of a tax and a licence around remote gambling in the Irish market, the markets and opportunities have opened up a little bit, because the lines between retail and digital are blurring. So for customers in one of our shops we can provide free Wi-Fi and tablets with touchscreens enabling them to access the internet, then, they can play casino games actually in the shop. But what they're doing is on a remote server basis, so the lines are blurring. We need to be on top of that as an industry before the Government makes a decision that is perhaps unhelpful.

Moderator: Jon, you're probably the most peripatetic of the group, dotted around Europe and elsewhere. What are your views on working with Governments?

Mr Moss: It's interesting because in Gibraltar, the industry and the government have a good relationship. In the UK, it is pretty constructive, but if you go around the rest of the world, that relationship can be very difficult. As an example, I was in one country recently and there was a new regulator appointed. He was due to give a speech to Parliament a few weeks after I saw him, and he said, "I'm going to get attacked on problem gambling getting out of control", and I asked, "Well is it out of control?", and he said "I have no idea, I don't have any data". So I explained to him about the prevalence study that's done in the UK, the same list of questions asked every three years or so, and a long-term evidence base for what the level of problem gambling was. No such thing existed in that country.

Just last week, I was in another country to visit a Minister of Finance. Our consultants said that he wasn't happy with the gambling law and I asked why not, and they said, they'd only been able to take 300 people to court for gambling on foreign websites, and the level of fines that the court was imposing meant he hadn't actually made any money from those 300 people: that's where he was starting from. So, yes, elsewhere in Europe, and in the world, the relationships between Government and the industry can be pretty poor but we've actually got a reasonably constructive situation in the UK and a very constructive one in Gibraltar.

Moderator: There speaks a diplomat! Andy, tell us more about these pretty constructive relationships in the UK.

Mr Hornby: I think your question is well phrased. Firstly, we aren't joined up enough as an industry. I think that the press and government view different elements of the gambling industry as separate, so they see Sportsbook as one sector, casinos as a completely different sector, and bingo as a completely different sector, even though we're all regulated by the GC. I think that's a real problem because we do not come across as joined up, and there is a real risk that that makes the whole goal of legislation much harder.

Secondly, it has worked well in Gibraltar to date, partly because the relationship with both government and the regulator has been closely coordinated and constructive, and partly, ironically, because we're all together on one rock, so I think competitors here do talk about the right things in general. It is critical we find a way of being more joined up. You asked about other industries and where you can learn: a good example is the drinks industry. Twenty years ago, the Portman Group was set up in the UK, because in the early '90s, the drinks industry was seen as completely out of favour. So there was an alliance put together between really big players, the multi-nationals and smaller ones, right down to independent Scottish family-owned whiskey providers who saw the need. It's not been perfect, but I think it's been pretty effective. They had a big impact on the kind of advertising that was done and they came up with their own code. We've tried to start that with the Senet Group being launched in the UK. I think it's been pretty successful in terms of getting a first leg on the ladder, but we've got a lot more work to do.

Moderator: The alcohol industry is an interesting comparison, but then if you look at food in general and obesity, there are massive public health and public policy issues around it. Cue the sugar tax, still two years away from implementation, and likely to have very little effect on those with bad diets. Consider the tobacco industry, yes it's diminishing but not as fast as the health lobby has advised. Even the petrol/fuel industry seems to get away with not quite consumer abuse, but some challengeable practices, if you compare it to the gambling industry. The ABB spokesman was on TV last week and helpfully or unhelpfully, made the claim that betting shops in Britain are the safest environment to gamble in. What does that say about everything else? There is no move to close our off-licences and supermarkets, whereas the industry is beset with stories of FOBT abuse etc. It does seem that notwithstanding the lack of political sympathy, the industry must find a way of better informing this discussion.

We've now got three minutes left and I'm going to touch now on the B word. Somebody said last night "we have to find a better phrase than "remain" for staying in Europe", so I came up with one immediately, if you say it fast it works, if you say it slow it doesn't work – see who gets it first – Britsin. Brits-in or Brit -sin? ? Anyway!

Gents, very quickly your one-minute line on Brexit. I'll start with you Brendan.

Mr Hughes: I'd love to take a very selfish Irish perspective, of course, we want Brits in rather than Brits out. We don't want anything that's a barrier to free trade and to free movement between us and our major trading partner, which is a key point obviously in terms of the EU. I think the EU has been probably good for this industry in terms of arbitrating where local market decisions might not make a lot of sense.

Mr Moss: An update on the betting odds: Britain staying in is 1.44, so it's favourite to stay but not a hot favourite. To give you a comparison, Leicester are also 1.44 to win the premiership and Donald Trump is also 1.44 to get the Republican nomination. We felt very strongly about this to the extent that the CEO wrote to all staff expressing the company's position, it was better for Britain, it was better for the company, it was better for Gibraltar that we stay in.

Mr Hornby: I'll give you it in real numbers – 4-9 stay in, 7-4 leave on the website this morning. I actually would like to answer from a different perspective; the importance for Gibraltar is just unbelievable. We are sat here today and I know 400 people at work: I explained where I was going, and a large number of those people have worked here for a long time, and the importance of it cannot be over stated. It's obvious which way around is right for Gibraltar.

Moderator: And with my other non-Brit guest, David – to close please.

Mr von Rosen: You've said it already; you're asking a German so I'm the least qualified to answer any of this. I just put my money on you guys on your platforms and hope for the best.

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Save the Date: 23 March 2017

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