



*cutting through complexity*

Tuesday 12th November 2013

**KPMG eGaming  
Summit Isle of Man  
2013  
Report**



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# Introduction

**By combining a tax competitive and responsive commercial environment with a world leading telecoms infrastructure and robust regulatory framework, the Isle of Man has secured its place amongst the world's most desirable jurisdictions in which to conduct online gaming operations and, more widely, e-business.**

The Isle of Man became one of the world's first jurisdictions to introduce legislation specific to eGaming in 2001 and has since become home to some of its leading operations, both licensed and non-licensed alike. Each one has cooperated with the Isle of Man Government to secure and protect the Island's proposition as a business friendly jurisdiction which places consumer protection and professional support at its forefront.

On 12th November 2013, The Palace Hotel played host to the fourth in a series of eGaming summits which seek to maintain this community engagement by drawing upon the Island's first class reputation for sector collaboration, and providing a forum within which key stakeholders can discuss the eGaming sector and its future trajectory.

The Hon. John Shimmin MHK, Minister for Economic Development opened the day's proceedings with a welcome address which described the eGaming sector as a 'true Isle of Man success story' and outlined the government's commitment to engaging with every level of the industry, both licensed and non-licensed, to understand the market and its requirements. The morning session followed, providing global and sector specific updates as well as a history of sports betting, from land-based to online and social media.

Highlights of the 2013 eGaming Summit included the first of the day's panel sessions, moderated by Hilary Stewart-Jones, on the challenges of enforcement in remote gambling, as well as a rare glimpse into the world of

mobile software development from Microgaming's Head of Product Channels, Neill Whyte. Also of particular interest to the local cluster was an economic review of the proposed change in UK legislation for online gambling taxation, which was provided by Sue Rossiter of the Remote Gambling Association, Bill Robinson, Chairman of KPMG's Economics & Disputes team, and Adam Rivers, Assistant Manager in the same team. Together, Sue, Bill and Adam covered a number of key issues from an economist's perspective of the proposed changes, notably tax structure, tax rate, and a competition analysis of the proposed risks to the future of eGaming in the UK.

This report provides a summary of the day's events with a view to sustaining the culture of sharing and cross industry dialogue championed by its contributors throughout. This year's Summit brought with it some peculiar

challenges as well as some reassuring solutions. Following a fire in our planned venue just days before the event, organisers were met with a quite humbling response from parties ranging from government representatives and the hospitality sector, to eGaming stakeholders, friends and sponsors offering their support. KPMG would like to take this opportunity to thank speakers and attendees, as well as this wider business community. Our experiences this year have proven that the promise of IOM Plc to provide a supportive and integrated e-business cluster is one that investors can rely on.

KPMG employs a number of eGaming industry specialists throughout the world's leading jurisdictions and is committed to cutting through the complexity of this constantly evolving and exciting industry.

## A word from the Sponsor

**With its advantageous public-private partnerships, a world class communications infrastructure and a portfolio of some of the industry's leading companies, the Isle of Man is a pioneering jurisdiction which is the envy of many across the globe and one which Continent 8 is proud to call home.**

Our investment in the Island, in the recently expanded Continent 8 Data Centre as well as our new and revolutionary cloud backup facility is testament to our commitment to adapting to the needs of our clients in this constantly evolving marketplace.



Continent 8 Technologies is proud to sponsor this report and we look forward to next year's KPMG eGaming Summit in the Isle of Man.

**Richard Ebbutt**

**Continent 8 Technologies**

# Welcome Address

## The Hon. John Shimmin MHK

Minister for Economic Development  
Isle of Man Government



The Hon. John Shimmin MHK

“Our small team is engaged with every level of the industry to understand the market and your needs.”

Before his election as Minister for Economic Development in 2011, the Hon. John Shimmin MHK held the post of Minister for the Department of Environment, Food and Agriculture from 2010-11, and has held previous posts as Minister for Local Government and the Environment, Home Affairs, and Transport. A keen supporter and representative of the Isle of Man’s eGaming cluster, Minister Shimmin has been instrumental in the coordination of a number of government initiatives to enhance the Island’s regulatory environment as well as its overseas reputation as a world leading jurisdiction for eGaming and e-business.

Mr Shimmin welcomed delegates to what he described as “a Summit on the Isle of Man that showcases a real local success story – our eGaming sector. For those of you who are first time visitors,” he continued, “I hope we live up to your expectations. We are aware that we are a success story and are known globally for our eGaming reputation. From your side, I hope that you find the Summit beneficial.”

Mr Shimmin then went on to explain that his predecessor, the Chief Minister Allan Bell, in his Autumn Statement placed growing the economy at the very heart of every

action taken within the Government. “Our national income accounts, released last month, confirmed 29 years of continuous growth,” he enthused. “We have a record number of people in employment, with an unemployment level of approximately 2.3 per cent, and our indications are that the economy continues to grow at a rate of 3 to 4 per cent: in global and Western economic terms, a real success story. A major part of that has been our eGaming industry, which continues to play a significant role in delivering that economic growth. We now have more than 50 licence holders, and eGaming provides 9% of our GDP, and it’s still expanding. I would like to thank personally all of you who contribute towards this commitment to ensure that the Isle of Man remains at the forefront of the global eGaming industry. My department will and does remain committed. When the industry speaks, we listen.”

Mr Shimmin continued in explaining that the Department of Economic Development had strengthened its eGaming team this year with the appointment of Peter Greenhill as CEO of eGaming Development; a newly created position within the Isle of Man Government. “Within those first few months Peter has brought renewed energy to our business,” he said, “and

I’m delighted to see continued growth throughout the year, while the pipeline of opportunity looks as strong as ever.”

“But another, and probably the most important strength, is the relationship that we in government have with you in the industry. Ours is a public/private partnership working to excellence. Our small team is engaged with every level of the industry to understand the market and your needs.” The Minister alerted the floor to the recently formed eGaming Strategic Advisory Board, which provides an extra level of expertise to the industry, “because we understand that Government does not have all the answers” he added. “Our strategy of working with the Board is taking us in the right direction and we will continue to work with you to exploit every opportunity.”

“But we have more on the Isle of Man than just the eGaming companies: it wouldn’t work on its own. Those of you who have chosen to join us on the Island will also appreciate the software providers, the corporate service providers, lawyers, accountants, affiliates, payment providers and data specialists; all the different parts of a business community. These are businesses that have formed a world class cluster and, what’s more, we have more capacity for growth in those areas.”

Mr Shimmin acknowledged the danger of complacency, however, explaining that there are always challenges that must be embraced. He confirmed that the Isle of Man Government is actively pursuing opportunities wider than eGaming, e-business and ICT, and is currently diversifying into China and the Middle East. “Our whole government proposition now covers 20 diverse sectors of our economy,” he confirmed, “which gives us strength. We are open for business, we are open for excellence in standards, and we are here to grow your business. If that requires you to bring people in to grow it we have an open door, and I can work with you and your industry to bring in the people you require. If you and your business are looking to grow on the Isle of Man, come and talk to myself or Peter and the team before you put in that application to see if I’m able to facilitate a smooth transition for you. We are a proud nation; we want jobs for our own people, and you as entrepreneurs will create those jobs if we create the environment in which you can succeed.”

In closing, Mr Shimmin expressed his desire to reassure the Summit that the Isle of Man wants to be the thought leaders of a global community on taxation affairs. “Our 0/10 per cent corporate tax is secure and approved; we have shown ourselves to be the

thought leaders in this respect and I urge the leaders of every industry to do the same. Only recently comments from Prime Minister David Cameron and Chancellor of the Exchequer George Osborne have recognised the strides the Isle of Man Government has taken to maintain a strong reputation. We must celebrate what you have achieved to date. The opportunity for growth on the Isle of Man is strong and to be welcomed, and I think that by working together we will demonstrate the enterprise, the innovation, and the independent spirit of a small island that will ensure our success for years to come.”

“My department will and does remain committed. When the industry speaks, we listen.”



Warwick Bartlett

## Warwick Bartlett

Chief Executive

Global Betting and Gaming Consultants

Warwick founded Global Betting and Gaming Consultants (GBGC) in 1998. Originally from an operational background, Warwick now has over 40 years' continuous experience in the gambling industry, continuing to chair and present at numerous UK and international gambling conferences. He is regarded as one of the industry's top experts.

"I think it's a good idea if we start at a distant point, which is the onset of the 2007/8 recession," Mr Bartlett opened, "because that basically has affected everybody and everything that we do. You could call it the 'Great Recession' if you live in the USA, Britain, Canada, Australia, the Nordic countries and Germany, but if you are from Italy, Spain, Portugal, Greece, Ireland, it's not the Great Recession it's the Great Depression. What's happened there is quite catastrophic, particularly for people who live in those countries."

### What has it cost per household?

Quoting information from the Federal Reserve Board Dallas, Texas, Mr Bartlett demonstrated that, based on a conservative estimate, the cost of recession in the US is \$50,000 to \$120,000 for every household, which amounts to an overall cost of between US\$6 trillion to US\$14 trillion for the United States alone. "Multiply that to match the rest of the world and, of course, this has had a dramatic effect,"

he remarked. "It has had a dramatic effect on employment and on salary increases and this has cramped spending. For the eGaming industry new signups are hard to find, and those that do sign up have less money to spend. It's also affected those that work in the industry. Investors in the industry want results and the managers are very often held as scapegoats. The number of managers who leave an organisation and turn up somewhere else is quite considerable."

"But what we've always said at GBGC is that recession brings opportunity," Mr Bartlett continued, "and it does." He explained that recessionary climates cause governments to review their tax revenues and realise the imperative to explore new avenues for income; "so it causes governments to think about the gambling industry like they've never thought about it before." Drawing upon Singapore as an example, Mr Bartlett observed that regulators had historically avoided legitimising gambling but have been forced to allow the opening of two casinos in recent years. Similarly, South Korea is, at the time of writing, formulating legislation to encourage investment in new casinos, as is Japan. "So there's a world change, and we see this in the United States with eGaming," he added.

### The only way is up

"But there's a downside to this, and that is that governments never know when to stop," Mr Bartlett remarked. "And there's now a pattern emerging whereby gambling taxes are being increased." Drawing the attention of the Summit to his presentation, Mr Bartlett listed 14 countries and 1 US state in which various gambling taxes already had, or were due to grow, including the UK, Finland, Mexico, Spain, South Africa, Massachusetts, Bulgaria and Argentina, to name a few. "A rise in tax rates leads to a fall in revenues, and when you combine that with the recession the industry, particularly the land-based arm, has been slowly hit."

By way of illustration, Mr Bartlett turned the attention of the floor to a line graph depicting levels of GDP and Gross Gambling Yield growth in Spain from 2004 to 2013. Despite showing a close correlation between the two from 2006 to 2010, a rise in gambling taxes in the period then leading to 2013 showed an inverse correlation, with GDP rising in 2010, and GGY falling dramatically over the same period. Bar charts depicting the most severely affected industry in Spain and Greece, the land based casino industry, showed similar patterns – with a €250 million fall in annual revenue between 2007 and 2012 in Spain, and a €465 million fall over the same period in Greece.



Warwick Bartlett

“Any economy that doesn’t accommodate start ups is destined to fail”

#### UK Point of Consumption Tax

Closer to home, the introduction of the Point of Consumption Tax in the UK is forecast to raise £300 million for HM Treasury, “and that is £300 million that will leave the industry never to return”, Mr Bartlett added. “That is going to have an effect, particularly on those companies that focus heavily on the UK. I would say that for those companies some consolidation is likely to take place. Most eGaming companies run on tight margins and have probably already lowered their

cost base, so what else can they economise on? Marketing spend has increased rapidly as companies try to increase their market share in anticipation of the introduction of the Point of Consumption Tax, but when reality kicks in that spend will have to reduce. My fear, however, is that all this will lead to less value to the consumer”, Mr Bartlett continued. “The consumer is going to lose his money quicker, he’s not going to have as much fun, and he might be pushed to spend his money elsewhere.”

#### The Isle of Man

Moving on to the benefits of the Isle of Man as a place in which to do business, Mr Bartlett placed the zero rate of corporation tax at the top of his list, followed by low income tax for employees, and zero Capital Gains Tax (CGT) for businesses. “This is very important for entrepreneurs”, he remarked, “because if you come over here to set up a business, you work hard and when you look for the exit at some point in the future, you’ll want to keep the gains that you’ve made. Moreover, CGT is being looked at pretty much everywhere except here.”

“We also have excellent data centres”, he continued. “Gambling taxes are reasonable and the licence fee is £35,000 a year, which for the larger companies is chicken feed. But for small start ups, this fee is quite onerous. An entrepreneur may enter the market knowing that he’s not going to make any money for the first three years, but he will have spent over £100,000 on a piece of paper that allows him to operate a business here. So they look upon it as a commodity when they’re setting up a business.”

“But any economy that doesn’t accommodate start ups is destined to fail, and that’s a fact”, Mr Bartlett warned. “Some might say ‘if they can’t afford £35,000 we don’t want them anyway’, but we’re not in that market now. You’re not going to blast Ladbrokes, William Hill and Coral out of Gibraltar; they don’t pay VAT there and the cost to move is onerous. So we need the start-ups.” Mr Bartlett proposed a £5,000 licence fee for the first two years, rising to £35,000 thereafter, noting that the loss to Treasury is inconsequential because those startups would not otherwise choose the Isle of Man as their headquarters.

#### The softer issues

“And once they’re here, they’re unlikely to move”, he added. “Our research at GBGC shows that once a company is licensed in a jurisdiction they tend to stay there because they have various anchors in place. But we need to build on those anchors. Good schools, the European café lifestyle, links to the UK, luxury homes, and shopping, these are important. When people come to consider moving here, for the guys there are nine golf courses, lots of sport and plenty of pubs. You can go fishing, diving, you can have a boat, you can have a motorbike; the guys just fall in love with the Island. Then they bring their wives over, and it’s a different story. This is a problem: if we intend to accept money from various countries either as bank deposits or direct investment then we need to reciprocate and if companies want to invest in our retail sector from abroad we should allow them to do so.

#### Economic policy

“Businesses need consistency when they’re making decisions; it’s the most important factor”, explained Mr Bartlett. “When the government’s expenses are rising and incomes are declining this creates uncertainty, so businesses need a clear, unequivocal statement from government concerning what the fiscal strategy is for the next five years.”

#### Global gambling

Turning to the global gaming market, Mr Bartlett referred the Summit to a bar chart which showed the global gambling spend per capita by continental region in 2012. In descending order, the highest spend

“The two most economically powerful countries in the world have the most scope for gambling services, given the legislation that will allow it.”

per capita was recorded in Oceania (US\$741 per capita), then North America (US\$294), Europe (US\$212), Central/South America (US\$96), Asia (US\$43) and, finally, Africa (US\$7). “Looking at Oceania, it’s easy to see why Ladbrokes, Coral, William Hill and so on are investing heavily in that market”, he explained. “But at the other end of the spectrum we have Africa. It has low income per capita and poor communications, but we need to consider where Africa is going in the future. Africa is growing; it has massive investment from China, and in 2007 at the height of the recession it grew 8%. It won’t happen tomorrow but companies are already building a brand there for the future. In terms of Asia, no one can believe that they only spend US\$43 per capita, but what we’re talking about here are the regulated gambling figures - the illegal gambling in Asia is really significant.”

#### Global gambling revenues

Moving on to global gambling spend per capita by jurisdiction, Mr Bartlett drew parallels between neighbouring jurisdictions the US (GGY per capita US\$396) and Canada (US\$621), and China (US\$16) and Hong Kong (US\$500): “and the reason for this selection is that the US and Canada, like China and Hong Kong, both share a common border, so the culture is pretty much the same for both pairs.”

He demonstrated that although the US has a higher disposable income per capita, the gross gaming yield per capita in Canada is much higher. “The reason for this is that gambling in Canada is pretty much run by the state. They embrace it because they want to tax the revenue, and they want the money for good causes. But

the US is different: in some States gambling is prohibited or restricted and what this tells you is the scope for the United States is significant. Then you compare China and Macau. Those of you that have been will testify that the Chinese gamblers in Macau will bet their last dollar on the turn of the cards. In Hong Kong, legalised gambling is conducted through the Hong Kong Jockey Club, who run the lottery and sports betting even though the offer to punters is competitive by our standards, Hong Kong police say that the illegal gambling is still double that which is recorded as regulated. The peoples of both China and Hong Kong have a similar taste for gambling yet the differences in recorded legalised gambling are not so very different as they are between Canada and the USA.

So you can see there that the two most economically powerful countries in the world have the most scope for gambling services, given the legislation that will allow it.”

“So long term we’ve got a lot to look forward to”, Mr Bartlett explained in closing. “In the immediate future, however, life is going to have its challenges. But that, after all, is the nature of the business.”





Peter Greenhill

## Peter Greenhill

CEO eGaming Development  
Isle of Man Government  
Department of Economic  
Development

Following a very successful career in banking and banking systems with Credit Lyonnais and Unisys, Peter has spent over 17 years in executive management positions in the gaming sector. He has provided solutions to lotteries worldwide whilst with EssNet AB and Betex, and to the major European casino

and betting operators whilst MD of both Cyberview UK and TCS John Huxley Europe. As an executive consultant, Peter has also advised a number of companies in the mobile and eGaming sector on their B2B operations and has also worked for the board of Camelot on strategic issues.



## Sector Update: IOM specific

A regular contributor to and 'stalwart' of the KPMG eGaming Summit series, Steve Brennan opened this year's Isle of Man Sector Specific Update by first introducing the floor to Peter Greenhill, the new CEO for eGaming Development with the Department of Economic Development and noted figure within both the eGaming and international finance sectors.

Gambling Regulators European Forum, the International Masters of Gaming Law, and the IAGR, or International Association of Gaming Regulators. "The Isle of Man has got a place in those forums," he assured the Summit. "This is where policy is being discussed and taken back into jurisdictions, and my view is that it is very important that the Island has a voice at those forums to make sure that it can be part of and go some way in shaping the discussions that affect the interests of the Island sector."

Mr Greenhill then formally introduced himself before outlining the role of the DED as being a means of working with the eGaming sector "to grow the economy, to create jobs on the Island, and develop the right market conditions not just so that companies can grow here and expand, but also to attract new businesses to the Island."

Mr Brennan also noted that the Gambling Supervision Commission has also been lobbying with the European Commission, stating that an expert group of 28 Member State representatives has been set up and at which the Island currently does not have a place. "But this is an opportunity for us to have an input at that group and we're working hard in tandem with the Channel Islands and with our EU representatives in Brussels to make sure that doors are being opened and the Island's voice is represented."

### Last 12 months

An overview of 2013 soon followed, during which Mr Brennan remarked that the sector's private/public partnership had "made tremendous strides these past five years, not just in creating but in protecting the environment in which the eGaming sector has flourished." He continued in explaining the importance of the Island representing itself at various conferences, expos and forums related to the sector, noting in particular the importance from a gambling regulator's perspective of remaining active in forums such as GREF, or the

### Business development

"What the DED provides in this respect is the framework for attending conferences and seminars all around the world," Mr Greenhill added. "We're inviting our partners here on the Island to come with us and help to create one environment that we can show to

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Steve Brennan

## Steve Brennan

Chief Executive  
Isle of Man Gambling Supervision Commission

Steve Brennan has been the Chief Executive (formerly Director) of the Isle of Man Gambling Supervision Commission since June 2008. The Gambling Supervision Commission was initially established in 1962 and consists of an independent panel headed by a Chairman and four members. Steve's primary

responsibility within the Commission is for the development and maintenance of the regulatory framework to license and supervise all forms of gambling in the Island. Prior to his appointment with the GSC, he held senior positions within the Isle of Man Treasury.



“Our pipeline for new business is also looking very strong, not only in terms of our application considerations but also in terms of qualifications of interest.”

the world. At EiG for example there were 11 companies at the DED’s stand, representing the Isle of Man together through CSPs, operators and data-centres, and we’re getting a massive response from that.”

#### Year on year comparison

Taking over from Mr Greenhill, Mr Brennan then referred the Summit to a table illustrating growth figures for the industry over the past 12 months. Overall, the table evidenced steady growth within the sector. The number of licence holders has grown from 45 in 2012 to 56 in 2013, while fewer licences had been rescinded or suspended (7 in 2012, and 5 in 2013). A number of licensees were also awaiting approval while a further 8 licence applications were being considered or prepared this year in comparison to last year’s 4. “Our pipeline for new business is also looking very strong,” Mr Greenhill reiterated to the Summit, “not only in terms of our application considerations but also in terms of qualifications of interest. We currently have 11 companies that we’ve spoken to after shows (compared to 6 in 2012), for example, which are now past the point of casual interest and can be considered formally interested in joining us here on the Island.”

#### Non-licensable

“But it’s very important to recognise that our industry constitutes a mixture of those companies that need a licence to operate and those that support the industry and don’t need a licence,” Mr Greenhill reminded the Summit. “We’ve seen some

tremendous movement in this area, with encouraging growth on the job side of the Island’s software houses and platform suppliers. We’ve seen significant investment in the capacity of our data centres across the board and we’re expecting our new business to fill up that capacity. Our CSPs are growing as well, one company has over 20 staff dedicated to gaming, which is superb. We’ve also seen new businesses start up, one that sees a large number of staff, or principals, betting on behalf of themselves, and which doesn’t need a licence. These are all adding to a pool of gaming related companies on the Island.”

#### Economic benefit

Turning to the economic benefits of such growth, Mr Brennan again remarked upon the steady growth of the sector and its increasing benefits to the Exchequer. Revenue generated from licence fees has increased from £1.7million in 2012 to £1.9million in 2013, while online duty has increased from £2.9 million to £3.6 million. Other taxes had again increased from £16.4 million in 2012 to £17.8 million in 2013 and local spend has increased from £175 million to £198 million. Employment figures within the industry had also shown significant growth from 775 in 2012 to 854 in 2013. “This is significant”, remarked Mr Greenhill; “if we add in related businesses, the e-business sector combined constitutes 13 per cent of the Island’s GDP, and that figure will grow in coming years. This combined sector plays a key role in our ambitions for 2020 because it’s important that we don’t rely solely on eGaming for future revenue.”

#### Headlines: last 12 months

Mr Brennan explained that the UK Point of Consumption Tax and the closure of UK White List as part of associated licensing activity had featured heavily throughout the course of 2013. “There’s been a lot of discussion on this matter and the case is changing as arguments get stronger”, he remarked. “But I think the bottom line is the UK will do what they intend to do: they’ll introduce new licensing and a new tax regime and the Isle of Man, rather than objecting to it all and standing on the outside of the debate, has adopted a cooperative approach to ensure that we have some insight and input. Our objective is always to understand the direction the UK is going in and put the necessary provisions in place to minimise any business cost to Isle of Man operators.”

“There has also been much talk about what happens to the UK in terms of operators that are already in EEA or white listed jurisdictions,” Mr Brennan continued. “The terms ‘transitional licence’ or ‘continuous licence’ had been mentioned and the UK has confirmed that any operators within a white listed jurisdiction will get a continuation licence to operate through the transition period. There are some restrictions around the continuation licence, but they are very keen to make sure that the process for Isle of Man operators is almost seamless. The UK thinks that the transition licence period will be fairly short but I’m not so confident given the number of applications they’re going to have to deal with. So I think

“Our objective is always to understand the direction the UK is going in and put the necessary provisions in place to minimise any business cost to Isle of Man operators.”

the message going out to operators and advisors in the room is; if you have a product that you’re looking to add to your licence in the next 12 months then it’s important to bring your product forward and get it up and running so it can be added from your IOM licence to your UK continuation licence.”

Moving on to the Isle of Man’s live gaming tournaments legislation, known as the Casino (Amendment) Bill, which was enacted in 2012, Mr Greenhill described the PokerStars poker tournament held in October as “a massive PR boost for the Island, creating more than 1,100 bed nights, a 30 per cent increase in casino attendance, a 50 per cent increase in nightclub revenue, 8 days of rental for the Villa Marina, and 350 well known players in attendance. This was very well run and we hope to repeat it in future years.”

The Miscellaneous Provisions Bill offered the opportunity to consider what Mr Brennan described as the future shape of the gambling industry on the Island. “It addresses issues as diverse as casino licensing processes, administrative procedures, technology proofing and more. The consultation period is closed, there’s been a lot of feedback, but it’s not too late to make any further suggestions – we’re always open minded when it comes to industry feedback.”

He went on to explain that anti-money laundering will also constitute ‘a big ticket’ for 2014, noting that the Island’s current code had, at the time of writing, recently been consolidated

with terrorist financing. “I can’t overstate how important this is to the industry,” Mr Brennan added. “The Island is going to be measured by the Council of Europe’s Moneyval in the next two to three years, and our legislation and its application will come under scrutiny. It’s important that we show the law is being used and that there are tangible results. The Fourth European Money Laundering Directive is also on its way so I think it’s the proper time to make sure our AML legislation is more comprehensive and ready for when the directive comes in and the assessment takes place. The industry can expect to see a lot of material concerning AML from the Gambling Supervision Commission over the next 12 to 24 months.”

Moving on to player protection, Mr Brennan reemphasised its importance to the industry and described it as integral to the Island’s proposition. “It can be seen as a business cost, but it does satisfy a number of political stakeholders and other sectors on the Island. We think it’s the right tool and it has served us well, but we are looking for cost effective solutions for our operators to provide the necessary levels of protection to their players. We also want to develop a more comprehensive suite of measures for operators to protect their players’ funds.”

Finally on the subject of the last 12 months, Mr Brennan explained that the GSC had become an integral part of GREF and IAGR, sharing its knowledge and expertise in the many aspects of eGaming regulation and supervision. “We find they are great



forums to enable us to share best practice, put forward our thoughts and ideas, and help shape the direction of policy. Most important of all for the Isle of Man, however, is that this sort of activity builds trust with other regulators, a prerequisite for formalising relationships through cooperation agreements.”

“During the last year our partnership with the private sector also led to the development of our five year strategy,” added Mr Greenhill. “Our discussion identified seven core areas that Government needs to work on to create the right environment for businesses to flourish and come here. We’re along the way towards making some of those come to fruition and we’ll be meeting very soon to refresh those strategic objectives.”

#### Strategy for the next 12 months

Concerning the Department of Economic Development’s plans for 2014 and their position within the five year eGaming strategy, Mr Greenhill identified certain key points which warranted further attention. Protecting the Island’s licensed and non-licensable base remained a priority and although an impact analysis showed that the UK’s Point of Consumption Tax posed no major threat to the local sector, Mr Greenhill emphasised that “the Island must keep working to ensure that companies are protected. On top of that, we want to ensure growth in jobs, in new business and in our eGaming environment overall,

growing the industry sideways from new eBusiness and non-licensed companies as well as up.”

Mr Greenhill also emphasised the importance of the DED working in partnership with the GSC and the sector to improve the Island’s international relations and attract the headquarters and major departments of larger global operators. “Each of these measures is complementary and vital to the industry, and one cannot be prioritised over the other,” he added.

#### New markets

In closing, Mr Greenhill briefly discussed new market potential for the Island, noting that discussions had been opened with US Native American tribes concerning extra-territorial reach beyond the US. Concerning products, Mr Greenhill also remarked upon the DED’s intention to grow the Island’s binary options market as well as non-licensable business. Finally, Mr Greenhill expressed his concern over the future of social gaming and its place within the world of online gambling, describing it as a ‘disaster waiting to happen’. “In an unregulated environment someone at some stage is going to clamp down on this very quickly,” he explained. “It is a concern and we will be looking at it internally in the future.”

# The Evolution of Sports Betting

## Dominic Atkinson

Commercial Director  
Tailorbet



Dominic is the recently appointed Commercial Director of Tailorbet, which provides a network solution for users to create, customise and share bets with others using their preferred sportsbook/sports portal. Dominic began his career in eGaming as Commercial Manager for sports betting with the Press Association Group, where he was responsible for clients such as Bet

365, Gala Coral, Ladbrokes and William Hill. In 2010 he was appointed Head of Commercial, Sports Betting before moving to Satellite Information Services, or SIS, in 2011. There, as Head of Business, Dominic led discussions on strategic partnerships in an ever consolidating marketplace.

“Today, some 57% of gamers still use the lottery and 20% still purchase scratch cards, while 17% remain loyal to horse racing – a significant alteration.”

Mr Atkinson introduced his presentation as an analysis of the growth of the sports betting market and the factors contributing to its evolution from the blackboards and audio visual systems of early retail betting shops to the sports books and betting exchanges of the digital era and, ultimately, the position of social media within this most recent category.

An historical overview of the industry followed, during which Mr Atkinson identified key milestones such as the opening of the first betting shops in Britain in 1961 with the introduction of the Betting and Gaming Act, the birth of rudimentary online betting in 1993 and, at the turn of the last century, the advent of online betting exchanges. “Social media,” Mr Atkinson confirmed, “is already the next big thing, and we at Tailorbet are providing a means of creating new betting opportunities for new customers working with a new generation of betting platforms.”

#### How we used to bet

“To delve a little deeper,” Mr Atkinson continued, “we need to explore the rapid rise of ‘bricks and mortar’ betting shops in Britain.” He explained that within six months of the Betting and Gaming Act being passed, over 10,000 betting shops had opened in the UK. Odds were published by hand on a series of blackboards and came via a speaker system, or the ‘blower’, as it was then known commentaries and results of horse races. In 1995, however, the Lottery Act gave rise to the UK’s National Lottery which, Mr Atkinson observed, had a significant adverse effect on the sports betting market. “Punters used to placing a £2/£3 bet on a race in the hope of winning £10 could suddenly win millions with £1 down – albeit with rather different chances of winning,” he explained. “Today, some 57% of gamers still use the lottery and 20% still purchase scratch cards, while 17% remain loyal to horse racing – a significant alteration.”

“In 2001, however, Britain was hit by Foot and Mouth Disease”, he continued. “There were restrictions on animal movements and, as a result, virtual betting became paramount in betting shops which had to find new ways of staying open. For the uninitiated, many might find the appeal of virtual betting difficult to comprehend: (computer generated races where the horses and the tracks aren’t real,) but no one thinks anything of purchasing a lottery ticket or premium bonds. Nowadays, virtual betting is huge. It’s interactive and immersive; it’s a multi, multi-million dollar industry that continues to grow and more sports are being added all the time.”

#### What’s changed?

“Over the last five years, fixed odds betting terminals, or FOBTs, have had a remarkable effect on the retail betting market,” Mr Atkinson continued. “Legislation now restricts the number of machines permitted in betting shops because they’re perceived to increase problem gambling, but they are now extremely important to the survival of Britain’s betting shops.”

Mr Atkinson explained that FOBTs in Britain now take as much yearly revenue as over the counter horse racing and sports betting combined. “Betting shops will survive, however,” he assured the Summit, “though this may be at the expense of the independent. Very much like the British supermarket and their local/express supermarket sector, many independent betting shops simply can’t compete with the Ladbrokes, Paddy Powers and William Hills of this world. They don’t have the marketing budget, nor do they have the capacity to offer the content that the larger bookmakers provide.”

#### The birth of the cyber-twin

At the turn of the century, these betting shops had also developed what Mr Atkinson described as a ‘cyber twin’. Concerned about a 9% UK

Betting Duty, early pioneers such as Victor Chandler, today known as BetVictor, developed a strategy to offer better value for money to their customers. In 1996 Victor Chandler relocated to Gibraltar and by 1999 was the largest employer on ‘The Rock’ with some 350 employees, and remains there today. “Almost as a direct result, HM Treasury had to adjust its Betting Duty,” said Mr Atkinson. “Another success story was the Coates family - Bet 365. In 2001 Peter Coates’ daughter Denise developed a sports betting platform and trading team to launch the business online. Profits ballooned from £3.8 million in 2005 to £148 million in the last calendar year. Bet 365 now turns over £20 billion annually and they are now bigger online than William Hill and Ladbrokes combined.”

#### In-running betting

As Mr Atkinson remarked to the floor, the traditional model of betting before the beginning of an event has now changed irrevocably. Sports that were once a low revenue generator such as tennis and basketball now sit in the top five most popular sports directly as a result of them being more conducive to the in-running format. “No wonder then,” he added, “that operators such as Sporting Bet are now reporting that over 60 per cent of their revenue comes from in-play betting. Football, however, still provides the majority of operators’ income. Running Ball, now owned by the Perform Group, offers over 37,000 football matches per year, often directly from the stadium. They provide results on goals, free-kicks, corners, and more all within micro-seconds. Similarly tennis, which was nowhere five years ago, has exploded: 45,000 matches per year are now available to bet on in-play, with scores coming directly from the umpire’s chair.”

The margins on in-play betting are, however considerably smaller for bookmakers, Mr Atkinson explained. William Hill, for example, reported that 8.8% is the margin for their ante-post

bets, but last year the margin for in-play bets came down from 4.8 per cent to 4.2 per cent. “As a result of this, algorithms are becoming a huge part of bookmakers’ operations. They’re having to look at ways and means of outsourcing elements of their trading function. Services from companies such as BetGenius and Sporting Solutions are now part of a book makers operation. It’s cost effective and it allows the bookmaker to extend their in-play markets a lot quicker.”

#### The betting exchanges

Following on from the online sports books came the betting exchanges, Mr Atkinson explained. Betfair launched in June 2000 and turned over £1.5 billion in less than two years the end of 2004 in excess of £50 million per week was placed on matched bets. “There are a number of fundamental reasons for the early success of Betfair. In 2004, a survey found that a horse race punter would be 10 per cent better off using a betting exchange over a sports book, although I’m not sure the same figures apply today,” Mr Atkinson added. “No wonder, then, that for ordinary mid-week races in Britain matched bets were exceeding £400,000 per race.”

“Another early success factor was down to technology,” Mr Atkinson continued. “Betfair had no legacy; they weren’t a betting company and they could do what they wanted to do with their technology. Punters were able to back and, more importantly, lay for the first time. Betfair saw themselves as a software house led by technology, not led by betting.”

#### Mobile

Mr Atkinson confirmed that the 2010 World Cup in South Africa finally announced mobile as the next platform for sports betting. Mobile is expected to become the dominant channel for sports betting in the next World Cup in Brazil in 2014 and the reason for this, he observed, is uptake. “Around 4.3 per cent of iPhone users have a sports betting App downloaded



“As always, people’s lives are changing and betting is changing with it.”

on to their mobile. Now this figure may not sound too impressive,” said Mr Atkinson, “but it’s only a matter of time before we’re reporting a 10 or 15 per cent rate of direct uptake. William Hill, for example, reported that 34 per cent of all bets in Q1 2013 came from mobile – a staggering 298 per cent increase on last year.”

Another big trend to emerge, he continued, is known as the ‘second’ or ‘companion screen’. “At half time on a televised football match in Britain, nearly every single advert is a bookmaker pushing their in-play odds. Indeed, the smartphone and tablet gambling market is expected to reach £100 billion by 2017, and as Paddy Power’s Chief Executive Patrick Kennedy forecast, we expect 90 per cent of industry growth over the next six years to come from mobile.”

#### Governance

Moving on to the development of industry partnerships, Mr Atkinson informed the floor that sports governing bodies now play an important part in shaping the betting industry largely by deciding what’s available to bet upon. “Once upon a time they were reluctant to be associated with sports betting, but this is now changing, and for two reasons,” he added. “Firstly, high-profile incidents of match fixing have forced the governing bodies to work with sports betting; they know that gambling is going to take place.”

“The second part of the changing environment for governing bodies is that they realise for the first time that they’re sitting on a commercial

commodity. Bodies are putting out requests for proposals to the sports betting market with the result that companies such as SIS, or Satellite Information Services, for example, paid £4.5 million to Horse Racing Ireland just to feature the Irish racing pictures in their betting shops. SIS subsequently paid each racing track in Ireland several hundred thousand pounds, with an additional £6,000 per race for these rights - and this is before we move online. Enetpulse reportedly paid \$40 million over five years for the ATP tennis rights and Perform Group themselves reportedly paid Football Data Co. £5 million over three years for the betting data of the English and Scottish football leagues.”

#### Conclusion

“In many ways,” Mr Atkinson remarked in closing, “it could be said that the betting industry has more or less gone full circle. Betting shops are having to attract a younger generation: fixed odds and self service betting terminals are having to be introduced as a means of offsetting in-play and online trends by inviting customers to migrate away from online and into the betting shop. Many bookmakers are launching their own television channels, or becoming content aggregators in their own right. So what’s next? As always, people’s lives are changing and betting is changing with it. Flexibility is key to meeting the challenge for all, not just in the sports betting industry, and we at Tailorbet, are at the forefront of that process of evolution.”

“Flexibility is key to meeting the challenge for all, not just in the sports betting industry, and we at Tailorbet, are at the forefront of that process of evolution.”





## Panel 1 –

### The importance of keeping crime out of gambling; the challenges of enforcement in remote gambling

#### Moderated by Hilary Stewart Jones

Partner  
DLA Piper

Hilary Stewart-Jones is a partner in the firm's London office and part of the Intellectual Property and Technology Group. She focuses solely on gambling related issues.

Having spent five years as in-house head of the gambling division at Ladbrokes, Hilary returned to private practice in 2000. Hilary has played a role in most of the online sector floats/acquisitions since 2000, but continues to advise bricks and mortar businesses from tracks to casinos. She has written legislation and

regulations for offshore governments and has drawn up industry codes of practice. She sits as a trustee for the Responsible Gambling Trust and has recently taken up a NED position for Playtech. Hilary will maintain her association with DLA Piper when she moves to a consultancy role in 2014. Chamber in 2010 referred to Hilary as a "first class lawyer who has gambling in her blood". She is the only practitioner to be awarded a star in the gambling category (denoting exceptional recommendations in the sector).

## Panelists

### Peter Kjaer

CEO - Ho Gaming

### Paul Leyland

Consultant -  
previously Corporate Development Director, William Hill

"Enforcement is a critical issue within the online gambling industry," Ms Stewart-Jones began. "The online gambling industry is probably the most successful end-to-end digital retail experience. But of course, what we've seen over the last five to seven years is an increasing drive to regulate. This is something that we're all in favour of; people will always gamble and it would be folly for governments to push customers into unregulated markets. But, particularly within Europe, the cost of getting those licences is incredibly high and in some cases, a thinly disguised means of a monopoly keeping its position of power. The problem is, in order to make those operator licence fees

worthwhile, you want to make sure you keep those bad actors out. There is increasingly, therefore, a cry for more enforcement muscle to be exercised on behalf of those who have paid their fees and want to protect what they've spent so much money getting. The days of a licensing hub, whereby you can license in one jurisdiction and access the rest of the world are, however, over. How has this Balkanisation, or fragmentation, of the regulatory landscape affected enforcement within the industry, and what are the subsequent challenges for the Isle of Man sector?





“This is the internet, there’s no stopping the industry, but what government regulation can offer players is the confidence to differentiate between the operators available to them.”

**Paul Leyland** – Mr Leyland explained that one of the key challenges faced from an operator’s perspective is the difficulty of predicting what the shape and profitability of a market is before it regulates. “It’s quite easy adhering to a compliance programme,” he remarked; “you involve yourself in markets where you can make money and you do as you’re told within them. The problem is having an economic compliance programme. If you’re operating sports betting in France, you’re probably not making money. If you don’t have a top three market share in Spain or Italy, you’re probably not making money, and if you’re going into a country like Denmark with a low population, operating to a profit is a big stretch, particularly for companies that are juggling all sorts of issues concerning technology and the prioritisation of growth. So the biggest single issue is discerning if a market is profitable without first being in there and losing money for three or four years to find out.”

**Peter Kjaer** – “When we first met at a conference many years ago, one of my key points as a speaker was that it was criminal for any government or regulator not to legalise and license online gaming simply because all of the money goes offshore to places with no regulation, with no citizen protection and no player protection of funds,” Mr Kjaer added. “This is the internet, there’s no stopping the industry, but what government regulation can offer players is the confidence to differentiate between the operators available to them.”

“Now, 13 or 14 years later, we’ve come a long way and the industry has very much turned around. But **responsibility for protection now lies as much with the operators and providers because, at this point, it is needed.** If there are ‘bad actors’ in the player section and an operator system is being abused by a single player who may have a whole team of computers supporting him, then the rest of the players and the operator need to be protected. I think the legislation to do so properly, however, is still a long way off.”

“This is a very good point,” Ms Stewart-Jones agreed. “Regulators tend to focus on criminal activity by operators but there’s also an obligation on behalf of the whole industry to ensure that criminal activity is also nipped in the bud vis-à-vis the players.”

“Going back to the creation of a joined up, pan-jurisdictional compliance programme; **there’s a growing trend for companies to shut jurisdictions and markets down. What do you think are some of the reasons for these decisions?**”

**Paul Leyland** – Mr Leyland explained that there are four predominant reasons for these recent occurrences, each of which are, in his opinion, interrelated. “The most obvious concerns the public domain,” he said. “Nevada was one of the reasons William Hill had to close in Australia. In fact, the Nevada Gaming Control Board described it rather elegantly: when William Hill’s lawyer said ‘it’s

only one licence’, they said ‘yes, but that’s like robbing a bank and only robbing one teller’. They do rather understand that breaking the law is binary. So wanting licences in jurisdictions that recognise extra-territorial probity, which is principally the US and increasingly parts of Canada, is one of the reasons why a company may decide to shut down some of its spicier dot com cash flow from elsewhere.”

For listed organisations, Mr Leyland explained that the stock market is beginning to understand that some jurisdictions carry more risk than others while many jurisdictions are also no longer as economically viable as they once were. “Finally,” he added, “there are also an increasing number of senior executives who want to be involved in the whiter, rather than grey, companies.”

“This ‘long shadow of Nevada’ is an interesting trope,” Ms Stewart-Jones added, “because the view coming out of the US at the moment is very much that there wasn’t a prayer of arguing that an activity may be legal in some jurisdictions but not others. It does seem to be something of a key performance indicator at the moment; a measure against which a prospective licensee can say ‘we take x percentage of our revenue from regulated markets’, and so on. “But in terms of the cost of regulation, it is a valid point that its increase is going to put some out of business, but that must be factored in. What are your opinions?”

“Regulators tend to focus on criminal activity by operators but there’s also an obligation on behalf of the whole industry to ensure that criminal activity is also nipped in the bud vis-à-vis the players.”

**Paul Leyland** –

“There are two principal stakeholders that present themselves in a regulated market that don’t get factored into a dot com market,” Mr Leyland agreed. “The most obvious is government, so you have tax coming out where historically you didn’t. The second, and this is often forgotten, is that you have domestic incumbents who have historically not had a remote presence and develop one very quickly. They typically get a decent market share either by knowing their market very well or by making sure that the regulation suits them down to the ground. I think that’s something that the dot com operators haven’t factored in sufficiently well to create a healthy, well regulated commercial environment.”

**Peter Kjaer** – “This is the important driving force,” Mr Kjaer added. “You can’t have regulation without cost but if you don’t have regulation as an operator you can be cheated as much as you’re able to cheat. I would rather pay a government to help protect me against troublesome players. For the industry to move forward we need to have this regulation across the board. There are no free lunches, you have to spend the money, but it works for both sides.”

“Certainly from a European Commission perspective, they talked a lot about harmonisation through cooperation and enforcement, and there was recently a tender paper put out to provide the answers at a cost, but it’s very complex in terms of

prosecution, extradition, budgets and priorities,” added Ms Stewart-Jones. “Unless you have the enforcement muscle of the US Department of Justice, which also has fear on its side, most governments just give up because it’s too much hard work to catch a comparative handful of rogue customers. So, with this in mind;

**what tools need to be made available to governments or operators to keep the bad actors out?**

**Paul Leyland** – “To take a very broad brush, because this is a complicated subject,” Mr Leyland began, “I think there are two principal issues that governments could address to make things much easier.” The first, he explained, is there tends to be too much focus on the operator, which can be made to be a very thin piece of the value chain.

A significant amount of the total gambling chain can, therefore, be entirely unregulated, which can cause myriad problems with compliance: “So there needs to be more regulatory focus on the pieces of the value chain that are also important.” The second, Mr Leyland continued, surrounded governments’ over-reliance upon the criminal prosecution of individuals, which can prove to be dangerous: “People can make the mistake of assuming they’re safe while, for years, someone is plotting to arrest them, but only when they’re ready. Whereas more focus on the companies themselves could help to create a more compliance-driven culture.”

If operators need protecting as well, how would one set about achieving that? How do you draw the line between someone who is playing well and someone with more sinister ambitions? Are all customer betting syndicates bad, for example, or should they announce themselves as syndicates and be regulated?

**Peter Kjaer** – “Tax or bond, it has to be paid for”, Mr Kjaer remarked. “Whether you pay upfront in the initial licence fee, you pay it annually, or you pay it based on activity; it’s ultimately true that a jurisdiction that licenses online gaming will only survive if they have regulation that can and does enforce its conditions, either by giving themselves or the operators the tools to do so. We need to change the regulation in all jurisdictions, possibly by adding a non-human intervention element, to say that if you cheat an operator you will be charged. That line alone would enable us to chase an individual, approach the regulator or EU and say ‘that person has definitely broken the law; I would like to file charges’. That’s the deterrent, and the cost of arranging that legislation is nothing compared to the money being stolen from the industry every year.”

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**Peter Kjaer** – “Ultimately it’s a case of letting the other side know who they are dealing with,” said Mr Kjaer. “Operators can often prove without any doubt that someone has used a machine to cheat. Operators themselves should be able to be aggressive and the provider can work with them to stop that, just like the banks. These systems can even be put into the hands of the regulators. It’s a trillion dollar industry we’re in now, yet an operator can still go bust due to criminal activity. We should be able to do the same and have the same laws to prosecute in a jurisdictional capacity as other industries of this scale.”

“This is fundamentally the problem; these restrictions are in the terms and conditions rather than the legislation. That’s why we have such trouble in terms of enforcement,” added Ms Stewart-Jones.

I think it was Paul [Leyland] who said “we will all end up as operators with the regulators we deserve to have”, and I think there has been a reluctance on the industry’s part to information share. What effect has this had in terms of our ability to lobby for or against significant changes to regulation?

**Paul Leyland** –

Mr Leyland explained in closing that there is an inherent conflict in large countries which means that, on the one hand, the taxing side of governments “really don’t want to be bothered with the detail and just turn the tax tap on, whereas another part of government just wants to regulate. This means that they regulate all day and employ as many people as they can so that they feel safer when government later wants to cut back. What that then creates is a huge amount of unnecessary red tape and a huge amount of duplication across jurisdictions.”

“Of course, it’s easier said than done,” he continued, “but one of the very powerful lessons that can come out of the Isle of Man is to first establish the regulation, then sort out the tax and the player protection, then sort out any other particularities that apply to the jurisdiction. That way, the wrong people don’t need to get involved in the minutiae, because it’s all done.”

“My approach to lobbying would be the guerrilla approach”, Mr Kjaer added in closing. “If we can identify a criminal, identify grounds for a criminal charge and get the backing of a reputed legislator such as the Isle of Man, then the others will follow. It’s not about creating more red tape because the systems are there. It just takes that first case to create a deterrent for the criminal and inspiration for other gaming jurisdictions.”

## Panel 2 – The Future of Payments in the Online World

### Moderated by Archie Watt

Head of eGaming

KPMG Isle of Man

Archie joined KPMG Isle of Man from KPMG London, where he was recruited as an IT Advisory Director in the Information, Communication and Entertainment practice, with a particular focus on online gaming clients.

Archie worked on the bwin/PartyGaming merger and a number of acquisitions in the gaming sector. He was also

instrumental in the public listings of 888, Playtech and PartyGaming, amongst others. Archie is a regular contributor to sector publications, including working as co-author on the report Online Gaming: A Gamble or a Sure Bet?, and was recently consulted for the Remote Gambling Association report on the UK Government’s planned changes on taxation of online gaming.

## Panelists

### Malcolm Berg

Director of Merchant Services - Ukash

### Mark Anthony Spiteri

Business Unit Manager - Ixaris (representing the Entropay brand)

### Dan Starr

Chief Marketing Officer - Optimal Payments

### Paul Davis

Managing Director - Counting House

How can payment processors help to retain and reward online gaming customers?

**Malcolm Berg** - “The reality is this is at the core of what we do”, Mr Berg began. “If we’re to add any value to our partnerships, and if we’re to help drive businesses forward, it can only

be by bringing incremental business or by retaining existing clients. It’s about understanding what our merchants are looking for, it’s about understanding their client base and demographic, and it’s about actually putting joint marketing plans together to retain, reward, and reinvigorate.”

“It’s about understanding what our merchants are looking for, it’s about understanding their client base and demographic, and it’s about actually putting joint marketing plans together to retain, reward, and reinvigorate.”



**So does that mean you’re actually mining the data you have from the players who are depositing with you and then sharing that with the operators?**

**Mark Anthony Spiteri** - “I think it’s critical that the information stream is two way,” Mr Spiteri agreed. “The operator has certain critical information about the user, and we have the payment information to complement that.” Mr Spiteri added that this reciprocal relationship was critical for two reasons: firstly, due to the imperative to monitor, evaluate and improve services and products and, secondly, in order to strengthen the basis for that relationship. “Unfortunately, however, these partnerships are still not so common within the market.”

**Malcolm Berg** - “It’s key to our success that we meet the needs of the customers in terms of the methods with which they want to pay,” Mr Berg agreed. “This is especially so across borders. Cash is still king, however, and this has been quite a driver for us over recent years. Equally, it’s important to understand the country you’re in, and if it’s a cash based consumer market, that needs to be recognised. It’s our job to understand the markets we’re in and to put the plans in place to increase the take-up.”

**Dan Starr** - “Clearly the product for gaming operators is money,” Mr Starr added. “So the various methods are stacked high on every check-out page. People’s first inclination is to reach for their credit card, debit card, or conduct a bank transfer, and the eWallet, or digital wallet, grew up in the late 1990s because it’s very difficult to

move large amounts of money across borders. The gaming specific wallet is very geared to the gaming market and we do mine data, although we don’t share it with operators because our customers won’t thank us for it. We do, however, do a lot of promotion, such as jointly marketing with a particular operator, so we’re able to determine what our particular prize pool contribution should be because we know the yield we’re going to get from particular players. We can also see how promiscuous players are between the different operators so we’re able to put together tailored marketing plans together with operators to help reactivate customers. These are things you could never do with a bank and it allows money to move across borders very quickly.”

On the reverse side of the equation, however, Mr Davis added that the unique position that a payment processor has is the ability to mine data across its operators. Whereas an operator can look at the behaviours of a player, payment processors can look at trends across the industry as a whole. “This allows operators to recognise and block dangerous, fraudulent or non-compliant behaviour. So there’s an opportunity on the risk prevention and compliance side as well.”

**Could this equally be used to identify problem gamblers; those that are struggling to get cash on to sites or who are getting rejected?**

**Dan Starr** - “We do take our obligation seriously, as all payment companies do,” Mr Starr added. “If a customer is asked to turn off their payment wallet because of a gaming issue, we’ll never

turn on that wallet again for that identity – pretty much any payment system which takes deposits on behalf of a customer will do that. We do also see a lot of aggregate data across-sites and any interactions that we don’t like or that may create a problem for an operator will also be nipped in the bud as soon as possible. It’s bad business for payment providers and good corporate social responsibility for the industry.”

**How are you adapting to provide entry in to new markets and new territories?**

**Malcolm Berg** – Mr Berg explained that this process is partly one of identification and alignment with the operators to identify new market opportunities, but emphasised that this was solely with a view to entering properly regulated markets. “If it’s already a predominantly credit card based market, however, then we can’t offer very much in the way of additional value. If it’s a heavily cash based market – Mexico, for example, where more people have mobile phones than bank accounts – then that then becomes appealing to us, as long as it’s properly regulated and we can put the proper controls in place.”

**Dan Starr** - “What a payment provider can do is lay down the tracks for the gaming operators to then go into these new markets legitimately, to understand the people they’re doing business with and understand the legitimacy of the funds that are being transferred,” added Mr Starr.

**Mark Anthony Spiteri** - “Legitimacy is certainly key when entering these new markets,” Mr Spiteri agreed. “If we take the case of Africa as an example, everyone is doing their own thing at

the moment, which makes it all the more important to understand the end user. It would be naive for an operator to go into a market like Africa without this degree of market consideration. There is no one silver bullet to solve the user problem but it is the payment providers that can help to optimise operator entry in this respect.”

**Paul Davis** - Mr Davis emphasised the importance of considering that the experience gained by payment processors in new markets is not necessarily through eGaming. “There are markets where operators are awaiting gaming regulation, but while that’s happening we can go in and take on other markets and establish a payments network. This often then translates very well into eGaming when the regulation is ready.”

**In terms of the US, I keep hearing that people are having trouble depositing money on legitimate events. Why is it that you can’t get cash onto sites for a legal event?**

**Dan Starr** - “Ultimately, it’s up to the card issuer to decide where they allow that card to be used. Even if it’s a non 7995 transaction [the Merchant Category code under which internet gaming transactions fall], a lot of issuers will block the card. In the US, therefore, you need a good acquirer, a good partner and a whole raft of other permissions that will allow payments into the market. I think card will remain very difficult in the US for the foreseeable future.”

**What about the potential for a new Merchant Code specifically for online gaming? Has there been any progress?**

**Paul Davis** - Mr Davis explained that there has been movement in this respect but noted that one aspect that characterises the three US markets is their particular aggression in establishing a full infrastructure. “There’s a terrific pace and an enthusiasm to get things up and running, but they are still very much committed to the traditional payment methods of ACH, Mastercard and Visa. The gaming sites have a view of how they want to operate but the banks are very nervous. What we’ve seen recently is a slew of banks that were prepared to do gaming business two months ago and have since changed their mind. So right now, there’s a world of operators licensed in the US and ready to conduct testings and transactions with no payments structure in place to allow them to do so.”

“In terms of merchant coding for Visa and Mastercard there was a workaround in place for horse racing and totalisers, which was code 9753 and was supposed to alert the issuer that something was an internet transaction but not an illegal gambling transaction,” he continued. “That was a very tough thing to get, because most issuers and acquirers wouldn’t process them. There has been talk of that code being extended to online gaming. There’s also been talk of a new code altogether, and there’s even been talk of a new code for individual gambling sites, as with the airline and hotel industries. None of this has come to pass, however, so we’ve gone live in three states and the payment environment is an absolute mess.”

To close; do you see the role of banks disappearing and payment services providers being the way of the future?

Dan Starr - "We provide a raft of technologies to the banks that are also rolling out digital wallets, but they are taking a long time to get to market. So I think it won't be the banks or telecommunications payment providers – the latter because they don't understand the market in its entirety."

"I think the biggest innovation that will come in the future is tablet and mobile," Mr Starr concluded. "Also, The gaming industry has led payment innovation for the last ten years but it's actually the retailers that are now taking over. In Starbucks, for example, you can load cash onto your mobile, waggle it in front of the point of sale and make a payment. Just this morning we announced a deal with a television channel which does all of the programming for the top entertainment organisations – NBA, NFL and so on. With them, you can

"I think the biggest innovation that will come in the future is tablet and mobile, the gaming industry has led payment innovation for the last ten years but it's actually the retailers that are now taking over."

now walk into a stadium, there's a QR code on the seat in front, you download the stadium App, read the QR code and have a drink or team jersey delivered to your seat. You can have a drink waiting for you at half time, so how long until you can place a bet? The channel conversion that mobile is driving is being driven by retailers and not the gaming market. A lot of the pure play operators are going to have to find physical partnerships to put their brand in the relevant places. Indeed, I think the gaming industry needs to be aware that they're no longer leading payments. The next five years is going to be PSPs and digital wallets, not the banks and not the telcos."

## Neill Whyte

Head of Product Channels  
Microgaming

## The Growth and Challenges of Mobile Devices



Neill Whyte

Neill has worked for Microgaming for over seven years, rising through the ranks to his current position as Head of Product Channels. Neill is responsible for product strategy & performance for the business. He graduated with honours in Business & Economics and gained his Post Graduate Diploma in Information Technology Systems.

"Believe it or not," Mr Whyte began, "Microgaming has actually been in the mobile arena for almost a decade now. Back in 2004, we were one of the first casino games providers of Java games to the industry. In those days Nokia, Motorola and Sony Ericsson were the main manufacturers of handsets and Symbian was the main operating system. App stores were unheard of and 3G was just a concept."

Since then, he continued, the onset of the Smartphone boom led by Apple in 2007 has resulted in players' wholehearted engagement with digital services on their devices, so much so that they are now demanding content in context on any device and to any location. "Putting this into perspective," Mr Whyte explained while referring the floor to his presentation; "mobile devices now represent 25 per cent of all emails and internet searches today. 1 in every 3 minutes spent playing online games today is via a mobile device and, more interestingly, 91 per cent of people who say they own a mobile phone actually keep it within arm's reach 24 hours a day."

How have global businesses embraced mobile?

In January 2013 Facebook announced that, for the first time in its history, they had more mobile users than PC visitors. Amazon now generates US\$3-5 billion annually in sales originating from mobile devices, and 38% of visits to LinkedIn also came via mobile – and even more interesting, these users are also 2.5 times more active in their visits than desktop users. More than 550 million photographs are uploaded every day from mobile devices and PayPal in 2012 announced that it transacted almost US\$14 billion through mobile devices. Most recently, Google announced in its latest results that mobile ad clicks grew 26%, thereby offsetting the decline in PC ad clicks which had fallen for the first time in history.

Closer to home

Looking closer to home, and at Microgaming customers in particular, Mr Whyte explained to the Summit that William Hill's mobile gaming revenue grew 198% during H1 2013 and now accounts for 14% of online gaming net revenue. Furthermore, William Hill predicts that this will grow to 45% in 2014. Betsson's mobile gaming revenue in Q3 2013 grew 100% compared with the same period for 2012 while a surge in mobile betting helped BSKyB's gambling business to grow revenue by 37% last year alone. Most recently, 32Red



“Mobile devices are catching, if not passing, PCs in all aspects and all facets of life.”

reported in H1 2013 that mobile now generates 17% of its total online revenue, resulting in 110% growth against 2012. “So you can see that even in our industry there are businesses that are adopting and embracing mobile devices,” added Mr Whyte, “and they’re very successful in that.”

#### The impact for Microgaming

Moving on to the repercussions of these developments from the perspective of Microgaming, Mr Whyte explained that it is quite rare for the company to share its own insights into the market. “But today, I’m willing to share some stats with you concerning how successful mobile devices have been for our company,” he revealed. “Our operator base has grown from 28 customers in 2011 to 128 customers today, and they specifically use our mobile products. In terms of online bets, mobile generates 20% of those and they’ve grown 160% over the last year [Q3 2012 to Q3 2013]. We’re now also seeing the emergence of a new type of customer, where 27% of all registrations happening on a mobile device only ever continue to play on a mobile device; they don’t cross over onto other platforms. More importantly, we’re seeing that our customers’ player values are increasing by 30% on average as a result of players playing on both PC and mobile.”

#### What has been driving this growth?

“Quite simply, the explosion in popularity of Smartphones and tablets has been the reason for the rate of growth which saw sales outperform desktop for the first time in 2011,” said Mr Whyte, “and if you believe what the experts say, PC sales are actually

going to decline for the first time from next year. Indeed, tablet sales are expected to outperform PCs in 2016.” Digging further, he continued, sales numbers from Q3 2013 indicate a 45 per cent rate of growth to 251 million units over the quarter – the first time ever that Smartphone sales have surpassed one quarter of a billion units in a quarter.

“The second big driver of this growth surrounds mobile subscriptions and broadband data. This is almost as important as sales volumes for the devices themselves, simply because of access.” International Telecommunications Union data indicates that by the end of 2013 there will be around 6.2 billion mobile subscriptions active in the world, representing almost a single active subscription per person. “We know that’s not the case in reality, but these figures show the vast acceleration of growth in mobile subscriptions today,” he added.

“Moreover, there are 2.1 billion mobile-web users in the world; those who have actually subscribed to mobile broadband. This is huge. We can see that from 2012 to 2013, global growth was at 25.9%, which actually shows that there remains a lot of room for growth in term of broadband subscriptions. Growth for the last three years is at 40% and we’re now also seeing that mobile broadband is outstripping fixed line by 3 subscriptions to 1. This means that mobile web adoption is growing 8 times faster than PC web adoption did back in the 1990s and early 2000s.” Indeed, upon closer analysis, Mr Whyte observed that around 20% of all online traffic now comes from mobile devices, “and if the trend line

“Within the next 5 years there won’t be any seasonal trend line, just constant engagement throughout the year.”

continues at a rate of 150% annually, we can see that by 2016 mobile devices will surpass PC. This means mobile devices are catching, if not passing, PCs in all aspects and all facets of life.”

#### More freedom

“All of this means people have more freedom to use their phone,” he continued. “Traditionally we see seasonal trends when players play on PCs, so during the summer months we actually see a decline in players. But with mobile devices people can actually access their games on the go, whether they’re in the car or lying on the beach. So what we’re also seeing is a flattening of the seasonal trend line and we predict that within the next 5 years there won’t be any seasonal trend line, just constant engagement throughout the year.”

#### The challenges

Moving on to the challenges faced by Microgaming in the mobile arena, Mr Whyte noted that Microgaming’s early prediction of the growth of mobile has positioned them well to accommodate increased demand over the past decade. “We’ve invested heavily in restructuring the business to ensure that we’re at the forefront of mobile development and, to date, we have dedicated development teams in all facets of the business that accommodate mobile development, including registration, banking, and games development, IT support and testing.”

#### HTML5 vs. Native

“As players play more and more on their mobile device we need to look further than just the interface when we’re designing our games.

At Microgaming we use what’s called the game development eco-system, which is a collection of variables that make up a mobile experience. We need to make sure that each variable is covered when we’re developing our games and each one has its own challenges.” Mr Whyte explained that one of the most common questions asked within the industry surrounds the benefits of HTML5 vs Native as a development language, noting that in his opinion there is no correct answer, which is why Microgaming develops games for both. HTML5 is commonly regarded as being able to provide a quicker, easier and more accessible user experience, whereas Native is considered to provide a more detailed and immersive experience. “But as far as the features of each are concerned – user experience, performance, cost of development, ease of distribution and web-standards,” he observed; “the two are difficult to tell apart from a development perspective.”

#### Resolution

In October this year there were over 1,000 different screen sizes and resolutions that accessed at least one of Microgaming’s HTML5 games. “Now that might sound impressive,” Mr Whyte remarked, “but it does give us something of a headache in terms of time and cost. Referring the audience to a diagram of Apple screen sizes, Mr Whyte noted 4 variations, compared to over 100 for Android devices which is an open operating system. “Therefore we have a massive discrepancy in screen sizes and resolutions that we as a company have to try to be compatible with. There are two ways of dealing with this; there’s the one-size fits all option that a lot of the industry has adopted, which

sometimes resulted in poor graphics and poor functionality, and there’s the second option, which is what Microgaming does. We take the top five screen sizes in terms of market share and we build every single game that we produce in those different screen sizes. Then, using our device detection, we serve up the best content that we possibly can. We have spent years perfecting the art of creating graphically appealing, immersive and compelling games for PC, so why would we give the mobile player a different experience?”

#### Operating systems

“These, effectively, are the heartbeat of the phone and with these operating systems come third party APIs [application programming interfaces], which we need to use in order to develop our content,” Mr Whyte remarked. With reference to Apple’s iOS system and Android Mr Whyte then explained the importance of operating system fragmentation, which describes the extent to which various operating system updates remain active across the consumer markets. “We can see that iOS has a very small ‘tail’ in terms of operating systems. iOS 7 was released a few months ago and we can see a 76% adoption rate. That means that, of 100 players who sat on iOS 6 prior to the launch, 76 now sit on iOS 7. This is brilliant for us because it means that we can develop games for the latest software knowing that there is a very short tail of operating systems for us to remain compatible with.”

“Android, on the other hand, has a long tail,” he continued, “so when we’re asked to develop complex games for Android we have to stay mindful of

“We don’t see mobile devices as a platform; we see them as a product line.”

remaining compatible with operating systems that may have been around for five or six years. Only 1.5% of people switched to the latest Android system, Kit Kat, which presents quite a headache. Indeed, many game developers don’t develop for Android which, to me, is a massive mistake. Not only is Android the market leader in terms of operating systems, but Samsung is also the market leader amongst the device manufacturers.”

#### Preparing for the unknown

“So the future is definitely not going to get any easier,” Mr Whyte remarked in closing. “Regulation is here, it’s going to stay and we need to make sure that all of our products are compliant with the markets our customers want to go into.” Tablets, he explained, will continue to grow in popularity, with sales growing to 46 million units in Q3 2013; a growth of 7% over Q2 and 46% over Q1. Despite these sales figures being lower than those for Smartphones, Mr Whyte observed that tablet players are more valuable as consumers; “so tablets as a growth area present definite opportunities for the future.”

Further fragmentation amongst operating systems Mr Whyte described as ‘a given which must be adapted to as and when it is required’. ‘while developing country adoption rates present a further challenge. Manufacturers are releasing cheaper models to consumers in these countries while broadband uptake is rapidly increasing, which presents significant but surmountable issues for industry growth into these areas.

“Finally, there’s Koomey’s Law, a recognised trend in the tech industry whereby for every 100 units of data that need to be processed the battery power required will half every two years. So for Smartphones and tablets, Koomey’s Law offers an interesting opportunity when coupled with Moore’s Law in that as processing power doubles every two years, the power required to accommodate that will half. This presents a lot of opportunities for us to produce bigger, more complex and more immersive games. All of this is why we don’t see mobile devices as a platform; we see them as a product line.”

## An economic review of the proposed change in UK legislation for online gambling taxation



### Sue Rossiter

Director of Projects and Policy  
Remote Gambling Association

Sue joined the Remote Gambling Association as Director of Projects and Policy in January 2012 where she is responsible for policy development, government relations and special projects. Previously she was Head of Policy at the UK Gambling Commission and headed up the Gordon Moody Association, which supports problem gamblers to overcome their addiction.



### Bill Robinson

Chairman  
KPMG Economics & Disputes

Bill Robinson is the founder member, and now chairman, of KPMG’s economics practice. He is a tax policy specialist with a unique perspective on gambling taxation derived from his past experience as Director of the Institute for Fiscal Studies and three years as a Special Adviser to the Chancellor of the Exchequer, with responsibility for the Budget tax measures. His knowledge of the gambling industry is based on 20 years’ advising Camelot, and he has been very active in the recent debate on the pitfalls surrounding the taxation of online gambling.



### Adam Rivers

Assistant Manager  
KPMG Economics & Disputes

Adam Rivers is an Assistant Manager in the economics practice at KPMG, working across gambling regulation and competition policy. He took the role of lead analyst for a recent study into proposed changes to the UK online gambling tax regime, and has previously advised clients on optimal taxation in Italian sports betting. Prior to joining KPMG, he published studies on the future of mobile gambling (2011) and an econometric study of UK land-based sports betting (2010).



By way of introduction to one of the day's most anticipated discussions, Mr Robinson outlined the joint presentation as providing an industry view on the Point of Consumption Tax and the imperatives for its analysis, the results of KPMG's analysis of the effect of taxing at the point of consumption and, finally, an examination of consumer demand and competition from unlicensed operators.

Ms Rossiter then took over with a brief introduction to the proposed shift to a Point of Consumption Tax on Remote Gambling, which she described as "quite simple. In the land world you have to go somewhere to be supplied with your gambling and you pay your tax there. With remote gambling, it can be supplied from anywhere in the world and you consume that product from where you are sitting – whether that be on a mobile phone, laptop, or at the end of a telephone."

She explained that the UK Government, via HM Revenue and Customs and HM Treasury, has, however, decided to change the tax from a place of supply to a place of consumption basis. Rather than a new taxation regime, the UK Government has described this as a revision of general betting duty, pool betting duty, and remote gaming duty. As a result, the current 15% rate of tax will remain in place. It is also claimed that the tax will easily tie in with current developments within the world of social legislation. This will affect almost every operator supplying into the UK, as well as those that are currently based in the UK. Overall, it is expected to take over £300 million out of the remote gambling industry.

"The Remote Gambling Association," Ms Rossiter explained, "felt it needed to undertake an in-depth analysis of the proposals. One of the reasons we felt we needed to do this was because we warned, back in 2009, that this was likely to happen. We warned that if the Gross Profits Tax rate continues at 15%, people will go offshore. This was not solely about the tax rate itself, however, but rather the tax structure. The Gross Profits Tax (GPT) in the UK is not a true GPT, because it doesn't allow all of the costs attributable to the business to be deducted before the true profit is known and the true tax given."

"Secondly, there are only certain prizes that are allowed as deductible costs, and we believe that the way the industry has come to be structured in the UK, with a sophisticated group of customers looking for a range of incentives, was not helpful. We felt that true customer behaviours should be presented to HM Treasury, and that it was important not to repeat the mistake of forcing customers to an unregulated sector."

#### Why KPMG?

Ms Rossiter explained that KPMG had undertaken a number of economic analyses for the RGA which recommended a taxation rate and structure to new and existing jurisdictions. KPMG had also developed a model which explained the way in which tax works in the UK, and demonstrated an optimised model for gross profits taxation. KPMG was also able to collect commercially sensitive data on behalf of the RGA which, as a Membership Organisation, it was unable to do directly. KPMG is

also very well respected within the industry and Government itself.

#### RGA recommendations

As a result of its analysis, the RGA recommends to the UK Government that it:

- Urgently reviews the rates of betting and remote gaming duty so that no remote gambling products are subject to a rate of more than 10%.
- Ensures that all bonuses and incentives provided by operators to consumers are excluded from the tax base.
- Ensures that effective enforcement measures are put in place.
- Acknowledges that if the tax regime is not right, British consumers will use overseas sites with lower standards of social responsibility and protections than they currently enjoy.

#### Next Steps

Ms Rossiter then explained that the RGA has also proposed a number of steps and measures designed to help clarify and disseminate its message to the government. She explained that the KPMG report is not its only engagement with HM Treasury, HMRC, or politicians and that the RGA had also issued a response to HM Treasury's tax policy proposals in summer 2012, and to the information consultation on the tax regime in summer 2013. The RGA has also explained its concerns on tax to the Department of Culture, Media and Sport Committee during its scrutiny of the gaming bill, and had met with the

"With remote gambling, it can be supplied from anywhere in the world and you consume that product from where you are sitting – whether that be on a mobile phone, laptop, or at the end of a telephone."

last Exchequer Secretary to set out its concerns over the proposed tax rate, with meetings booked with the next Exchequer Secretary in the new year.

Ms Rossiter then alerted delegates to a formal consultation on the tax proposals at the Autumn statement (5th December 2013) and to its intention to meet with Ministers in Treasury to discuss the regime. The RGA is also engaging with the UK Government on various detailed aspects of the regime such as poker networks and pool betting and had lobbied over the tax rate at the Second Reading and at the Public Bill Committee. It will also continue to participate in implementation working parties.

"But at the back of all of this is the work that has been done," Ms Rossiter explained in closing, "because without the detailed economic theory in place and without a decent analysis of how the market is likely to develop, the industry will find itself moving backwards towards an unregulated market which is counterproductive for the industry, and dangerous for its customers."

#### Economic analysis

Mr Robinson then took over from Ms Rossiter to explain the economic reasoning behind the conclusions drawn by the RGA. "I have to say, however, that when I first learned the UK's intentions to implement a point of consumption tax it appeared to be pretty sensible: we tax most things at the point of consumption, whether it's coffee or VAT, so why not the same for gambling? Well, there is a fairly important answer to that question,

which is that online gambling is unlike almost any other industry that I can think of, in the sense that gambling services are largely provided from outside the UK, and that the new regime does pose a threat to compliant offshore providers, relative to non-compliant."

By way of illustration, Mr Robinson referred the floor to a Venn diagram which posited that, whilst in theory a 15% rate of tax would be paid by UK suppliers, licensed offshore providers and unlicensed offshore providers to the UK, the reality is that only UK based and licensed offshore providers would pay the tax, while unlicensed offshore providers simply would not comply. As such, unlicensed offshore suppliers severely limit the government's ability to raise taxes.

#### The Rate of Tax: the Laffer Curve

Mr Robinson then referred delegates to a line graph depicting the relationship between the rate of taxation and the potential revenue gained as a result, which is known as the Laffer Curve. Popularised in 1974 by American economist and advisor to the Reagan Administration, Arthur Laffer, it finds an optimal rate of taxation to gain revenue from supplied products.

Placing the tax rate on the y axis (horizontal) and tax revenues (tax rate x tax base) on the x axis (vertical), the line graph shows that a zero rate of tax provides zero revenue. Conversely, however, when the tax rate is too high, this again generates zero revenue because the consumer becomes out priced and the tax base shrinks. Depending on the availability of

substitutes, therefore, as the tax rate rises beyond a certain point, the tax base shrinks and the tax revenue yield shrinks in turn. This is described with an 'n' shaped curve, The Laffer Curve, at the vertex of which is the revenue maximising or optimal tax rate.

This issue is further compounded, however, by the availability of supplier substitutes; unregulated offshore suppliers in the case of eGaming. The availability of these substitutes, and the ease with which players can switch to them means that revenue initially rises more slowly, reaches the optimum taxation rate at a much lower point, and tails off more quickly as the tax base shrinks – essentially shifting down and to the left. Moreover, as Mr Robinson observed, if a 15% rate drives people to unlicensed operators, they are unlikely to return. "So there is a magic high point, where you just get that balance right," he summarised; "a high enough rate to pull in revenue from each bet, but which is still low enough to not scare customers into going offshore to unregulated operators that make no contribution to UK tax revenue. So a high tax rate is not just bad for tax revenue, it is bad for compliance."

#### Which is the best tax rate?

"We are in a world of great uncertainty," Mr Robinson remarked. "This means that all we can attempt in terms of establishing the optimal rate is by trial and error and this is the second, very important part of our conclusion. Based on our analysis, if you go in too high a lot of people may move offshore, but if that rate is then lowered, we can't guarantee they'll come back. If you go in at a low rate,

“This, I find incredibly troubling: we are going from a market with just 5% of activity happening with unlicensed providers, to 1 in 5 transactions, if not more. This fundamentally undermines social policy and consumer protection in general, which really is not a very good thing.”

however, some may understand that a tax is inevitable and stay with their known provider. If you then inch it up to the point at which you hit that maximising rate then you'll get there. We don't at this point want to cite a number, but we do recommend that the government goes in low and increases, rather than go in high and decrease, because by that time they'll have already lost those players and the potential revenue with them.”

#### Which is the best tax base?

Historically, Mr Robinson explained, gambling was nearly all taxed as a tax on turnover, or stakes (tax revenues = tax rate x stakes). If a tax is imposed on stakes, however, the operator has an incentive to raise its prices, i.e. offer worse odds.

A gross gaming revenue tax (tax revenues = tax rate x (stakes – prizes)), which is often misnamed as a gross profits tax, does not provide operators with the chance to offer products such as player bonuses which, again, is a disincentive due to the potential for a lost revenue base.

At the other end of the spectrum, however, is what Mr Robinson described as a ‘true gross profits tax’ (tax revenues = tax rate x (stakes-prizes-costs)), which is the model that has currently been adopted and which, from an economic perspective, Mr Robinson described as “the right way forward”. A gross profits tax is a tax on gross gaming revenue less the other operating costs that help to retain a customer, such as bonuses and free bets. There is, therefore, no incentive for the operator to increase its prices to the customer and no reason for the operator to cut its bonuses, so the tax base is retained. The gross profits model is also the least distortive, which means the operator can easily

maximise its price/payout ratio and keep it stable. Under a true gross profits model, therefore, and with the right tax rate, the tax base could be kept largely the same and the revenue which is gained easily optimised.

#### Key Conclusions

Before introducing Mr Rivers, Mr Robinson offered a series of key conclusions from this analysis:

1. The potential for customer migration to unlicensed providers means that the higher the tax rate, the less the government will know, or be able to do about problem gamblers.
2. If this migration cannot be reversed, setting too high a tax rate will lead to a permanent loss of revenue.
3. The revenue maximising tax rate can only be found by experiment.
4. Starting low and increasing the tax rate will deliver more revenue than starting high and then cutting.
5. The tax base should exclude the costs of acquiring and retaining customers

#### Consumer demand and unlicensed operators

Mr Rivers opened the final portion of the joint presentation by observing that online gambling is among the most efficient and competitive of all markets, and is one which is fundamentally different from its land-based equivalent, most visibly in the behaviours of its customers.

“Customers in online gaming are very sensitive, both in terms of price and non-price factors,” he explained. “So far, the UK has been very lucky in that it has historically offered great value online, and consumers are used to that. So one of the first things we look

at are search costs; how easy it is for the customer to find the best price.”

“With land based betting, for example, the cost to the consumer of finding the best odds is the time or expense of walking or phoning between betting shops – perhaps a matter of fifteen minutes or so. But with online we simply don't have this anymore. We have sites like Oddschecker and we have affiliates providing the best bet rate deals or bonus structures available. If, therefore, a tax is implemented that forces regulated providers to raise their prices, then consumers will be able to find a cheaper, often unregulated alternative very easily.”

#### Switching costs

Switching costs, Mr Rivers continued, are the costs to the customer of moving to a provider offering better prices. Again, for online gambling this cost is much lower than land-based. Customers can switch to operators offering better prices within a matter of minutes, will often be offered a bonus to do so, and their trust can be quickly established. In an efficient, competitive market a small price disadvantage therefore causes a large loss of business, in this case to a potentially unregulated market that would be at a significant cost advantage.

#### Product-type variations

“A common oversight in gambling policy documents is that online gambling is treated as one thing, when in fact there is a whole raft of different consumer traits across and within different product types that will alter customers' interaction with the market if there are better priced alternatives out there. If you look at sports betting the main competitive variable is price. In casino it's somewhat different, there's almost a binary relationship with price, so operators compete on things like bonuses. In bingo we typically see consumers who are less price sensitive, but there are other variables such as marketing and advertising spend which influence consumers. All of this makes a great difference to regulated operators, so the question now is; how easy is it for unregulated operators to access British consumers?”

Mr Rivers observed that, currently, around 95% of UK consumers are gambling with UK duty paid and licensed offshore providers, with the remaining 5% gambling with unlicensed and untaxed providers: “so with the current state of play, the unregulated providers haven't been able to compete. Indeed, we know that some of the licensed offshore jurisdictions are the gold standard. But this is all subject to change. The barriers to entry for unregulated operators are very low and entry can be very quick. Moreover, although there is the potential for government to make it illegal for customers to use these operators, at the end of the day we haven't seen this kind of prohibition work for tobacco or alcohol, and we see no reason why it would work for online gambling. We can control advertising in traditional media and domestic event sponsorship, but we

know from the examples of Germany, France, Czech Republic, Italy, Turkey, Norway and the US that we can't control online media, price comparison sites, search engine optimisation practices, affiliate offerings, forums, or payments.”

#### Treasury expectations

“All of this, to its credit, is somewhat reflected by HM Treasury. They expect 80% of UK citizens gambling online to be doing it with license holders, with the remaining 20% gambling with unlicensed, untaxed operators. This, I find incredibly troubling: we are going from a market with just 5% of activity happening with unlicensed providers, to 1 in 5 transactions, if not more. This fundamentally undermines social policy and consumer protection in general, which really is not a very good thing.”

# Into the Gamescape:- what does 2014 hold for online?

## Moderated by Russell Kelly

Director

Audit & Advisory – KPMG Isle of Man

Russell joined KPMG Isle of Man in 1993 and has also worked for KPMG in London and Jersey. He is head of audit for KPMG Isle of Man and KPMG in Gibraltar. His client experience encompasses financial services, telecommunications, real estate and eGaming. Russell also

undertakes transaction services and ISAE3402 work, which includes acting for clients with respect to acquisitions, disposals and flotations; in particular he has advised on flotations on the LSE, AIM, Luxembourg and New York stock exchanges.

## Panelists

### Peter Greenhill

IOM Government

### Nick Nally

Continent 8 Technologies

### Bill Mummery

Celton Manx

### Nigel Birrell

Adviser & former Group Director to Bwin.Party



Nigel Birrell

Peter Greenhill

Nick Nally

Bill Mummery



If I can start with you Bill, what are you seeing in the market in terms of changing customer behaviours and what are the challenges they are presenting to your business in particular?

**Bill Mummery** - "Without doubt, technology has been a major factor over the last two to three years," Mr Mummery began. "My business is sports betting, which invariably means soccer, which in turn means in-play betting and the technologies that are being used to deliver that. We as a business generate as much as 65% of our revenues from soccer during play, which is a massive demonstration of the contribution that technology has made. In turn, that requires a lot of investment, both in terms of our ability to offer those services, and also volume. Typically on a Saturday afternoon league game we would be processing between 600 and 800 transactions per second, so there are some pretty big challenges there."

"That said," Mr Mummery continued, "the technologies are still only new channels to market. They are not yet in themselves products. I think the real challenges that are coming through now, because the consumer is becoming more aware and more savvy, surround content, in-depth data, and pictures, and how to navigate the related IP issues. I think we're still only scratching the surface and that there is a lot more to come. If there is a potential threat it is the unpredictability of the regulatory landscape. This is something we will deal with, however."

Nick, the challenges of processing that volume of data must be of central concern to Continent 8, would you agree?

**Nick Nally**: Mr Nally agreed, stating that Continent 8 is seeing some changes in terms of data processing requests from platform providers. "What we're now seeing is a trend which means we are having to change our model quite drastically. Whereas in the past, all of our customers provided their own processing equipment to deal with activity spikes and so on, we're now seeing requests for integrated stacks, cloud architecture and pay-as-you-go type services, whereby we invest in the technology first, and at some risk. That technology is then made available for test and development, say, and might sit in the UK, Ireland, or a low cost jurisdiction, but we also now have the issue of having to do that in a regulated environment for their primary and production needs. So we are seeing some changes; our business does have to deal with more risk and operators are getting smarter with the ways in which they position and process their data requirements."

**So this could actually change some of the dynamic for start-ups. If you're now taking the risk on some of the technology and infrastructure costs, is that changing some of the dynamic as to where they spend the million dollars that they raise in the first instance?**

**Nick Nally** - "Indeed, this is something we have to address because low cost operators coming into the market now are looking for cheap solutions to address their market."

These emerging economies that will become a viable market over the next 12 to 24 months, do you think they will bet differently? For example, what are your views on the US?

**Nick Nally** - Having recently spent some time in the US, Mr Nally explained that it is an attractive prospect for a lot of larger operators. He asked the Summit to bear in mind however, that at that point just three States were implementing online gaming, equating to just 12 million out of a population of 317 million people. "So it's still a very small footprint and I think it will take a long time for companies to make any money there when you consider the number of licences that are being handed out. There's also still a lot of politics and no uniformity in state offerings, so there will be a number of problems for anyone licensing in the US."

**Nigel Birrell** - "I agree with Nick totally," added Mr Birrell. "This is not going to be the panacea for all operators, but if the analysts are right there's going to be a lot of money there. Analysts at Deutsche Bank, for example, predict a turnover of USD 400 million gross gaming revenue in 2014, rising to USD 500 million the year after. If an operator was to capture, say, 15% of the market, those are not unreasonable figures at a 40% margin. One of the biggest concerns, however, is what has changed since 2006 [the year of enactment for the Unlawful Internet Gambling Enforcement Act]. Zynga's presence, for example, has taught a million people to play poker. So there're a lot of uncertainties but this is an interesting market."

“We’re starting to see the green shoots of people looking to the Island from other jurisdictions so we have to make the most of that.”

What is the route into the US for operators based in the Isle of Man, for example?

**Peter Greenhill** - “I think there are a few European companies that do have the firepower to take over a US business,” Mr Greenhill observed. “Mergers and acquisitions are always a topic of interest but we have never seen the wave of activity that we’re seeing now with Bwin.Party and Playtech for example, or William Hill. If you look at the market at the moment, it’s ripe for that. As Warwick said, we’ve got £300 million that could potentially be lost to the Point of Consumption Tax. We’ve also got an incredibly complicated regulatory environment in Europe which is sucking up costs to the extent that it is almost not viable for companies to operate. The industry is now at a stage, 15 years on, when this sort of activity naturally happens and we also have the lowest interest economic environment we’ve had for years. One would say, from a macro perspective, that we expect M&A, but if you look at the US there is a very protectionist policy there and it would be very difficult to buy some of these companies. So I think the only way, and one which a lot of companies are adopting, is going into partnership.”

**Bill Mummery** - “My perspective is that, for the vast majority of operators

today, the situation we’re facing with the US is not too dissimilar to that which we faced 25 to 30 years ago when businesses were looking at dealing with the People’s Republic of China. It was perceived as a massive opportunity, but was actually deliverable only to the very limited few, and those few had to have very long term horizons and very, very deep pockets. I think, due to the size of the markets, and the inability to create liquidity across state boundaries, it’s going to be a long haul.”

**Moving a bit closer to home; where do you think the Isle of Man has to move quickly and where do you think we have to take action to maintain this position in the industry?**

**Peter Greenhill** - Mr Greenhill emphasised the importance of continuing to engage with start-ups whilst still working to grow the employment base of existing concerns which, in turn, will help to increase further inwards investment in the Island. “We’re starting to see the green shoots of people looking to the Island from other jurisdictions so we have to make the most of that. But non-licensed businesses are a great asset to the market and this is something that we’re also looking to develop. The government’s eGaming strategy is progressing very well and

this is testament to the strength of our public/private partnership on the Island. The quality of power and bandwidth is also an absolutely crucial deciding factor for companies looking at other jurisdictions, companies for which even the slightest glitch could represent a large compromise in perceived credibility. I think the quality of our infrastructure is a huge asset to the Island and something that we really must protect.”

**We’re seeing significant investment in our data centres, particularly from Asian operators, is there competition in that respect that we should be aware of?**

**Bill Mummery** - Mr Mummery explained that Peter Greenhill and his team, and the Isle of Man, have a difficult act to balance. “On the one hand we are close to Europe but we are not a Member State and we know that we would never be the first jurisdiction of choice for those brands that are UK and European-centric, although we know that there are other things that we could help them with. My view is that the low hanging fruit for growth over the next 3 to 5 years is Asia, simply because the two underlying impediments that we’ve historically faced – lack of passporting into the EU and non-recoverable VAT – those fall away if you’re a business whose market revenues are generated



outside of the EU. They’re not concerned about issues in Europe and the VAT problem is largely diminished because of the way in which they’re generating their revenue. We have a proven business model and there’s still massive growth potential in Asia. I appreciate that Peter and his team have to make these absolutely vital, incremental steps in Europe, but Asia is a market we know works.”

**Questions from the floor**

**Are you talking to any interesting jurisdictions with which we should expect Memoranda of Understanding next year?**

**Steve Brennan** - Speaking from the floor as the representative primarily responsible for such engagement, Mr Brennan explained that these are not discussions which are ordinarily publicised prior to their completion. “We don’t always get the response we’re looking for,” he explained, “but we still do endeavour to try and we are talking to some of the bigger European members at the moment. We do believe that these MOUs build on trust and part of openness and transparency within the industry is that regulatory authorities can talk to each other and share best practice. We are still moving forward in that direction, we are still lobbying the EU directly and as soon as I can share, I will share.”

# Closing Words

## KPMG eGaming Team

### Micky Swindale

Associate Director, Advisory  
KPMG Isle of Man

Micky joined KPMG Isle of Man in 1997, and is Head of Advisory for the Isle of Man and Gibraltar practices, as well as Offshore Head of People and Change for KPMG. She is instrumental in the organisation of the eGaming Summits and also runs the online remuneration and benefits survey for the sector in the island, Gibraltar, the UK and Ireland.



### Archie Watt

Head of eGaming  
KPMG Isle of Man

Archie joined KPMG Isle of Man from KPMG London, where he was recruited as an IT Advisory Director in the Information, Communication and Entertainment practice, with a particular focus on online gaming clients. Archie worked on the bwin/PartyGaming merger and he has also worked on a number of acquisitions in the gaming sector and the public listings of 888, Playtech and PartyGaming, amongst others. Archie is a regular contributor to sector publications. He co-authored the report Online Gambling: A Gamble or a Sure Bet, and was recently consulted for the Remote Gambling Association report.



### Russell Kelly

Director: Audit & Advisory  
KPMG Isle of Man

Russell joined KPMG Isle of Man in 1993 and has also worked for KPMG in London and Jersey. He is Head of Audit for KPMG Isle of Man and KPMG in Gibraltar. His client experience encompasses financial services, telecommunications, real estate and eGaming. Russell also undertakes transaction services and ISAE3402 work which includes acting for clients with respect to acquisitions, disposals and flotations; in particular he has advised on flotations on the LSE, AIM, Luxembourg and New York stock exchanges.



“We were joint founders of the eClub, have gaming experience in spades and deliver a diamond service. In short, KPMG are the whole pack and we look forward to working with you all in the future.”

To conclude the day's proceedings, KPMG's eGaming team Micky Swindale, Archie Watt and Russell Kelly took to the stage to provide a joint presentation, and recognise the year's quite unique circumstances. "This has been a year of change and challenge, but the Isle of Man continues to be at the forefront of the industry," Mr Kelly began. "It has an excellent reputation, with high calibre operators and suppliers to the sector. We at KPMG are very proud to be associated with it and it has been great to have you all here today to discuss those issues most pertinent to its future success. However, we do not represent the entirety of KPMG's eGaming offering; there are pockets of expertise all over Europe and we soon hope to see that extend to North America as well."

"I would also like to take this opportunity to thank our sponsors – Continent 8 Technologies, Celton Manx, PokerStars, Jumio, Manx Telecom, Paddy Power, Call Credit, Isle of Man Post Office and Microgaming," added Mr Watt, "without which today's Summit would not have been possible. We endeavour to act as thought leaders from the eGaming sector; since the report 'Online Gaming: A Gamble or a Sure Bet?' in 2010 we have regularly published articles and commentary, and we also publish an account of each Summit. The Summit report has been sponsored by

Continent 8 since we began, for which we are very grateful. As you heard today, we also publish reports in conjunction with the Remote Gambling Association, a key partner within our industry.

"We are at the heart of the sector," Mr Watt added with a smile. "We were joint founders of the eClub, have gaming experience in spades and deliver a diamond service. In short, KPMG are the whole pack and we look forward to working with you all in the future."

"As many of you know, this year we also faced some unusual challenges and I have a few particular thanks to offer," Ms Swindale said in closing. "It was quite humbling last week to see how quickly people stepped up and how our sponsors rallied round us to offer their support. The Mount Murray were extraordinarily cooperative given the issues they faced at the time and ensured everything went very smoothly with our replacement venue."

"The Claremont hotel was the first company to step in and try to do as much as they could to help us out quickly. The Regency was also very supportive in moving our catering and was instrumental in providing us with replacement accommodation for our visitors and, of course, the Palace Hotel, which has been extraordinary

throughout. To achieve what they have achieved in such a short amount of time deserves a round of applause (and the audience obliged). Peter Greenhill and Chris Corlett of the Department of Economic Development also emailed us straight away to offer to assist us in providing another venue and Clare Milne of Appleby stepped up straight away to offer her company's support. Last but not least, and we thank them this year particularly, Ashgrove Marketing for doing an extraordinary job in moving things so quickly. We are enormously grateful to you all, thank you."

"Finally, we would like to offer our thanks to our speakers, panellists and, of course, our delegates, for their contributions today. You are all very welcome to join us for the KPMG eGaming Summit in Gibraltar on April 3rd 2014, and indeed we look forward to seeing all of you on the Isle of Man next year."

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