



KPMG in Malta Gaming eSummit Report 2016



**Catapulting Malta
into the future**



Regulation



Data & Analytics



Payments



Brexit



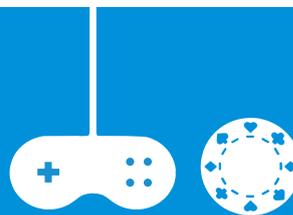
Virtual Reality



Compliance



Gaming Innovation



**Bridging the
Gaming industries**



**Mergers &
Acquisitions**



Cryptocurrencies



Cyber Security

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Introduction

By Russell Mifsud, KPMG in Malta

KPMG are delighted to present this report for our inaugural Malta eSummit held in November 2016. Malta is uniquely placed at the heart of world eCommerce and features a stable political environment, compact business community, global transport links and a strong public/private sector bond. A continually improving infrastructure and solid telecommunication networks make Malta the natural choice for iGaming start-up businesses; indeed over 8,000 people now work in the sector.

SiGMA has evolved to become a key date in the global iGaming calendar, and this year the event included a one-day eSummit hosted by KPMG. Industry stakeholders came together with expert speakers to discuss and explore the key issues affecting iGaming in Malta today. Many vital topics emerged, including: the complexities of compliance, the rigorous regulation, Brexit fallout, updates on M&A Activity, the future of Malta, cyber-risk, the power of data, and the rise of Bitcoin. It’s clear that the industry works best when it works together. Whether you are a small operator, experiencing challenges at the bank, or an industry giant facing a hit by incoming regulatory change, if we unite to embrace these realities, we’ll achieve more as one cohesive sector.

This report seeks to compound those themes and provide an accurate snapshot of the current iGaming sector in Malta. We hope you enjoy reading it and look forward to seeing you all at the next KPMG eSummit in Malta in November 2017.

Image credit: SiGMA



A note from the SiGMA organisers

SIGMA to keep doubling in size

From a simple bedroom project to a buzzing show that has doubled in size over three years and shows no signs of plateau: this has been SiGMA's journey so far, with the last 2016 show breaking all records. The island has never witnessed an iGaming bonanza this spectacular, this successful: where everyone walked out a winner, with done deals. The organisers anticipated close to 3,000 attendees, with the final numbers edging 4,000, double 2015 numbers. This was clearly visible on the expo floor, which was extremely busy on both days.

The collaboration with KPMG in Malta undoubtedly contributed to the success. The fruitful cooperation turned out in an extremely well-attended conference, during which the attendees had a chance to learn about the latest industry updates and do some solid networking.

Preparations for SiGMA17 are already well underway and the organisers are eager to cooperate with KPMG in Malta to raise the bar even higher. 2017 is the very first year where SiGMA is embracing the challenges and opportunities of a global show, with growing interest from the heavyweights of the industry across continents. Shortly after last year's show, the organisers took heed of the attendees' feedback and will be introducing some interesting upgrades, including, but not limited to the following:



Conferences: The conferences worked very well in 2016, with a number of events, including the KPMG eSummit, and a new cabaret-style layout room – the hall was packed from 9am to 6pm. Even more partnerships will be established, introducing even stricter guidelines for the best speakers. The way content is presented will change as well, by reducing the run-of-the-mill panel, at times mind-numbing discussions with more engaging content. Come SiGMA17, expect more fish bowls, speed dating and better interaction between speaker and audience using latest technologies and apps available.



1,000 Free Flights: Inspired by the movie 300, last year the organisers gave 300 flights to affiliates. The initiative went down very well with affiliates and operators, so this year SiGMA is inviting 500 NEW affiliates AND also 500 top C-level executives – CEOs, CTOs, CPOs, CMOs – to keep the B2B side of the business equally busy with a fresh bloodline of potential customers. Exhibitors are encouraged to invite VIP guests, flights covered by SiGMA, and throw a string of hospitality events around the show. After all, Malta lends itself quite well to hospitality.



SIGMA Startup Pitch: The launch of the SiGMA startup pitch went really well, with some startups landing lucrative offers. The unique, swift format of a three minute presentation will be kept, followed by a seven minute grilling session with the investors. This year, however, the organisers will invest heavily on this front by giving startups who qualify, the possibility to, not only pitch, but also get exposure on SiGMA magazine, website and exhibit at the show at no cost. Also, office space will be offered for a full year to the top three startups who wish to use Malta as a base for business development or even relocation – the office space comes with full consultancy from a team of grizzled industry veterans.



Venue: Arguably the toughest of decisions SiGMA team had to take to date – stay where they are but be unable to grow the show with new exhibitors or move elsewhere? Hardly anyone wanted to release their booking for 2017, which meant SiGMA literally couldn't sell a single stand space to a new exhibitor. Delegates want to meet existing but also new exhibitors. It was important to keep the show cosy and fun, but at the same time enable it to grow, with new exhibitors. 2016 was already a bit of a squeeze in terms of crowd, so SiGMA is moving to a bigger venue – MFCC in Ta' Qali. The organisers will create an "iGAMING VILLAGE" – with six themed bars, three restaurants and two lounge areas all within the expo. This, coupled with free shuttle bus service, should make MFCC a welcoming home this year.

Preparations for SiGMA17 are already in full swing. Stay tuned, email your interest to become an investor, an exhibitor or a speaker at this year's show and check maltaigamingsummit.com for regular updates.

KPMG in Malta eSummit Opening Speech



Russell Mifsud – Senior Manager, KPMG in Malta

I am proud to be presenting the first ever KPMG e-summit in Malta. Although the first KPMG e-summit to be held in Malta, it's not actually the first of its kind. As many of you are aware, these eSummits have been taking place in Gibraltar and the Isle of Man for the past seven years, and have progressed from strength to strength. When it's the first time that we are rolling out something new in Malta, it is quite special.

Today's summit will be split into three main themes. The first one being the regulatory side of things, where we'll be looking at the future of Malta, the implications of Brexit, regulated and grey markets, mergers and acquisitions, and lastly, we'll discuss responsible gaming from an outsider's perspective. During lunch we'll hold a Pitch Event – this isn't powered by KPMG but I personally vouch for it. It sounds as if it's going to be like the Dragon's Den theme. The Pitch event will be followed by the Payments and Technology Conference where we will be looking at innovation in the industry,

cyber security, data analytics, and virtual reality, a subject that is very close to my heart – which is the bridging of the two main gaming industries: video games and the gambling sphere. Then we are going to look at the payment side, the Payment Services Directive and open banking standards.

The sessions are going to be delivered through a combination of short presentations followed by topic-centred panel sessions. I've tried to make the agenda more dynamic and have very short 10 minute presentations followed by 30 minute sessions, rather than 45 minute sessions continuously. We've got a fantastic line up – speakers that both the industry and I personally hold in high regard. We are going to start off with a series of three short introductions by the island's most prominent figures when it comes to the gaming industry. Minister for the Economy, Christian Cardona will begin, followed by the Executive Chairman and the CEO of the MGA Joseph Cuschieri, and then Ivan Filletti of GamingMalta.

Christian Cardona – Minister for Economy, Investment and Small Businesses

Good Morning. Firstly, I would like to thank Russell and KPMG for this invitation. It's a pleasure to be here among these industries at the summit of eGaming which has become a yearly appointment. It is thanks to conferences such as this one that different stakeholders can meet to discuss current issues and to keep abreast of developments which affect this thriving sector. A thriving sector indeed – one which Malta is proud to host and is strongly committed to keep developing further. Our achievements over the past year showcase the priority that is being given to this area and its environment, the ecology which we are continuing to nurture, to facilitate the growth of this sector. In terms of the general economy, I can report that Malta's economy expanded by 4.1% in the first half of this year. This is reflected in a 6.4% real growth rate, outperforming growth rates in the Eurozone and indeed in the entire European Union block. Growth was reported in most industries in Malta, including the professional sector, the scientific sector, technical activities, information and communication, real estate activities, and financial services. Unemployment remains low at a rate of 3.9%.

Malta's potential to become a Centre of Excellence for the digital economy continues to grow. The most recent digital economy and society index reveal that during 2016, Malta developed faster than the EU average. Our commitment as a government is to ensure a suitable setting for the digital economy which is evidenced by the fact that we're prioritising several initiatives in the area. We have exceptional high-speed broadband, and positioning efforts are underway to transform Malta in the very first Wi-Fi state in the world. ICT specialists hold a high share in our workforce, and we're working hard to invest further in education and training to increase the skills of that workforce. This will ensure that we meet the industry's increasing demands. Even from January 2017, during our Presidency of the Council of the European Union, we shall also host the Digital Assembly and continue to drive the digital single market for Europe which is very close to our heart, and which is also a priority within the European Union agenda particularly in so far as the Single Market Union is concerned. We believe it is imperative that to keep growing Europe's place in the world in this field, a lot of work is to be done to unify Europe as a connected digital society. We hope that our objectives in this regard next year will benefit this goal.

The efforts invested towards the gaming industry continue to reap fruit and this year the industry was registered as one of the largest, fastest growing industries in Malta. As many of you know, the Malta Gaming Authority has announced its plans for a

general regulatory overhaul which will continue to ensure that Malta remains at the forefront of regulation in this dynamic industry. The industry has developed phenomenally over the past 10 years which is why our regulator felt it necessary to rethink the approach to regulation, rehash the framework, and make the jurisdiction more neutral and flexible to suit its development. This revamp has come at a very opportune time. The increased convergence of the offline and online gaming industries, new technologies, games on the market, increased understanding of the phenomenon of match-fixing, the imminent implementation of the fourth Anti-Money Laundering Directive and new data protection regulation are just a few of the aspects which must be taken into consideration by the regulator, with a view to delivering a tough and relevant jurisdictional framework. As MGA's Executive Chairman Joseph Cuschieri will tell you, this has been no mean feat. The technology on which this and all other digital industries is based develops at an incredible rate and we must constantly ensure that we cater for the demands of the main industry players while also at the same time, safeguarding and ensuring a robust structure which addresses the risks of this sector. We have fared well so far while the challenges keep coming and we're committed to continuing to entrench our reputation as a digital gaming hub.

Our success so far inspires us to do more. We're working hard to improve and simplify the way we do business in Malta. We're increasing connectivity and we're striving to narrow the skills gap. We're investing in all pillars of our economy and increasing collaboration with the private sector to appropriately address concerns to provide the right tools to enable us to succeed and compete internationally. We are thankful for the trust you have shown in our jurisdiction and we pledge our continued support. I'll now leave you in the hands of MGA's Executive Chairman and I wish you a good conference. To those of you who've travelled to Malta to attend SIGMA this year, I wish you a memorable stay on our island.

Thank you very much and good day.





Image credit: DOI

Joseph Cuschieri – Executive Chairman, MGA

SIGMA has certainly raised the bar this year and I'd like to thank and congratulate the organisers for such an excellent event. I've held the position of MGA Chairman for the past three years, and during that time I've noticed that we live in a very disruptive environment and this disruption leads to several challenges that the regulator faces on a constant basis, particularly, as the Minister mentioned earlier, in putting together legislation. Really, you need to look ahead 10-15 years and assess where the industry is going to be, and what sort of legislation we need to have in place, for us to effectively regulate this dynamic industry. It's a big challenge for us. We're very close now to having legislation which will make us proud and will reposition Malta internationally in the global gaming industry. I truly believe that Malta has what it takes to be the Silicon Valley of the iGaming world.

Regarding disruption, Mr Cuschieri gave an example of how this relates to virtual currencies. "Just recently I commissioned a study, so on a national basis we'll be able to assess all the risks and opportunities. As a country, we can take a position on crypto-currencies and understand how to implement policies to regulate them locally."

Mr Cuschieri shared his experience of the recent MICS (Media in Conflicts Seminar) event "I mentioned how Malta can remain relevant on several levels. Firstly, on the legislation: you'll hear more about this next year

when we hopefully publish it for consultation. You'll see the work that we've done, and we'll welcome your feedback. Secondly, as a regulator, we've spent a huge amount of time strengthening the organisation, investing in its systems, investing in its people and in information technology. We've done so because we believe that for us to be a strong and effective regulator, we need full access to information, and to have the latest information technology within our operations. We've achieved much but more can be done." Mr Cuschieri expressed again the wish for comments from service providers and licensees and how, during SiMGA he'd met many people at the MGA stand who'd offered both positive and negative feedback: "That's very important for us."

A few words were offered for people who'd come to Malta for the first time, and for those exploring the island as their potential place of establishment: "You're in the right place. We have one of the most sophisticated eco systems in the world. I feel that Malta's competitive edge lies not only in the legislation or the other incentives that we offer, but also in the quality of the people and of the service providers we have here: the ICT infrastructure, the political stability, the business friendliness in general (not just within the MGA but also within the government). Malta is very special, as I said earlier, it's the Silicon Valley of iGaming in the world. To first-time visitors, welcome to Malta, I wish you a great stay. For those of you based here, we're at your disposal; we have an open-door policy. Come see us. I wish you a great conference and hope to see you throughout the day."

Ivan Filletti – Head of Operations & Business Development, GamingMalta

Thanks to everyone attending today, and a special thank you to KPMG for organising this e-summit during SiGMA. It has grown in stature over the years to become one of the most reputable and sought-after events in the global e-gaming calendar and we're lucky to be a part of this. It is also a pleasure to welcome you all to Malta.

The sun shines here, and the sun shines through the ingenuity and the will to succeed that you witness everywhere in Malta. I'm not going to talk for long but I want you to know that we, at GamingMalta, are here to help you and I look forward to talking to many of you on a one-to-one basis. We exist to attract new business so we're poised to give start-ups a helping hand, being iGaming or digital gaming. We're also keen to develop existing businesses and build bridges across the eco system including the public sector. It is important to stay ahead of the game, to watch developments, to continue pushing forward, to keep up with the competition and to embrace innovation. One thing we know for sure is that change is never far away. We appreciate and fully understand that our clients do have a choice where they do business – so we never stop striving to earn our status as a home of gaming excellence. Personally, I think we offer a great environment for business to prosper but the best ambassadors are those who have come to Malta and have grown their businesses here. If I can just share a few quotes from those already succeeding in gaming in Malta:

"There's a lot of talent in Malta and it has become the hub for iGaming in Europe. The great thing is the climate and the English language combined with the fact that it is part of the EU. There are no other countries that tick those boxes."

"Being so close to the competition ensures you have to perform to the best of your abilities all the time."

"Malta has the most pro-business environment that I have ever seen and the workforce in Malta is very professional, innovative and passionate"

I encourage you to visit our website to read more of these testimonials. That's just a taste of what they are saying and the invitation is there for you to use Malta as a spring board to success. I hope that in future years I shall be reading out your quotes on what has worked for you. In the meantime, I wish you all a great conference and I look forward to meeting you later.

"There's a lot of talent in Malta and it has become the hub for iGaming in Europe. The great thing is the climate and the English language combined with the fact that it is part of the EU. There are no other countries that tick those boxes."

- Ivan Filletti

Catapulting Malta into the future

Moderator:

The Hon. Evarist Bartolo, Minister for Education and Employment

Panel:

Ulrik Bengtsson, President and CEO of Betsson Group

Joseph Cuschieri, Chairman of the MGA

Olga Finkel, Senior Partner WH Partners

Anton Cristina, CEO of CSL

Kenneth Farrugia, Chief Officer of Business Development at BOV



Russell Mifsud

I'm very proud of the calibre of people across our panel today. It's a particular pleasure to have the Minister with us, as his focus will be on the employment front. Our panel's aim is to highlight what Malta needs to be doing to ensure that it continues to flourish as one of the most attractive jurisdictions in the future. We're going to touch on some key areas: one of the issues we face in Malta is the skills gap, and we see certain operators having to develop iGaming hubs in the likes of Eastern Europe because either we don't have the resources here in Malta, or they're not at the right price.

Moderator:

Good Morning. As Education and Employment Minister, it's very important for me to be here and I would really like to thank KPMG for inviting me because I am responsible for both skills development and job creation. Job creation is important but then it's equally important to find the people to fill those jobs. Malta has been very wise in one decision, taken by the previous administration but built on by us, to combine education and employment, so that we can coordinate policies in terms of skills development and job creation. However, the fact that they're under the same Ministry, unfortunately doesn't automatically guarantee this. We need to get the world of education and the world of employment to interlink and work together. Ulrik, what would you like to see in terms of addressing the skills gap in the gaming industry, when you look at future human resource needs, in terms of the required talent to fill the jobs that you create?

Ulrik Bengtsson

Firstly, I think it's important to say that Malta has done a lot of good things thus far. It's phenomenal that an industry of this size managed to find the people to grow so big: it's an incredible achievement. But growing and scaling is hard. To take the next step there's a lot of thinking to be done to address the skills and the people aspect. The industry here has been built from the ground up by an inflow of gaming professionals. And as we see many different digital requirements on our businesses these days, I think that this digital skills-set is the most challenging factor to source, and an expensive asset. We're faced with shortages in Malta and all over the world. But if Malta wants to move forward, here's a fantastic opportunity to build proper computer science, engineering, training and workforce. It's a big task but also a great opportunity.

Moderator:

Olga what would you consider to be the biggest challenges that we face in the years ahead and what would your recommendations be to deal with them?

Olga Finkel

Let me say firstly that this conference shows that basically we have done a great job as a country to get the business here. We should take a clue from the industry and see how the industry is dealing with challenges and do the same. From the business perspective, it's important to acquire players but also to retain them. Malta is retaining those players here already because they've invested in this country and showed confidence in us. What are the challenges that lie ahead? We talked already this morning about the technology challenge. The nature of legislation is so different from the nature of technology. Technology moves ahead very fast and legislation generally lags. But this is not the only challenge that needs addressing, because if we look around, the world is very different to even ten years' ago. Consider the international situation, the geo-political situation, and economic situation. On the one hand, the world is becoming more transparent and globalised, while on the other, it's becoming more fragmented. In an industry which is international and cross-border, it's clear that a fragmented approach, of different countries trying to regulate the industry within their borders, is a challenge. We can be pessimistic and complain, or we can be optimistic and hope for change, or we can adopt our approach accordingly – which, in my view, is more realistic.



Image credit: SiGMA

Moderator:

Kenneth, in terms of banking services, what should happen to support this sector?

Kenneth Farrugia

When I look at this industry, I very much relate it to the developments that we have experienced in the financial services sector which started off from very humble beginnings and evolved, over the years, by way of new players coming to the market as we are seeing in the gaming sector. The evolution of the supporting legal and regulatory framework which is equally very important and, more than that, the development of the supporting infrastructure - is where I think that Banks have an important role to play. If you look at the gaming sector today, it has grown tremendously. I like to think, from a financial services point of view, that the supporting infrastructure from a banking angle has not evolved in tandem with the growth of the industry. Thus, today we have very few banks that are servicing the gaming sector in Malta. I believe several initiatives may be undertaken to address the current state of play and would summarise these under the heading of outreach programs at three levels; political, regulatory and at the industry level.

At the political level, Government should take an active and pronounced role to support its key economic sectors within its respective fora. Equally so, the Regulatory Authority has an important role to play in this respect through the launch of initiatives aiming to strengthen the international visibility and perception of this industry in terms of the strong regulatory governance that is required within the organisations operating in this sector, and the Regulatory Philosophy of the Regulator. Insofar as the meticulous, yet business-friendly authorisations process, as well as the meticulous, if not granular regulatory oversight, are all aimed to safeguard the reputation of this sector and sustain its growth. Finally, the industry has a driving seat role to play across many facets – not just in its outreach to attract other players and stakeholders to the industry but also to contribute to the development of a sector which is underpinned by strong governance, risk management and compliance. When I compare this industry to the financial sector, I remember that in certain areas like asset management, there was just one fund administrator/manager in the asset management sector in 2006. The outreach of that administrator/manager together with other operators that started gradually coming to Malta attracted other international service providers to the market. Thus, although they were competitors in the market, the cooperation between competitors left a very positive

impact on the industry. This may be equally applied in the gaming sector where the industry stakeholders need to work together, probably through the formation of an Association like most of the financial sectors have done in Malta such as the Bankers Association and the Funds Industry Association and together plan and execute an outreach program in tandem with Gaming Malta. As to the banking side, it is not healthy for any industry sector to be dependent on a handful of banks, particularly within the mindset (and I am referring to your earlier comments on banks and their adaptation to the industry) were you must clearly understand the overarching context within which banks are operating in market today - in an environment which has become heavily regulated. Systemically, important banks like HSBC and BOV fall under the auspices of the ECB. Regulators have become highly stringent on the way banks operate and there is heightened sensitivity on matters concerning the prevention of money laundering. We have seen some big banks being fined billions in this regard and one of the key items on the agenda of several banks is de-risking.

Banks are being very careful which clients they service and the risk and compliance procedures that they have in place, which is an important part of the review they conduct when on-boarding new clients. I believe that the presence of a strong licensing process on the regulatory front as well as the presence of a robust governance structure and controls in place within gaming operators, will extend a lot of comfort to the Banks when considering to service such clients.

“ I think the main success factor is the regulatory framework which I feel is pivotal. Regulation has an important role to play not only insofar as the regulatory oversight is concerned, but regulation can be the driver of innovation. ”

- Kenneth Farrugia

Moderator:

Anton, this is a global sector. Some things happen on a global level that we may influence, but other things come from within. What would you consider these factors to be and what would you like to see changed to facilitate the growth of this sector?

Anton Cristina

I moved to Malta to start my business 8 years ago, and the speed with which it has evolved has been phenomenal. In identifying the factors that influence, it's best for me to be the voice of my customers. When my customers say they want to move to Malta it's: 'I want things to move fast'. Well the banks don't move fast enough. 'I'd like to send my kids to school'. Well, there aren't enough schools so where is the seven-year-old going to go? I come across CEOs from Serbia, Croatia, the UK, the US, who say 'My son is English speaking!' but they can't get into schools. 'I'm moving my team of people'. There is a talent shortage for sure. But most important right now is 'Where is my seven-year-old going to go to school?' Malta has not been able to evolve fast enough in the last ten years. I understand this: a population of only 450, 000 - there are limits. I say to my customers 'Look, irrespective of what the regulation says, buying a licence here is cheap enough, €10,000 gets you a Class 4. Everyone is opening casinos and everyone wants a bank account, fast. The regulator goes through the diligence process for all the business shareholders – granted, and the tax regime is very favourable – great. But I should mention that if you don't find enough software developers, be it in .net, be it in BHP Integration, you'll find them somewhere else. We just acquired a company in Georgia, in Romania and they can work remotely. But are you guys ready from a mind-set perspective to adapt enough? It's the mind-set point of discussion I want to highlight. My customers are saying 'Today you're not competing on a local scene. As a cloud service provider, you're competing against Amazon Cloud Services, against RAC Space in the UK, and in the United States, against OVH. These guys have been doing cloud services for the past 3-4 years and they can do it faster because they spin virtual machines quickly and cheaply.' Don't think local anymore: start thinking globally. If the mind-set changes, it will work, irrespective of what the regulation or the tax regime

says. Europe keeps saying 'We want to harmonise taxes' - this causes lawyers and accountants to get agitated because it might pose a risk to the economy of Malta. All the small economies will go through a similar process of worrying – Luxembourg, Dublin, Ireland. So the lawyers are really working hard here. KPMG are evidently working to create new formulas which will come into effect in the next couple of years. They like the idea of a small country which is hungry enough to grab opportunity. I was born in 1974. Everyone says the recession hit about eight years ago but for me Malta was always in recession: it was a poor country. I left in 1991 and at that time it was 'Get a job with the bank. Get a job with the government. Factories run by the government.' It was moving towards privatisation. And the transformation it made was so fast it was probably due to its size and its hungry people. There are limitations. If each one of us starts thinking that we should not depend on what the regulator says, we should not depend on tax being favourable. Can I give the service faster, better, cheaper? And if the answer is 'yes' the customers will say 'Things might change but I will still be doing business with you. I will not move my operation from Malta.' Imagine a worst-case scenario: I need to move 1000 people from Betsson out of Malta – traders, customer support. The entire operation would be so disruptive – it would be catastrophic for us to move. And it shouldn't be related only to the shortages of the skills or what the tax regime says, because everyone is competing – Romania, Bulgaria – everyone wants a piece of this industry. Malta is small and this proximity makes it attractive: you can easily meet your lawyer or your accountant or regulator for coffee and do business. This is what started making Malta a favourable gaming hub – there's a lot of value in it. But I am seeing the mind-set changing, from the likes of KPMG and from the likes of BOV. From their perspective, if they get sued because one deal falls through for a 100 million and BOV, say, aren't making enough money to say 'We can take this hit,' I understand that. But there must be an understanding on both sides. We're lucky in Malta to have a Minister of Education as one of the biggest issues for newcomers is, 'Where am I going to school my kids?' So if you've plans to build more schools, especially private independent schools, everyone will say 'Great, but when?' Because three years from now it is going to be too late: that is my message to the panel.

Moderator:

I'd like to assure Anton that by March there will be an expression of interest for the opening of an international school in Malta. In terms of facilities we'll provide a very nice campus. We'd like the private sector to participate in this. It will be an international school which probably will offer an IB programme from the age of 3 till the age of 19. We understand that the independent schools are overflowing. There is no place and, repeatedly, we hear from entrepreneurs who want to set up in Malta that this is a very important part of what we need to offer. We're happy to do that. Joseph, as a regulator, are you planning to give the sector more chance to grow?

Joseph Cuschieri

Yes. New legislation coming in will help. The current legislation has been there for almost 14 years and it has served Malta well because it's created what we have today. Looking ahead: where do we want to be in 15 years? That's why we started a process of reforms – not just in terms of legislation – but also as a regulator, for us to be dynamic and proactive. On certain occasions the industry excels at ploughing forward with innovation and growth but sometimes, we seriously lack in terms of our response to what the industry wants and our response to change. Today as a regulator, we strive to be more effective, professional and open-minded, and we have a mind-set which is very much focused on the needs of the industry to facilitate its growth.

Malta, unlike other jurisdictions, is a place of establishment, so companies who come here don't just come for the Maltese market but to serve other markets, using Malta as their base. Other European jurisdictions are legislating to regulate their national markets. Since 2008, we've seen a shift with some markets closing, where you had a state-by-state regulatory approach. This meant that for operators in Malta, the complexity and costs increased, and as a result we're seeing a lot of M&A activity going on. A few reputational issues arose, but we managed

to handle them well. But the perception in other jurisdictions sometimes depicts Malta unfairly as a tax haven (which it isn't), a jurisdiction which lacks in supervision (which it does not), and that as a regulator we're too diligent in our process of getting people on board. Operators ask 'Why do you need this information? I gave it to you before. Other regulators don't ask for it.' At the end of the day we need trust and integrity. We should ask ourselves, as a regulator, what do we need to stand for? We are pro-business but trust and integrity are vital because reputation is what we're offering internationally. If you lose that reputation, then business goes too. For the industry to grow, we have to think strategically and listen more. I'm hopeful that the incoming legislation will trigger that innovation and give more space to the industry to grow and develop.

We face other challenges, for example, the fourth EU Anti-Money Laundering Directive. We're working with the Financial Intelligence Analysis Unit to implement the Directive which is stringent both on the operators and on the regulators. We want to be one of the first regulators to implement it. We'll consult on the supervisory mechanisms of this directive. Other long-term challenges exist too such as the skills gap, office space, and schooling for expatriates. Operators may choose an expat for a particular job who then refuses the job because they can't find a school for their children. If we don't address these infrastructural challenges, they'll become an issue.

One last point regarding banking: today there's more understanding. But it's a conversation that needs to continue as sometimes banks don't understand our type of work: how do we do our on-boarding? How do we supervise? How do we exercise our compliance activity? We've established a closer collaboration with BOV that gives the banks more assurance.

But it is important to have more banks serving the industry. In fact, we had the launch of a Swedish bank earlier this week where I delivered a short speech. If we have more banks available in Malta to service the industry, it will be more sustainable.



Image credit: SiGMA

Olga Finkel

I agree with Joseph about going forward with the legislation and also with Anton about the pain the industry feels. If we merge those two aspects, from a regulatory perspective, we can try to remove the pain points which are felt in the industry on many different levels. On a local level, if the law requires a player to be registered and verified by email, it is a pain because many operators today do not want to do it by email and there is absolutely no logical reason for allowing only email verification. Other methods should be available. Another pain point is the regulatory regime applicable to the licensing. Currently, every operator, when it grows and wants to improve its product offering, it is forced to apply for more and more licences. This is a huge pain point because the whole regulatory process from the regulator's perspective becomes more complex and requires more external resources, internal resources, and financial resources. More importantly it lengthens the time to market which is crucial for such a dynamically developing business. This system does not really add anything from my perspective, to the regulatory objectives, because mostly when the new licence application goes in again and again, approximately 80% of the documents and information that is provided to the authority is repeated. It's already available and can be used. The removal of these pain points is important from my perspective but at the same time while it is done, the other objective shouldn't be forgotten – the regime should be strengthened and not weakened. As Joe mentioned, the reputation of the country is important. Not only for the country and the regulator but for the business as well, as it is important to show to the players in the outside world that the company is well regulated.

Ulrik Bengtsson

It's true that scaling is hard but I think the mind-set of Malta is right, there's no problem there. There's opportunity to do more - from traffic and schools and affordable housing for young employees coming in. There is a bigger question which Joe mentioned and that is the regulatory landscape across Europe. It's not only about scaling Malta, it's also making sure that what you have here is being protected, because there is no point talking about scaling up and then we lose all of our existing business. I would be a little bit worried about the trend that goes on across Europe right now – not the fact that all countries tend to deploy their local legislation, that's fine, but there's a trend now where countries are deploying legislation that clearly violates European Law. Malta has to take a very firm stand in that, be visible and very loud to make sure that you protect your business down here because if the European system cannot govern this then you will find yourself without any business pretty soon.

Joseph Cuschieri

When we participated in the meetings on the drafting Council of Europe Convention on the Manipulation of Sports Competitions, we unfortunately were alone. I have sensed, even from European quarters, a level of hostility towards Malta. I was shocked to hear MEP's views regarding Malta, just because Malta doesn't want to sign the Convention as it is. This goes to show the extent of the extreme viewpoints of European regulators towards gaming and towards Malta – a country which is small geographically but very big when it comes to the online industry. I think that there are some political decisions which might need to be taken in the near future on how Malta is going to take a stance, for example on the Convention, on certain countries which are clearly breaching European legislation when it comes to cross-border provision of services. But going back to Olga's point - she was spot on in the sense that one of the drivers of innovation and growth is simplicity. So, apart from keeping our reputation always at the forefront, I think simplicity in regulation is important. The current regime that we have is obsolete in that respect, because there's no point in obtaining a licence to launch a new game. There are licensees that have ten or more licences, and obviously when you have loads of licences it means lots of administration, and compliance costs. The new legislation is going to look at a model of having a B2C or B2B model. We believe that B2Bs are a driver of innovation and growth, as well as the compliance approach which will be focused on risks. Today we manage our risk more effectively because we believe that risk has to be at the centre of everything that we do. Today, we do risk profiling on an ongoing basis, we set the risk appetite practically every quarter and in the new legislation, risk will be in the centre of every decision. This will ensure that the integrity of the jurisdiction is protected because ultimately, if there is a reputational incident either in financial services or in gaming, it is going to affect the entire sector. We need to be careful on that front as it is Malta's general reputation that must be protected.

Moderator:

What I can tell you is that the Government is more committed to defend Malta's right to fiscal sovereignty. We're not in favour of tax harmonisation. It's not going to be easy because we don't have only the big countries against us - sometimes they work through smaller countries. We'll use all the levers that we have to defend our sovereignty.



Image credit: SiGMA

Kenneth Farrugia

The challenges that this industry is facing are not new to Malta at all and the financial services industry is a case study. When the industry started from very humble beginnings in the 1990s to evolve into an industry which today employs around 10,000 people and contributes around 13% to GDP, it came under the lens of other European countries who have their own interests in protecting their own financial services industry. Nonetheless, I think that a country's competitiveness is driven by its value proposition with the critical success factors driving jurisdictional differentiation. I think the main success factor is the regulatory framework which I feel is pivotal. Regulation has an important role to play, not only insofar as the regulatory oversight is concerned, but regulation can be the driver of innovation. In fact, I think that today one of the key drivers of competitiveness is indeed innovation through regulation and I can mention several initiatives that have led to the introduction of innovation in the regulatory framework within the financial sector which in the end attracted international operators to Malta. But in sticking to the theme of this panel, I think that the industry and the regulator need to work together to ensure that this industry sector is driven by innovation. It is not only the regulator that has to come up with ideas to induce innovation in the

regulatory framework, but rather it is the industry itself that has a key role to play in this regard. This means that the industry's stakeholders must contribute to the process by coming together to contribute to the thought process leading to innovation. Another important competitive factor is the level of accessibility to the regulator. As the industry becomes increasingly regulated, it is important for it to keep enjoying the ease of access to the Regulatory Authority. Despite the pains caused by the onset of regulation, the industry must embrace this as ultimately this will induce a sound governance environment and instil increased confidence in the banking sector. The accessibility of the regulator is pivotal because regulation brings with it complexity and that complexity requires continued access to the regulator to clarify grey areas that invariably emerge. During this panel, there was an important mention of the HR shortages for certain skill sets. Again, do not expect Government to come with the necessary solutions to address the skills gap in the industry. Here again the industry has a role to play in this respect as well. We have seen that in the financial sector several Associations organised programmes and introduced courses at University level as well as at MCAST level and teamed up with education service providers to ensure there is a sustained conduit of skilled resources to support the industry.

Moderator:

Anton, would you like to add something?

Anton Cristina

The panel has highlighted many points which require reflection. I would like to add this for closure: we live in a world where Brexit just happened, the UK said that it will lower taxes down to 15%, Donald Trump just took over the United States, tax harmonisation in Europe is jittery, but it looks like that seems to be the direction. So the landscape is constantly changing. At the end of the day Malta, no matter what the industry does, can only churn out about 200 students a year – about 1000 students in 5 years. So you look at all the graduates from a technology perspective in University, MCAST, STC, we get around 200 every year. That's a fact that we have to live with. This is not Silicon Valley, we do not have Stanford University or Harvard, and we don't get thousands and thousands of students. There's only so much that you can do within your own limited resources.

Olga Finkel

There is a shortage of skills and it is important to have more skills but it is also important to look at the regulation in a wider scope. The industry-related recruitment services need to be better regulated, because, I have seen a few unethical cases where employment agencies poach people from one company to another. Human resources are a huge investment from the company's perspective. So when poaching happens it's a shock and it's a loss of investment. So I think that the regulation and the innovation regulation should be taken aboard as a concept and viewed in a much wider context.

Moderator:

I would like to thank the panel for the important points raised today. Quite a good number of points – some need to be tackled urgently and others in the long run. Thank you very much.



Brexit through the Looking Glass

Moderator:

Edwina Licari, Chief Officer of Legal & International Affairs, MGA

Panellists:

Peter Howitt, Founder, Ramparts Law Firm Gibraltar

Russell Kelly, Director, KPMG in the Isle of Man

Robin Le Prevost, Director, Le Prevost Consultancy



Russell Mifsud

Our next talk will be focusing on Brexit and is entitled 'The Brexit Looking Glass'. The goal here is to try to understand what this will mean for Malta. I'm delighted to introduce our moderator, Edwina Licari, Head of International Legal Affairs at the MGA. On our esteemed panel, we have Russell Kelly, a partner from our Isle of Man office who leads our eGaming practice, and Robin Le Prevost, who used to be involved with the Alderney's Commission and who is well versed with the current situation. Next to Robin we have Peter Howitt, founder of Ramparts, who works very closely with the Gibraltar Commission and has been involved in numerous high profile cases.



Moderator:

Good Morning. I'm sure you all agree that we've a robust panel here and I feel honoured to be its moderator. This panel is entitled 'The Brexit Looking Glass' and Russell's brief was clear: keep it short, engaging and insightful. We all participate in various conferences and Brexit is a hot discussion topic just now. But it's crucial to the gaming industry, because, as a highly-politicised industry, it depends on economics and on policies that are formulated by governments. So, an important development like this will surely have an impact. Without wanting to stray into the arguments about leaving the EU or staying in it, let's get straight to the point. My first question applies specifically to the gaming companies that are established in the UK. What do you believe will be the impact and what should companies be considering now?

Peter Howitt

We need to split it between speculation and actual actionable information for businesses. The best I can do with the gaming and financial services companies is to scope what a hard Brexit might look like and how to prepare for that potential event. In my view, a

hard Brexit is shorthand for loss of common market rights, and the loss of Article 56 which is important to operators in Gibraltar, and the UK, as well as Malta. For many of my clients in the payments sector, this means we're basically looking at the adaptations we'd need to make if we lose a lot of common market rights (including setting up a new EEA establishment). In gaming, there isn't a harmonised regime for licencing and so if it was just a case of the loss of many common market rights. In fact the impact for Gibraltar and the UK would be more limited in the gaming sector. I envisage that many companies, who were considering coming to Malta, will now probably come quicker. Gibraltar and Malta have distinctive advantages, and this means that often Gibraltar has been used to service the UK market, whereas Malta is more for the continental market. So, Brexit might accelerate what was already a trend. The bigger issue, perhaps, is the impacts of Brexit that people aren't thinking about. At the moment, the focus is on the UK and what it might lose but very soon the financial markets and the politicians might need to turn their mind to what is going to happen to the EU. I think that is the bigger risk that everyone, including Malta, needs to be mindful of because if the European project itself is coming under increasing pressure, then that is going to have significant impacts on everyone.

Moderator:

I agree, in fact Malta is losing a key partner for certain discussions. We participate in expert group meetings organised by the Commission for Gaming Regulators together with all the member states and although the UK has set up its own national regime on a point of consumption, it does not entirely deviate from most of our policies that underpin our actual framework, because they allow a point of supply. I agree with you because the fact that there isn't a mutual recognition of licences means it's not totally out of the window, but let's say it's parked for now. It becomes crucial for operators who are based in a country like the UK to consider the point of primary establishment, because obviously, they will be servicing many other jurisdictions. The key defence here is always the European principles, such as where you're established, and if the company is EEA etc. Robin, regarding Malta, what are the key risks for us? What are the challenges and opportunities, and what should be done?

Robin Le Prevost

I think Brexit brings opportunities. Alderney is in a unique position. We've never been part of the EU so the UK leaving won't have any impact on Alderney's standing. What Alderney has done is build relationships with all the major regulators in Europe. Alderney can be a centre for all gaming and when appropriate licences are available, it can access that market. For instance, an operator in Alderney can have its servers based in Alderney and it can operate in France, Italy, Spain, Denmark, even Holland (when it opens). That's all been done outside of any EU framework. It's not going to fall away when Brexit happens. That's a huge advantage for us. Certainly, our operators are entirely comfortable with that position. The Isle of Man is in a very similar position to Alderney. The jurisdiction which is going to have the most problems is Gibraltar and we know that many, if not all Gibraltar operators, are now considering their position and strategies must change. So there are opportunities for Malta and for Alderney, and in the Isle of Man. People are going to make choices in the next couple of years. It is yet another destabilising factor for Gibraltar, which bizarrely gives us massive opportunities. If Gibraltar has that big problem, we will be the only European jurisdiction without VAT, and that is going to be quite attractive. Operators already come to Alderney because of the advantages of the lack of VAT.

One thing that never gets discussed is that if/when the UK exits, the likelihood is that VAT may disappear for the UK as well. They'll have to replace it with a goods and servicing tax, but VAT as a pan-European tax will actually go. That is another implication for us.

“ The UK was the first to rebel but it's unlikely to be the last. The EU and certain key member states need to take notice of the fact that there is widespread discontent with the European Commission and Brussels, the way it all operates and the way in which decisions are made. ”

- Peter Howitt



Moderator:

Russell, we're discussing gaming policy and legislation but this industry is dependent on other general commercial relevant legislation too. Certainly one piece of legislation that is formulated on the basis of EU law in the UK will have to change. The stance they've taken on the treatment of tax or VAT, how do you see the situation developing, with respect to the companies and the level of uncertainty at the moment?

Russell Kelly

I think it would be difficult to wind back a significant amount of legislation which is already in place, as a result of EU legislation. The process to do that and the time it would take to unwind that legislation would be horrendous, in terms broader than just gaming.

The regulatory issues facing financial companies and key providers to the sector would be significant, we're already seeing some of our clients who hold UK licences seeking other jurisdictions in which to license – be it Dublin, Denmark, or the Netherlands. Indeed the Netherlands seems to be the most popular place if you're looking at e-money and alternative payment methods. I think the issue there will be how quickly you can get your licence so that servicing can continue. In terms of UK entities who are looking at EU money-laundering directives and what the impact of that will be: ultimately if you're based in the UK you still want to do a lot of business with your EU counterparts, so you'll have to comply with the standards of the 4th and potentially 5th Anti-Money Laundering Directive. I do not see anyone wishing to be out of compliance with those directives purely by going through the Brexit process.

Robin Le Prevost

The UK has indicated that it wants to establish itself as a more dynamic low tax area. If that occurs, it will cause problems across jurisdictions such as Malta, and to ourselves in Alderney. In reality, no matter how attractive they try to make it, the UK is still bureaucratic. It is not only the headline tax, it's also corporation tax (which they can bring down to 15%) and all the other taxes that go with it, that are important. It will be very hard for the UK to be as dynamic as they'd like to be. Consider the tedium the UK went through to formulate the Gambling Act and how many years it took to bring that into effect – that's a symptom of being a heavily bureaucratic economy. I don't see a threat there, but I do see a threat via the Brexit negotiations. We're all sitting in this room thinking we're in the most important business there is, and yes, for Malta and Gibraltar e-gaming is massively important. But in terms of the GDP of major economies, eGaming is a pin-prick. The danger for us now, depending on the nature of discussions, is we become a sacrificial lamb. Suppose the UK says no one, for instance of the EU countries, can operate in the UK unless you're physically based here. That would be disastrous for us, the smaller jurisdictions. That's my fear: the gambling industry in the UK is significant but it's nothing compared to the car manufacturing industry or most financial services.

Moderator:

I agree. Peter, you were involved in the court case against the UK on tax so what is your view on this?

Peter Howitt

On the Brexit discussions, we don't know the outcome but if there was a loss of rights for the UK into the EEA there would be a loss of rights of EEA into the UK. It would be crazy to have negotiations where you lost everything to allow people in other sectors to continue to benefit from freedom of services. The big danger here is that people might focus on short term gains, the "Maybe we'll do better because the UK or Gibraltar does worse" approach. I would caution against that because you have to consider the bigger picture here, which is the European project. The UK was the first to rebel but it's unlikely to be the last. The EU and certain key member states need to take notice of the fact

that there is widespread discontent with the European Commission and Brussels, the way it all operates and the way in which decisions are made. I don't think we should focus on potential slight advantages in gaming or financial services. I think that everyone will do worse as this thing starts to unravel because if you make revenue in a market, and if those customers are struggling because the economy has worsened, or because of political and economic instability or the Euro is under attack, you have to remember that your business is part of a wider community. The thing to focus on in Malta is to ensure you attract, as a jurisdiction, the UK entities that are considering having some redundancy for regulatory purposes in case of a hard Brexit or who are scoping how quickly they can move some functions in case of a hard Brexit. You will be pleased to know I'm working on a project and Malta is on the short list of the most attractive jurisdictions for the e-money and payments industry. To try to influence this EU project, which is starting to unravel, we need to understand what we are seeing through a democratic lens as we are starting to see major structural problems come home.

Robin Le Prevost

It's clear that the French right wing is increasing in popularity. You saw Angela Merkel alluding to the fact that Europe needs to look into immigration – that's all in response to the Trump victory we saw last week. That Trump victory is being labelled as the sleeping dog, politically. Europe has suddenly become aware that this dog has woken up, and that Europe itself has to do something about it. So it would be interesting to see how they'll react. But I agree that fundamentally there is an extreme view that the whole EU project could be beginning to break.

Russell Kelly

Given the political outcomes of the last six to twelve months, the people who come to the table from both the UK and EU to negotiate Brexit are probably going to be very different from the people who are sitting there today making comments on how the UK will be treated. Look at France, look at Germany! There will undoubtedly be political change in those parliaments during the period that covers the early Brexit negotiations.



Moderator:

So you don't envisage a government changing its stance drastically with respect to certain financial regulations?

Russell Kelly

No, I don't think it would be possible to make significant changes to financial regulation. It's too interconnected.

Moderator:

Another point to raise is, are we underestimating the UK? Mostly, we've examined the negative repercussions of Brexit on the UK. But could there also be strategic advantages for the UK? Is it the next big offFinancial Serviceshore? We've mentioned the new Hong Kong in Europe. Is that a possibility, Robin?



Image credit: SiGMA

Moderator:

I agree. As you point out, there is a possibility that now the EU will be more Franco-German centric. For Malta this is going to be very challenging, because we're always alienated owing to the position we take in most of the legislative instruments that cover gaming directly or indirectly. We are always alone. Do you think it is a fair assumption to say that we'll be seeing an EU policy that is more favourable towards monopolistic structures within various markets?

Peter Howitt

If you watch how Ireland is responding to Brexit I think that your comments about Malta are similar. Ireland is taking a strategic view which is, 'This isn't good for us. We rely on the UK to be more dynamic in its approach and on Europe to have another partner that speaks about things that we care about, like Malta'. Ireland is also worried about exports to the UK. Yesterday we saw a comment from one of the Senior Ministers in France about France rebooting the European project with Germany. But I think that would be completely the wrong approach given that what we're hearing is people saying 'We don't want more EU - we want less. We want the European economic area to work. We want to know that when we say we don't like something, such as the UK saying that it is a bad idea to have Juncker as the EC representative, we don't expect you to appoint Juncker.' Germany in particular is the key here. Without wishing to be disrespectful, France will say things but it is really about Germany;

how Germany responds to this crisis is going to determine whether we potentially all come out of it in a different Europe or whether we will have a continuing crisis.

Moderator:

Earlier we touched on the aspects of the UK facing operators. In fact I agree that the impact will be more on the operators who are based in Gibraltar. This is because the companies that are in the UK mostly face UK customers, and that won't really change. I do tend to agree with your point about the grand scale, the economic factors, but really and truly the gaming industry has proven itself to be very resilient throughout all these years irrespective of the economic situation. So I wonder whether there will be an impact on UK punters' behaviour in the midst of this political scenario.

Peter Howitt

I would say probably not. We are thinking more widely about the economic issues and impact. If the UK economy start to struggle, we will end up with more serious socio-political problems. Assuming a loss of common market rights and potential difficulties in accessing EEA countries, then Gibraltar operators can still service the UK and rest of the world and Gibraltar will still have a strong offering. If the border flow remains stable in Gibraltar then many of the concerns are limited. If the border situation does not hold, we will end up in a much more dangerous situation.

Moderator:

We are in Malta and we obviously mentioned Malta as being one of the top jurisdictions on the list for a fall-back position amidst all this uncertainty – depending on whether there will be a Brexit, the terms of exit and the future relationship which the UK shall have with the EU. What is the advice you would give? What are the key aspects that Malta should be discussing and trying to roll out or improve?

Russell Kelly

Any jurisdiction needs to focus on being able to move quickly. That's one of the attractions of a relatively small jurisdiction such as Malta or the Isle of Man. My advice is, be able to move quickly, maintain your quality of regulation which is absolutely key - together with being the only option in the EU for e-gaming. Ensure also that your infrastructure continues to improve and that the pace picks up. Look back five or ten years - there were concerns over bandwidth and technical infrastructure but that has largely gone away now, with huge strides forward by Malta. So keep investing, keep the quality high and be able to move quickly.

Robin Le Prevost

I think that the important thing right now, as always in times of trouble, is to maintain stability. You must be a safe harbour. If companies want to move, they are going to move where there is certainty and stability. They know exactly what they are going to get. Jurisdictions are saying 'Now we need to make sure that everyone understands our quality points and offers stability and flexibility, and help for these guys to establish themselves.'

Peter Howitt

You need to think about the extent to which Malta can safely undertake banking payments for any sector. If I was looking from Malta's perspective I would be working out 'How do I solve this issue?' I am told by my regulated entities - nevermind normal businesses - that it's very difficult to get bank accounts. The panel before dealt with many things that Malta can do, but banking is a crucial one. You can't persuade people to come to a jurisdiction and then, when they arrive, they learn that they're going to have a real difficulty with their banking. Malta needs to think, 'Do you need a bank that you can control yourself as a country?' Because with banking becoming more international, and with fewer banks involved in cross-border payments, no matter what your risk appetite is, all that matters is what the clearing partner thinks about your activity. If you always end up being limited by what they're willing to do, then you're not really in control of your own destiny. So I think on the banking side we

really need to think about something a bit more radical in Malta which allows you to give confidence to your regulated entities that they will be supported.

Robin Le Prevost

Just to finish, I have this amusing story, which may or may not be true! It is about Gibraltar. One day a company went to see a bank about whether they could get banking within a specific industry. The Chief Minister called the bank and said 'You enjoy your bank here in Gibraltar. I think that you ought to start doing business with Gibraltar companies!' Whether that happened or not I don't know but it illustrates how politicians have to tie those industries together. For a prosperous future in Malta, banking and gambling will have to work together.

Peter Howitt

Of course, it may have been the bank that left! Gibraltar International Bank was set up for local banking because Barclays was leaving. For the remaining banks, the amount of business they're able to support on the mortgage side becomes very limited. Strategically it was very sensible for Gibraltar to say 'We can't be relying just on foreign banks' and that is absolutely the right approach. The focus was on the retail side, but the response by businesses in Gibraltar was very positive too because their biggest problem in the gaming sector was finding a bank to give them service. It's a good example of how Gibraltar did something for the retail sector but that is proving of great strategic benefit for the wider business community that find it increasingly difficult to get support from major banks.

Moderator:

I agree. As a way of concluding to all the companies based here and who are currently in this room, the key is to tread with caution, analyse current developments and consider the potential impacts that could result. Again, our million-dollar question is: 'Will there actually be Brexit?'

Entering a Regulated Market vs. Staying in the Comfortable Grey Zone

Presentation: Qurino Mancini, Partner, Tonucci & Partners

What is the most commercially sensible strategy for an international gaming operator nowadays?

Good Morning everyone. Russell called me a showman but I feel more like a troubled man today. When I had this inspirational moment for the topic that I am going to entertain you with today, I felt proud of myself because I thought 'Wow, this is a very interesting subject!' I quickly realised that I in fact had enough content to cover an entire conference. Nowadays, this is a key topic and extremely important issue for every international operation in terms of strategy. Everyone wants to know what kind of strategy they should follow in Malta's jurisdictional market, which is becoming ever more crowded and loaded with compliance and AML requirements. To cut a long story short - I concluded that I'd be unable to fully address this very ambitious topic in a short time frame, and that I'd rather give you bullet points in terms of the pros and cons of going left or going right. This is based on my experience over the past 10 years. Italy was at the forefront of gaming regulations in Europe so I have seen enough during this period in terms of many business propositions going belly up rather than becoming extremely successful in such a competitive, expensive, crowded market like Italy. Now, what's happening in Europe in terms of other markets? There is a trend to over-regulate. The Italian market is going in the same direction in terms of regulation. So, if I was talking to a potential client and he was asked me 'What should I do? What kind of strategy do I take?' I would invite him to evaluate the pros and cons of going left versus going right.

Certainly among the "pros" of staying in the comfortable unregulated grey area (or anywhere other than a deeply regulated market like Italy) there are higher margins for your operations because the tax

system is going to be more operator friendly than in Italy. Now, Italy is quite demanding in terms of taxation - although when it comes to gaming taxation the situation is slightly better when compared to other sectors - there is less compliance and also more commercial and operational freedom in terms of reaching out to your customer base. Basically, you'd have a kind of freedom of movement whereas in a regulated country you'd be faced with certain restrictions in terms of bonus money and so on.

On the "cons" side, if you're not operating in a first year market without holding a local licence you will certainly be in the target zone. Italy was the first country to regulate consistently in European online gaming, soon after which the blacklist restrictions came into place. There isn't a tremendous wall to climb but certainly it stays there on the C.V. of any international operator, if you're blacklisted or if you're not blacklisted. In addition, the fact that many discussions are currently taking place among European operators about how to converge on a common agenda, which entails many things from international liquidity to a regular exchange of information on data basis, and the possible situations that must be monitored on both sides of the house. If you're an international operator and you're doing business in any of these markets in Europe, you have to know that sooner rather than later someone will come knocking on your door. If it is not the Italian regulator, it will be your own regulator on behalf of the Italian regulator. I see this happening ever more frequently - it's almost inevitable.

Another important point on the "cons" list is that, apart from the disciplinary and the regulatory action that can be expected from the public bodies, there are also the operators themselves. Operators licenced in markets where you're trying to fish without a local fishing rod will get nervous and will do whatever they can to prevent that kind of unfair competition being brought to them. Now you could say 'I obey the principles of European Law, I hold a licence in another European jurisdiction so I am untouchable'. Now that is an argument that is being exploited. But the fact is, and this is based on what I am seeing on the ground back home, licenced operators are becoming ever more upset at this kind of unfair competition. This translates into unfair competition because they have so many restrictions as opposed to other .com operations and are not on the same level in terms of playing the game. What they're doing, unofficially I might add, is sending reports to my regulator about illegal activities taking place on the market. This will boomerang against that .com operation that doesn't play by the book because at some point, when the Italian regulator and the Maltese regulator, or the French regulator or even the English regulator meets, they will exchange that information. I am wholly convinced that we're moving toward an ever more consistent way of dealing with operators in terms of general rules that should be enforced. So you have to expect that further down the road there will be some kind of disciplinary action hitting back. This is also dangerous because when you have fellow competitors trying to fight back it's something that you as an operator are not really prepared to deal with other than on a commercial ground. This amounts to additional lawsuits and complaints before the authorities. It's a brand new

scenario that opens up which is great news for your council but certainly is not the kind of stuff that you guys want to deal with on a daily basis. You just want to focus on the business, on the product, and on the market.

So my final piece of advice for this potential client would be 'Be very keen to understand where you want to go in the next five years. For instance, if you're planning an IPO, like it or not, you'll need to be operating in one or more regulated markets. This is because when you reach out to the financial community, and engage in talks with potential lenders or the city, you'll be seen favourably if you're playing by the book and operating in the regulated market. But by not operating in a regulated market, by staying in the comfortable grey area, you may find several doors closed. Really what I'm saying is it will be much more difficult for you to break the ice in terms of getting what you need from the financial community. So if you have ambitious plans for your company, (let alone an IPO) if you simply want to grow the business and to create an internationally recognised brand, sooner or later, you'll have to deal with the big issue of regulated markets. My recommendation is to do it in a smooth way which is start thinking which of those regulated markets it might make sense for you to enter into. Then start working on a plan which may entail reaching out to the regulator before you seek licence and enter the market, just to let them know that you are there and have plans. This is something that's appreciated because they like to talk to people who are saying 'Here I am. I want to move out of the black list and enter onto the white list'.

Complexities of Compliance

Moderator:

Michael Ellen, Partner, Regulus Partners

Panellists:

Michaela Meilinger, Tax Associate, KPMG in Austria

Susan Breen, Partner, Mishcon de Reya LLP

Laurence Hanlin, Regulatory Consultant, KPMG in the Isle of Man

Trevor De Giorgio, Managing Director, Greentube Malta

Simon Planzer, Partner, Planzer Law



Russell Mifsud – Senior Manager, KPMG in Malta

I'd like to introduce a very robust panel for the next session, where we'll be discussing the complexities of compliance. A warm welcome to Michael Ellen, Partner at Regulus Partners, who's going to be the moderator. Michael was also the Head of the Regulatory Commission for Alderney. Then we have Michaela Meilinger, Tax Associate KPMG in Austria. Michaela has been working on several high-profile engagements in Austrian tax. Next we have Susan Breen, Partner at Mishcon de Reya in the UK. Then there's Lawrence Hanlin, a Consultant, in KPMG in the Isle of Man, Simon Planzer, a Partner at PLANZER LAW in Switzerland, and lastly Trevor De Giorgio, Managing Director of Green Tube, based in Vienna.



Moderator:

Any of you lucky enough to be present at the UK's regulators first ever sponsored conference, would have been treated to a barrage of acronymic threats about future enhancement targets such as CMI, ICO, CAP, AML - the list went on. Then the news at the beginning of this week of that individual who made a 5 billion-dollar bid for an established operator. What fewer of you may have heard is in the same week, a leading UK stock analyst advised his investors to reduce their risk in the gambling sector by investing in "grey market operations" because the compliance risk to operate in regulated markets was increasing and becoming significant. So it's clearly a good time to be building a

career in compliance. Seen from the other end of the telescope, an operators' survival reputation and share price may be threatened by that ever-changing, ever-increasing workload.

We have an eminent panel today. The starting point that we've given ourselves is the European Union's 4th Anti-Money Laundering Directive, which must be implemented nationally by the 27th of June 2017. Are there indications of problems with that timeline Simon?

Simon Planzer

Yes, there are potential problems for member states to implement the directive by the end of June. Actually the Commission was asked to speed up the process in the light of the Paris terrorist attacks but it's unrealistic to think that most member states will have implemented the Directive by end of June. This date also coincides with another important corner stone, which is the Super National Risk Assessment Report by the European Commission. The Commission is assessing the risk situations in various sectors, trying to tag them as 'higher' or 'lower' risk in terms of money laundering. A delicate constellation could appear regarding the exemptions that member states will choose. If the Commission concludes that a certain field, let's say Sports Betting, doesn't feature a proven low risk situation but at the same time a Member State exempts Sports Betting from the scope of the AML rules - in case of such discrepancy that member state may find itself in conflict with the European Commission. So from a point of view of

legal certainty, a member state is well advised to take the Commission's Supranational Risk Assessment into account before implementing the 4th AML Directive.

Moderator:

Are you suggesting that there is going to be a 'herd move' towards the low risk element?

Simon Planzer

Legally speaking, member states are expected to look at the empirical evidence and define their exemptions accordingly. However, in reality, we know there are more important and less important stakeholders when it comes to national policy making. And traditionally, the national lotteries are among the very important stakeholders in many member states. Hence, I would not be surprised if a number of member states excluded lotteries from the scope of the AML rules. In that sense, for instance, I could see a certain race towards the low risk element.

Lawrence Hanlin

I have met several operators and we'll be reviewing them to make sure that they conform to the 4th Anti-Money Laundering Directive.

Rather than being proactive, we're seeing some operators being rather more reactive and that puts on a lot of pressure on the operators to fulfil these obligations in time for June. I've been asking the CFOs of these companies, 'Why have you left it to the last minute? You've had 2 years to put this in place.' There's some ill-feeling out there just now, as some of the high-risk stuff is being put at low risk. You need to be very careful if you put things with clients as low risk. Consider the new changes coming in, in relation to identifying PEPs. Domestic PEPs especially have been a bit of an issue. Talking to one client recently, he was saying we do not have PEPs - there's no such thing as PEPs. I was amazed by that and when I did some of my research on that client he had lots of PEPs, including domestic PEPs.

Trevor De Giorgio

It's not just PEPs that are the issue - you also must deal with questions being asked on the source of funds which current UK licensees are almost inevitably facing. To return to Lawrence's point about development: it takes time to implement the systems which operators need to put in place. Time is needed not just to roll it out but to QA it, to make sure that it actually works and without error. It's now mid-November, and by the end of June this should come in line. There is a general framework but each Member State could implement it in its own unique way - we just don't know. We could be facing 27 or 28 different roll outs. Combine that with the reality that we're facing of multiple licences in different European jurisdictions. It takes time to adapt. The unfortunate thing that we tend to see as operators is that the people who draft these systems don't seem to know how an online operation actually works. It's not just a matter of plugging in, flicking a switch and going live. It's much more than that. Trying to educate the legislators is key to pass on the message that we need time to adapt our systems to make them compliant to your new regulations. So I'm not surprised Michael with your initial statement, that there are investors talking about grey markets rather than regulated markets.

Moderator:

The UK regulators have produced 110 pages so far this year of licencing condition amendments on AML and they indicate that there will be more to bring

the jurisdiction in line with MLD for June next year. Are there any gaps emerging that cause your clients concern, Susan?

Susan Breen

Regarding Trevor's point about expectation: there's a gap between what the regulators want and, more accurately, what they think they should be asking for in this climate and what the operators feel is proportionate and, actually, what the players want. When you have that real tension and a raft of conflicting legislation I have sympathy with the operators' position as it's confusing. My advice is, 'Keep calm. Don't panic and try to look at it from a proportionate risk and business case point of view'. In terms of the nature of the AML issues, these are certainly decisions facing my clients'. A gold-plated set of regulations is acceptable, I believe, to most operators but I think we're looking at what some would regard as "platinum" in some cases and it's difficult for businesses to anticipate what that is and plan accordingly. There's a political expediency here but the industry must match that with reality. What's coming across operators' desks are really issues regarding VIPs, the geography and PEPS, and an understanding of what a PEP is and how it now will extend to family and associates. So this is something quite new and different. Operators at the medium to larger end are much more robust in their own procedures right now, so the gap analysis that we have been doing for some of our clients showing that not a great deal of change is going to be necessary at the ordinary operating level. For the smaller operators who aren't used to this, there will be real tension since putting the systems in place is more difficult and time consuming. I think that a good rapport with the regulator is necessary as they will be expecting the highest form of probity and adherence to regulation but there are a number of practical issues here that regulators and operators need to think about.

Moderator:

Helping people to get it right - the educational aspect - seems to be absent. In the recent past, the biggest targets, particularly in the UK, are being severely rebuked when they are caught doing it wrongly.



Susan Breen

It is right across the board in terms of regulation. It is that culture of fear. So we have some scapegoats, we have some big names being fined significantly in terms of AML; we have data breaches - it feeds into social responsibility and responsible gaming generally. Underpinning all of that, there are business threats and risks from cyber that operators have to deal with. So it would be hard to know, as an operator, where you start. I think you start with a common baseline of what is practical and necessary for your business and whether you can take incremental steps. The difficulty will be having to enact, very quickly, anticipated AML requirements and then having to come back to the desk to look at data and having to come back again to look at cyber issues that are a threat to data. Admittedly there is more that the operators can do, there is more that operators can learn from other industries that have faced similar issues for many years – eg, financial services and banks. To my mind, this industry can learn more in terms of its culture of sharing experiences and information and helping each other out. It is pretty much back to Peter Howitt's point about Brexit and the EU and the whole EU debate. There are times when competitive advantage must be put to one side. If industry participants look at what

is a good baseline to maximise return for the industry at large - then everybody wins. You are in a lose-lose situation if you take the opposite approach.

Simon Planzer

I believe that the industry has a strong interest in leading this educational exercise because there's a danger that the industry will face a huge compliance burden by the fact of having 28 different AML standards – in other words, instead of having a harmonised AML compliance situation, we'd have AML rules that are country-specific. The Czech Republic, for example, is considering introducing an obligation for players to go through a specific ID process: players would have to go to an identification shop in order to prove their identity. This could constitute a significant hurdle for many players and comes with the risk for operators to lose many players.

Moderator:

The next cloud behind MLD is data protection. The GDPR 'privacy by design' comes in, in May 2018. Lawrence what are your clients doing in this respect? Is there action or inaction?

Lawrence Hanlin

Yes we're seeing action. Dealing with a client just recently in Gibraltar, I had a case where information was sent out to 800 clients when it shouldn't have happened. We went back to basics to discover how this happened – it was basic human error. So the educational outcome was that the staff got extra data protection training to understand what they should and shouldn't be doing. It's interesting as I did some research for KPMG at a recent e-summit in the Isle of Man, because cybercrime is a big issue. The money and resources required to try and protect data coming in and out is huge. As an assessment of 10 top risks to operators, data protection was number 3. All operators must deal with it and as one of the bigger issues, you need to try to prevent it happening in the future. But it's very costly.

Moderator:

In the time available today we can't fully set out the regimes that we're addressing but I'm sure that the panellists will be happy to talk to you informally later. This one is being implemented EU-wide and does not need national adoption. So if you haven't focused there is a chance to talk to some people who have. The UK's ICO (Information Commissioner) has just spammed himself by writing to 400 affiliate providers to ask them if they have been spamming, without checking his own data source himself; which is a matter of some amusement in the UK press. Does Brexit provide any 'out' for UK operators in this respect, Susan?

Susan Breen

As you say, this is a general data protection regulation as opposed to a directive, so the mandatory application means there isn't necessarily any scope to adopt it in a different way. The Brexit debate and whether the UK will be 'in or out' is largely neutral in terms of data protection. We have also seen some additional initiatives being taken, for example, the Competition & Markets Authority's collaboration with the Gambling Commission to look at fairness and the

use of data. That means, by default, there is largely going to be broad adoption of the data protection regulation. Whether it is the Gambling Commission's own enhanced and increasingly changing codes and licence conditions, or whether it is a US style privacy shield, the default position is likely to be whatever the European position on data protection is. I know this presents issues for our clients across the board and that's why this is important to understand exactly what is required by the new regulations. For the industry, it hits right at the heart of what's important in terms of the income and business for the operators. It affects how business interacts and markets to your customers. It will affect the terms and conditions upon which operators contract with customers, it will affect third-party affiliate relationships and all the connected web arrangements. It will change who is responsible for breaches, and it's not just the compliance manager anymore. Up and down the supply chain, you need to make sure that the industry understands. I think that there may be more significant fines for operators. Business should not be complacent when your compliance team or marketing team talk about risk issues, the board of directors need to take note of what their teams are saying - as it might impact on the way business is conducted and impact profits.

Trevor De Giorgio

With larger operators and structures, you're going to have a bigger problem because you must consolidate your entire group. So if any one of your various companies makes a mistake, you're looking at fines which range from 2 million up to 5 million Euros. These are exorbitant fines for data protection breaches. Exercising more control on different companies within your own structure has an impact on your flexibility to do some of the things that you used to do. Let's remember also the reality of affiliates and how to control those affiliates promoting your products. Affiliates already require licenses in Romania for example, but the GDPR seems to take this to a whole new level. There are indicators coming out of the UK on the direction which regulators and legislators seem to be wanting to take.



Image credit: SiGMA

Moderator:

Well, 20 million Euros or 4% of your global turnover are the fines in the GDPR. Is this proportionate?

Trevor De Giorgio

They're enormous and if you're a small operator or start-up, what's the message? When you come along and say 'OK what's the risk associated with me investing my money in this business, setting up shop, and wanting to succeed?' But there is GDPR, there is the 4th Anti-Money Laundering Directive, there are affiliates - important for growth within the sector - which are affected too. If you consider the pros and cons, the con column starts adding up.

Susan Breen

That's true and is why it will drive some activity in mergers & acquisitions. To explain the point further, we were involved in the acquisition of some affiliate businesses a while ago and we raised concerns about the transfer of customer data across European borders. There was no easy fix due to complexities in regulations. The choice was to risk losing customers on migration or to leave customer relationships untouched and find an operational "workaround." I accept some regulations are particularly aimed at - or provoked - by the models used by big business eg, Facebook or What's App. It's completely disproportionate where regulations do not look at a risk-based approach. But there's no doubt the industry will have to grapple with more data issues eg, around spam and the scrubbing of data. There needs to be a bit of a clean-up undoubtedly, and perhaps a fresh look at the cyber risks as well.

Trevor De Giorgio

On the point about the scrubbing of data: earlier I spoke about legislators not knowing what we're supposed to be doing or even what they already legislated for in the past. GDPR envisages that we need to delete the data after a period of time, but then our licence conditions establish that we need to keep that data for a longer period. What to do? This is what we're facing. You go through the GDPR, you start seeing what your obligations are and you try to marry them with the existing conditions on the licences with which you're operating. You start asking 'Does the left hand know what the right hand is doing?'

Moderator:

Moving to point of consumption and point of supply licencing there are two common tax changes: one is a VAT change which brings use and enjoyment inside the EU, as it delivers the liability to the point of consumption if it is inside the EU. That change also links to the BEPS (base erosion and profit shifting) change which is coming. BEPS penalises intra group transfers unless there is a commercial rationale. If you are a point of supply operation and you are supplying services particularly into Europe from ofFinancial Serviceshore, BEPS is focusing straight at you. The big target is clearly the Amazon-type operation and I haven't heard it applied to gambling yet. But that clearly is a threat. So these two both seem to me to mitigate against the point of supply structure operation.

Trevor De Giorgio

Indeed. There is also what is known as the Common Consolidated Corporate Tax Base. CCCTB is an EU initiative. I'm not an expert but what I know is that through this system, companies consolidate their profits in the various countries and then pay their taxes accordingly. I've been told the system is slightly worse than BEPS and it seems that while BEPS is an OECD initiative this is more of an EU initiative. You have OECD and the EU coming up with two possibly slightly similar models but which do differ - which one are we supposed to be looking at? Do we have to choose one, or both? Whilst the intention is to catch up the Amazons of the world, in reality it's affecting the smaller sectors, including the gambling sector. During my law course in Malta we were told, 'Do not legislate for exceptions'. In my opinion that's exactly what's happening: we're legislating for these big multi-nationals, based in certain jurisdictions but not running their operations from there, and because of that, we're catching a lot of other industries and affecting them in a negative manner.

Moderator:

You talked about uneven application across the member states with regards to money laundering and the use and enjoyment of VAT. Is that going to include remote betting?

Susan Breen

With regard to VAT and the use and enjoyment rules is that in the UK, there are two aspects to this. One is whether the tax authority will bring the costs of ofFinancial Serviceshore marketing into the scope of UK tax, i.e. VAT and whether that tax would be forward looking and/or retrospective. There are a couple of cases going through the UK Courts now about the same issues, with judgments due out in March 2017. Depending upon which way the cases go, you could be looking at retrospective tax charges as opposed to planning for future tax changes under new legislation proposals. The retrospective taxing aspect depends on the outcome of the Ocean Finance case.

Moderator:

Thanks. For those of you with an interest in the interaction between duty and tax rates and regulatory success - and it may be just a few of you - you will have noticed a routine failure in the rollout of Point of Consumption regimes across Europe. The French regime has prospectively raised Tax, but it killed the industry, and it's now being re-built. The proposed Polish regime is being vigorously resisted because it's a 95% illegal market. By proposing very high tax rates, it's unlikely that the tax will be delivered or the consumer will be protected, so it fails on both counts. Denmark appears to be the most notable success in this respect, having set a 20% GGR ratio and an 80% legal market target at the outset, and is so very aware of the interaction between the two. My understanding is that they're achieving the 80% target, or better, depending on the source of your data. The Netherlands, I think, is the latest likely casualty; they've set a high market capture, 75%, and then a 30% GGR ratio.

We hear of a regime being unrolled in Austria. Is it likely to succeed in this balance? Michaela, please talk us through that.

“ I think that there may be more significant fines for operators. Business should not be complacent when your compliance team or marketing team talk about risk issues, the board of directors need to take note of what their teams are saying - as it might impact on the way business is conducted and impact profits. ”

- Susan Breen



Michaela Meilinger:

It's likely not to succeed. Austria is a perfect market that combines what we've been discussing. There's a huge gap between what the regulator wants and what the operator can do, especially taking the data privacy into account. Austria adds complexity: starting with a tax base that cannot be correctly calculated due to the technical impossibility determining the actual place of participation in an online-game or bet. Additionally, there is the thread from the 4th AMLD, from the BEPS site, and from the data privacy site with the Austrian tax authority requesting the operators to store the IP addresses of their customers for an undetermined time. However, the most irritating site of the situation in Austria is the fact that despite neglecting the operators the chance to receive a license, the tax is still levied and the consequence of non-payment can be tax criminal sanctions. Adding to Trevor's point about the storage of data and as mentioned before, for tax purposes in Austria, the operators are obliged to request and store the IP addresses of customers, which is – from our point of view-ridiculous! Our argument now is that this approach of the authorities might be qualified as a fraud against the

data protection, and this issue will increase in future with the data protection on the European level. As unsatisfying the above-mentioned aspects are, this is the current situation in Austria.

Moderator:

So in terms of developing that disadvantageous regime, how far can the conversation go?

Michaela Meilinger

Many things have happened in Austria in the last few months, such as updates on the tax regime and to do with licensing. In Austria, we have a monopoly and we're not issuing licences for foreign operators, but we do levy a huge tax amount: 40% of the GGR for gaming and 2% of the stake for betting. We receive a lot of criticism from the industry and even from the High Civil Court and from the operators. But the politics is protective over the monopoly, so unfortunately, the discussion is on hold.

Moderator:

Trevor, Novomatic has no domestic presence in that market, so how is the Austrian industry coping with this? Why isn't it being more assertive?

Trevor De Giorgio

It is ironic that the Novomatic group of companies, which is the largest operator in Austria, doesn't have an online presence or run one single casino. After the tender process, we won three of the rights, went to Supreme Court, lost those three rights, and the tendering process has opened all over again. We're one of the biggest employers in Austria, and yet we cannot be present online or run our own casino: it is very frustrating. This is where you see the reality of a monopoly in a specific country dictating the way policy is done. Novomatic decided to be proactive by trying to buy the monopoly, but even that is meeting hurdles from a political aspect. The Austrian market is not an easy market even when you are an Austrian company. You mentioned the success story from Denmark with the channelisation rate: it got it right from the word go. Other jurisdictions have learnt from their mistakes, vis-a-vis taxation and not opening their entire product range, for example in France and Poland where casinos are not allowed. In Denmark, they opened up the whole product range. Italy opened up step-by-step and now you're looking at another fantastic market out there. The Danish and Italian markets are good and the Spanish market at 25% makes it tougher, but it's still a good market. Unfortunately, I think The Netherlands is an accident waiting to happen.

Simon Planzer

Considering the experiences that have been gathered with different regulatory models, I still find it striking how legislators can get it wrong. One common mistake is to simply look at online gambling as a mere extension of terrestrial gambling. However, it is a different beast. Regarding gaming tax in The Netherlands for instance, the casino sector pays 29%, and mirroring this tax level to the online sector may jeopardise the overarching channelisation goal in Dutch gambling law. I can add Switzerland to illustrate this 'bricks and mortar logic' even more: the primary laws has defined a 40-80% gaming tax for the terrestrial sector, hence the drafters of the new gaming act have come up with a gaming tax rate for online of 20-80%. You can see that legislators too often find themselves caught in a national logic when trying to regulate online gambling.

Trevor De Giorgio

It's true that the Danish system had to go through several legal hurdles to maintain the 20% tax. There was a very strong lobby to push forward the

non-differentiated tax rates, between online and land-based. The matter went to the European Courts and the Danish government won the argument and kept it at 20%. The fight the Danish had, to maintain the differentiated tax rate, is a source of inspiration and something to consider when looking at other jurisdictions, when deciding what sort of tax rate you want to implement. The Netherlands want an 80% channelisation rate, which means 80% of its citizens to play on lawfully licensed sites in Holland. But at a 29% GGR rate, and if you add on the other stuff, it's a higher effective tax rate. Now the prediction is between 60 - 65%. The Polish, in their own statement of justification - when they notified their law to the European Commission - are ready to accept a 50% channelisation rate. This means that one out of every two of their citizens will not be playing on lawfully licensed sites. The Polish government knows this - it just doesn't make sense.

Moderator:

Yes, I'm pleased you said that because I'm a regulator through and through, and consumer protection ought to be where it starts, but it rarely does. This takes me neatly onto social responsibility. The UK's Chief Executive of the Gambling Commission, Sarah Harrison, delivered a speech saying the direction of regulation should be 'what does the consumer need?', as opposed to 'what does the regulator require?'. Is this regulatory creep, is it reasonable?

Susan Breen

It is definitely regulatory creep. But I'm not sure it's reasonable in all cases. Regulators don't always understand what consumers want: they would probably operate on a default and an exception principle. They see AML breaches and high profile cases. They see VIP problems and gambling issues. It is natural to expect that regulators have concerns and want to act. By contrast, and while I am not trying to be a defender of the industry or those with weak practices – I can see that regulators do possibly conflate issues and make rules that have general application across the industry, without perhaps hearing what industry has to say. To expect an industry sometimes to turn on a pin head, and enact wholesale changes to the way it operates with affiliates, marketing, third-party service providers, broadcasters and content merchants etc, is quite challenging particularly where the industry considers there are already a good set of robust processes and only a few problems. You can see how sensible operators might feel aggrieved. The UK Gambling Commission said 'I'm sorry I don't agree with you'. We've seen a lot of problems and they must be tackled'. The weight of legislation is certainly a key issue for all operators.

Moderator:

Is it a matter that one can police? What does the consumer need as a matter to act on, or to protect yourself against if you're an operator?

Trevor De Giorgio

One should also ask the question 'what does the consumer want?' Because as an operator in the UK, once licensed, you're live and you're registering players. Some players are asking 'why are you asking for all this information, like my maiden surname?' Sometimes we ask players for a 'Face ID' if we're in doubt about the identity of a person or whether a document is genuine. They take a photo of the document next to their face to ascertain the real identity of the player. That causes issues too. But this is the player reality: for an operator, one must try to maintain a very delicate balance between the expectations of the player and what the regulator is expecting in order not to fall foul either way. At the end of the day, if the player doesn't like the situation, he'll go elsewhere.

Finally, what we seem to forget is that we can take all the enforcement measures in the world, but there are still going to be operators out there who are not licensed, running operations out of garages in Costa Rica, or Russia or elsewhere. Most of the time, to add insult to injury they're using fake or cloned content which we designed and which we provide to lawfully-licensed sites! Yet these guys manage to copy it - but they don't copy the game mat, which reveals that the game doesn't operate as it should do. So operators are stuck between a rock and a hard place if we're going to carry on down this route.

Moderator:

Well, we've gained many insights into the complexities surrounding compliance in the gaming sector today. With heartfelt thanks to my eminent panel.



Effort and Ingenuity – The Road to Consolidation

Presentation: Tim Stocks, Managing Director, James Stocks & Co.

Good morning. The M&A markets have been very active over the last period. Indeed, since we last met on 2015 a tremendous lot has happened.

At my last presentation, we talked about a market that was estimated at 39 billion dollars back in 2015, but in reality, it outstripped that; by 2019, we expect the market to be about 45 billion dollars, but that rate of growth is now slowing. In 2012, online and mobile gaming accounted for around 5% of total gaming revenues, and by 2015 that number had alarmingly grown to 16.6% of total market. With time, we've seen the mobile marketplace really starting to outstrip those growth numbers and accelerate away - it's going to be a key market.

Here at James Stocks & Co, we've identified three key drivers for growth and M&A in the sector:

1. High growth markets
2. Cost pressures in the market
3. Regulatory costs and burdens

My advice, as with any regulated business these days, is that you're going to have to get used to it. We're not a large business but the amount of policies even we must adopt by the UK Financial Conduct Authority is alarming. They treat small just the same as large, it's a fact of life in regulated markets. I'm afraid it is upon you and it will remain with you: if you want to run a good business, you have to roll with it.

Back to gaming, there are some lucrative margins in this sector but they're under pressure. In more detail, I'd like to highlight some of the winners and losers. Consolidation has continued, but interestingly, at GVC / BWin, having undertaken that massive piece of M&A, their market share has fallen as a percentage of the total. Bet365 seems to be a clear winner in this regard because, without doing any M&A, they've increased their market share by 50%. The merging of Paddy Power / BetFair demonstrates that one plus one can equal 16%, which is the additional growth they've achieved by coming together. For William Hill, with acquisitions, they've managed to increase their market

share to 2.1% which is a 31% increase on where they were the last time we met.

For me, the outstanding winner is Amaya, which has gone from nowhere to 3.3% market share, obviously through acquisitive growth. That company has now been subject to a bid from the management team at a 21 dollar per share number, 40% premium to the market pre-announcement. Which drives us to another theme - the interest of private equity in the sector; interest is quickening. In particular, as greater regulation comes in and there's a cleaning up of the industry - that's a factor that would attract private equity, together with the significant margins that are achieved.

In the period of 2011 – 2015, we saw compound average growth at 10.4%. That's tailing off now as we approach 2020. Our expected growth forecast for the industry is at 9.6% which is perceived by many to be a slow in growth.

If we look at sectors by geography, Europe continues to dominate, it's the biggest market sector by far. North America is slowing in growth between 2012 and our forecast 2018 number, so from 26% up to 2015, and slowing down to 21% up to 2018, obviously adding significant value in terms of absolute size. We see Asia coming in quite rapidly, the Middle East also going at 77% between 2015 and our forecast 2018 numbers, having achieved 45% growth between 2012 and 2015. We can also say the North American beast is starting to stir. But in other territories, I'd put a question mark after one word – 'Africa?' There's a whole continent of growth which we've not yet factored into those numbers. We're going to see this coming through quite quickly over the next few years as well, as we explore new markets, new businesses, new territories.

If we look at margins, these are easing off, as compared with the land-based operators, seeing margins falling between 2014 and 2015, down 3.3%. The cost pressures that we've talked about are now being seen in falling margins.

Taking all that together, we've talked a bit about tax this morning, however, to understand what the effect of the UK point of consumption tax has been, look at William Hill, and drop off the best part of 8% in margin as a result of the tax. Ladbrokes are taking quite a hammering, and Paddy Power is taking a 7% drop in e-bit margin because of what's happened via the point of consumption tax. It really is having an impact and, as an increase base of cost, that will drive forward M&A activity, we're certain of that.

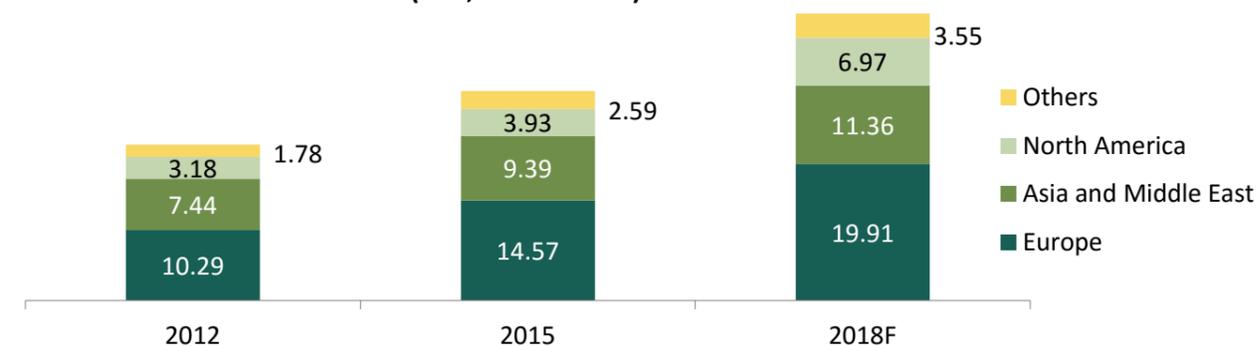
The market is in complete turmoil with regard to M&A. You've got people wanting to go from B2C, to B2B, then moving back. You've got the mobile gaming sector where people are coming together quite rapidly, and you've got acquisitive expansion by B2B players as well. In essence, there are three sub-sets of the market, all very active in M&A, and all continuing that way in our forecasts over the next 12-18 months as well. Just to give a figure on private equity for you: assets under

management are rising to \$3.2 trillion dollars, as of June 2015. That's a lot of money available to come into the sector.

In summary, why M&A? The answer is manifold: cost synergies, achieving new products, getting scale to reduce the impact of cost increases across the wider turnover, getting new skills, gaining access to new technology. Why now? Slowing market margins, increased regulation and costs driving M&A activity, technology shifts and finally the payout – everyone else is doing it, so why don't we step in. That's a rapid overview of what's happening in the M&A universe, but there's a lot more to come, particularly as the private equity folks get actively involved in the sector.

Ladies and gentlemen, thank you very much. As I say, if you do want the full slide deck, it's on our website and I do recommend it to you.

Online Gambling Market – by Geography¹
(£bn, 2012–2018F)



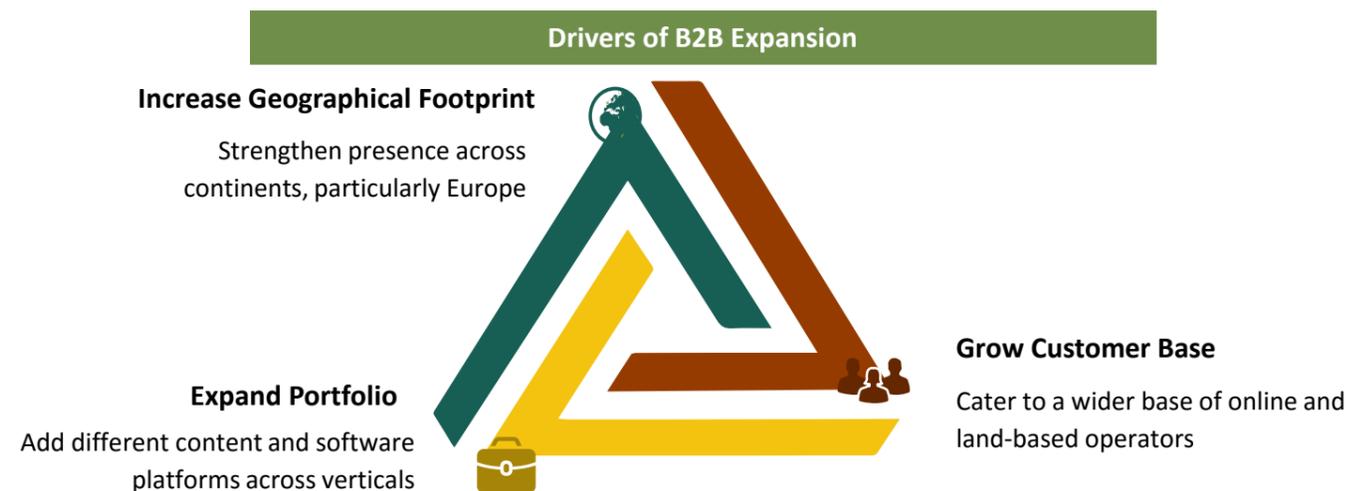
Effort and Ingenuity – The Road to Consolidation [continued]

Presentation: Tim Stocks, Managing Director, James Stocks & Co.

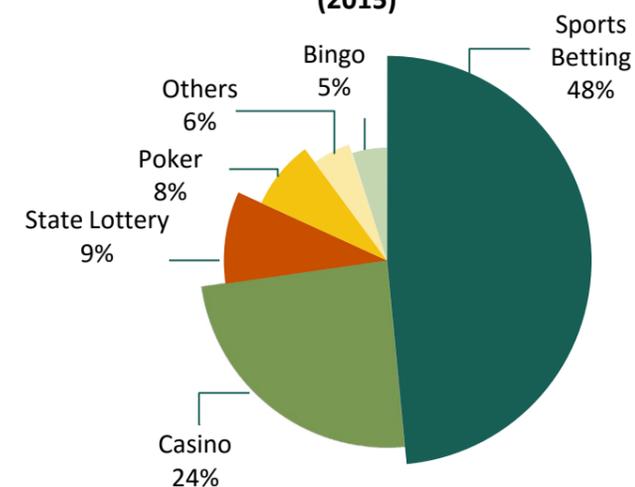
Since 2014, the Online gambling industry has seen a significant number of M&A transactions. However, the pace of consolidation is not set to slow down. The consolidation trends are led by the need to increase the scale to fund rising costs arising from tax changes and compliance costs, access to technology and mobile penetration as well as competitive pressures and the drive for market share. Territorial expansion is also a factor. European markets are growing at a slower rate but the North American market is forecast to grow at a CAGR of 21% between 2015 and 2018. Whilst the increasingly legalised nature of the online gambling sector is attracting Private Equity funds with business models built around consolidation.



Image credit: SIGMA



Global Online Gambling Market – by Product¹
(2015)



“

Bond didn't defend the practice. He simply maintained that the more effort and ingenuity you put in to gambling, the more you took out.

”

– Ian Fleming, Casino Royale

M&A and Capital Activity from an Operator's Perspective

Moderator:

David Pace, Partner, KPMG in Malta

Panellists:

Tim Stocks, Managing Director, James Stocks & Co.

Donal Barron, Commercial Manager, Paddy Power Betfair

Justin Psaila, CFO, Gaming Innovation Group

Ory Weihs, Founder, XLMedia



Russell Mifsud

Continuing the M&A theme, Tim Stocks is going to be sitting on the panel for our next session which is 'M&A and Capital Market Activity' from an Operator's Perspective. Please also welcome our very own KPMG Deal Advisory Partner David Pace, who's going to be the Moderator, and Justin Psaila, the CFO of Gaming Innovation Group (GIG). Let me also introduce Donal Barron, Commercial Manager of Paddy Power / Betfair, and Ory Weihs, Founder of XLMedia PLC.

Moderator:

I'm delighted to chair such a panel. My thanks to Tim for setting the scene and in fact I'd like to build on some of the points he raised during his presentation. But beginning with Ory - you've been involved in M&A, capital markets, and listings. From your experience, are there tips that you'd be willing to share with the group?

Ory Weihs

I'd be happy to. Firstly, because we're not an operator, but a performance marketing company, we look at

M&A from a B2B angle. We saw that we were very successful for a long time in a niche, providing paying users to online gambling, in certain countries and sub-sectors of gambling. We felt we could rapidly grow this as opposed to what we'd been used to, which was organic growth at 20 - 25% per year - which was still good. Three years ago, there was an opportunity from the capital markets to go raise some money to expedite the growth, so we did exactly that. We raised a large amount of money and acquired assets outside of our core competence as well as strengthened our position within the gambling sector. It used to be mainly online casino in Scandinavia, and now it's distributed along many sub-verticals of gambling as well as social gaming, mobile gaming, financial services and general apps. Our main agenda was to expedite growth and diversify across geographies and products.

Moderator:

Thank you. Let's move to the operator side of things. Donal, your business is actually a product of a number of mergers. When you actually look at an acquisition candidate, what do you actually look for yourselves?

Donal Barron

In my time at Paddy Power, we've been involved in three major M&A deals. The first one occurred with the focus of getting into a new region which is always of paramount importance, as you look to scale and build international diversity within your business. We acquired Sportsbet in Australia, and saw a lot of growth within the Australian market, but also within that business in itself. When we bought that business, its turnover was in excess of \$200 million; this year it will be in excess of 4 billion. It's about trying to spot those opportunities.

The second deal was a niche gaming company called Cayetano Gaming, based in Sofia, Bulgaria. Cayetano provided us with an ability to develop proprietary gaming content. It was a product channel which we didn't have access to before - being very much reliant on third parties - so it enabled us to take the focus back in-house in terms of more efficiency, from a product development perspective.

The third and obviously, the highest profile deal, was with Betfair. It's slightly different in the sense that there are huge synergies between Paddy Power and Betfair, not just from a company standpoint in terms of the exchange, complement and the Sports Book, but also from an actual personnel perspective, as there was huge overlap between the personnel. Breon Corcoran, now the CEO of the joint entity, was previously CEO of Paddy Power, and Head of Trading at Betfair is now Head of Trading at the joined entity - he'd previously been at Paddy Power. Owing to that overlap, it's meant that culturally that integration has been a bit easier.

So from our perspective, the focus is on three things. One, there's a new jurisdiction which we can now access; two, does this provide us with a product vertical in terms of strength in an area where we might be weak at a given point in time? And third and probably most importantly, does this drive long term value for the shareholders? That's ultimately what will determine any long-term decision making.

Moderator:

You open up two interesting themes: the first is integration, which I'll ask Justin about shortly. But to backtrack, and Tim alluded to this earlier, the points about B2B and B2C - with various strategies and drivers among players and operators, is there a real thirst for that growth and technology and that go-to market? Please expand on those themes as recent M&A drivers.

Tim Stocks

In the gaming industry, M&A activity has gone from being a relatively stable market where people would say they'd like a new product - so you'd go and buy a company - to a situation where now everything is heated-up and the water's boiling because you've got different flows in the river. There's the mobile gaming platform and its penetration into the market, operating at about 32% penetration. Digital is coming through as well. When we talk about costs, we tend to overlook what people do when costs such as employment and regulation cost are increasing. What do people do to maintain their margins when they are softening? One move, typically, is to invest in technology. Replace people with technology. They also start re-negotiating affiliate and supplier terms to see if they can improve margins that way. So we see the trickle down going across the industry which leads people to say "we need to be in a different place in the value chain." That's already started cooking and it's going to be an exciting space over the next few years. To add to my earlier comment regarding relevant market shares and how they've shifted, whilst Bet365 is still top, Paddy Power / Betfair is a well-capitalised business and will be pushing them. Amaya, perhaps with private equity backing now, once their transaction is complete, is well-capitalised. That's the snapshot at the end of 2015 / early 2016. It will be interesting to see in a year's time. There may be a changing of the guard here in terms of this league table.

Moderator:

Justin, in preparation for this panel, you asked an interesting question, 'How would you feel if you woke up knowing that half your team were people with whom you'd never worked or met before?' It's a daunting task to integrate. Please share some things you've learnt with us?



Image credit: SiGMA

Justin Psaila

Sure. Whenever there's change, there's always an element of challenge and risk. Hiring just one person can be risky: you must make sure that the employee has the required skills and fits within the team, let alone recruiting a whole company!

Of course, mergers are very challenging, because there isn't just one correct way of doing it. There are many variables differentiating each company - employee expertise, culture, technical expertise. A strategy that works for one particular merger may not work for another. The first goal of a merger is not to break something which is working well. The easy way to merge is to keep everything independent, resume normal daily business and just consolidate figures at the Group level. But I believe that there are so many synergies that one could get from a merger, and it would be almost a waste to just limit yourselves to that.

There's no one correct way of how to merge, however the boxes that one should tick or the steps that one could follow are quite similar. Usually the first step is to adopt a strategy of how you're going to merge. One method, for example, is for the acquirer to dictate the

way they're going to integrate or accommodate the 'acquiree'; another would be to decide together how to do this. Then a steering committee is grouped involving people from both organisations with the aim of understanding the culture and organisational structure; especially when there might be autonomous or centralised roles between the two and one can identify the synergies and gain immediate advantage of low-hanging fruits. The next step is actually identifying people. Often, there's duplication of roles between both organisations, so you need to know where to shift people, or whether redundancies are needed. A good understanding of policies and procedures and implementation at team level is also necessary.

What's very important in mergers is to not delay any of these steps, because in the meantime the employee feels uncertainty - especially those on the side that's being acquired. There's no guarantee as to whether people will keep their jobs or role. A successful merger moves swiftly to limit that uncertainty.

Ory Weihs

I'd like to share some of my experiences too. We've done many different kinds of acquisitions. Some acquisitions are pure bolt-ons of products or companies that do exactly what one of our company's sub-division does: that makes for a different mind-set when you're doing that as opposed to, let's say, when you're diversifying into another field. One example is where we acquired a company which specialised in mobile games with an earn-out element. In this deal there was a structural challenge, and the only solution in that case was trust, because the minute you put a company in an earn-out, a lot of deals are done on some kind of deferred payment model based on performance. I found that model rather challenging because it's rather hard to align the goals of the seller with your own goals. To give a more practical example, if half their payment is deferred and based on them hitting some growth or profit targets, they're going to just focus on that, sometimes at the cost of long-term strategic planning. If you don't trust the seller, you have an issue. A, because you're basically tied to them for a little longer before you can part ways if it doesn't work, and B, you have to make sure that they're not sacrificing investment in the future in the 5-year outlook because you put them on a 2-year earn-out. This is something we've seen before.

Also, when buying something outside of your comfort zone bolt-ons and I believe that we do this better than our competitors, we then move them to our platform and into our mind-set. But if buying something in a new vertical, or a new niche - and mobile gaming is a great example of this - it's slightly different because the KPIs are different. We had to translate what they were doing into the mindset of what we were doing and we had to try to align internal performance KPIs, of course revenue and profit. You have to ask yourself, are we looking at the time-frame between registration and deposit or are we looking at how many tractors they're buying or how many helmets for their Vikings? These are the detailed practicalities that make or break this kind of transaction when you're buying outside of your comfort zone. I imagine an operator buying a game supplier would be similar, or a specialist in online gambling buying a mobile games provider would be similar.

Moderator:

Do you have any experiences to share, Donal?

Donal Barron

Yes. In our previous two deals in Australia and Cayetano, there wasn't really a personnel impact, in the sense that we were very much attracted by the calibre of personnel in those firms. Whereas in the Betfair merger, there was an overlap of roles - invariably this meant a lot of people had to leave both businesses respectively. There was an emotive component associated with that, especially for a company like Paddy Power which was very much a family-oriented business. David Power and Stuart Kenny, who founded the business, were very actively involved and embodied the values of what Paddy Power tried to aspire to, which was ultimately a small Irish family business trying to be a global player within the market. Within that, there's a certain degree of comfort and unity which can get diluted through a merger. I think with mergers it's important to keep what's good and not break it, but that's invariably a big challenge. Today, that's being navigated rather well and if change is needed, it is key to implement that change as quickly as possible. Once everybody is clear on the strategy of the bigger organisation, it becomes a lot easier to achieve new goals.

Moderator:

Thank you, so the message is to keep culture and values quite high on the checklist as you approach a merger. Turning to Tim, with this big race to size, will it limit the ability for smaller outfits to play?

Tim Stocks

Yes, in a way. It will increase start-up costs, and perhaps require more ability for those smaller players to become a global dominant, but it doesn't exclude it. Listen, in every market, there's always going to be space for the new idea or new proposition. Last Summer we saw the Pokémon phenomenon that popped out from nowhere and everybody joined in - it was a new idea, to inspire people to use their mobile to start gaming. There won't be anything to stop new ideas or business. Returning to the theme of private equity and linking it with venture capital - when you start getting that kind of money hooked into a business to drive it forward, it becomes a real game changer.

Moderator:

Can funding make these things possible? Can it make the rewards for investing in technology and new ways of engaging with new audience? I think it could drive more innovation because you need to be different to make your own mark.

Tim Stocks

Absolutely, the market needs new content and new ideas, but some businesses are now moving away from the pack. Let's look at this in the context of the automotive sector. The Ford Motor Company is a leader within the automotive sector. However, these are upstart companies in the sector like Tesla. Even Tesla is unlikely to disturb the dominance of the larger automotive companies and may ultimately be absorbed into a larger automotive company like Ford. So like the gaming sector, the automotive sector requires innovation, but the innovation won't overtake the established players. Scale is always going to win. Not every start-up is going to be a dominant global player.

Moderator:

Building on that theme of innovation, look at what's happening in the Financial Services space and Telecoms space. Telecommunications companies can easily become tomorrow's banking or Financial Services players by engaging with lots of technology to deliver their services - all these players come closer together. Apply this to the gaming side - which linkages with other industries render spaces worth looking for, in your view? Donal?

Donal Barron

e-Sports is one that is often spoken about. Personally we haven't seen it, and in terms of the markets that we've been offered, there just hasn't been an appetite among our core customer base. But other firms have focussed more heavily on it and been successful. The key for us has been to focus on our core product and in terms of new features, products like fantasy sports. In terms of scale, poker has been right up there. Now the two big players in the market coming together obviously provide a better chance. But from our perspective, there's so much to do in terms of improving our core product that our predominant focus will be there, as opposed to looking for bolt-ons in the short-term.

"I think with mergers it's important to keep what's good and not break it, but that's invariably a big challenge. Today, that's being navigated rather well and if change is needed, it is key to implement that change as quickly as possible. Once everybody is clear on the strategy of the bigger organisation, it becomes a lot easier to achieve new goals."

- Donal Barron



Image credit: SiGMA

Moderator:

Are you seeing some integration from other industries, Ory?

Ory Weihs

We're in a good position, as the day-to-day judge of most of these companies, because we work with all of them and we see our numbers. I agree it's as if gambling is a bit different, a bit boxed into its own - as opposed to other industries that have ventured into closed pastures. Just 2 years ago it was all about Social Gaming but that's an absolutely different mindset. Frankly, at the end of the day, it is gamblers who gamble. Sports and casino are much less seasonal; the poker craze seems to be a bit behind us - now USO games are attractive again. We're seeing more in our industries now about distribution channels rather than products. There's always talk about the 'move to mobile', and the odd evangelist for Virtual Reality. From my perspective as a supplier to the industry, I feel compelled to say that the gambling sector seems to be a late adopter of a lot of technology in the

media of advertising space. Other industries are more advanced, like the financial services sector or Games. They have more data analysis, big data elements and machine learning and artificial intelligence. I wish that the gambling industry would adapt faster. We can do so much more, utilising more data. We use it when we work in Financial Services and in Gaming - so I hope we'll see more providers jump in on the opportunity to advance the gambling industry on this side.

Tim Stocks

From my point of view it's more of the theme from this morning - about banking and supporting the industry. I think payment processing is going to be key: how you shift money from Asia to Malta, or from North America to Malta. The banks are worried: HSBC is saying 'no more'. If the banking community who will support the activity starts shrinking, we have a problem. The M&A activity may default to 'let's find somebody who's got a bank that they can work with'. A payment processing solution that has gaming attached might be the answer.

Moderator:

Yes, I do see where you're going with that. The industry needs something more - it's likely we'll end up with a new player or a new construct.

Justin Psaila

I'd like to add, that due to further EU regulations, our cost base is always increasing, so we need to find ways of how to decrease other costs. Payment solutions or payment processes could be an ideal way. If it was explored - whether we could begin to actually take over payment processing in order to reduce costs paid to our payment processors - in order to substitute the taxes that we're paying towards our regulators, this would be ideal.

Moderator:

Ok, so we're approaching the subject of outsourcing. Is there any change in the business models that could create carve-outs or a different type of M&A activity? What are you seeing to that effect?

Ory Weihs

Well we've seen something which I thought I'd never see, which is operators buying marketing providers. We've been doing this for 15 years now, and never thought it would be possible because, theoretically, you'd ruin the objectivity of the set marketing provider. Of the deals we've seen, the biggest was about 10-20 million Euros. Playtech buying back poker strategy for 40 million Euros was probably the biggest one of these. Now, there seems to be a kind of trend to replicate this, and it seems like a lot of operators think they can cut their marketing costs - perhaps they can - but most will end up either buying in this knowledge or buying this ability or working with an external provider.

Moderator:

Our final question refers to the financial markets and money coming into the sector. Tim please give us your take on the outlook from the financial side of things such as additional finance and play of the capital markets. Where do you think it's going?

Tim Stocks

Well, despite the comment from analysts in London saying 'go to the grey markets' which I kind of disagree with, I do think the capital markets - Toronto, London - are very much open and keen to get behind companies, especially exhibiting the high margins and high growth distributed by companies in the gaming sector. We've got some very well capitalised businesses on the stock market now, and those well

capitalised businesses will be in a good position to drive growth and to work with the changes that the industry is going to face.

Donal Barron

I'd add that as an industry, Gaming is certainly immature from an investment banking perspective in some respects. I think capital markets are becoming more comfortable with the industry. If you look at companies with a lot of cash on their own balance sheet, in terms of debt in the industry, it's more relative to others. But the big thing is to look at companies, niche players such as Leo Vegas or Mr Green or UniBet, and how remarkably well they've done over the last 5 years. That model - where you exponentially spend on marketing to try and build that trust in your brand - the challenge is then, how does that appeal from an investment perspective? It's those niche players that bring the most interest from investors.

Ory Weihs

I'll just add that we've had good experiences on the public markets. But they're still getting approached from all kinds of vendors trying to sell dead wood which we don't need. There's a great appetite still and several institutes that we talk to, are expecting some interesting developments in M&A which is effectively what we've been talking about today.

Justin Psaila

Yes, my experience is quite similar to my colleagues' here. But it depends, as investment can be for marketing or to acquire more, to enable us to challenge the big dragons in the industry.

Moderator:

So in essence, money will make this game more interesting for next year. I'd like to thank the entire panel. It was a pleasure preparing for this session and an even greater pleasure participating in it.

How Can Responsible Gaming Change the Inside-Out Perspective of Gambling?

Presentation: Maarten Haijer, Secretary General, European Gaming & Betting Association

My title question is 'How can responsible gaming change the inside-out perspective of gambling?' - it is quite an existential question and difficult to answer in a short presentation. But I'll touch upon several responsible gambling issues that are important to us as an industry. Responsible gaming is an integral part of what we do at the EGBA. We should embrace responsible gambling rather than see it purely as a cost.

EGBA is a Brussels-based trade association, designed to serve all established and licenced operators within the EU, quite a few of whom are here in Malta. We stand for competitive regulation, adept to the digital economy and are focused on consumer preference. I think it's important to emphasise the consumer as the central element when you make regulation. We lobby at both the European level and at national level; very often regulators and legislators see regulation for gambling as something where you need to control the supply side, and they forget about the demand side, but we think that regulation can only succeed if it takes into account the consumer. Channelling of consumers is addressed by us as well, and I think that this the yard stick to see whether regulation has been successful or not; we'll come to that in a bit, but it is key.

Although not wholly relevant for responsible gambling, that's the growth of the online markets, there in blue, 2015 to 2020. But I want to point out the red parts, which show the offline sector. When we speak to

regulators and legislators, it's important to stress that the offline market continues to grow too over the same period - percentage-wise it is less, and their market share goes down, but it's still growing. It's important to emphasise that the growth of the online market is not to the detriment of the offline markets. A lot of regulators want to protect their vested interests - although they don't say so - but here you can see that actually they can exist jointly side by side.

So why are markets regulated? Invariably there are two main reasons: the first being taxation, always important, and the second one is consumer protection, which is understandable. If you're a Government and a legislator, you have an obligation to ensure that the people you work for - your citizens - are protected. You must also ensure that public policy objectives are met, consumer health being one of them. The other regulations that come up, invariably taxation and consumer protection, are all part of the mix of what a regulator needs to achieve.

Why would you restrict the market? I don't mean not regulate, but restrict the market. It can't be for taxation reasons under the EU law objectives, as the treaty rules. But it can be for public policy reasons, and consumer protection is one of them. Another big one is fraud and money laundering prevention. There are few smaller reasons to restrict the market - but only when it's justifiable and effective. Taxation can never be a reason why you'd want to restrict the markets but consumer protection can be.

The European map shows the development in the regulatory systems over the past 6 - 7 years. On the left you see 2009: in yellow you see the monopolies and in green, the multi-licence systems, and in red the prohibitions (the unregulated markets). The picture now shows green is not the dominant colour, so that's the multi licence system, if you move on up to the left, green doesn't mean that it's a successful regulation, but only that it's the licensing model that has been adopted. If you take Germany as an example, in theory there's a licensing system but in practice it doesn't function, but it shows the direction in which the regulation is going. In all these jurisdictions, and if you're an operator, you need to get a licence and you need to comply with responsible gambling requirements, the consumer protection considerations.

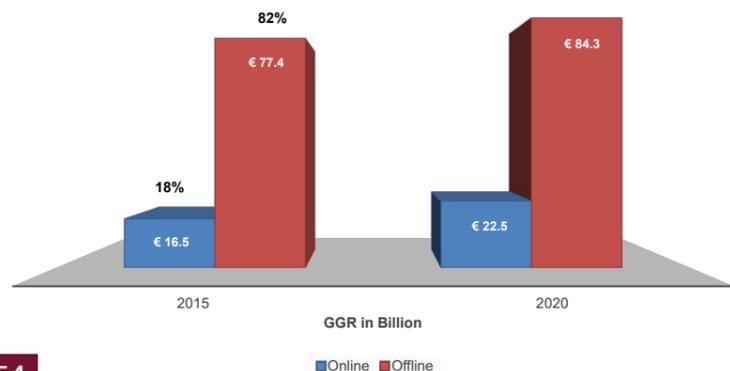
Why is responsible gambling something that's good for us and an argument that works in our favour? Here you have the graph (also discussed in a previous panel) showing the channelling of the consumer, and the ability of regulation to make sure that the most consumers play within the regulated sector. On the left you see a successful model, the Danish model, and you can add to that Italy, Spain, and the UK obviously. On the right hand side you see a high percentage of

the black markets: the Netherlands, Germany and France as examples.

What we strive for obviously - as does everyone in this room - is to make regulations attractive, and which work. You can see this coincides nicely with those member states which have an attractive model with medium taxation and workable responsible gambling methods.

The European Commission has stated, 'The development of an attractive range of legal gambling opportunities is key to prevent consumers from going on unregulated websites'. So those with highly restricted regulations don't actually protect their consumers because they force them out into the black market. France is a good example: regulation prohibiting online casinos still exists; the French themselves acknowledge that one million French people per year play online Casino in what they would call an 'unregulated' or black market; under French Law that means unprotected. Denmark's success story in responsible gambling is a good argument to plead for more regulation. Where it exists in Denmark and Italy, it's very good.

Size of the market: EU28



Source: H2 Gambling Capital, May 2016

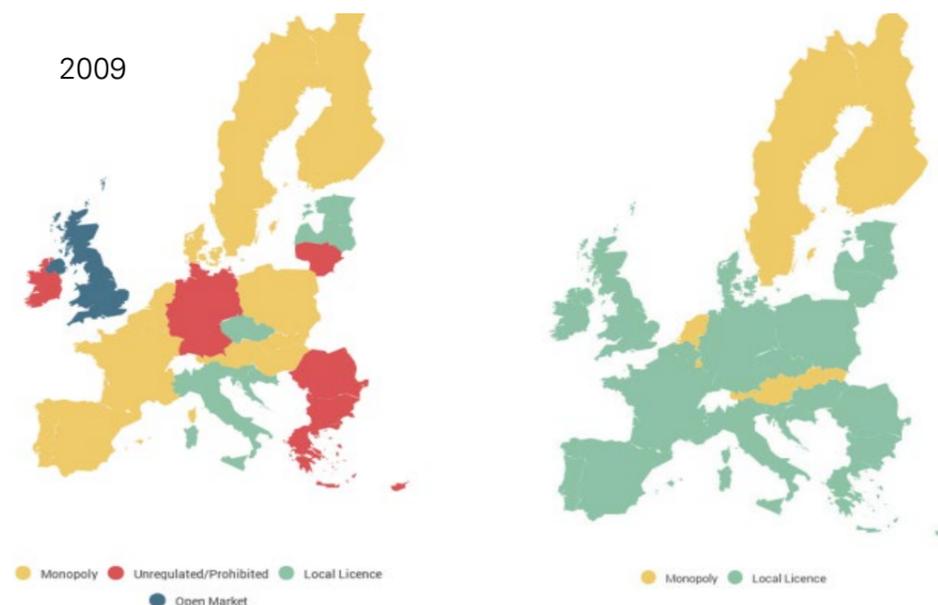
Why are markets regulated?

Two main reasons:

1. Taxation
2. Consumer protection

Restrictions only justifiable for public policy reasons:

1. Consumer protection
2. Fraud, money laundering prevention
3. ..



How Can Responsible Gaming Change the Inside-Out Perspective of Gambling? [continued]

Presentation: Maarten Haijer, Secretary General, European Gaming & Betting Association

What are the downsides to responsible gambling? One is market restriction: rightly or wrongly, a lot of markets get restricted for consumer protection and responsible gambling reasons. Then you have monopolies and severe product restrictions – so yes it's a cost. It's an additional cost in terms of implementation and compliance: fulfilling all these requirements is expensive. Compared to, let's say Amazon selling a book or eBay providing a platform: the costs are huge. Obviously it's a very difficult topic in the public's eye and in media perception too: you're always on the defensive.

How is responsible gambling an opportunity as well? First and foremost, it's here to stay. Doing business in the online gambling sector means that you need to deal with responsible gambling: there's no way of getting around it. But it's also a good argument to create competitive regulation. In terms of investment interactions, you can see that more regulated markets means less appetite for risk; it allows us to focus on issues like consumer protection, and it becomes a USP for a lot of the highly regulated, multi-licensed

operators. Some of our members have a very active responsible gambling policy that goes way beyond the legal requirements. What they've noticed is that having a good responsible gambling policy is positive for consumer experience, they get good feedback. It's also good for customer retention, clearly you don't want to scare off the customer! Being seen to have a responsible gambling policy that's active actually helps retain customers. Finally, online gambling tools are very good and very effective, compared with what's possible in the offline sector and other sectors.

My key conclusions are: responsible gambling is here to stay, I think you should make it a key element of your business model, and as per previous panel discussions, education is important. Because, the outside world, even legislators and people who oversee what we're doing in terms of regulation, can have very little knowledge of the sector. I think there should be much more of an effort in educating the general public and the regulators as well.

Thank you very much for your attention.

Responsible gaming: a cost?

- **Market restrictions**
- **Implementation costs**
- **Volatile public and media perception**

Responsible gaming: an opportunity!

- **Evidence based RG is key to competitive regulation**
- **Integral part of CSR policy gambling operator**
- **Unique Selling Point for investment**
- **Active RG policy is good for:**
 - ✓ **Consumer experience**
 - ✓ **Customer retention**
- **Online RG tools very promising**

Channeling the consumer

European Commission:

"The development of an attractive range of legal gambling opportunities is key to effectively prevent consumers from going on unregulated sites"

Size of Grey Market

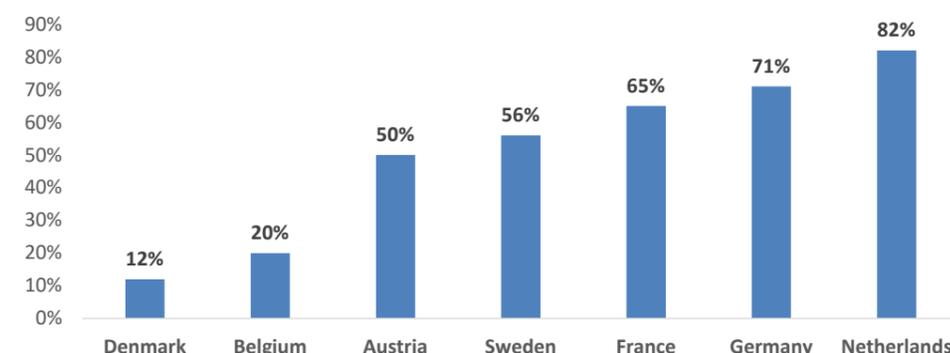


Image credit: SiGMA



The Transition of Online Gaming

Moderator:

Anton Kaszubowski, Director, Greenlaw Limited

Panellists:

Carla Maree Vella, CEO, Optimizer Invest

Alexandre Tomic, Co-founder, Alea Gaming

David Sargeant, Innovation, Consultant & Start-up Incubation, iGaming Ideas



Moderator:

In my mind, innovation can broadly be defined as being driven by either creating value for customers willing to pay for it or by generating internal efficiencies within the suppliers/operators. My question is, in which areas of the gambling industry do you see the most potential for commercially successful innovation, in the next 5 years?

David Sargeant

In my view, the culture in gambling companies is risk-averse: they don't want to innovate. Much of that is due to the cost of innovation. Platforms are now changing in such a way so as to accommodate and welcome innovation. The key to commercial success will be responsive platforms that can plug in to anything quickly and try new things. Those with the larger legacy platforms are harder to change, and will be the ones that fall away.

Alexandre Tomic

The platform thing isn't really relevant in terms of innovation. We hear all the time that e-gaming is an innovative industry, and then we hear that it isn't. The first kind of innovation that the industry could have had was to look to other innovative industries and replicate what they are doing. For example, Amazon. The gaming industry offers many products, take any slot website for example. We should have a recommendation engine built, as it is hard for a consumer to know if they're going to like a game or not without having tried that game before. So, in order to answer your question, the areas of the gambling industry where I see the most potential for commercially successful innovation are recommendation engines as well as new game mechanics.

Carla Maree Vella

Let's look at the giants from other industries to see how they are managing innovation. Where's the gaming operator who's going to give me the real VR experience? Who, from a platform perspective, will come out with the WordPress of the gaming industry, one that enables everybody to come out, and be an enabler of innovation, providing creative widgets to facilitate? I'm just waiting for somebody in this industry to come out of the box.

David Sargeant

I totally agree. I think the key is that no one knows what the future innovations are. So what we do is make it easy for people to try new things and see what works. The problem right now is that you approach a big operator with something new and they ask,

"What's the ROI? Prove to me that it works." You wind up with a 'follow me' industry because the cost to try innovation is so high. Once you have a platform that enables you to do whatever you like, then the cost comes down and innovation evolves naturally.

Moderator:

In my mind, commercially successful innovation can be broadly defined in 2 categories: by creating value for the customer that they're willing to pay for, or on the opposite side, creating efficiencies and cost savings for the supplier or the operator which they're willing to pay for. Focusing first on the customer: how does the next generation of customers differ from the current generation and how can we predict their expectations, their desires, demands?

Carla Maree Vella

Customers are a deep passion of mine. It's not like, 20 years ago, when the customers of the world weren't necessarily who we really thought they were. Now, we have this flagship group called millennials who are going to ground-break the gaming industry, but I don't see a lot of innovation happening around the opening of those doors. Let's first identify who we are talking about when we speak of 'millennials'. They are the young consumers – below 18 – who are upcoming and will be our next generation of customers. There's an opportunity here, to look into a social realm and to look at the people who are playing games such as Candy Crush for example, and identify why they play these games. What it is about these types of games that engage millennials so much? Are these our future gamers?

David Sargeant

Let's take a step back to think about not only who's doing it, but why? To me, the entire customer base is very different, everyone now wants instant entertainment, be it at home and away: on the bus, at the bus stop, everywhere. So it's about how you tie those expectations into your products. Another major change in the gambling arena, is losing. The big thing here that's changing in the products that do well are the ones that make losing entertaining. If you're losing in games such as Candy Crush it doesn't matter whether you're good or bad, you're just enjoying the process. Remember, winning is always fun, it doesn't matter which game. But if you make the losing fun too then you've got a much more entertaining and compelling experience.



Alexandre Tomic

May I just say, the fact that you think that we should make losing fun disturbs me! If you analysed the DNA of any gambler, you'd find he likes to lose. I'd hesitate to say an addictive personality, but, a gambler likes his losing streak - he needs this feeling, with the occasional win, to keep him hooked. I don't think that we need to make the losing experience feel better.

Moderator:

What I'm hearing then is that for the Millennial gambler, being entertained is really as important as the winning experience. Now let's focus more on the product and customer side, and on trends in the market. Firstly, how do we predict the future for e-sports? Is it the modern-day Poker? What's the potential for the on-line gambling sector with eSports?

Alexandre Tomic

Today, in eSports, we have got things completely wrong. We have casino and betting websites that are offering e-sports products. The name of eSports goes against the demographics consuming these games, they are clearly not the same gamblers as those who are betting on sports. We need to create a new name for it.

David Sargeant

I agree, e-sports means too many things to too many people and the computerisation of sport is inevitable. The key angle that interests me is how people are consuming these "sports" - whether it's e-sports betting or e-sports playing. That changing consumption of entertainment is interesting. It may be interesting from the VR point of view as well. But is actually betting on e-sports going to change the industry? I doubt it.

Moderator:

I started in the gaming sector in the early 2000s, and since then I've seen only a few step changes. We had the start of desk-top based internet gambling, then the smart phone, then the explosion of mobile gambling. Now we're moving into a new phase of platform development, hardware development around AI, and AR as opposed to VR. All this will have a major impact on consumers and the way we consume content, and our on-line and interactive habits. I'm sceptical about how this can be applied to the gambling sector. What do you think, Alexandre?

Alexandre Tomic

To start, I should tell everyone that we've become the first VR real money casino. We began investigating this area around 2 years ago, and we now have one year of experience in VR real money gaming. The numbers are not big for the simple reason that we don't have enough consumers with the correct set-ups out there. But PlayStation and other devices will be coming soon. The problem is that all these devices are linked to platforms that don't allow real money gaming except with a specific licence in a specific country. On the one hand, we have a great opportunity to use this new technology as an acquisition channel and on the other hand, we can't do it because we are doing real money gaming. But we must find a way through. It's been tried before - the move from social gaming to real money gaming - but it's complicated and to be honest, we haven't found a solution yet.

David Sargeant

I think VR is inevitable. What interests me is that you're only getting the on-line industry interested in VR because in the off-line industry, it's very hard to engage with a piece of hardware that we all must share to play the game.

Moderator:

Would the driver be desk-top based VR head-sets or mobile VR head-sets? Do you have to simultaneously develop for both to be successful?

Alexandre Tomic

VR is inevitable, it's going to be big and will likely change the life of everybody. Think back to 10 years ago, before we all started using the internet daily. I would never have imagined that all my revenues could come from a digital website. I now spend 80% of my time looking at my smart phone and at my computer. It's completely inevitable. We're going to live in simulated realities, we'll spend a lot of time there, and we may even sometimes forget we're there! Ask me to predict what's going to happen in 2 or 3 years and I would say 'it's complicated'. VR is insular, it's a technology that closes you in. In order to gain information on the outside world, you'll probably use more mobile Augmented Reality.

Carla Maree Vella

I think that irrespective of whether it's AR or VR, there's an extended level of potential monetisation for any operator that goes there, but there isn't a specific time stamp on that. Retaining your customer, and keeping them entertained is drawing back to one of our first points. Whether it's going to be on my mobile or an extension of my PlayStation console, or on my pc - I can't say. But there's something there that I can tap into, to continue my customer's engagement with my brand. I believe that spans outside of i-gaming too.

Alexandre Tomic

I completely agree with you. Of course, we'd like to know which year will be the game changer: 2004 was the year of mobile, in 2012 we saw Rio Vegas which became the real game of mobile gambling. When will it be the year of VR?



Image credit: SIGMA

“The key to commercial success will be responsive platforms that can plug in to anything quickly and try new things. Those with the larger, legacy platforms are harder to change, and will be the ones that fall away.”

- David Sargeant

Moderator:

If you look at the mobile sector it is at the same development stage: companies like Rovio that developed hundreds of games like Angry Birds. Just a great game at the right time.

Alexandre Tomic

It's odd because 2012 was the year of 'mobile', and 2016, the year of 'mobile first'. But what happened in 2016? We saw desktop decreasing and mobile increasing: now it's about 50/50. In the next few years, desktop may go down versus mobile; if we started VR in 2016, you can expect - depending on the technology - by 2020 surely we will be there?

David Sargeant

The point on mobile first is an interesting one because e-sports has also changed that. The e-sports audience is not a mobile audience: they are a multi-screen, sit-at-home audience. Operators are finding that, having spent money building a mobile first solution, they now need to build good desktop portal site for their e-sports audience - who aren't engaging and betting on their mobile phones - instead they're immersed in this world of screens and consuming everything at once.

Carla Maree Vella

I agree that e-sports is a sector within its own right, because of the power that you need to engage with these types of games. But the experience can still be taken onto multi-device: it should just be a seamless experience. And yes, it's 2016, we're right here with mobile first - I find the term irritating, as everyone, everywhere, has a mobile phone. Why are we still using this term?

David Sargeant

I think that's the point, it shouldn't be mobile first, it should be adaptive to any screen that I'm interacting with.

Carla Maree Vella

Absolutely - continue the journey, seamlessly, from phone to tablet to pc.

Moderator:

One last question: this morning we talked about how the industry is changing on a sort of macro level, mega mergers being driven by the focus on increasing cost synergies etc. That's tough on early stage companies, on innovators. It's created an industry that is now dominated by increasingly large companies resulting in increasing layers of management, bureaucracy, longer decision-making cycles and implementation cycles, especially in IT. Where does this leave the start-up, the innovator? How can it bridge the gap between the culture of these larger companies and the need to move nimbly and in a cash-constrained environment?



Alexandre Tomic

I say that it's the best possible scenario, for small companies, that big companies are not innovating as they simply don't have the time. If we're talking about VR, shift of platform, new technologies coming in - it's going to come from the small companies that will be eventually bought out by the big companies. It's the small companies, like mine, that are going to innovate, then the other bigger companies, like yours, are going to come and buy us. That's how it's always worked.

Carla Maree Vella

I personally don't feel the restrictions when it comes to being an entrepreneur or a start-up. If you want to do something, do it. On this stage 2 minutes ago, we had a start-up, he said I can bring you to a meeting in my kitchen! If that's the space where you can provide your innovation from, then that's fine. As a venture capitalist and an investor, it's not always about money - we invest in people just as much as we give these companies money to grow. Belief and passion, and the drive to succeed is what makes a true entrepreneur.

David Sargeant

That's another key point: the problem with large companies is that often they don't have that culture. Some things succeed and some things fail. If you're

always looking for the ROI on a product, you won't get there. I run a start-up incubator, and they're all small companies, all passionate guys and girls who have quit their day jobs because they believe in something. Sometimes it's about how they, then, interact with that bigger company too.

Carla Maree Vella

There's a great book about this, *The Lean-Startup*, by Eric Ries. I recommend it! It contains the methodology that we've been talking about.

David Sargeant

One customer of ours had a consultant who advised that in a project you should incentivise people to fail ideas. So if you have an idea, you take within the company, and if you stop the idea, they give you a week's holiday. In a sense, you're incentivised if you try, even if you fail.

Moderator:

From my perspective in investing in start-ups, I always invest in great people; the great product comes second. With that in mind, it was great to see so many great people presenting here at the start-ups and pitch competition - very impressive! My thanks to our panel, our time is up. We've all learnt a lot today.

Virtual Reality: A Game Changer for eGamers

Presentation: Martin McDonald, CEO, Parallel66

The presentation opened with a riveting movie set in the future where the audience joined an underwater Virtual Reality first person game, featuring a Submarine Pilot in the deep blue doing salvage work on pipelines. His female topside controller at first flirts with him over the radio before getting serious and raising the alarm that an expensive ROV is stuck in a wreck teetering on the edge of an interminably deep crevice ridge. Our pilot skilfully manoeuvres his sub inside the wreck to release it and then all hell breaks loose as the wreck breaks in half and the Ship, Pilot, Submarine and ROV

plunge into the unexplored depths of the ocean trench thousands of metres below. When our hero comes round, all radio contact has been lost with the surface, and he has the fight of his life to survive unknown dangers all caused by trying to free the stricken ROV, to which he says wryly "they should have programmed you with more brains Harvey, when I get you topside you're taking a trip to the Vet!" – then his journey to survive begins among downed airliners, shipwrecks & terrifying sea monsters.



Martin McDonald then jumped up onto the KPMG in Malta Summit stage wearing a brilliant white Virtual Reality headset saying: "You should see the look on every one of your faces, you're right in there! Now imagine what it would be like to be Inside the Game, in Virtual Reality, BEING our hero, experiencing what he experiences, in fully immersive 360° visual and directional audio... Monetising that kind of player engagement experience, ladies and gentleman, is the very near future of iGaming."

He then gave a thought provoking presentation on why every business leader should be considering actioning a Virtual Reality strategy for their businesses. Some key points were:

Current perceptions surrounding Virtual Reality and predicted market value

The iGaming industry is at a rare pivot point, and in McDonald's view, there is a responsibility from Operators to their Players to step-up, redefine and re-make the very essence of what makes an iGame. VR presents business decision makers with another "iPhone moment," a step-change in communications and relationships between brands and customers. The team around Mr McDonald's advanced technology consultancy, Parallel66, is highly experienced and includes Bafta award-winning games and working in multi-channel Intellectual Property development. They are currently developing best-in-class Mobile Virtual Reality experiences for mainstream and for

iGaming. Martin McDonald announced exclusively at SiGMA 2016 that Parallel66 and their iGame Partners, Join Games Malta, would reveal a world first Mobile VR iGaming product at ICE as early as February 2017. Update: The reveal happened at the iGaming industry's flagship global event, ICE, and caused a sensation on the Join Games fully themed VR stand where they jointly revealed their first fully immersive iGaming product: "Kleopatra VR". The game received universally astonished reactions and acclaim from top execs from around 50 Operators and from the more than 450 delegates, who were instantly transported from London's busy Excel show and into the serenity of an Egyptian Palace to meet Kleopatra VR, and there, play the world's first realistic immersive Mobile VR Slot iGame.

In the view of Martin McDonald, VR is not a game changer; VR is an entirely new game. And, for those who know what they're doing, the barrier to entry is so low that everyone can get a seat at the table, because every customer already has a smartphone in their pocket and a high quality Head Mounted Display (HMD) is just a few Euros from Amazon on next day delivery. In the estimation of several respected firms of analysts, the value of the VR market after 2018 will be \$120 billion or more. For an Operator in the iGaming industry, the questions to ask are clear and highly commercial, "What is my cut of that (\$120bn) number going to be?" and, "What am I doing today to get myself ready to be a leader in that market?"



Image credit: SiGMA

Virtual Reality: A Game Changer for eGamers

[continued]

Presentation: Martin McDonald, CEO, Parallel66

Millennials' approach to and experience of VR

With VR, we can develop and give Millennials and associated groups the experiences they understand, and that they can win from using the very same skills that they've been developing, using and honing for years. We can, and of course should, incentivise existing slots players to migrate across to immersive Mobile VR experiences, but more exciting for many of us will be the opportunity to speak for the first time with a value proposition to an audience that has no interest at all in slots: the so-called Millennials and associated groups of discerning consumers. These skilled Gamers of the PlayStation and Xbox generation are used to a

different exchange of value, one driven by achievement, by recognition, and largely by non-monetary rewards. Millennials and their like are willing to pay between GBP£20 to £50 up front for a good game experience, they're willing to pay in-game to upgrade that experience and they're even prepared to surf the dark web to buy short-cuts to glory, such as an interstellar space craft for a cool US \$700! That should speak volumes to senior management decision-makers at iGaming Operators in Malta, and elsewhere in the world, about the opportunity to develop new products and channels in Mobile VR, new experiences, develop better customer loyalty and longer-lasting higher value relationships via new revenue models.

investment decisions for their future. But doing that is what disruptive thinking and actions are all about. Look at Uber or AirBnB for proof of better ways to do things completely different. Essentially, VR is the ability to deliver immersive entertainment experiences in 3D in any world or environment that can be projected directly on to the eyeballs of your customers. Delivering VR immersive entertainment experiences well enough to transport a person into a state of believable 'presence' requires a huge amount of creativity, planning, testing and development skill and that's not such an easy thing to do.

Cross-media links

There is a growing link between the movie industry and the gaming industry. This is evidenced by the recent announcement by Warner Brothers on their upcoming project, Ready Player One. The film, based on the 2011 dystopian novel by Ernest Cline, is about a game of skill played out by millions of players in virtual reality, requiring superior thinking to play for and win the ultimate financial prize of billions of dollars. Along the way of course, the young Ready Player One protagonist Wade Watts must save the world as well. Steven Spielberg is directing and the film will be released in 2018, rather than the planned December 2017, due to a clash with the next Star Wars release date. A huge, Hollywood-based project like this does much to counter the misconception that VR is unlikely to be moving into the mainstream any time soon. The opening line of the novel could have been written as a heads up for iGaming industry execs, it reads:

"Everyone my age remembers where they were and what they were doing when they first heard about the contest."

Early in 2016, Mr McDonald held an interesting discussion with a Warner Bros. executive connected to Ready Player One. They discussed how people would consume films in future, whereby they become the players. Viewers will become players in the movie because they're inside the media: the majority of consumers will go on to experience VR and understood its ability to put them in places they could only have dreamt of before the technology happening now. Martin McDonald concluded his VR talk with this prediction: "Ready Player One is a work of fiction, but ladies and gentlemen, today we're standing on the threshold of a Virtual Reality fact, taking the first tiny steps toward this kind of world. What does Warner Brothers' massive investment in the Ready Player One film tell us about Virtual Reality? It tells us that it's not just the domain of the big hardware manufacturers and the social media sites; it's not just the domain of Apple, and of Google, and Facebook. It's yours to create amazing content for, and to own too. I hope that I've awakened your Ready Player One, and that you'll choose to join us in a rare, iGaming revolution."

VR Platforms, Cost for the consumer, Business strategy

There's a spectrum of platforms for VR, from Google Cardboard on one end to HTC Vive on the other: it's a choice about where to invest. Martin McDonald believes that mobile VR will lead the way the entire market will develop, because this is where the volume reach is going to be because of the low price-point and pervasiveness of hardware and the fact that millions of people already own a Mobile HMD. He ventured further: "What I wanted to do this afternoon is to open your minds to thinking about a completely new kind of iGaming, and with it, a new model for financial success. This new kind of play relies on us skilfully generating feelings that ignite the players' emotional engagement and keep them coming back for more. It's a business strategy for all of us, one aimed at generating higher value, longer term customers through more challenging play with recognition and financial rewards not generally available to players in mainstream gaming. VR is the catalyst: it's that rare pivot to creating a perfect platform for moving the iGame from instant gratification into a longer-term higher value relationship with players. There's no automatic rite of passage into VR, you must know what you're doing to create believable experiences that move players into the realms of beautifully immersive reality. That's why I believe that the fusion of our story-based entertainment expertise from main-stream gaming, merged with the iGaming world of rewards based play, makes such perfect sense. We at Parallel66 are already making that happen with some of your industry colleagues."



What is Virtual Reality?

Virtual reality is nothing less than the physical manifestation of a new age in humanity's relationship with itself. VR is a human communications tool. As Mr McDonald put it, "I'm standing here right now, and you're all sitting there, but soon, we could be having this meeting sitting at home in our arm-chairs, sitting on the back of our boats, or even flying in our aeroplanes. That's the power of this technology. Just because putting one of these on is a deeply personal experience doesn't mean that it cannot also be the ultimate connected experience. Whichever way you look at it, virtual reality will impact your business. Our customers are already all over it and

retailers are predicting that top of everyone's Christmas list will be an HMD (head-mounted display). You can buy one for \$20 on Amazon and have it delivered the next day. There's zero barrier to entry with VR: everyone that we want to do business with already has a smartphone in his or her pocket. These two pieces of technology combined open up a whole new world for us in the iGaming industry."

Of course this requires new thinking about how you define product and how you choose to provide entertainment value exchange with customers. And that requires the courage of explorers on the part of executives to make

Bridging the Gaming industries for millennials

Moderator:

Russell Mifsud, Senior Manager, Gaming, KPMG in Malta

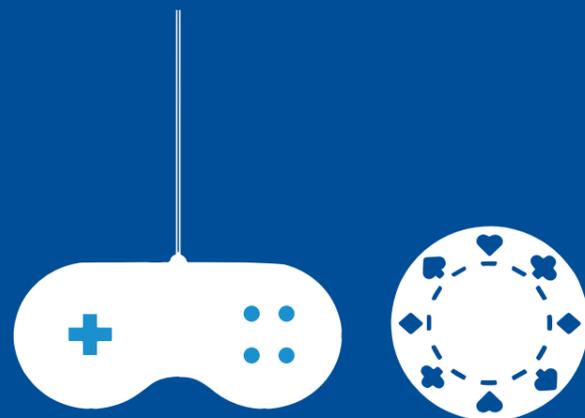
Panellists:

Valery Bollier, CEO & Co-Founder, Oulala

Jim Brown, MD of Jim Brown Consulting

Nikolai Livori, CEO & MD, Yobetit.com

Georg Westin, Founder & CEO, Hero Gaming, Sweden



Moderator:

The purpose of this session is to explore in greater depth, the perception that Millennials' expectations are changing. I often find that people in the video games industry don't want to be associated with the gambling sphere. I've encountered the criticism over the last 3 years, that even when it's clear that Malta is a gaming jurisdiction, people think we should be considered a gambling jurisdiction. But as time goes on, we're finding this to be less, in other words, the boundary between the two industries is starting to blur. My first question is to Nikolai: how would you say expectations of Millennials are changing?

Nikolai Livori

Just to clarify: There is a significant difference between a millennial born in the 1980, and one born in the early 2000s. How are we to define a 'millennial' in this context?

Moderator:

Let's define them as somebody who was born in the 80s, who's been used to playing video games from a very young age.

Nikolai Livori

Those guys would be in their thirties and most likely already customers in the Casino – millennials we have already mastered how to cater for. But if we had to define a millennial as someone who is 18, 19 or 20 years old right now, then yes, they'd need a more gamified approach. I was born in the 80s and I'm a gamer myself: I played Amiga, PlayStation, Xbox, etc. whereas my sister is 10 years younger and was born in an age where iPads and iPhones are natural for them. To get her and her friends to gamble, we need to gamify the casinos, provide engaging slot machines for example. They need achievements, a scoring system, levelling up mechanism: basically a more gamified and social approach.

Moderator:

The gambling sphere and video games are two very separate industries. Are you, Jim, starting to see the video games side more open to that of the gambling sphere? Are there certain mechanics emerging which suggest this to be the case?

Jim Brown

Yes, absolutely. There is a certain segment of video games that suit the gambling sphere. Whether it's e-sports type gambling, or in-game gambling on game events with virtual currencies. Increasingly, we

find products in the digital market place for mobile, console, or pc, where you use virtual currency. You can wager virtual currency, not necessarily for a monetary reward, but for a game reward that has more value in terms of digital value and in terms of enjoyment value to the player.

I did some stats research for today and one thing that's interesting is that 70% of children aged 10 or younger play games with their parents. That's powerful because it's more of a Japanese phenomenon, where kids are introduced to games by their parents. For millennials, gaming as a family is very much the norm, but if you segment any city, Millennials probably haven't yet gambled in any form. The mechanics, like rewards, achievements, and regular return, make a huge difference in getting people to commit to something that involves gambling, in the way that they commit to a video game. But we should remember that in the free-to-play space, only about 2 - 3% of people actually monetise.

The potential of e-sports is also huge. Everybody watches e-sports and video game sports on YouTube or on Twitch. But you can't watch the English Premier league, or Bundesliga or the NFL on YouTube. At some point, e-sports will move towards that mass market, rights controlled, broadcast level, where you also have all associated commerce, advertising, and the on-line sports betting. There's a convergence too between Fantasy Sports and the real world.



Moderator:

Basically, we're starting to see real money creeping into video games and immersive game play. Moving on, if I ask an operator in Gibraltar for example, about innovation, whether they're looking at new spaces such as DFinancial Services and e-sports, they often answer, if it ain't broke, why fix it? Traditional betting is king, there's nothing wrong with it, why start to shake-up our offering? I point out the small sums and high volumes. If we look at an operation like DFinancial Services, you're not necessarily going to see somebody dropping 10,000 Euros on a particular outcome, but you will see a significantly bigger pool. Please share your thoughts when it comes to small sums and high volumes. What have you been seeing at Oulala?

Valery Bollier

The only real efficient strategy for an online game operator is to answer the needs of its customers. Our sector knows how to offer a product that is highly optimised according to the needs of older generations, but we are still far from meeting the expectations of the younger generations. I was born in the 70's and grew up playing video games too, and I don't feel that the sector answers my needs. In a way, I've been

expecting the iGaming sector to offer me the same kind of experience that the video gaming industry offered me, but monetised. I don't seek to play the way my grandparents played.

It is a fact that today, almost half of the sector's customers expect something different. They seek different types of games and Daily Fantasy Football is fully answering their needs.

Oulala, is a Daily Fantasy Football network, meaning that we offer our award-winning Daily Fantasy Football platform in B2B to all interested parties, including iGaming operators. There are 3 options available: white label, iFrame or API. The choice depends on the requirements of our partners. Of course, the business model of DFinancial Services is less profitable than sports betting in the short-term. However, customers are very loyal to DFinancial Services – according to the Financial ServicesTA stats, American customers play for 9.51 years. DFinancial Services is therefore far more profitable on a long-term basis, because, unlike casino or sports betting, we do not lose customers after a few months. DFinancial Services has a new and different business model and history has proven that the first movers, that is, the first adapters, will be the winners of the sector.

Moderator:

Thanks Val. When I first started in the industry we were very focused on acquisition: acquiring as many customers as possible, and paying a phenomenal amount of money to try and get that first lead and bonuses as well in the process. Now I'm seeing a significant shift to the retention side of things. So if we're looking at gamified casino and now, the gamified sports book - what sort of mechanics are you utilising and what sort of effect are they having when you compare yourselves with other casino operators, who don't necessarily have the same gamified mechanics as you do, Georg?

Georg Westin

The core of our company is just that: we gamify gambling. We started Hero Gaming over 2 years ago, and it was Casino Saga back then, Casino Heroes today. I am a gamer, and a gambler myself. At Hero, we created a story around the casino gambling: there are four different adventures that Casino Heroes players play. There is the meta game, which is a lot of fun, there are boss fights, interactions with other players, you get rewarded, you have your own avatar and your progress along the way. It creates a deeper feeling for the player - that's what both gaming and gambling is about, that feeling and connection to the product and the entertainment factor. We see this in our figures now: of players who signed up 2 years ago at Casino Heroes, we still have 23% of them. We've moved towards a data driven approach so we can see when players turn away and we change the adventure accordingly. The data reveals that gamified gambling sites are working. We look forward to doing it with Sports Book as well, releasing our brand just two days ago.

Valery Bollier

Gamification is a big word now - everyone is using it and currently everyone wants to gamify games - if you think about it, it's a rather odd idea! Granted, it's the natural first step, but the sector must understand that it is not by artificially including social elements into old games that we will answer the new needs. Millennials want games that are structurally what they expect, that is, structurally skilled and social games, so we must start from a blank slate and reinvent new types of games. We shouldn't simply keep our game and try to adapt it to their reality - this is the great challenge of the sector now.

Moderator:

That's a very valid point. Jim, looking at the video games industry, how is it able to pre-empt what

Millennials are going to require down the line? Is there a recipe for doing this?

Jim Brown

It's difficult partly because of development cycles, but there's also a split in Millennials too. Millennials are described as people who have grown up with video games, but there's also the term trailing Millennials, aged 18-24, and defined as people who've never known anything except tablets, the internet, Facebook, and social networking: that group is different again. That group demonstrate different characteristics to the demographics above them, such as being uncomfortable with face-to-face meetings but more naturally team-orientated due to on-line guild structures, and more likely to make an introduction to somebody they don't know because of social networks. That team-based approach is probably how games and video games will continue to push. So for me, the success of people in the space will be people who partner for knowledge from both spaces.

More can be done in Financial Services to bring team, and social, and your friends into it. Think 10 years ahead from now: imagine a sport where electric cars are high-speed racing, or drones are racing. On TV you have your real race, then you have the on-line race which is running real time from the data against the real world race. You have players, you press the red button on your TV to overlay the on-line race on the real race and see them racing. You can bet on all of this, you can bet your friends, you can even bet on your friends! Which is a huge motivator, and in the games I play, people are prepared to drop thousands of gems where they won't part with 50 for a single bet for themselves, if they're betting on their group, their guild leader, their social leader - they'll suddenly drop everything they have because there's emotional team attachment in that bet.

So you have the real world overlaid with virtual reality, you could also then be in a VR headset as well and you start to get convergence. That excites me as a game designer and a game businessman in terms of combinations across e-sports, sports-based betting, skill-based gaming, gambling, on-line real world. People who've grown up with it and never known anything else will want to compete in this and be capable of competing in it.

Luckily there is Malta. The MGA understood the need to create a specific legal frame [for skill games]. A whole new eco system will therefore rise in Malta around skill, because it is the cornerstone of what the younger generation expects. They have grown up playing video games of skill. They don't expect us to offer games of chance, even if we transform those games of chance that are purely luck based.

- Valery Bollier

Moderator:

Thank you. Will there be a trend for pure gambling operators to approach the video games industry, where they'll say, look, we're very good at what we do, we know how to target gamblers and engage them, but we have no idea of how to really target the people outside of the gambling sphere, Nik?

Nikolai Livori

In Malta, there's a great lack of game developers, so we can bring people in from abroad, or approach someone locally that can create games. We explain the model, how we want to earn money from the game and then it's up to them to design it as experts in ludology. We know how we can create that extra margin as a Casino. But we really need game developers too.

Moderator:

I agree, but to safeguard what we've got, like VR or AR, to create skill - a lot of it stems from the video games industry. I hope my panel agrees with me when I say that we need to start cradling this industry as it can contribute to our eco-system in the future. We won't fill every skills gap but we can spur on creativity for the future. Moving on, Georg, with Sports Book, can it potentially spark into the social gaming, the collaborative, social media front, where somebody would proudly showcase how many points they'd got? Are the points they derive from a gamified Sportsbook called Balls and Brains? I'm interested because it's always been a bit taboo when it comes to gambling: saying you've won or lost money. If we're trying to push it over social media, will it make people feel uncomfortable? Or is this offering something that's a bit different?

Georg Westin

I'd better explain briefly about Betser. It's a Casino Sportsbook with two internal concepts: one we call Balls and Brains which uses the basic gambling principle where you play safe, with safe bets, or you go for high odds and a more aggressive approach. You earn balls if you bet for the high odds - or high volatile casino slots - and you get brains if you bet on low odds - low volatility slots. The second big concept is the Betser league: as a player, you're immediately entered into a Big League system where you compete against other players, at how good you are at betting. So, if I play Manchester United 1/25 in odds, I get 125 points, but if someone else bets Leicester and makes it, you might get 700 points instead. It stands for 2 weeks, and you move up and down the league; you win big prizes and you amass badges; you can go into other players, look at their profiles, see if they're Balls or Brains players; you can interact with that player as well and see if they're good at hockey betting, for example. You 'follow' that player in that sense, so it's setting the basis for what I'm hoping will become a social platform for betting. Whereas you can't expect players to post a great casino win on Facebook - your mum might see! - in a sports betting environment you can be social amongst players. You can be social outside of that sphere too because sports betting is not that frowned upon and our set-up is more like challenging your mates, in a fun league system, than betting loads of money. This is a chance to finally make that happen.

Moderator:

When we look at innovation in the industry, do you notice whether regulation stifles the rate of innovation out there? Val or Nik, please share your thoughts on this.

Valery Bollier

It is always the same: the market goes in one direction and the legislator must then follow. In the case of financial services, for instance, the situation was extremely frustrating in Europe because most iGaming legislators treated us as though we were sports betting operators, which we are not. Luckily there is Malta. The MGA understood the need to create a specific legal frame.

A whole new eco system will therefore rise in Malta around skill, because it is the cornerstone of what the younger generation expects. They have grown up playing video games of skill. They don't expect us to offer games of chance, even if we transform those games of chance that are purely luck based. We should offer the continuation of the types of games they had when they were kids, but monetised. We should invest significant allocations of our budget to create amazing

new types of skill games that would be structurally monetised. I believe that is what they are expecting, and this is where we are heading.

Nikolai Livori

I think the responsibility is more from the customer's side. If you're offering a casino game - is your RNG correct? You're offering sports odds - are you being fair? In an innovative game, all they care about is how you're creating that element of luck. They wouldn't come and say, I don't like the game: change it this way. So it's not a question of modifying your game mechanics, but more like your random number generator.

Moderator:

That's true. For digital games of skill with a prize, there is this new legislation for Daily Fantasy Sports Operations - it's an area that I'm excited about. Michele Magro is leading this field. Clientele are coming in, related to the gambling sphere, but not really related to coming up with skills games. There's a new influx of technology and ideas and creativity and engagement toward skills games, taking shape - it's exciting! The last question for my panel relates to game play. You're the experts in your own rights. What do you think game play is going to be like? If we look at the basis of digital games of skill in the next 10-20 years, what direction will it take?

Georg Westin

From what I've heard today, we tend to put all the Millennials into one box, but we're all different people here today, and a group of Millennials is of course diverse as well. If you refer to different gaming categories like killers, achievers, socialisers, explorers: those types will be there, will be people who love Candy Crush for example, and there's going to be people who love to play shooting games in 3D and virtual reality - that will stay. We're different and the Millennial generation is different as well. The future will be a fragmented, but fun, gaming and gambling market.

Nikolai Livori

I agree. Why should we put the gamer and the gambler in the same pot? Because the gambler can be a gamer himself too, just like Georg said over here.

Jim Brown

In any entertainment medium, whether you're paying virtual currency or real money in a video game, you're willingly giving away an amount for entertainment versus a game of chance, skill, and betting. In an iGaming sphere where perhaps you're risking an amount of value to a game with a potential return, that's still a value proposition to the consumer. They think, I'll spend this, and maybe a bit more, then more, to get that. It used to be a case of going from A to Z, but honestly, we're getting closer to M and N – it's a change in terms of value proposition. You're starting to get an element of chance, or a variable reward, or a less clear value proposition between a video game and a betting experience. This is where the skills of both industries overlap and really create a niche entertainment experience and that kind of risk-reward element. We need to get that psychological value proposition right, because we all work based on offering consumers something to get something back. In my industry, it's not directly money but it's happening more, and for you guys, the operators, it's more entertainment that you're offering back, in terms of the reward package.

Nikolai Livori

Do you think we bridged it with e-sports? Or are we still far off?

Jim Brown

I think the challenge you're facing with e-sports is you'll only be able to monetise a certain small, single digit percentage of the user base until the rights to watch it are restricted. But eSports is getting there.

Nikolai Livori

It's as if gamers are our new media - instead of watching the football match, we watch Counter Strike!

Valery Bollier

It's important to remember that in social games, money is not everything. You are beating your friends, you're not playing against the house. Young generations loathe the idea of losing and having their money go directly into the operator's pocket. In DFinancial Services, when you win you're not taking the house's money and when you lose, you're not losing against the house. DFinancial Services is a market place where customers, friends, and colleagues are playing against each other.

Then if you win, you'll be able to brag at the office on Monday morning. Our business model is different from traditional iGaming. We are more like a game stall at a fair - people pay to play and have fun, and if they catch the teddy bear, then it's an extra bonus!

Moderator:

Yes, agreed, it's partly the bragging rights. We must stop there, we're out of time. Thank you to our panel, please offer them a very warm round of applause.



Image credit: SiGMA

The Power of Data

Presentation: Abdalla Kablan, Founder & CEO, Scheduit

Tangible example of how Data insight can help improve your efficiency

Ladies and gentlemen, I'm delighted to be here today. First may I thank Russell and everyone at KPMG for pulling together such a brilliant event – it's an honour to be sharing the stage with such a list of distinguished entrepreneurs, thought leaders, pioneers, and scholars in the industry. My name is Abdalla Kablan, I'm the founder of Scheduit and Hippo Data and today I'm going to talk to you about the power of data.

Instead of going through a lot of fancy jargon related to big data analytics and what we do in the data science world I decided to draw inspiration from some of my personal experiences. Just yesterday, I was flying back from Jakarta and on one leg of the 22-hour journey, the plane dipped - I don't know how many feet - and you know that sensation when your heart goes to your brain and then down to your bottom? Well it's like your life flashes in front of you, and I thought about my first job. Let me start by telling you the story of that. Growing up, I used to code day and night, I spent a lot of time in my parent's basement. When I turned 17, my dad came along and said, "You need to get a job," but I was 17, I really didn't want a job! So my dad ended up getting me a job with his friend who owned an import/export business. With many stakeholders and customers, he had large data sheets with cash flows, suppliers, information about shipments etc. My task was to sit down and organise the data sets. But those data sets were a mess! What do you do when you are a real nerd and a lazy one at that? You write the script to do the whole job for you. So I sat and wrote a script, it took me around one hour to write, maybe 15 seconds to execute. From that moment I fell in love with computer science, and went to university to do my degree in it, specialising in AI and machine learning. I followed that with a Masters in financial engineering, then worked a little bit in the city, before deciding to carry on and do a PhD in computational finance focusing on machine learning and AI.

Data has always been at the forefront of all the operations and the professional work that I've done. During my PhD, owing to the financial crisis, there was a huge demand for super nerds like me to come and try to solve the mess that was happening in the financial industry. Finance was really intended to be a science, like biology or chemistry, but the problem is, it got lost in human interpretation. As soon as people say "I think this, or that", it's not a science anymore - it becomes more of a speculation. I was lucky: I got to work with some of the most brilliant companies in the world, those that survived the financial crisis. They had access to huge data sets where one could go, perform pattern recognition, inside analysis and extract much valuable data from these data sets.

My point today is, data is a new asset class. It is the new resource, the oil of the 21st century. What we need to do is come up with the right combustion engine that can extract most of the value of that data. But, in looking at data sets, we must understand the actual evolution of data. "Big data" and "Data Analytics" are buzz words right now, but from my perspective, they're nothing new. The same methods of data architectures, data filtration, acquisition and processing methodologies and mechanisms that are applied currently for telecom data, social media data, or e-government data (using slightly different approaches) are based on the same principals as those employed for high-frequency finance. "Big data" has existed for at least 15 years – as long as I've been in the industry.

However, if we look at the evolution of data we must start by understanding that raw data does not really give us a lot of value. We need to process that data to extract information. We move on from understanding that data to the actual building of knowledge, and from knowledge basis we acquire wisdom. It's at this juncture we're noticing that with AI, there's a point where we fail. We're looking at artificial intelligence after processing huge data sets and we are performing a lot of deep learning approaches, but we're still struggling in the building of wisdom. Actually, people themselves – we humans - struggle with common sense. What is common sense to one person is not common sense to someone else: wisdom is subjective. For example, knowledge is knowing that a tomato is a fruit; wisdom is knowing not to ever put a tomato in a fruit salad because it won't taste nice. That's the kind of understanding that even machines struggle with building.

To return to my story: I've founded a couple of companies. My current main projects are Scheduit and Hippo Data, both data driven. Scheduit is a match-making app for business professionals. It identifies the digital footprint of a person through their social data and then recommends matches to them that are compatible with them from a business perspective. building a form of digital chemistry between people which is very much AI driven. The other company is Hippo Data, a big data analytics company. Hippo strives to solve the problems that we've been solving in the fintech world for quite a while, but applied to other industries - mainly the telecom industry, the transport industry. A year ago, through Scheduit, the social discovery match-making app, I met a very interesting person called Patrick Teng. He is a Singaporean entrepreneur and the founder of a company called Six Cap. He has something called the Vision Alpha Project whereby one financial institution employed a

unique way of trading. They had a big army of traders, continuously trading in markets, around 10,000 traders scattered between India, Singapore, and China. These traders are continuously trading on dummy accounts, not real ones. However, a few elite traders, called the chief traders, are responsible in switching these armies of traders to life, when they think that the right market condition is met. It's a bit like having a football manager – say, Alex Ferguson, knowing his team very well - who should play, and when, depending on the match, pitch conditions etc.

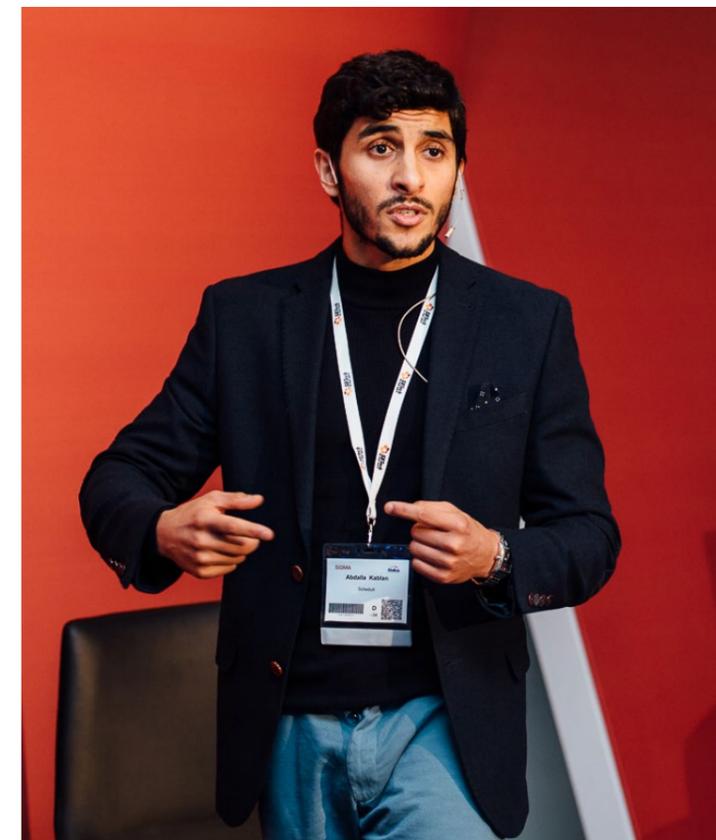


Image credit: SiGMA

The Power of Data (continued)

Presentation: Abdalla Kablan, Founder & CEO, Scheduit

Tangible example of how Data insight can help improve your efficiency

The problem with the financial institution is they came to realise how difficult it was to acquire chief traders and also to retain them – some of them were growing older, retiring or even dying. It was difficult to keep the model sustained. When we met and Mr Teng realised I had a big data analyst company, he asked whether I could help to solve his problem. Of course, I said definitely, this is a typical AI problem! First you need to map the market conditions, understand them, figure out how the market conditions formed from the market micro structure and the price formation process etc., and then look at the traders' data, which is quite valuable. Their data included: how many times they trade the markets, how many times they open a bi-position, how many times they open a cell position, how many times they lose on a buy, how much they sell in the market. These metrics generated from the traders are valuable and enable us to map or match the market conditions to traders. We came to know which traders trade best, and in which market conditions, at which point we could perform the switching mechanism. Basically, we built a system that does this automated switching mechanism. The good news is we managed to increase the performance of the entire institution by around 17%! The bad news is that the chief traders all lost their jobs - not really, they became real traders and are now part of the trading eco-system of this company.

In this project, because we decided to step up the game a bit, it was taken as a challenge from our counterparts, who'd said, "If you manage to do this you actually have good contract". Our mission was to build a bot or an alpha bot that learns from the behaviour of the best traders at every single market condition. In doing so, we managed to build a trader DNA map by looking at every single trader behavioural matrix, which we matched with every single market condition - it was a dynamic process of learning. The

best thing about it is that we have essentially created the world's first crowd-sourced algorithmic trading model. Recently a media entity labelled us as being the pioneer in this.

In the past, most algorithmic trading systems have looked at prices, volumes, volatility, market depth, liquidity and all the usual stuff that comes from the data that's generated by the market itself. We left that data and decided to take it back to the trader, because in reality we have human traders that often get it right. But when you ask a trader, why did you place that buy position or that sell position? They respond, it felt right, it was a gut feeling. So irrespective of all these technical indicators and the fundamental analysis that traders look at, there's still an element of instinct.

Strangely, this was still good for us. It's true there's no mathematical way to quantify human common sense, but there is a method for the quantification of human common sense: it's something like fuzzy logic. From an AI perspective, we take adaptive neuron fuzzy systems that combine the power of neural network pattern recognition capabilities with the decision-making process of fuzzy logic (without going into too much technicality). So, we built the Alpha Bot, powered by the data that's generated by the traders, and fuzzy logic. I'm pleased to report that for the past 4 months, every single week the Alpha Bot has been in the top five, out of that large pool of the traders. Even better news is that around 30% of the trading of the financial institutions has been allocated to the Alpha Bot.

We're taking it up another level and building a couple of versions of our alpha bot, based on the different AI methodologies, which range from reinforcement learning, to genetic algorithms, to adaptive neuro fuzzy inference system, and many other methods of AI analysis.

I'd like to showcase, not only the work that we've done, but also the pure fact that we live in a time where data is a new asset class. It is extremely valuable, whether that data is being generated from Hippo Data, from the traders' behavioural analytics, or from what we're gaining from Scheduit, which is human to human interaction, or from other metrics.

Even with the trader behavioural analytics model, where we're trying to mimic the behaviour of the best trader at each market condition, the data that's being generated is actually changing the entire game. By the way we jokingly code name it the "What would Jesus do?" model because one of our best traders is a Spanish guy called Jesus and we get so many good metrics from him! Look at WhatsApp: it sold for 19 billion dollars without making one cent, because of the data that it's generating. Consider Uber, a company with a negative balance sheet for the past 3 years: its price is going up daily despite this, because of the data being generated.

The many other ways that data is changing the world is staggering. We are moving into the Era of Social Capital. When it comes to capital, one tends to think of the economic perspective: how much money in your bank account, your net worth is your capital. In reality there is social capital, people like Mohammed Ali, Mother Theresa, Nelson Mandela, they may have died poor but they carried with them a huge amount of social capital, which previously was very difficult to measure. If Nelson Mandela asked people to riot, they would go millions into the streets; if Mother Theresa attended a fundraiser she would raise billions of dollars. Nowadays, if Kim Kardashian posts a selfie, holding a Gucci bag, she gets hundreds of thousands of free tweets, and she also gets a lot of money, because that is her social capital (which bizarrely adds to her personal fortune). But the Kardashians of the world are not really how we should look at social capital.

For us, and our industry, innovations such as Blockchain, where we have open ledgers, and open storage of every single transaction, whether it's financial, or social, or transactional: it is going to change the world. It will introduce a new way for the tokenization of assets, whether they are digital or physical. We can have asset-backed digital currencies, we can tokenize our properties, we can even tokenize our social capital. If you remember one thing from me today it is this: data is a new asset class and we should harness the power of data in the most responsible and most useful way. Thank you very much.



Data & Analytics: Using Algorithms and Predictive Analytics to Spot Fraud, Enhance Retention and Build a Competitive Advantage

Moderator:

Eric Muscat, Advisory Partner, KPMG in Malta

Panel:

Abdalla Kablan, Founder & CEO, Scheduit

Adrian Mizzi, Associate Director, KPMG in Malta

Angelo Dalli, CEO, Bit8

Benjamin Carlotti, Managing Director, Oulala



Moderator:

Today my panel will focus on data and analytics. Using algorithms and predictive analytics to spot fraud, enhance retention, and build a competitive advantage. For the man in the street, predictive analytics looks a bit like magic. Many people here today will have a different view of what predictive analytics is. Can we explain why predictive analytics is not exactly magic, and expand on the theme of the power of data?

Adrian Mizzi

In 1997, there was an historic chess game between Gary Kasparov and Deep Blue, a computer. It was a case of man against the machine – they'd taught the computer how to play chess. Last year, AlphaGo by Google beat world chess champion Lee Sedol from South Korea, but the innovation was that the computer didn't know how to play the game, it learnt from the data. We call this 'deep learning'. We're now living in a world where, by using data and only data, computers can beat the humans. It's a world where grand masters of chess don't even attempt to play against the machine any more. It may sound like magic that we can build a machine that beats human at their own game, so to speak, and I've used chess and the game of go to illustrate the power of predictive analytics.

As mentioned in the previous presentation by Abdalla, data is now 'owned' by the enterprise – this is the 'data-driven approach' that many organisations are embarking on. It's easy to label data the 'new oil' or 'new currency' but it's what you do with it which makes it valuable. Predictive analytics is one technique you one can use, not only to extract value and insight and wisdom, but by pushing this metaphor forward and embedding it in systems: this is prescriptive analytics. In the gaming domain, for instance, we may examine data from the player's point of view to understand the playing habits, but there's also churn analytics. This is looking at the patterns of players and arriving at business decisions, such as, when an operator is about to lose a player from the platform - perhaps the operator can send the player an offer as soon as the system detects that the player is losing interest?

Moderator:

Thanks. That launches me into the space of Artificial Intelligence. How does AI link to this?

Angelo Dalli

It links nicely. At Bit8, we've been at the forefront of adopting AI into the gaming industry. Six years ago we launched the first AI platform and it's been used in millions of transactions – it learns player behaviour.

What we do is adopt data from multiple sources to monitor how the player behaves. Also timing is important: when you hit a player in the life-time cycle, whether it's acquisition stage, or retention stage, or recovery stage. When to hit with bonuses, promotions, whether you should communicate with the player, and through what channel? Send e-mails during work time hours? If a player doesn't respond, email them at night or vice versa. Identifying little patterns – it's all part of AI and machine learning. We also have rule-based engines where you set up rules that take human knowledge gained over many years, or knowledge learnt from the data itself. You blend data from multiple sources, and then you're acting in real time. The aim is to produce a system that can react immediately. Some systems take overnight, where the day's transactions are sent in, then they offer recommendations the next day. Some systems (like ours) can react in real time, in a few seconds they decide and then you can take action so that you're pro-active. You can use it to learn and get insights, and also to be also pro-active.

Moderator:

Specifically in gaming then, how does it impact the different types of games and different environments? For example with Sportsbook we know it's different - do we make a distinction between one type and another in this space?

Angelo Dalli

You can use it across multiple verticals, but for each vertical you need to have knowledge about that specific vertical. In Sportsbook, you'd take the number of multiples in a particular bet on the number of teams that you bet normally, and look at who are your favourite teams and favourite players? In horse racing, too: what type of horse, which one would you bet on? With lottery, it's the numbers that you normally play. Each one would need to have different rules but the concepts are essentially the same, they can apply both to gaming and to non-gaming reality.

Moderator:

How does this apply, in your area of Fantasy Sports, Ben?

Benjamin Carlotti

The whole point of Fantasy Sports is to build a game that will allow friends to prove to other friends that they know the sports better than they do, so it has to be based on skills. Let's look at the way the American Fantasy Sports was based - most American sports are already based on data. LeBron James, for example, and his performance: you'd talk about his points. With football, when you go to France, Italy, or Spain, they talk about football as being an art: you can't bring data into it. But on TV in the UK now, when they discuss football, they bring in data, the number of successful passes etc. It's that approach which brings data into the equation. The cornerstone of a Fantasy Sports game is its scoring system. How do we evaluate football players' performances? We engaged a statistics partner and bought five years of past data on football for five major European leagues. The volume of data that we had for each football player was huge: up to 350 statistics per game, per player for the past five years. Millions of statistics to be analysed and sorted, to create a system that would accurately evaluate players' performances, live. Statisticians worked for nine months on a system that could function in reality, and they concluded that we had to use 70 statistics. Other Fantasy Sports use between 5 to 15 basic stats, we use 70 which are weighted per the players' position. If a defender scores, he will get 35 points, but the striker who scores will get 25 points. We did build a competitive advantage using that data. The sports industry is being completely revolutionised by big data and Fantasy Sports is part of it. In the States, the NBA have players wearing pads now to measure their heart rate, how fast they can run, how happy they'll be - you can even measure the level of serotonin in players' brains. If you're a football manager and your team is awarded a penalty, you can check the level of serotonin in each player. Will you pick a player whose adrenal level is high, or select someone who's really cool under

pressure? You're going to take that second player. Big data is completely changing the way sports are going in general.

Moderator:

From the volume of available data, can we anticipate the next big sporting stars? Is that a possible prediction?

Benjamin Carlotti

Our company launched three years ago; for the first two years our game was free to play, and we claimed to be a skill game but how could we prove it? By looking at data, so we looked at the results of the scoring system of the first year. We had a number of points scored by all the best players - Messi, Ronaldo, Gerard, and Suarez - and we thought, ok, these results seem consistent. Then we looked at the top 50 results, and saw players who weren't well known, sometimes from small teams. At first, we stressed a bit, wondering whether our system was based on reality, or completely random? Then that summer we observed a player at Sevilla, named Ivan Rakitic, who was one of the best mid-fielders in Europe, according to our scoring system. No one knew him, and he transferred to Barcelona that summer. We also saw Keylor Navas, a goal keeper playing for Levante (small Spanish team) was one of the top five goalkeepers in Europe, then 2 weeks later he was bought by Real Madrid. We have 15/20 examples like that, so we could predict fairly accurately which under-valued players were going to be bought by big clubs. The results prove that no system is perfect - even ours - but it sticks to reality, and therefore serves our purpose, which is to be a real skill game.

Moderator:

Interesting. Abdalla, when you put this into the context of a financial environment, how do these things connect in your mind? What gives it more value?



Abdalla Kablan

All this stimulating talk makes me happy because I can see many brilliant concepts, and brilliant minds working within the sphere, solving the same problem using different approaches, and each one is truly innovative in its own way. The adaptive approach solves a core AI problem that's existed for a while. The biggest problem with AI and solving games like chess etc., is that we still depend on the 'vast and super' kind of computing, and calculating all the possible permutations that can be played by the opponent. Yet that's a very narrow form of intelligence, the machines are struggling at solving a wider form of intelligence problem. For example, the machine can beat a human at chess, but the machine would struggle to make a cup of tea in a kitchen that it's never seen before. Whereas for a human we go to a new flat and a new kitchen, we open the cupboard, get a mug and teabag and pour hot water. The machine struggles with that because it's a wider form of problem. Using adaptive approaches that learn on the go and connect all the dots and move out of the usual correlation to causality. What Ben was describing is, when you employ the causation not the correlation. The biggest problem with traditional data analytic approaches is that they were looking at big data sets and trying to find a correlation and build a predictive system based on correlation analysis. Meaning that if one set moved up - we know they've been heavily correlated in the past - the other one is going to move up as well, which

does not identify the causation. What Ben described is looking at the degrees of separation of a problem, looking at different pools of players and what would be the effect of one team acquiring a certain player that would add value to another pre-existing player. This is to increase or decrease their performance so an elasticity forms between the data which is apparent between one entity, in this case a player, and another. In Finance we're building what we call a 'cheat sheet' of six degrees of financial separation. In identifying the relationships between various markets, we have nodes and hubs, we have huge markets, and small markets built around them. If we want to anticipate when one major event occurs in a minor market, how long would it take until it would ripple to a big hub or big exchange, or any other sub-hubs around it and what would be the impact of that? For example, if something happens in coffee bean commodity stocks in Brazil what would the effect of that be, beyond the spice market in India? It's similar to the six degrees of separation concept in social media which is when you choose two random people on the planet, you find they will be connected to each other in less than six degrees. In Finance we can measure the size of impact between one event in a certain market and another event in another market. We've introduced a weighted approach in giving different weights to each decision that we make. We decide, based on a particular set of information, what the confidence rate is, and that confidence rate is dictated by how much weight it will have given that form of information. It's not only big data it's linked data, and linked by varying degrees of separation.

Moderator:

So to correlate this with iGaming, what impact is this going to have on those organisations building games and those running the platforms?

Abdalla Kablan

In essence it's to understand our domain better in order to build a wisdom base that makes us create better games. It will optimise the game and players will enjoy the games more. At Hippo Data with the Vision Alpha project we have optimised the trader behaviour, with the result that many traders are being retrained based on the information gathered from their behavioural analytics. When we identify one trader who trades best when the market is rallying or trending upwards, we know that he should not touch the market when there's a crash or a slide. And we optimised which teams they should be allocated to. It's about optimising performance and the alpha bot that learns from the data acquired. It's a process of identifying causalities and correlations.

Angelo Dalli

I think that analytics in financial trading is very different from the gaming world. If we look at gaming, one specific example would be a loyalty point system that automatically slots players into stereotypes. You see a sort of typical behaviour of each player, those who bet with a certain pattern, and then you can slot that player into a set of promotions that will appeal just to him. There are other correlations that are more pertinent, for example in horse racing, if two horses look at each other before a race you can make sure that those two horses are going to race against each other and ignore

the rest of the pack. There will be spotters on the look-out for these patterns. There are real patterns that will affect the outcome of a sports betting event and different statistics that have been on the lookout to build up the model, make it more predictive.

Benjamin Carlotti

I'd like to speak about challenges, those of trying to keep improving our gaming platform and still deal with a huge amount of data. I too used to work in the finance industry, and I'd study decades of past data of stock prices trying to solve the billion dollar question of, can you predict, in the short, mid, or long-term, stock prices of publicly trading companies? The answer is no, of course, but I had fun trying to do it. But in looking at 50 years of data, the risk I noticed is that I could see patterns emerging, what I believed were patterns - you almost start seeing what you want to see. For example, I could tell you that on average for the past 50 years, 75% of the time on the third Thursday of July, if you bought a company whose third letter was 'p', the stock would go up by 4.5%. Does that mean that every year, on the Wednesday just before, you should buy stocks of Apple? No! The risk you run when looking at huge sets of data is to see what you believe are patterns. One way in which you can solve this is to engage the right teams to analyse it. A data scientist or data specialist? It's hard because you meet some people who have no idea what they are talking about! It's been a big challenge for us to be honest.

Every single weekend we build this huge volume of data - and having the right people looking at it is key. I think the best way is to take a step back and let specialists look at it.

Adrian Mizzi

I agree it's important to keep in mind that this is a science. The process should start with descriptive analytics, then you find mathematical relationships, then you do some visualisations (some pretty charts) but don't jump to conclusions. Diagnostic analytics is often illustrated by the correlation between ice cream sales and shark attacks! Analytics here would suggest that heat measured as temperature is the driving force, and not the smell of swimmers after they eat ice creams, hence attracting sharks. So basically don't jump to conclusions. The appeal is to get professional help. Finally, we've spoken a lot about trusted analytics: if you think of a model that's used to fly an aircraft, it could be dangerous, possibly even lethal if the wrong algorithms are used. It's important before putting these kinds of algorithms on the market that they're trusted ok, that the error (no computer model is 100% accurate) is scientifically measured. My final comment is, if correct data analytics was used, perhaps we would never have had Brexit! Because the outcome could have been anticipated.

Moderator:

You're a bit late on that! Any other final comments? No. Thank you all for your contributions, I hope you enjoyed that. There's no doubt that data is becoming hard currency and anybody in the gaming space with volumes of data being collected knows this very well. I hope that some of the discussion we've had here gives you some ideas and insights, moving forward.

“The biggest problem with traditional data analytic approaches is that they were looking at big data sets and trying to find a correlation and build a predictive system based on correlation analysis. Meaning that if one set moved up - we know they've been heavily correlated in the past - the other one is going to move up as well, which does not identify the causation.”

- Abdalla Kablan

Cyber Risk - what is it?

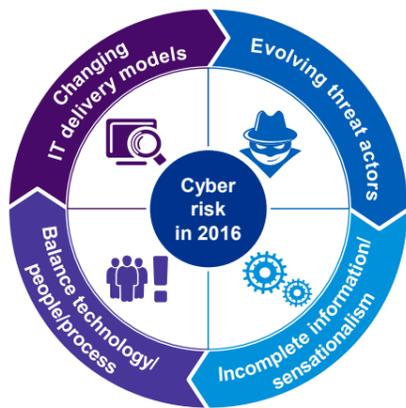
Presentation: Patrick Nuttall, Executive Advisor - Cyber Security, KPMG UK

How effective are my security controls and what risks am I running?

Hello everyone, my name is Patrick Nuttall, I'm an Executive Advisor at KPMG in the UK on the Cyber Security team based in London, and today I'm going to talk about cyber risk. Firstly, what exactly is it? Next I'll identify the key challenges that present themselves when dealing with this problem, and lastly, how my team go about addressing it, in terms of creating a coping strategy.

Cyber security landscape

This is a "wicked" problem – multi-dimensional, unpredictable, intangible and constantly changing



The CRO (Chief Risk Officers) Forum offers a good definition of cyber risk. At its core, it's mainly about data. We've heard already today about the high value of data, not just in terms of financials but also in terms of the insights that can be gained. Companies like Facebook or Google provide an end-service for free and they do that thanks to the insights they receive from data. It's not just card holder or payment information, or PII (personally identifiable information) that you should worry about, there are the wider implications of these systems and this data becoming compromised, even leading to potential physical damage. There's also fraud that can be committed onwards from the information gained in an attack and wider liability issues.

In terms of the cyber security landscape, although IT is one component, cyber security is not an IT-only problem.

Changing IT delivery models have impacted how we need to address this but you have other factors like evolving "threat actors": it's sensationalism I think, snake oil salesmen who say "I've the perfect solution to solve all this!" You must also ensure that you balance technology, people, and process. In many ways, people are our biggest vulnerability when it comes to cyber security, but they can also be our absolute last line of defence.

The biggest challenge we face in terms of cyber security is the fact that attackers only have to get it right once, yet we have to get it right every single time to stay safe. With gaming clients, in particular, in addition to having data breaches and having data compromised, it's about confidentiality, and about availability. If you become victim to a large DOS (denial of service) attack and your environment goes off-line, you lose money: that's a significant threat to your business. A key challenge is the classification and protection of "crown jewels" – these consist of your most important information assets and systems that you have within your environment. This should be obvious but it's often not - depending on who you ask in the business and when, in terms of what they rely on and what has the most value to them, you're going to get a very different answer.

Privacy and GDPR regulations are a particular challenge too. Conducting data loss prevention properly so that data can't be leaked out of the organisation: often it is accidental, as opposed to external intrusion. Effectively managing access rights, and controlling it when people join or leave your company, and also understanding your supply chain, in terms of who's actually holding on to your data.

In terms of security operations centres, how do you actually know when an incident has occurred? Consider the "insider threat": people frequently recall individuals like Edward Snowden or Chelsea Manning, where it was clearly an authorised individual who took data and decided to give it to an unauthorised party. That was no accident, but these incidents aren't always malicious, in fact sometimes they are accidental. In the United

States, during the presidential campaign, we all heard about how Hillary Clinton's private emails were leaked – it turns out it was her aide, John Podesta, whose e-mail account was hacked. How? Unwittingly, John Podesta gave his password to the hackers. The result was, they got their hands onto a lot of sensitive information about the Democratic National Committee.

Moving on to the EU General Data Protection Regulations: this is going to be the biggest change to data privacy law in the European Union since the 1995 directive. It comes into force in May 2018, and will affect the EU and many other jurisdictions which have data related sharing arrangements with them, including the UK. The issues you need to worry about in terms of GDPR, are:

-  **Fines** - A tiered fining structure depending on infringement between 2-4% of global turnover
-  **Breach notification** - Requirement to report Privacy breaches to the regulator within 72 hours and potentially to the Data Subject
-  **Data subject's rights** - Rights extended to include Data Portability and the Right to Erasure
-  **Security** - Clear requirements around monitoring, encryption, anonymisation and availability
-  **Privacy Impact Assessments (PIAs)** - Organisations must perform PIAs if the activity is considered 'high-risk'

The fines are very important. In the UK now, the ICO (Information Commissioner's Office) which is the regulator, can levy a fine of up to GBP £500,000 for a data breach. Under the new GDPR regulations, someone can be fined for 2-4% of global turnover per incident. Keep in mind, looking at our information security breach data in the UK, most organisations are experiencing between three to five breaches per year. These are discretionary fines, so if you're complying properly you won't necessarily be fined the maximum

amount. However, remember TalkTalk? The internet service provider in the UK which suffered a large breach last year? They've just been fined £400,000. The specific vulnerability they had was "SQL injection" – basically in the initial coding of contracts, there were weak points, it was 16 or 17-year-old teenagers who hacked into the system and exploited that vulnerability. The irony is, that vulnerability has been around for about 20 years, so longer than the attackers have been alive! But the net effect is TalkTalk faced a hefty fine, simply because they weren't prepared.



Cyber Risk - what is it? (continued)

Presentation: Patrick Nuttall, Executive Advisor - Cyber Security, KPMG UK

How effective are my security controls and what risks am I running?

To develop a strategy to address these challenges, at KPMG we typically use a four-stage approach. The first stage is to look at key assets, the "crown jewels" discovery, understanding what information do I have? What are my critical systems? Where are they? From those critical assets, you consider the threats and risks to that information and those systems. What do I need to worry about particularly? The third step is conducting a gap analysis knowing that those are my most likely risks and threats, and this is what I need to defend. What is my current state and what is my desired state? What do I need to do to get there to make sure that I am sufficiently protected? The fourth and final step would be to actually develop a cyber security strategy moving

forward, in terms of how to put one in place, and make it sustainable.

To end on a more positive note, I would say that although a lot of these risk and threats can be quite worrying, sometimes you think, "I'll just throw out all my electronic devices and go back to paper!" because it's safer. I think that ultimately technology, data and the internet have helped us achieve amazing efficiencies and gain insights and access to markets we never would otherwise. As long as you're pro-active and take steps to protect yourself and to conduct your business more safely, the benefits will definitely outweigh those risks.

The insider threat



Who?

- Individuals with **access privileges** to your organisation's assets
- People with high levels of insider **knowledge**

How are they a threat?

- Can fraudulently **manipulate** e-games
- Can **steal** crown jewels data through USB / file sharing sites / email

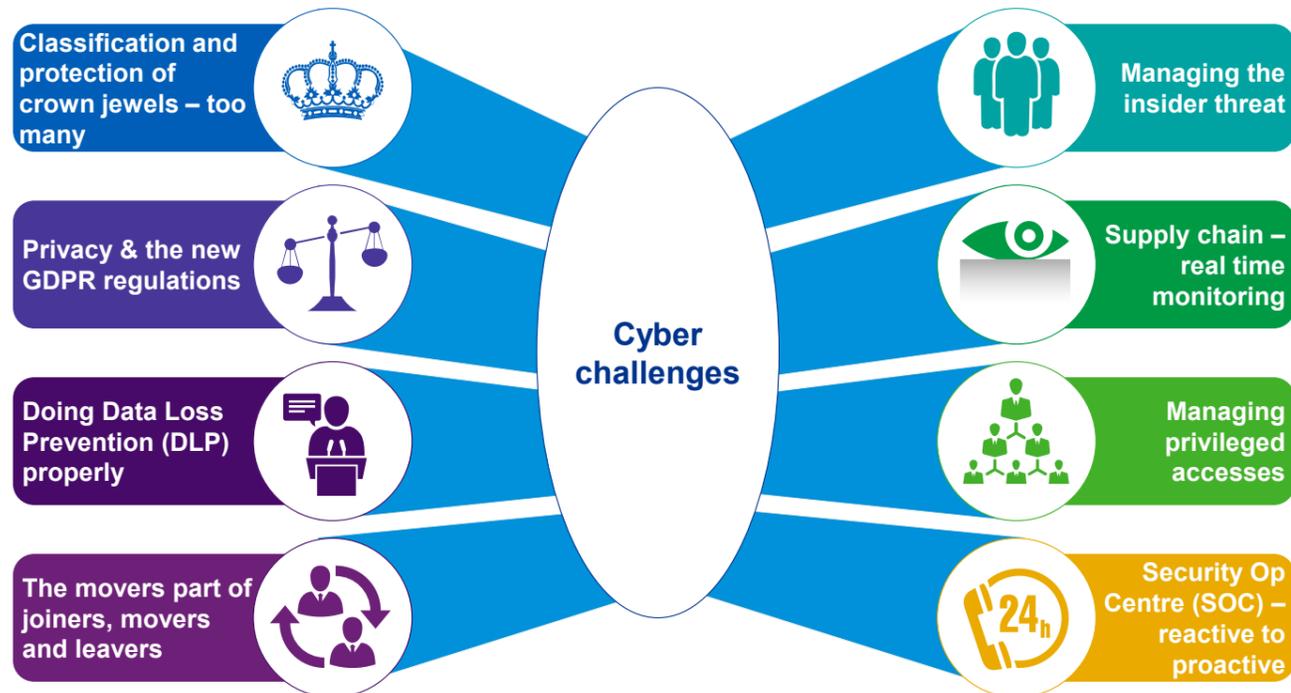
Why worry?

- Most damaging attack type - average attack costs **£110,000**
- Insiders cause **43%** of data breaches

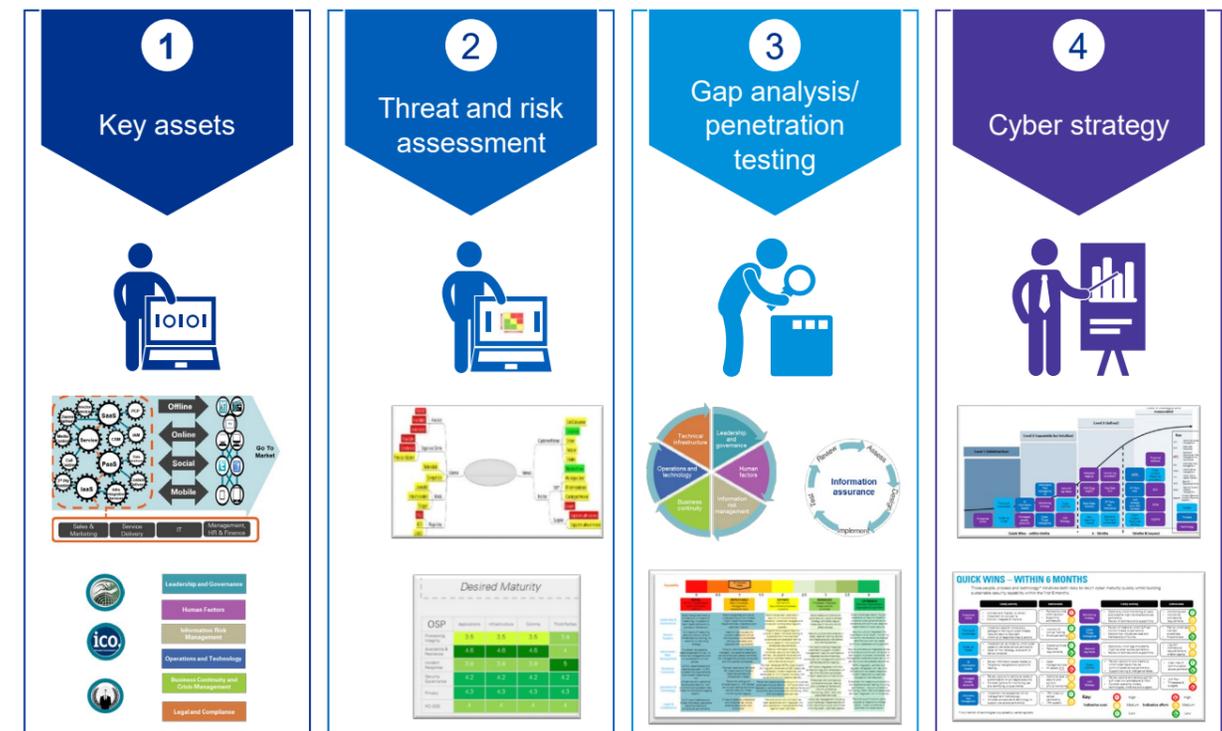
Solutions?

- Data discovery & prioritisation tools
- Logging & monitoring tools
- Data loss prevention tools
- Controlled access privileges

Key Cyber challenges



KPMG Cyber transformation



What is the risk to us?

Presentation: Jason Chess, Partner, Wiggin

A look at risk assessment methodology for financial and other service providers specifically for the gambling industry.

Good Afternoon everyone. Risk is an important topic today. We need to know what constitutes the sheer legal risk of acting as a payment processor, or as a service provider, or as any kind of facilitator to a B2C gambling site. Consider the portal of your chosen channel behind that B2C gambling site – there's a big supply chain. There are B2B suppliers, there are platform operators, there are KYC providers and there are payment processors. Payment processors and indeed the banks occupy an especially risky part in that supply chain because if the man at the front of the chain does something wrong then that illegality can taint the whole chain, right to the end. So, your first question should be, who am I going into business with? Are they criminal? Or am I dealing with a cautious, respectable business that I can turn around and justify to my shareholders?

At Wiggin in England we currently give this advice to banks and to payment processors, we advise Barclays and Worldpay, and we currently have 84 territories under constant daily real time review for our various clients. It's a big, important part of our business. What will happen with the Payment Services Directive is, that when more people come into the markets, and there's more choice, there will be more people needing this advice and Fintech companies who have no knowledge of the gambling market are going to want to be sure that they're dealing with respectable people.

What can go wrong if you're a payment provider, or a bank, or a service provider, or even a B2B provider? If you get into bed with an operator who isn't as sensitive to risk as you, or may be sensitive to risk but like a lot of operators, they simply don't take paid advice, or the money they're getting from grey or indeed black markets is so significant that they've got their heads in the sand - they don't want to listen to the advice they've been given. We've all come across those scenarios when we deal with service providers to B2C operators. If that's your attitude, you'll storing

up a load of trouble for yourself. Generally, in criminal law if you help someone do something wrong you're aiding and abetting. The principle is that you'll be charged along with the perpetrator in the same way. In some jurisdictions, for example, in Germany, and in UIGEA (Unlawful Internet Gambling Enforcement Act) in the US, and in Norway: there are specific laws aimed at payment service providers. It's an awful lot easier to strangle the supply of money to a gambling site than it is to go to the Isle of Man, or Malta, to prosecute the gambling site. Hence under many regimes there are specific offences.

If you're a payment service provider, or a processor, or if you're taking payments from a B2C company and they're operating in an illegal jurisdiction, taking money from the US, the Far East, or Indonesia for example, you may be in receipt of criminal proceeds. If that happens you're not only money laundering under European Law but you could be racketeering - what the Americans call racketeering, under US Law.

This map of Europe shows the complexity. We have certain criteria to observe in the Netherlands, prohibitive tax in Portugal, non-compliance in Germany, Hungary is unstable and corrupt, Turkey is a black market, in Russia there are ISPs, in Scandinavia there are monopolies. We supposedly have a regulated market across Europe, it's a liberated market, but in reality, we don't. It's a patchwork of independent regimes which present very different risks and what you must do is to assess your customers' activity in each of those. Even somewhere like Finland, if you establish a nexus with that country, and have it in the Finnish language for example, or if you have on-shore advertising, that will affect the risk balance and the likelihood of Finnish courts assuming jurisdiction over you. How do know as a service provider whether your customers do that or not? Well you don't unless you enquire but the risk you take in dealing with that particular customer is very germane.

If you think the risk for Europe is problematic, travel to China, Taiwan, Hong Kong, Indonesia, the Philippines, the Far East: the risks are even greater. There are many people who take Sportsbooks out of the Far East: that activity is plainly unlawful under the domestic law of a lot of jurisdictions, for example, in Singapore, where the law applies extra-territorially. Do you know whether your costumers have enquired or taken advice under Chinese law? Do you know whether your customers understand the extra-territorial effect of Chinese law? No, you don't, and that will affect whether you as a service provider, as a bank, as a payment processor commit an offence under that body of law.

When we look at the world and measure risk, remember that the B2C operators and the portals are under commercial pressure to open in new markets, because the existing markets are saturated and it's becoming more expensive to buy market share in the existing markets. So there's pressure to get into places like the Far East, and develop new markets, but you're dealing with uncertain legal regimes where there's a high prospect of illegality. You need to ask yourself, do you need the money enough? Are you going to get pulled off the plane in China, are you going to get your offices raided? Are you going to be jailed in Singapore or Malaysia? Or in Indonesia, where in many places, Sharia law might apply to gambling? Are you going to take a risk like that by servicing these customers?

The answer is to develop a methodology for identifying and assessing that risk. It's a part of servicing your customers. It's an educated methodology as to how you identify the particular risk that a particular customer in a particular range of markets, poses to you.

This is the methodology we use. Start in the grey square, follow your way to another grey square: is on-line gambling prohibited? Does the client have a licence? Look at the criteria, you follow the track through and it will get you out in one of three places.

Green is a Yes, or it will get you out in a No, or it will get you out in a Maybe (which is amber). This means that if the client has a licence, then you've got a licence and it's a regulated market, and you're fine, you emerge in the green bit. If you're servicing someone in the UK they've got a British licence that's fine, someone's taking Sportsbook in France they've got an ARJEL licence, that's fine too. But if someone has a Schleswig Holstein licence and they're trading in the rest of Germany, you're not fine. You might have someone who has a Romanian licence, or attempting to apply for one, doing a joint venture with a local casino in Hungary. Those regimes may or may not be compliant with basic EU laws.

So, it's a quandary: do you back the client as it goes into an unregulated, or a non-EU compliant regime, or not take the risk? In Germany, in Hesse, where the authorities starting writing to payment processors and banks because that was the only way they could think of giving some respectability to the state treaty. But if the questions aren't so clear, you get into quite a complicated risk matrix there's a great big huge collection of all sorts of things that you have to shake-up in the air and see where they come down). And what that does it is grades or it quantifies the risk that you're taking. You then take that risk assessment into your own business processes and you decide whether or not how badly you want the money and the client? How much money will you make? Do those things outweigh the risk assessment that you've calculated?

What is the risk to us? (continued)

Presentation: Jason Chess, Partner, Wiggin

A look at risk assessment methodology for financial and other service providers specifically for the gambling industry.

This is the sort of risk assessment checklist that you will go down for any particular jurisdiction. Is gambling legal or illegal? Does the domestic law apply territorially, does it apply extra-territorially? Does the client have a particular connection with the territory? For example, language clients or currency? EU compliant or not? Are players criminalised, like in Belgium or Poland? Do you want to take money of someone who's committing a criminal offence in the jurisdiction as a player? Are there specific offences for payment processing? Very importantly, does the regulator actually enforce any of this? No one's frightened of the German authorities because we know they haven't got a leg to stand on in terms of EU compliance, but the Turkish authorities are very happy to go around and break into people's offices and the Americans will pull you off the plane! Who's to say the Chinese won't do that? There are many domestic prosecutions in China right now and the Malaysians have shown a similar readiness. If you do get into trouble with these people, will they have the guts to come after you? Have there been historical prosecutions? Are the local courts crooked? There are lots of places, including in the EU, where the head of the Gambling Commission is the brother of the President and the judge is the cousin-in-law and it's all done on family ties and back handers - let's be honest. Can you rely upon a fair hearing and a fair judiciary? Look for example at the Middle East, are you going to take into account local custom and local culture in the assessment of whether you want to support gambling businesses in these territories? The answer to most of these questions actually comes out in a red, green or an amber as I demonstrated.

This one I did notionally for Germany. Remote gambling is pretty much illegal, so you get a red for that. The jurisdiction of domestic laws don't really apply because they're non-compliant with the EU: you get an amber. If you have a presence in the territory it makes it a bit easier for them to come after you,

but it doesn't guarantee it, so that's an amber. Are they EU compliant? No, obviously not, so you get a green for that, that's something we can use in our favour. Is there a potential for aiding and abetting? Yes, there is. So, what happens is you go down and fill it in and you look at it based on the colours that you see in the extreme right hand column. You will get a preponderance of one colour – in this case green - and on that basis, we'd probably go ahead and service Germany because it's unlikely to come home to roost.

That's a quick snapshot of how you develop the methodology for an individual territory in terms of the legal and regulatory risk that you face for servicing your customers there. There's a reason that the output of this process is like a traffic light: if a green light goes on for you, then you're happy to give services to someone in France who has an ARJEL licence. A red light will come on if you can't take business out of the States, or Turkey, or Israel.

But a lot of places will fall in the middle, where it isn't clear where they're cut. You can't be 100% sure that they won't pull you off the airplane or shut down your bank accounts or offices but it doesn't feel serious enough for you to pull a lucrative business out of that territory. It doesn't feel that bad, and you go in with open eyes. Watch out, and if it looks like going towards red, you reconsider your position, and if they regulate and they go to green then you'll expect your clients to get the licences and do what they need to do.

Finally, here's the actual work product that we generate for clients at the end of these very complicated risk analyses. I'm taking the example of Switzerland, because it's a funny little place with lots of weird laws and a lot of different permit interpretations. It's a good example, a complicated messy system of law to apply your methodology to and see whether anything meaningful pops out at the end, and it does. With the authorised, local guys, of course you can service

them. The unauthorised local guys with a presence in the territory - well don't service them because you're just aiding and abetting a crime in the jurisdiction. For people outside of the territory it's fine because the Swiss tend not to enforce their law extra-territorially but do make sure that they don't have an on-shore presence, and that advice holds good for places like China and the Far East too. If your client is happily taking money through a Swiss bank account, don't service him either because they'll go after him over there.

In short, that's the sort of output that you get to, and as pressure increases on the B2C businesses to develop new verticals and new markets, the risk and the complexity of us as service providers in backing them will increase. In addition to the cyber security and the other risks we've talked about today you need a good solid methodology just to make sure that you're not actually aiding and abetting a criminal offence, you're not money laundering, you're not handling the proceeds of crime and you're not finding yourself barred from a jurisdiction where you have committed an offence. It's the basic legality of the services you supply, it's very complicated but that's the methodology that gets you out of the woods. Thank you for listening.

Image credit: SIGMA



Opportunities Arising under PSD2 and Open Banking Standards

Moderator:

Mark Curmi, Associate Director, Banking, KPMG in Malta

Panel:

Peter Howitt, Founder, Ramparts

Andrew Zammit, Managing Partner, GVZH

Jason Chess, Partner, Wiggin



Moderator:

The focus of my panel today is to talk about payments. We have three experts here who can speak about the important changes that are happening right now, and those arising over the next few months, in terms of changes in payment services, as well as open banking standards; we'll touch on Bitcoin as well. The payment services or PSD1 has been in operation since 2007 - with updates - and following several market developments and changes in the industry, there's been a greater focus on the actual payments regulation. We'll begin this panel by talking about the changes occurring, and on the positive side, look at the opportunities coming out of this new Payment Services Directive too. If I may start with Andrew, please give the audience a bit of a background of PSD2, and an idea of the opportunities that we're seeing for the payments services providers as well as the banking industry as a whole.

Andrew Zammit

Of course, I'd be delighted. PSD2 was passed through Parliament in October 2015. It followed the original Payments Services Directive of 2007, which was intended to introduce certain financial operators which were non-banks to get into the payment space, including electronic money institutions, for example, the concept of the e-wallet. PSD2 was intended to create more competition, more transparency, and to even accommodate innovation as it develops. Clearly, as technology develops and evolves even the payment sector is seeing new business models which are developing, and PSD2 was intended to create a framework to accommodate these operators. PSD2 will come into force in January 2018, so we're still 14 months away from its implementation.

Moderator:

From the gaming perspective, what risks and opportunities are you seeing here, Jason?

Jason Chess

The most interesting point for me today, based in part from earlier sessions, is that people are finding banking and financial facilities very difficult to get here in Malta. My understanding of the new directive, is that it doesn't contain anything to force banks to open accounts for gambling companies, if that's an exposure they don't want. But if you do have an account, then it will enable a greater range of FinTech companies and service providers to come in. You'll be able to dip into these accounts and effect transfers, non-credit card transfers, and balance transfers back and forth. A statistic I picked up recently is that 60% of EU citizens - in Europe - do not have credit cards, which I must say astonished me! And I have that on good authority. But hopefully, we'll see a lot more competition, and more people enfranchised in the digital economy. That can only be good for the industry on a strategic basis, and it should put pressure on the banks to stop being so conservative, to raise their game and hopefully be more enthusiastic about the business that gambling can put their way.

Moderator:

In light of your comments, how do you see this reflected in your own jurisdiction of residence? Are we finding the same problems with banks and payment services providers in the UK?

Image credit: SiGMA



Jason Chess

Absolutely. Clients often come to me saying they can't get a bank account because they told the bank they're in the gambling business. I traditionally advise them to talk to the Bank of Valletta because Barclays is either reluctant at best, or they totally refuse at worst. I was in Malta a couple of months ago discussing with Andrew, the difficulty of getting banking facilities here. We've heard a bit today about the Bank of Valletta. If I'm asked by clients, especially start-ups, where do I get a bank account? If I'm honest with you, I don't really know.

Peter Howitt

It's a big issue, it's not going away and it's getting worse. PSD2 has some great advantages, in that it will allow direct payment initiation, which means you can make a payment directly from someone's bank account. We may see some merchants start to become regulated so that they can do that themselves, or there may be more innovation, such as FinTech companies that support the gaming sector who will take advantage of that initiation service. But we have a real problem with banking in several sectors. Banks don't really support innovative companies, and gaming is one of the sectors where the banks have largely pulled out, and you don't have a right to make them give you an account.

One worthy thing in the PSD2 we've talked about is, for the first time ever, payment service providers will have almost a right to a bank account, it's not quite a right but they can require a bank to have to give reasons why they don't support a specific payment service provider. So, how bad must it be that a regulated financial services sector, with a directive that covers the whole of Europe, must have a right to be told why it's not getting a bank account itself? The legislators realise that we're coming to a crunch in terms of the fact that banking is a public service, but it isn't run like a public service.

Another point to pick up on, which I'm very interested in, is account aggregation permission. In addition to the ability to initiate payments directly from payment accounts, you have the ability for FinTech companies to be able to access financial data from multiple sources. This is a fascinating area. Facebook have just got their e-money licence in Ireland. We're going to see some forms of convergence between the traditional payments sector and social platforms, who really understand how important data is, in terms of the value to your business. This ability to require

bank account and other payment account data to come into a consolidated portal, is going to be a really interesting area to consider, and in terms of innovation, with people moving to market, to ensure they're the intermediary of the customers for financial information, as well as communication.

Moderator:

Thanks. Moving on, what's being driven in the UK just now is this open-banking and exchange of information. Based on that, can you see this being a core driver for other jurisdictions?

Peter Howitt

Possibly. It could be described as front running, by which I mean, the open-banking standard is trying to get in front of the EBA (European Banking Authority) because the EBA must report with the RTS (regulatory technical standards) in January next year. They then go to the Commission and there will be a process whereby the Commission tells Europe what needs to be done to accommodate this transfer of data between payment service providers. I'm not sure that the UK open standard will be used in all other jurisdictions, but certainly, it might be advantageous that they've tried to get ahead, because it's harder for the EBA to ignore it. Frankly, there is little confidence in the EBA and its capability of doing this well. It's not well resourced, it hasn't so far shown a willingness to really open up and give information on how to do business across multiple countries in Europe. In one instance, they wouldn't tell me the countries which took a certain position on AML for the payments sector, even though they very clearly had that information. In my view, the EBA is not an organisation that you'll have a huge amount of confidence in, nor capable of pioneering how to deal with the very technical issues that you face when trying to get different databases to exchange information.

Moderator:

Andrew, from a time-line perspective for PSD2, what can we expect? What should the local operators be expecting and looking out for?

Andrew Zammit

In essence, member states must implement the legislation into their body of law by January 2018 – that's the deadline. From January 2017, we'll see the EBA make its recommendations for the technical standards which it will push to the Commission. The



Image credit: SiGMA

Regulatory Technical Standards will be the standards that will regulate issues like secure customer authentication, which is going to be central to the whole PSD concept. This is because you're balancing interests between the convenience of making payments on one hand, and on the other hand making sure they're secure, especially at the end-points where you're giving your data, ensuring that you're the person you know behind controlling those accounts. So, the authentication standards are going to be critical. They'll also regulate things like the provisional indemnity operators, who we'll have to put in place; even passporting, which is going to be important, because operators will obviously want to passport their activities into other jurisdictions to create the single market. Your basic timeframe is: in January the EBA will be making these recommendations to the commission, the Commission takes time to look at it and the technical standards will become effective 18 months after publication. They'll be effective no earlier than September 2018. Meantime, there's a lot of talk about PSD2 and the issue will hang in abeyance for some time still.

Moderator:

You and Peter both mentioned the RTS, and how they'll be effective only after the regulation has been implemented. From the gaming perspective, essentially you need to keep operating but these RTS are coming out after the legislation - which grey areas would you see as our main focus prior to these RTS being issued? Jason?

Jason Chess

For me, the most interesting thing is the transparency and adequacy of the data from the viewpoint of money laundering. Because when you have an added complexity, as Peter said earlier, when you have a great plethora of suppliers in there, the question changes. Who takes responsibility for the validation of the source of funds, for example? Part of what you have in the UK now with operators, is that they just rely upon the banks to do that, and people relying upon the credit card companies. But the Gambling Commission, or the regulators, will hold the gambling operators to blame if any of that goes wrong. What I'd like to see cleared up from a practical implementation view point is the allocation of responsibility for AML. That may become clear under the detail of the Fourth Directive. Also, I currently have a client who's asked me about putting in suspicious activity reports for chargebacks, as in UK legislation, and even in American/Canadian legislation there's a threshold for chargebacks. Often chargebacks can be fraudulent or difficult, but does that require you to report them all the time? A suspicious activity report for a large amount of money is obvious, but in the case of small transactions – ten pounds or twenty euros - several times a day? The level of reporting required there is simply unclear. During the passage to these regulations, I'd like to see some tidying up so there's a clear and workable regime for KYC and source of funds between the people who are inhabiting this new sort of eco system of finance.



Image credit: SiGMA

Moderator:

If we consider the changes coming in from a regulatory perspective, what trend can we expect for payment services in general, and in the gaming industry, over the next 18 months, Peter?

Peter Howitt

Well, more innovation certainly. As mentioned, Facebook getting an e-money licence tells you how interesting and competitive this space is going to get. The ability for people to take advantage of these new permissions will be with us in just over a year's time. Obviously without the technical standards, they'll have a permission that they'll struggle to use in many countries. But it's happened before, and it takes time to iron that out. Certainly, the trend is: more competition in the payment space and around the relationships with customers. What we won't have and what really concerns me at this stage is being able to have correspondent relationships, and bank accounts for gaming companies. We're seeing fewer banks now that will clear certain transactions. But Mark Carney, the Governor of the Bank of England, is now talking about opening up the Bank of England settlement system to a wider range of payment companies. It's a little bit like with the PSD for regulated payments activities. Even the Bank of England is asking: why are only a small number of banks controlling which businesses are permitted to take advantage of sterling settlement accounts? This fascinates me because

we're really starting to get into the heart of allowing payment innovation. More than just the right to initiate a payment, or accessing data across databases, but to do payment transactions, without being completely dependent on an oligopoly of clearing banks.

Likewise, I think we're going to see the rise of Bitcoin. Its rise coincides with the problems that we're seeing more broadly in anti-globalisation. Bitcoin's time is coming for widespread use and I suspect we'll see more gaming companies allowing it as they realise that even though they have a licence and they're in scope of the Fourth AML Directive, they still can't do transactions because they end up with this settlement and clearing problem. If you've got a licence and you've invested money, you meet your AML obligations and your compliance costs have gone up, yet you still can't do transactions easily with fiat currency - why wouldn't you look at alternatives?

Moderator:

Andrew, what do you see as being the main advantages, and the main challenges surrounding Bitcoin, taking into account the competitiveness for local PSPs and local banks?

Andrew Zammit

Well, like every change, the introduction of PSD to the standards and everything that is going to happen around it, is going to be either a cause for concern,

and perceived as a threat, or perceived as an opportunity. Whichever way you look at it depends on the outlook that an operator has. If it's perceived as a threat, it's clearly a conservative, non-dynamic organisation. Some organisations out there are looking at PSD as going to be a positive thing - which I personally think it is - they're getting their systems in order, to be able to anticipate, even though the technical standards won't be out for some time. Organisations which are forward-looking are going to embrace this change, and are seeing the convenience of having a platform where you can have access to all your bank accounts, the ability to be able to buy credit cards, to be able to have a direct payment initiation straight into your bank account. There's this concept of APIs Application Programme Interface - it goes directly into your account. The opportunities definitely exist and organisations that have taken note, are already investing in the technology, the infrastructure, and the thinking behind the user experience. Because this is it - if even Facebook is going into that space, you could expect that people are going to spend a lot of money on the user experience. We haven't seen the rise of mobile payments quite as we were hoping. But the convenience of simply using your phone to pay - no wallet - is a total game changer. Let's remember that your phone is something which can identify you: it has a camera, it can take fingerprints, let's not underestimate the way that these technologies are going to be used for authentication, which is stronger than any little keypad that the bank gives you. It's an interesting development in this space - the technology companies are advancing such methods as finger printing, eye reading, even iris reading. Organisations that don't keep up with these developments are going to find themselves struggling, because it'll be like a wave that can come and wash them away.

Peter Howitt

May I add, as a last note, that the government and the regulator here really need to embrace the coming changes so that it's not just innovative companies that are taking advantage of this, it's also Malta that takes advantage of it. We've seen in gaming that if you get out early and support a new sector, and regulate it, and protect it, then you get a lot of good will that lasts a long time. So make sure you're out there. Each time there's a change in a regulatory landscape, it's an opportunity for a jurisdiction to say, we need to make sure we're seen as a credible and supportive environment for that.

Moderator:

With many thanks to my panel for that informative session, thank you also KPMG.

“ Facebook getting an e-money licence tells you how interesting and competitive this space is going to get. The ability for people to take advantage of these new permissions will be with us in just over a year's time. ”

- Mark Curmi

The disruptive potential of Bitcoin and Blockchain

Presentation: Adrian Mizzi, Associate Director, KPMG in Malta

Mr Mizzi began his presentation by polling delegates, about whether they were very familiar with Bitcoin or Blockchain; only a handful were. Mr Mizzi then explained how both Bitcoin and the underlying Blockchain technology may disrupt the gaming industry, in much the same way that Fintech is disrupting the banking industry. However, the banking sector is very complex and highly centralised, and settlement is slow; yet it too relies heavily on data and shares other commonalities with iGaming. Mr Mizzi then quizzed delegates on their use of Skype or the file-sharing service Torrent, because, "That's how Blockchain works: it's peer to peer technology, no central system, state of the art cryptography. It goes like this: I want to send a transaction to a computer in Timbuktu, I will use his computer using digital signatures, advanced cryptography, the transaction will be encrypted, it gets subtracted in my bank account, and it must be written in a ledger. The ledger is distributed across all the computers in the network, I get subtracted by X number of Bitcoins and the other party gets credited. It's that simple: all transactions are stored and available for public scrutiny."

One criticism that's emerged, explained Mr Mizzi, is the overt transparency. "The bad guys will not use it because how will they hide their money? It's a

transparent system with no central authority. There is some confusion over the two systems: Bitcoin? Blockchain? Blockchain, is this distributed, universal ledger, stored in the machines, and everyone has a copy. When you install the Bitcoin wallet for the first time, it may take up to 24 hours to synchronise all of the transactions, and after that you are the bank. Bitcoins per se are not involved." Indeed, a blockchain is a ledger of records arranged in data batches called blocks, that use cryptographic validation to link themselves together.

The Bitcoin / Blockchain protocol works like this: the two computers that have worked free of charge to secure your transaction, have consumed electricity and networking power, so in return the owners of the machines get Bitcoins. This seems peculiar but it's been successfully implemented. It's abstract, like saying that your salary goes in your bank account and you never touch it. Yet this is the attraction of Bitcoin, because it has a value and can be traded for other bitcoins. Like any currency, it fluctuates but if you type BTC into Google now you'll get a value of approximately US \$1,126 (at the time of writing). There is some debate over whether Bitcoin is a good or a service.

Blockchain is a technology that allows people who don't know each other to trust a shared record of events

In late 2015, 40% of Bankers globally have either no or only a vague familiarity with Blockchain, 40% are somewhat familiar, 16% reasonably familiar and only 4% are very familiar

2016 is the year of Blockchain pilots and experimentation, live implementations will take place in 2017-18, while the 'tipping point' of widespread use may not happen until 2022-25

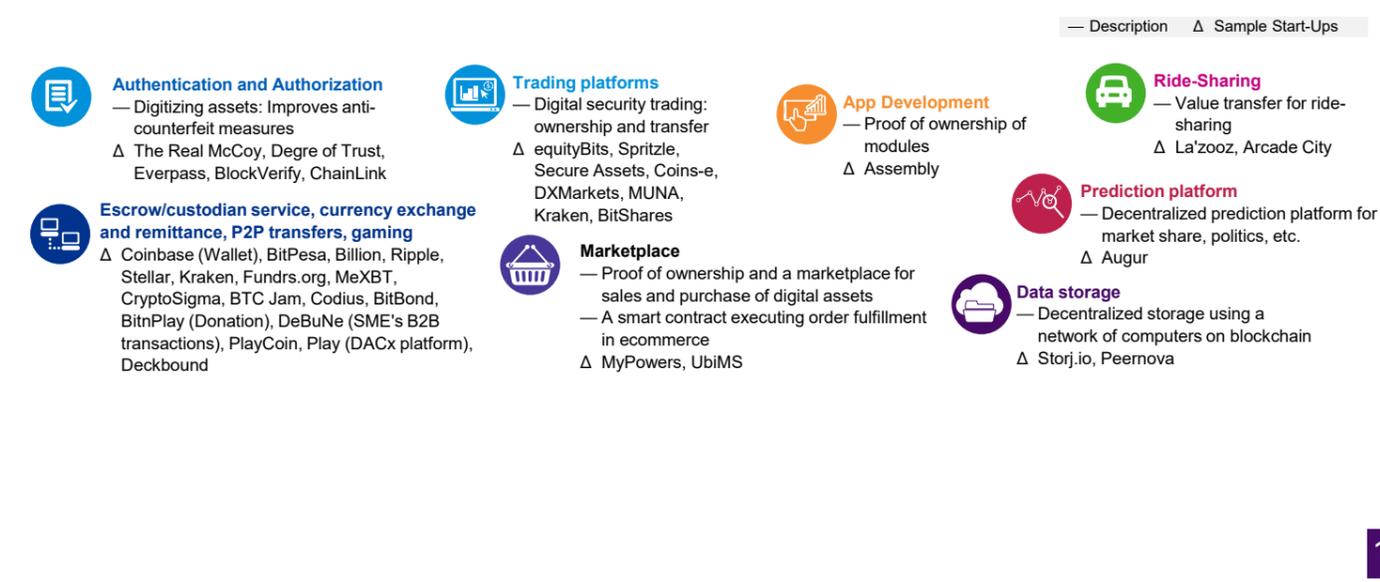
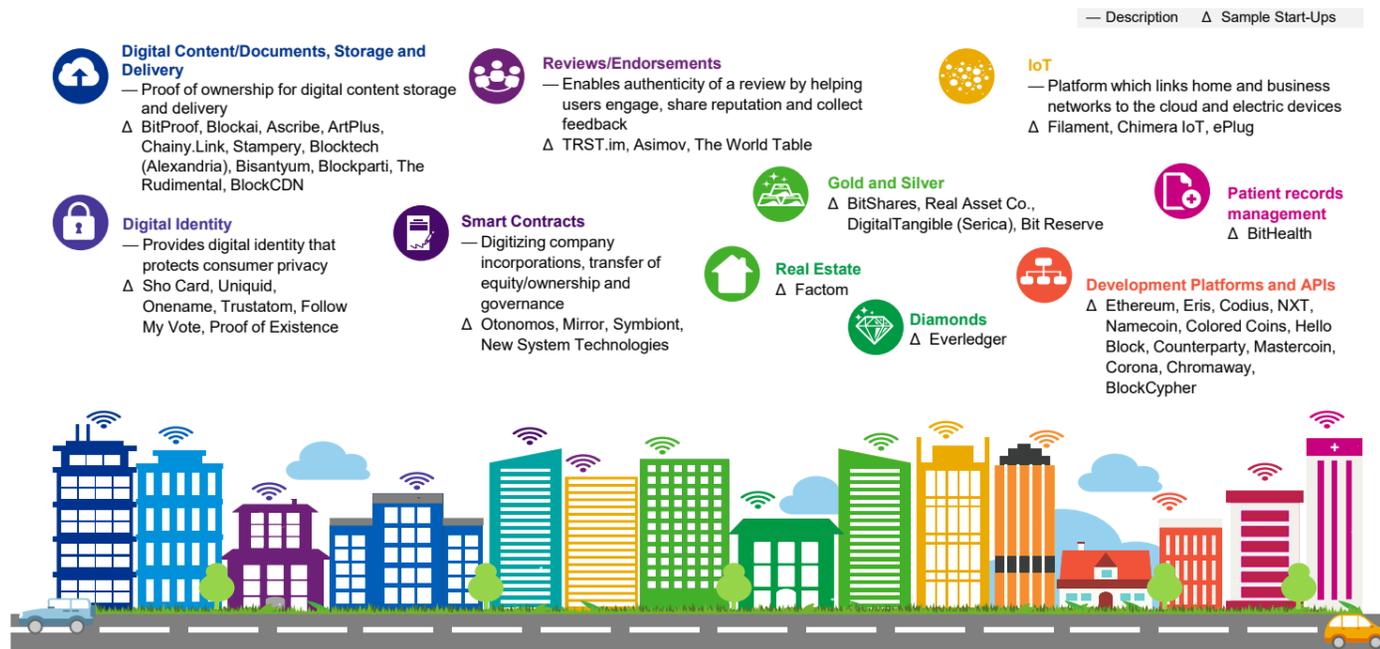
Bitcoin, and the underlying Blockchain, is The Internet of Money. Innovations based on Blockchain will ultimately disintermediate most of the current financial services industry

Since 2009, the world's top mathematicians and computer scientists have been studying Blockchain to find something wrong with it - they haven't found anything yet

Blockchain is 'bleeding edge' today, but will most likely serve as a catalyst for re-engineering back end legacy systems rather than embraced as is

Bitcoin and Blockchain were supposed to change the world, not be just one more option available in the IT toolbox

Blockchain/DLT Use Cases



The disruptive potential of Bitcoin and Blockchain [continued]

Presentation: Adrian Mizzi, Associate Director, KPMG in Malta

How will the banks be disrupted by Blockchain and Bitcoin? It entirely depends on what the banks want to do. One way to control a technology and not let it disrupt you is to closely monitor it and say it doesn't work. But we're already seeing some acquisitions that may put these crypto-currencies under control. Mr Mizzi, "During my 10 years working in Telco, I conducted a study into the disruptive power of Skype. It was a new technology and not well understood. The mystery was how you could make calls with no central switch. Telco still exists, but don't ask them about the money they lost from roaming [as a result of Skype calls over WiFi]!"

Bitcoin was born in 2008, created under the pseudonym Satoshi Nakamoto. It may be one person or a group – in any case they launched with a page on the Internet. It was an interesting time as the world reacted to a global banking failure. Mr Mizzi: "One fact for you: in 2010, the first two pizzas were bought with 10,000 Bitcoins, at that time the equivalent of US \$25. If you value that today, they would be US \$52 million which suggests it's a toy currency, it doesn't work. But the magic is in Blockchain. In my opinion, we'll see the Facebook coin and the Google coin – it's all the same technology. So far, 7 billion dollars have been mined. 72% of Bitcoins will never be mined because there will be some wastage, it's not a perfect technology. It works, but if you forget your digital signature, those monies will be lost. So it is similar to bank notes that get lost. It's possible they can improve on this. Another interesting fact is that, if all goes as planned, the last Bitcoin will be mined in May 7th 2140!"

Mr Mizzi outlined the positives and the negatives of trading in crypto-currencies: "On the positive side, Bitcoin and Blockchain are near real time settlement, so the algorithm will take only a couple of minutes to converge. It's very complex, but compared to some settlement times in traditional banks, it's quick. The fees are low and it's a very resilient system. As for security, if one machine in the entire network gets compromised or hacked, the entire transaction will

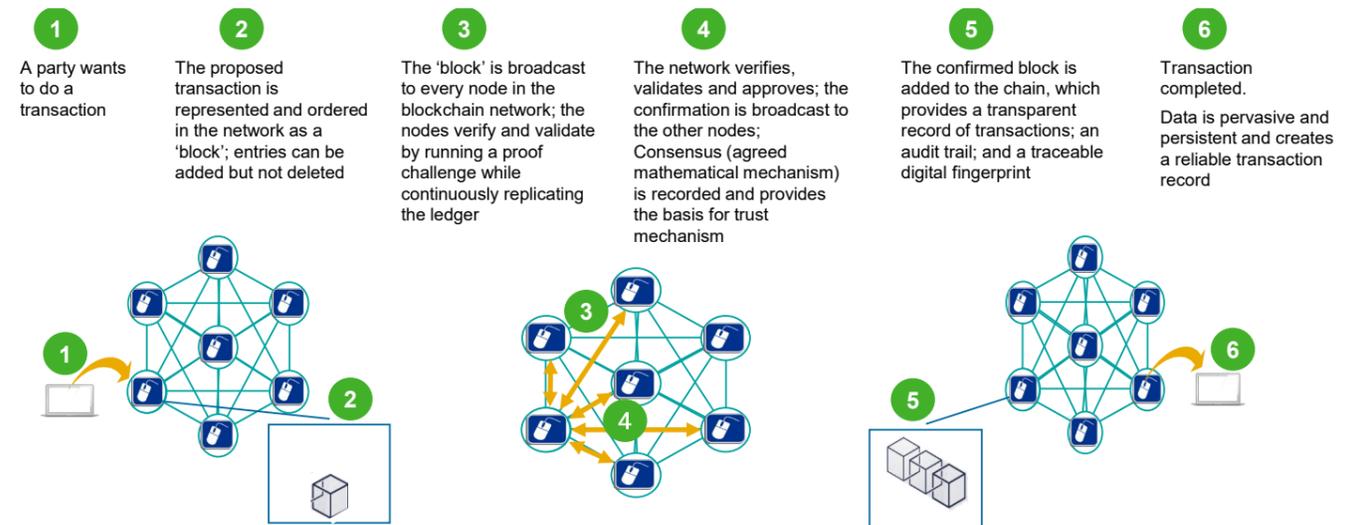
not pass. Now if a bank is hacked, many transactions are hacked, so from that angle it's more secure. On the negative side, Bitcoin has an over-hyped, tainted reputation. The first time I came across Bitcoin was through a client of mine, whose systems were compromised. They had asked for payments in Bitcoin and then it turned sour. It's true that Bitcoin was first associated with illicit activities - that's for the bad boys! - but technology is what it is. By the same token, you can use cash to buy ice cream, or to buy drugs."

To sum up, the public Blockchain – an analogy would be the public internet - is the Blockchain which is related to Bitcoins. Already reputable firms such as IBM [and Microsoft] are employing Blockchain, it is becoming a usable technology. There may be alternative blockchains, in the sense that other similar systems may emerge to rival it. At the outset of the public internet in the late 1990s, there was a similar thought process that there will be a "second Internet", as we know the "original" Internet prevailed to this day. So basically, the idea of 'parallel blockchain systems' emerging is purely speculative at this stage. I think the current technology will stay with us.

Mr Mizzi concluded his presentation: "Just a quick point about 'peer to peer' money - for developers in the room. You can use the Bitcoin API for anything and not merely cash, so Bitcoin equivalence to cash is just one application. You can even program it for a game. A gaming operator may want to use Blockchain technology for Poker so that each transaction, instead of being vetted by the gaming corporation, could be vetted by the Blockchain. It would be transparent and no one can say that the game is loaded or anything. When you start thinking, the applications are infinite. It won't just disrupt money - it will disrupt a lot of applications. BitPay have published a visa that you can go and top-up with Bitcoins, and in gaming Neteller accepts Bitcoins, so any gaming provider that accepts Neteller is already accepting Bitcoins. TonyBet in Lithuania accept Bitcoins; they were just bought by Betsson for 4million euros. Thank you for listening."

How Does a Blockchain Work?

Blockchains are a way of ordering and verifying transactions in a distributed ledger, where a network of computers maintains and validates a record of consensus of those transactions with a cryptographic audit trail



The Bitcoin Blockchain Positives

Near Real-time
Disintermediation
Time Stamped
Shared Transparency
Secure
Flexibility
Immutable
Certainty
Low Fees
Automation
Resilient



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