



cutting through complexity

KPMG eGaming Summit Gibraltar

Thursday 3rd April 2014

Report

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Introduction

Home to 28 of the industry's leading licensable brands as well as over 3,000 specialist employees, Gibraltar has drawn upon its stable political and economic climate, harmonious cultural environment, and robust legal and regulatory framework to remain one of the world's leading onshore gaming jurisdictions for the past 17 years.

By placing a continued emphasis upon accepting only the most committed, most reputable and most consumer conscious operators and suppliers, Gibraltar now hosts a community of eGaming concerns which today represents almost 60 percent of the UK's remote gambling presence in Europe, and which is defined by its sense of collective obligation, and cooperative approach to developing the global sector.

On 3rd April 2014, a record 230 delegates from the public, private, licensed and ancillary sectors boarded Ocean Village's newly opened Sunborn Gibraltar to embark upon a day's discussion and debate concerning the present and future status of the sector.

The Hon. Albert Isola, the Gibraltar Government's Minister for Financial Services and Gaming, kindly opened proceedings with an address which reaffirmed Gibraltar's commitment to a private/public sector partnership which

has resulted in its becoming the jurisdiction of choice for many of the industry's most trusted brands. Following the regulator's update from Gibraltar's Gaming Commissioner, Phill Brear, the morning's session then continued with a technological focus which saw Gibtelecom's Jansen Reyes examine the jurisdiction's telecommunications framework and Continent 8's Nick Nally benchmark Gibraltar's infrastructural offering. A truly international delegation of DLA Piper representatives from London, Madrid, Milan, Munich and the Netherlands then introduced the first panel session of the day with a discussion of the evolution of remote gambling across their respective jurisdictions.

Opening the afternoon proceedings was an expert panel of payments specialists who together discussed the fascinating, albeit still contentious, potential of Bitcoins and their application within the industry, under moderator Archie Watt. Matt Gorman of Standard Bank then took over with an examination of Africa's role in shaping the future of private and commercial banking. A highlight of the day saw Peter Howitt of the Gibraltar Betting and Gaming Association and Paul Leyland, who kindly offered to represent the Association of British Bookmakers as a last minute stand-in, embark upon a format new to the

Summit; a debate concerning the legal and regulatory issues facing the landbased and online sectors. Concluding the day's proceedings was a resolute and erudite address on the dangers of the UK Point of Consumption licensing and taxation regime from Sir Peter Caruana KCMG QC, after which a distinguished panel, moderated by Peter Montegriffo of Hassans, tackled the outlook for gaming in a discussion which ranged from technological developments and market consolidation, to social gaming and regulatory enforcement.

This report seeks to provide an insight into the outcome and spirit of the day's events with a view to sustaining the impetus generated by representatives of an industry undergoing a remarkable process of maturation. KPMG would like to take this opportunity to once again thank the Summit's sponsors, speakers and attendees for contributing to what was the most popular installment in the series to date. We look forward to seeing you all next year.

KPMG employs a number of eGaming industry specialists both in Gibraltar and globally and is committed to cutting through the complexity of this constantly evolving industry.

A word from the Sponsor

A harmonious, robust and multicultural environment, Gibraltar has established itself as a pivotal eGaming hub which is home to some of the most reputable global brands in eGaming and one of ten hosting centres in Continent 8's global network.

The Continent 8 Gibraltar Data Centre is one of the most secure and well equipped in the jurisdiction and is uniquely housed 500m deep within the Rock of Gibraltar itself at the ex-United Kingdom Ministry of Defence facility.

This year's Summit was characterised by industry cooperation, resolve, and a growing sense of maturity throughout.



Continent 8 is proud to have been here from the start. We hope you enjoy the report and to see you again next year at the KPMG eGaming Summit Gibraltar, 2015.

Richard Ebbutt
Continent 8 Technologies

Conference Opening

The Hon. Albert Isola

Minister
Gibraltar Government



The Hon Albert Isola

A third generation member of the family-owned law firm Isolas, which has been doing business in Gibraltar since 1892, the Hon. Albert Isola was admitted to the Bar in England and Gibraltar in 1985 and was appointed as the Gibraltar Government's Minister for Finance and Gaming in July 2013. Since then, Mr Isola has overseen the continued expansion of Gibraltar's eGaming community to now accommodate over 3,000 employees as well as 28 licensees, and has been instrumental in securing the jurisdiction's reputation as a global centre for eGaming.

"When I look around the room I see what our gaming community here in Gibraltar is all about," he enthused. "Every aspect we talk about when we discuss online gaming is represented here today, and I would like to thank you all not just for your attendance, but for your commitment to Gibraltar and to expanding its gaming community." Mr Isola then expressed his desire to thank at the outset the Gibraltar Betting and Gaming Association (GBGA), for its own work in sustaining Gibraltar's global reputation as a centre for eGaming; "It really is a partnership, something that I am extremely keen to continue to develop and I would like to thank them for their continued commitment, particularly over this past, difficult year."

Where are we today?

"When you look back 20 years at the telephone betting industry, and you see where Gibraltar is today, with 28 licensees and over 3,000 employees within the sector, it is easy to see how far we've come," Mr Isola reminded the Summit. "It is also interesting to note that since December 2011 when we held the last general election, and I don't use that date for political reasons, the number of employees within the sector has risen by a thousand. We have more licensees and people within the community than ever before, and I think it's no coincidence, therefore, that today's Summit is the largest of its kind that KPMG has ever hosted."

Taxation and regulation

"But there are challenges, as well as opportunities," Mr Isola continued with reference to the UK's Point of Consumption Tax and its regulatory implications. "Our government's view has been that these changes are fundamentally flawed. Of course, we respect the right of the UK Government to set its own tax rates; every sovereign government has that ability. But we continue to make representations at the highest levels to voice our concerns that the manner in which that tax has been set will drive business into the grey market. We believe that it not only puts consumers where the UK Government says it

doesn't want them to be, but also undermines the reputable businesses that are seeking to ply their trade in a regulated and orderly fashion, all whilst losing revenue for the UK."

Mr Isola explained that the Government of Gibraltar has had numerous exchanges with HM Treasury and HM Revenue and Customs and had provided a number of industry reports, one of which KPMG was a key author, to explain that the approach to taxation the UK has taken is the wrong one. "Of the regulatory changes, we are equally concerned," Mr Isola added. "In Gibraltar, we seek to regulate in a practical and pragmatic manner, and we require a presence here. But the manner in which the UK's proposals are to be implemented will, we believe, drive businesses away from the country and from Europe. That's not something that we hope for or want, but it is certainly what we expect to be the unintended consequence of the proposed changes."

What is our position for the future?

Mr Isola observed that it is no secret that the GBGA has long been considering the potential for a judicial review of the Gambling (Licensing and Advertising) Bill subject to it gaining royal assent. He explained that the Government of Gibraltar will not take legal action against the British

“It really is a partnership, something that I am extremely keen to continue to develop and I would like to thank them for their continued commitment, particularly over this past, difficult year.”

Government, but that it would certainly intervene if proceedings were to begin, to ensure that the interests of the Gibraltar people and its businesses are represented and protected. “We would not initiate those actions,” Mr Isola reiterated. “But were those actions to commence, we would certainly seek to ensure that our stall is properly represented and laid out. It is part of our duty not just to you, but to the rest of the community.”

What are the opportunities?

“This sector, as we all know, is one that is very fast moving,” Mr Isola continued. “The speed and pace of your growth and the technologies you are running with is quite extraordinary. Obviously, there are opportunities in the US, and many of you are in contact with US based concerns to provide them with the expertise you enjoy and they require. I also see the new regime in the UK as an opportunity for Gibraltar. I believe that the regulatory regime that will be introduced is so far distantly removed from what we’re doing here, that we’ll become an even more attractive option.”

What is our recipe?

“Every person here knows full well what the Gibraltar Government’s recipe for gaming has been for the past 20 years, and I can tell you all now, categorically, that it’s not changing,” Mr Isola noted in closing.

“We will continue to screen operators to ensure that the ones we have here, like you, are of the best quality, and are committed and careful not just in their operations, but in caring for their reputation to the same extent and degree as we do. We believe that when you say you’re in Gibraltar, you really are in Gibraltar. Our requirements for a presence span a range of reasons, and I believe we got the formula right, first time, 20 years ago. Regulation, pragmatic and real, is a difficult balance to strike, but as far as I’m concerned the best online regulator in the world is still our Gambling Commissioner, Phill Brear.”

Consumer Protection

“Finally, consumer protection,” Mr Isola added. “In Gibraltar we don’t just pay lip-service to this term, we consider it to be an integral part of what gaming is all about. We believe that it is absolutely critical that everything that can be done to protect the consumer is done. All of these combine to give us, the Gibraltar Government, our regulators, licensees and non-licensees, the reputation that we deserve and will continue to work to protect.”

He continued: “Our culture of compliance is similarly important, because that’s how our reputation as a jurisdiction is judged. Interestingly, in 2011 there were 17 tax and information exchange agreements within the

European Union and the US. Since then, we’ve expanded that to 27 TIEAs: we have the multi-lateral convention which gives us an OECD standard for some 70 jurisdictions, we have FATCA with the UK, and we are shortly to enter into FATCA with the US. We believe in the fight against tax evasion, we believe in the fight against money laundering, and we’re totally committed to it. I believe that it is our responsibility to you to ensure that we take all the steps that we can reasonably take to protect our reputation as a jurisdiction. Partnership is how I see the way forward, and our government is entirely committed to the gaming community. Our doors are always open.”

Regulator's Update

Phill Brear was appointed as Head of Gambling Regulation for Gibraltar in October 2007 following two years as Director of Operations with the British Gambling Commission. In July 2011, he was appointed as Gibraltar's Gambling Commissioner in addition to his existing responsibilities. Having played a leading part in the roll-out of the UK Gambling Act and gained experience across the breadth of the British gambling industry, the switch to Gibraltar, 'home to the world's leading online gambling operators', brought a new set of challenges, with Gibraltar's adoption of its new Gambling Act. Since his appointment Phill has steered through a series of changes to the regulatory regime whilst working closely with operators and their representatives on a wide range of operational and organisational issues. Phill is also responsible for liaising with bodies as challenging as US regulators and the European Commission.

Mr Brear introduced his presentation as providing an overview of developments within his department over the past 12 months, coupled with an examination of the impact of anti-money laundering measures, with particular reference to the 4th European Anti-money Laundering Directive.

"On the domestic front," he advised, "I am very pleased to say that interest in Gibraltar licences continues apace, despite events elsewhere. In the last 12 months, six new licences have been granted to now include Lottoland, Adobo Games, WMS, Scientific Games, Realistic Games and Net Entertainment in our portfolio. One existing licence was also reissued following a change of ownership. As with last year, virtually every new licence was B2B (business to business), but given that virtually every B2C (business to customer) operator that can be here is already here, this is likely to be the growth area for some time to come."

He continued: "All Gibraltar licence holders continue to demonstrate a real commitment to the jurisdiction. As you've heard from the Minister,

management and staff numbers now exceed 3,000 individuals. The rumours and scare stories surrounding redundancies and downsizing are no more than that. Industry insiders know that every year the number of staff across every industry and every operator ebbs and flows as companies change their support and management structure to meet the demands of an ever changing customer dynamic. We have, perhaps, become too used to the flow appearing to be constantly upwards, but let's not forget 2006 when UIGEA took out a quarter of jobs in our industry, or 2002 when another quarter were lost – ironically to a UK gambling tax change. These numbers were quickly recovered."

Licensees and applications

Mr Brear went on to explain that the number of licensees in Gibraltar has more than doubled since 2008, and trebled since 2005. Similarly, employment has also doubled in six years. He emphasised, "Whilst we must not underestimate the impact of redundancy on the individual and family, we must not get over-heated over what has so far been a very modest adjustment to changes in circumstances."

"This time last year, I said I expected there to be more than 30 licensees by this time this year," Mr Brear reminded the Summit, "and on 31st March 2014 there were. By 1st April, however, two takeovers were completed which took the overall number of licensees back to 28. We still have a handful of applications under development, so by this time next year I expect there will again be over 30 licensees. We may soon run out of the quality B2B licence holders, however, just as we may soon run out of the quality B2Cs."

Expressing thanks to his staff, he went on: "All of our licensees create a varying amount of work for us each year, and that's something that has more than doubled over the last six years as regulation has become more formalised, the customer base has grown, and the range and complexity of business partners has escalated. We continue to

Phill Brear

Gambling Commissioner
Gibraltar Government

provide Gibraltar standards to all those we come in to contact with, and I'm pretty sure my licensing team of Lorraine, Caroline and Darren look forward to the day when the industry is stable and predictable, but I fear that's still a long way off."

Consumer protection and complaints

"This is an area in which, I believe, we in the industry have excelled again this year," Mr Brear affirmed. "I'll not dwell on the fact that whilst one jurisdiction has seen repeated corporate failures by pretty thinly financed and managed licensees, who simply would not have been given that opportunity under a properly balanced licensing regime, another has seen another licensee subject to intervention by their local law enforcement agencies. Regrettably, these are the events which define public and political opinion about the industry. These are the events that register in the trade press, the wider press, are referred to by politicians, and become the underpinning of legislation."

"But when you read that, in one case, winning bets were not being paid in September, the blog sites were lighting up in October, and the regulator was made aware in November, before accepting assurances that the issue was 'technical and marketing' and that things would hopefully get better by the following February, you realise how much truth is in the saying 'you make your own bad luck'. The company went under, of course. All the cases we've seen have strong elements of foreseeability about them. Not that they were predictable, but there were elements in the business model, the licensing model, or the regulatory arrangements, that cried out that they were not waving but drowning, whilst the regulator was busy doing other things. My fear is that, even when such crises can be firmly pinned on the regulator's chest, no one does so because hanging the industry out to dry is so much easier."

Security

Mr Brear continued in explaining that during 2014 his department had seen a

Phill Brear

Gambling Commissioner
Gibraltar Government



short run of reported 'dodgy bets' which had, at the time of his presentation, only recently abated. Allegations surrounded issues of scores, scoring and outcomes. Some, he explained, had all the hallmarks of contrivances – new accounts, customers with no or a dubious track record, high value or multiple moderate value bets with no clear provenance. Others, however, showed signs of being what Mr Brear described as 'tipster led' or 'sleepy trader' events, where savvy customers with advanced technology were getting ahead of the traders. "These cases are incredibly difficult to judge," he remarked, "given the almost invisibility of some of the markets and events that are now being offered, but we will defend the rights of savvy punters to be paid, even if the trader loses his bonus, as vigorously as we will resist claims by those who seek to defraud operators."

"On that front," he added, "there has been a blip this year of unexplained bugs or interferences in some types of slot games. There's no doubt that as technology becomes ever more sophisticated and commonplace, those that seek to undermine game security are trying to do so, and in some cases they are succeeding. To date, they have been careless and left small but clumsy footprints that have allowed the event to be unpicked, but this is an uneven battle, as many thousands of them try to pick off the few dozen of you. So let it not be a Gibraltar operator holding the parcel when the hackers get bored of breaching NATO and UN systems and turn their heads and hands to your games. That threat is out there and getting stronger and stronger, and your defence systems must not stand still."

The European Union

Mr Brear observed that there had been little progress within the EU over the past 12 months. Though the European Commission had made developments surrounding those that may be exposed to infringement proceedings, the Action Plan project continues to move at what he described as 'glacial pace'. The UK had denied Gibraltar a place at the meetings, leaving the emerging advisory

papers looking 'hollow and inadequately informed'. "To the cynic, the Expert Group leading the Action Plan was a device for moving as little as possible as short a distance as possible, and it's beginning to look as if they'll have their way. Gibraltar is continuing to make representations," he confirmed. "But as we are locked out of the debate, except for seeing the minutes, it looks like the output of two years' work will be a series of recommendations ranging from the anodyne to the misunderstood."

The 4th European Money Laundering Directive

"Much has already been said about this document because it explicitly includes, as a designated non-financial business which must adopt risk based protections, remote gambling in its entirety – that is casino activities and betting. The European Parliament has recently given the draft quite a rough passage, applying more heat than light to its contents. My reading of it and the Parliament's early observations is that the new directive offers to simplify some of the currently overly elaborate language and double layering in the 3rd Directive. The politicians, I believe, will struggle to open its jaws too wide because of the mainly general applications of its provisions. What is sauce for the gambling goose is sauce for the financial services gander, and though the financial services industry's reputation may be at an all time low, the European Commission isn't going to choke off that source of economic activity through the AMLD. Some states may try to use the new directive to attack the remote gambling sector," he continued, "but they could have done that anyway with the 3rd Directive."

Local focus

Moving on to local developments, Mr Brear alerted the floor to the recent government launch of a series of industry and public sector working groups to examine the jurisdiction's readiness for the 4th Directive. He explained that this government programme will work slightly ahead of the Directive, and should mean that

Gibraltar is both well positioned and well informed ahead of its results. Mr Brear added that it was with great pleasure that he could confirm the industry had been invited to join the relevant working group.

The Gambling (Licensing and Advertising) Bill

Turning to the UK licensing and tax proposals, he posed the question: "How much more wrong could John Penrose [former Minister for Gambling at the Department of Culture Media and Sport 2010-2012] have been when he informed the UK Parliament in 2011 that he had a bill of four 'short and simple clauses' which he hoped to tag on to somebody else's primary legislation and coat-tail the bill through the system?" Mr Brear remarked. "It is no surprise that there were no takers and that this eventually became a stand-alone bill. I would love to have been a fly on the wall when they found out that royal assent had been delayed. But what swings one way may, of course, suddenly swing back. We have, since March 2010 when this cunning plan was first revealed, gently and diplomatically informed the UK decision makers that this bill is wrong, wrong and wrong again. It is bad for consumers, it is bad for the UK industry and it is bad for the UK Exchequer. It may also be good or bad for Gibraltar, but as things look it's going to be neutral."

He continued: "The bill substantially weakens UK consumer protection by multiplying the supply chain with a range of weak suppliers. Some existing UK companies will go to the wall, some will be taken over, or become shadows of their current selves. UK companies will make and report lower profits to the Exchequer. Some will no longer be UK companies and report nothing at all." Turning to events which preceded the bill, he stated: "It is very well documented that the only remotely troublesome remote gambling policy issue that the DCMS and the Gambling Commission were faced with in 2008 and 2009, when the ink wasn't even dry on the Gambling Act, was the challenge and suspension of the defective white listing process. There were no regulatory

problems with Gibraltar or Malta, or even Latvia, Lithuania or Bulgaria, who recently have been thrown into the pot to add colour to officials' ramblings and rumbings. All the significant UK gambling regulatory issues in the last five years have come from the White List, if not from the UK itself. This is not sour grapes, just look at where these events came from and why they came about."

Mr Brear explained that the Department of Culture, Media and Sport and the Gambling Commission had prepared "almost coherent" white listing criteria in 2006: "I say 'almost' because it was clear to me that someone was trying to add ambiguity and wriggle-room to the document," he added. "The criteria were, however, misapplied," he explained, "for no 'brass-plate' jurisdiction can meet key parts of the criteria."

Mr Brear then referred to sections of the white listing criteria document, which state that: 'It is vital that the [UK] Secretary of State may be assured that the jurisdiction has the capacity, technical and regulatory ability, and political impetus necessary to enforce its regulation.' and '[the white list jurisdiction] must have the facilities and resources in place to ensure compliance and enforcement with those values of the regulatory regime in operation.' And he compared this to powers given to the Gambling Commission 'enabling it to ensure compliance, and to investigate and prosecute offences, including powers to investigate and access licensed and unlicensed premises used in conjunction with gambling (such as a gambling operator's head office) and powers to access key gambling equipment.'

He pointed out that if the Secretary of State believed "the Gambling Commission needed powers to access licensed and unlicensed premises and key equipment used in conjunction with gambling, then I'm pretty sure the white listed regulators needed very similar power as well. Without them, they cannot relate to the company, let alone seek to exercise the necessary controls. Let's not forget; regulators' powers stop at the border. The typical white list operator is located hundreds, if not thousands, of miles away from the licensing jurisdiction, often speaking a

different language, not subject to EU controls, usually with no local regulator at all, and demonstrably able to pull the wool over their regulator's eyes and the draw-bridge up."

"That," he said, "is the problem the Gambling Commission knew they had to fix back in 2008/09. That they produced, in a joint study between 2009/10, a confection of problems that became the consultation document in 2010 does great disservice to the UK. If the problems and deficiencies set out laboriously in the 2010 document existed, why had they not been raised with us? 60-80% of the UK remote gambling market is in Gibraltar. Why had they not been raised with the white list regulators, whose arrangements they must monitor and be advised if any significant changes are made?"

"It remains the case that the Gambling Licence objectives of keeping crime out of gambling, ensuring gambling is a transparent affair, and protecting the young and vulnerable have been let down a disproportionate number of times by white list licensees, but not here. If it's not broke, you shouldn't try to fix it."

Market share

Moving towards a conclusion, Mr Brear referenced a recently published analysis conducted by Gambling Data, an advisor to the Gambling Commission, on the size of principal operators' UK market share, "although you have to take their work with a pinch of salt; their authors are not traditionally supporters of Gibraltar and they have misplaced one Alderney licensee as being UK licensed," he added. He reported that their findings suggest that up to 90 percent of UK bingo is licensed in Gibraltar, as is up to 70 percent of casino, over 60 per cent of betting, but only 25 percent of poker. "Now given that betting has got 3 million active and not so active punters, poker has 20,000 players, with bingo towards 600,000 players, and casino more than that; if somebody is online gambling in the UK, they are 7 to 10 times more likely to be gambling with a Gibraltar operator than anybody else. The point of all this is that in EU law, and in very simple terms, the UK has to have a legitimate reason to change its legislation to make it more difficult and expensive for a licensed and regulated industry to operate there. I

don't believe it did, or it does."

"Moreover, EU law requires that the fix it puts in place for the problem it has defined must be proportionate and it has to work. The UK must now know that in months to come applicants for licences will creep up out of the woodwork. Companies and individuals that have avoided the mainstream and even not so mainstream licensing process, who have bought licensing in places where the bar is low, will apply under Section 69 of the UK act for a licence to target UK customers. Section 69 and 70 contain many fine words, but the upshot of those sections is that you fill the form, you pay the fee, and the Gambling Commission has to give you a licence unless it can show that you are not competent, not fit and proper, or cannot afford to be an operator, as set out in the Statement of Licensing Principles."

"The government that introduced the Gambling Act used the phrase: 'in the UK, gambling licensing will stop becoming a privilege and start becoming a right.' Now, forgive me for naming names, but Canbet, Bodugi, and GloBet were all operating under UK licences six months ago. They were all giving off distress signals, and all went under not paying customer balances. All, I would argue, had structural flaws that the Gambling Commission should have been alive to, but it wasn't. It licensed them, then looked the other way at its other business. So, losing one may be unlucky, losing two appears careless, losing three in six months really does beg some questions about the process. I hope I don't live to regret these words, but could I stand here if I lost one, two or three licensees not paying customer balances?"

"In terms of the UK proposals, we are now in year two of a five year cycle, but we will have no idea how years three, four and five will play out until year two is completed. With royal assent delayed, and the legal challenge looking more likely than not, we are very much in the thick of it, and it looks to be that way for a very long time."

Mr Brear concluded by thanking the audience for their attention.

Gibraltar - a global communications hub

Jansen Reyes

Associate Director, Technology Development - Gibtelecom

Jansen started his career in communications as a graduate engineer working for Nortel Networks and later setting up his own consultancy business in the UK. On returning to Gibraltar in April 2005, Jansen joined Gibtelecom as an Assistant Team Leader in the Internet Department, progressing his way to Next Generation Network Manager in 2011. In 2013, as part of the Company's succession planning programme, Jansen was promoted to Associate Director, Technology Development and in May 2014 was appointed Director of Technology.

Jansen is the only Gibraltarian to hold a Cisco CCIE accreditation, one of the most prestigious networking qualifications in the industry which he attained in 2009. In 2002 he was awarded a First Class Honours Degree in Computer Systems and Networks and Distributed Systems from the University of Plymouth and in 2011 an MA in Enterprise Management from the University of Durham.

An energetic and enthusiastic speaker, Mr Reyes began his interactive presentation by explaining that Gibraltar's offering to Gibraltarian e-businesses is underpinned by customer choice in a number of service providers, including two for international transport (Gibtelecom and Sapphire), three for internet provision (Gibtelecom, Sapphire and Continent 8 Technologies), and four for data centre services (Gibtelecom, Sapphire, Continent 8 and Cube). "Indeed," he enthused, "I can confidently say that you are no longer bound to the incumbent."

Finding the right balance

Starting with what he described as the "most difficult service to get right in Gibraltar," Mr Reyes then quickly moved on to the 'notoriously hard' topic of international transport. He explained that the reasons for its notoriety can be ascribed to the typical 'two-dimensional' model used within the service provider industry - cost vs.

engineering complexity - which has now been supplanted by a third dimension; international politics. "Unfortunately," he observed, "when you add that third axis the model becomes extremely sensitive. When you pull on that third dimension it skews absolutely everything, making it very hard to find the right balance."

"But we did find that right balance, and we did so when Gibtelecom invested in a 15,000km cable, which spans three continents and features 13 landing stations, one of which lands in Gibraltar. This not only gives us hundreds of gigabytes worth of capacity in and out of Gibraltar, but it also gives us 35 milliseconds of round trip time from Gibraltar to London and back, and roughly 130 milliseconds to Mumbai and back. For the more technically inclined amongst you, when you take the sum of those two parts you quickly come to the realisation that that is the shortest possible route from London to Mumbai - it's fabulous stuff. Supplement that with the fact that we have a number of

other partner cables landing in the consortium's landing stations and it means that we are one service provider hop away from six out of the seven continents."

Returning to Europe, Mr Reyes notified the Summit of Gibtelecom's recent finalization of a pan-European, self-optimising and self-healing transport network spanning from Gibraltar to London via Madrid, Marseilles, Monaco and Paris, thus completing what he described as "a resilient and robust mesh." "Now, because we own the technology and the infrastructure at each of these points of presence," he continued, "not only does it mean that we can offer break-in and break-out telecommunications services, but we also have a platform for speedy internet access." Mr Reyes explained that Gibraltar has been developing its internet peering footprint over the past decade such that its service providers now pair with some of the largest in Spain, France, the Netherlands, and every single provider with a UK ISP. This, he explained, means that



Jansen Reyes

customers throughout Europe are just one service provider 'hop' away from a Gibraltar based service, which creates an augmented customer experience.

Data Centres

"Over the last decade, Gibraltar has seen the build of over 2,000m² of rack-power cooling facilities, or data centre space," Mr Reyes observed. "From Gibtelecom's 700m² hosting facility, rated tier 3, which is located 50 metres above sea level, to Continent 8's absolutely unique, ex-NATO facility embedded 500 metres into the rock, to Sapphire's aptly located facility in the hub of the e-commerce district, I can truly say that we have the capacity to support any services we may need today, or in the near future.

Unfortunately for all of us here, however, great bandwidth, fantastic facilities and hosting are not the be all and end all, because according to some extensive research carried out by industry analysts, the combined sector of eGaming commerce is the number one target for cyber vandalism, which manifests itself predominantly in a DDoS, or distributed denial of service, attack."

He explained that a DDoS attack is, in simple terms, one which is carried out by multiple computers with the aim of overwhelming the computing resources of an operator to the point of network saturation with vast

amounts of data. Such volumetric attacks are often conducted as a means of exacting revenge, of extorting an operator or, albeit rarely, as a form of ideological 'hacktivism'. In 2010, Gibraltar was the host target of the largest DDoS attack known anywhere in the world at that time, although it was successfully mitigated by specialist technologies within ten minutes. Since then, attacks have grown to a maximum, in 2011, of 105.11Gbps, which is equivalent to more than the inbound bandwidth to the whole of Gibraltar. The jurisdiction was also the host of one of the world's most prolonged DDoS attacks, which lasted for 9 months and was also successfully mitigated by Gibtelecom's dedicated technologies.

Mitigating and 'scrubbing'

Moving on to cyber-security, Mr Reyes explained that the most common means of mitigating a DDoS attack is known as 'scrubbing', a method by which 'scrubbing farms' attract both malicious and legitimate data packets, and filter out those which are used as part of an attack. He noted that Gibtelecom currently enjoys 14 'scrubbing farm' clusters, which are situated throughout the Americas, Asia and Europe, including one in Gibraltar, Madrid, Marseilles, Paris, London and Bude in Cornwall. "And the reason for this is that we need to be as close to the source of the attack as possible so

that we don't bring down half the internet when we initiate a response," he added. As an aside, Mr Reyes also noted that respondents, or those who attempt to negotiate with cybercriminals, are the most likely targets of future attacks: "This is not advice, but from our experience these criminals will simply ask for double, triple, quadruple the original ransom, and they will not stop."

How real is this threat?

"Regrettably for all of us, I am not exaggerating the scale of this threat," Mr Reyes reiterated to the Summit in closing. "In just the last 24 hours there have been 180Gbps of cumulative DDoS attacks around the world, two of which are in Gibraltar and are being successfully mitigated. But the problem is, these attacks are becoming too easy. You don't need to be an expert, it can be cloud based, you can go and buy it at a rate of just \$5 for 5Gbps. Realistically, therefore, you could bring the whole of Gibraltar down for just \$100; it would crawl without the proper systems and technologies in place from your choice of data service providers."

Nick Nally

Chief Development Officer

Continent 8 Technologies

Nick Nally has 25 years' experience in many sectors of the IT & telecommunication industry, encompassing senior management, consultancy, sales, carrier relations, engineering, and business development. Nick has been with Continent 8 for 7 years now and looks after business development and strategy as it relates to the rollout of offerings to service the eGaming market. Previously, Nick was an advisor and consultant to the Department of Communications within the Irish Government.



Nick Nally

Mr Nally introduced his presentation as providing a global jurisdictional comparison, using Gibraltar as a base standard against which to benchmark the staple offerings of providers in power, telecommunications, and hosting bundles. He explained that Continent 8 now runs 10 different data centres around the world, first in Montreal in the late 1990s and now in such jurisdictions as London, Paris, Dublin, Isle of Man, Gibraltar, Guernsey, Malta, Singapore and, following a recent transactional service waiver, New Jersey.

Power

"What I call these 'staples of our industry' - power and telecommunications - are effectively the basis upon which we form and charge for the services we provide to our client base in different locations," Mr Nally began. He explained that his presentation would compare Gibraltar to five other jurisdictions composed of standard gaming jurisdictions, such as the Isle of Man and Alderney, and 'tier 1' locations such as Dublin and London. Rather than provide specific figures, however, for comparative purposes Mr Nally elected to use Gibraltar as a base value of 1, with the remaining jurisdictions providing a relative evaluation.

The numbers are based upon total overall charges, they are not rates charged by the electrical utility companies and they incorporate concepts such as PUE, or power usage effectiveness," Mr Nally observed. "This measures how efficient your data centre is. In an ideal scenario, you're trying to get down to one because we're measuring the total amount of power in the data centre over the total amount used for your hosting operation; service, storage and data communication equipment. If your PUE is 2, for example, that means half of your energy is going to your client's IT infrastructure, and the rest is going to your infrastructure i.e. cooling, BMS, overheads, etc."

Mr Nally referenced studies conducted by the Uptime Institute to explain that in 2007 the average data centre PUE was 2.5, which is highly inefficient. In 2011, that number had gone down to 1.89, lowering to 1.65 by 2013: "which shows that our technologies are becoming more efficient with every passing year," he added. "Although there is one caveat to those numbers in that 6% of respondents claimed that their PUE was less than one, which is statistically impossible."

Power Charge Ratios

Mr Nally then drew the attention of the Summit to a bar chart depicting power charge ratios in selected jurisdictions. Again, furnishing Gibraltar with a base rate of 1, the Isle of Man came in at 0.68, Alderney at 0.78, Malta at 1.41, Dublin at 0.56, and London at 0.71. "The point to make here is I'm not surprised by Malta and Gibraltar because they're typically hotter locations, so it takes more energy to cool those data centres," Mr Nally noted. "In the case of the Isle of Man, Dublin and Gibraltar, we own all of our facilities so we can invest in and improve our own infrastructure internally, which does affect those numbers. In Gibraltar, for example, we have invested millions to treble the capacity of the data centre from a 750kw to a 2.2 megawatt facility. In the typically cooler climates such as the Isle of Man, Dublin and London, we use advanced technologies such as adiabatic wheels to take advantage of the cooler air."

Telecoms

Again taking Gibraltar as a base value, Mr Nally explained that telecoms charges comparisons are calculated using a base value of a 10Mbps supply. "I should state at this point, that Continent 8 takes connectivity from a number of different carriers so that we



“Gibraltar is taking steps to improve its offering, no doubt to further its reputation as a global leader well into the future.”

have a redundant and resilient supply,” Mr Nally added. “This enables us to guarantee our services on a continuous basis, but these dual networks obviously increase the cost. We also rely heavily on carriers like Gibtelecom so carrier infrastructure is very important to us.”

Again drawing the attention of the summit to a bar chart, and using Gibraltar’s offering as a base value, Mr Nally provided a jurisdictional comparison which showed the Isle of Man’s offering at 0.07, Alderney’s at 0.13, Malta’s at 0.16, Dublin’s at 0.03 and London at 0.02. “These are the costs that we receive and deliver to our customers,” Mr Nally observed. “Really they show that telecoms is where the biggest potential to improve Gibraltar’s offering to e-business lies. As with all jurisdictions, telecoms will have a dramatic impact on future offerings in all sectors.”

Bundled offerings

To provide an example of a bundled offering, Mr Nally explained that a typical customer may approach Continent 8 and put its two basic offerings – power and bandwidth – into a bundled offering of 1 rack, 5kW of power, and 10 Mbps of bandwidth. At this point no other services, such as DDoS protection or cloud storage, are included. Taking Gibraltar as a base

value, Mr Nally then demonstrated that Malta’s offering came in at 0.27, with the Isle of Man, Alderney, Dublin and London scoring 0.15, 0.22, 0.10 and 0.12, respectively. “This again demonstrates that there is great potential for Gibraltar to further improve upon its bundled offering,” he added.

Observations

Moving on to continuity of supply, Mr Nally then alluded to the importance of reliability in the provision of power to businesses. “Our customers don’t feel the loss of incidents such as power outages, but we do rely heavily upon incumbent suppliers to allow us to maintain a standard of service,” he explained. Concerning the provision of telecoms services, Mr Nally commended the quality of Gibraltar’s infrastructure in allowing Continent 8 to operate without a single set-back since its establishment in Gibraltar in 2012. DDoS, or distributed denial of service attacks, however, remain a significant problem for incumbent operators. Mr Nally explained that Continent 8 owns and operates its own protective services for the eGaming sector, and emphasised the need for greater vigilance to guard against malicious activities.

To close, Mr Nally touched briefly upon the topic of availability of skills and embracing technological change, noting that this was an aspect of the industry that will always represent a challenge for the industry’s regulators. Mr Nally then paraphrased a comment made by Richard Scheutz, Commissioner of the California Gaming Control Board, who stated that he’d rather have fewer lawyers and more engineers working within his commission. “That statement is very pertinent,” Mr Nally added; “you need to have the expertise in place to keep abreast of technological changes, and that is something that many regulators struggle with.”

“Finally, intervention,” Mr Nally concluded. “Thirteen years ago, Ireland was faced with a massive problem. Microsoft had approached the Irish Government and stated that they had to leave the jurisdiction because the telecoms infrastructure was so poor, and because it was so expensive. The Irish Government immediately invested in the infrastructure and sold it back into the marketplace. I was the consultant for the government at the time and spent a number of years putting everything in place. That is a choice, and I know that Gibraltar is taking steps to improve its offering, no doubt to further its reputation as a global leader well into the future.”

Albert Agustinoy – DLA Piper, Madrid

Guilio Coraggio – DLA Piper, Milan

Patrick Schwarzbart – DLA Piper, Munich

Ash Averill – DLA Piper, London

Niels Boef – DLA Piper, Netherlandst

Panel Session 1

The Evolution of Remote Gambling Across Europe

Moderated by:

Stephen Ketteley - DLA Piper, London

“Going back to the major jurisdictions we discussed 12 months ago; I think it’s fair to say that Germany was a mass of confusion,” Mr Ketteley began. “As far as the UK was concerned, we were simply waiting to see what was going to happen. In Spain there was discussion about whether or not slots and exchanges were going to arrive, and whether the licensing window was going to open again. Italy had then fairly recently opened up for slots, which was quite a major move for the market and likely to have a major impact on the jurisdiction, and in Holland there were some movements from the government to allow operators to continue trading in the market pending the emergence of a regulatory regime. Now, 12 months on, things have fundamentally changed. But to repeat a question posed to each of our panelists last year; what is the societal perception of online gambling in your respective jurisdictions?”

Niels Boef - “I think it’s fair to say that in the Netherlands online gambling is still heavily debated. The legalization of the online market is scheduled to take effect on January 1, 2015, but it is not absolutely certain that this timeframe is feasible. Legislative proposals are still underway and there has been a lot of debate in the press recently about opening the online market, which has mostly been fed by the land-based, state casino, lottery and land-based slot operators. This then extends to the regulatory environment and the tax angle. So I would say that this market is still heavily debated, especially in the financial press and that means that the politicians are still reluctant to engage with the issue, but it is in motion, that’s for sure.”

Patrick Schwarzbart - “In Germany we have seen some progress in the last 12 months because we have at least, in part, a regulated market. Last year, there were already licences in place with respect to Schleswig Holstein, a state which we must remember to distinguish from the rest of the German market. Over the last 12 months we’ve found that several operators licensed in Schleswig Holstein have taken up their regulated operations. We haven’t seen any changes to regulation, but the Interstate Treaty on Gambling provides that a remote offering is possible if so licensed and we have seen that the lottery operators in each of the sixteen federal states have embraced this opportunity. They have ticket purchasing websites in place and they are also strongly advertising. Horse race betting operators are already regulated and provide their offerings remotely. With respect to sports betting, however, the mess is getting bigger every day; we still don’t have any licensing in place, and no regulation to support it.”

Guilio Coraggio - “From Italy’s point of view, the biggest change has been the launch of slots, which has increased the scale of the casino market. We also have the liberalization of sports betting, which was very restricted under the old regime. There will be some new games and events launched over coming months, as well as a new betting exchange. We also expect new bingo regulations to soon come into force. The goal of the regulator in this respect is to decrease the scale of the black market, which at the moment is very much the main issue. This is to be achieved through measures such as a move by the Italian regulator against game suppliers, which will decrease the size

of the casino black market and work to the advantage of the regulated market.”

Ash Averill - “For the UK, there are two main areas of concern. The first is an increase in focus on the gaming machines, so mainly the B2 machines or fixed odd betting terminals (FOBTs). These have high stakes and pay-out limits and have already undergone a review, albeit to remain at the same levels. The problem surrounding this is accessibility. Bookmakers are currently allowed four B2 machines in each of their high-street shops, and there has been a suggestion that these are amounting to most of the income for these operators. As a result, there have been suggestions that this has led to a proliferation of betting shops on the high street, which is a land-based topic but, as tends to be the case, remote gambling is being tarred with the same brush.”

“The other issue surrounds advertising, which is certainly growing around sporting events. There has been a six-fold increase in advertisements between 2007 and 2012, and I think there’s a worry that this will increase even more when the new regime is put in place.”

Albert Agustinoy - “It may seem obvious, but from a Spanish industry stand-point one year has gone by and the market is now more mature. I mentioned last year that online gambling is perceived as an entertainment industry and this has been reinforced in the mind of the Spanish consumer. Advertising is now wide-spread and the introduction of products on new devices and platforms has consolidated the market. From a regulatory standpoint, I would say it’s quite an exciting time. At the

“Players are going to gamble anyway, whether on the black or regulated market, and we’ve come to learn that the best results cannot be achieved by restricting gambling.”

moment, we expect that slots may soon be regulated. This will be supported by the introduction of new products such as exchanges as well as other important developments this year. There is a paradox in the Spanish industry in that it is still, broadly speaking, half the size of Italy. From the point of the regulator it is important, therefore, to ensure that this potential for market growth is fulfilled.”

From the perspective of those working in the more mature markets, what lessons can the regulators learn from their relationships with your clients? What do your regulators do well, and what could they do better?

Guilio Coraggio - Mr Coraggio commended the Italian regulator for an open-mindedness and business oriented approach, which has saved the online gaming market from those more old fashioned regulators. He explained that the lesson for the Italian regulators was the realisation that it must do the best for the market by proposing practical guidelines and taking a proactive approach to their implementation. “Unfortunately,” he explained, “discussion between the regulators can sometimes go very fast, and sometimes very slow. The lesson is to simply do the best for the market, which will have the knock-on effect of attracting new business and enable operators to do the best for their players. Players are going to gamble anyway, whether on the black or regulated market, and we’ve come to learn that the best results cannot be achieved by restricting gambling.”

Albert Agustinoy - “I think the Spanish regulator also follows a business oriented model, although some here may disagree,” Mr Agustinoy remarked. “Given the framework they are working within, they are moving to create the most

competitive offering they can for domestic operators. Another positive attribute is that the Spanish regulators tend to hear the industry and learn from the experience accrued by those operators that have been in the market for years. The Spanish authorities know private industry has a clearer picture of the market and are always happy to hear their input.”

Guilio Coraggio - “I think it’s also worth mentioning that the European regulators do talk to one another, which means that an improvement in one jurisdiction often means an improvement in another,” Mr Coraggio added. “This sort of collaboration may eventually lead to something resembling common standards between jurisdictions, which is certainly lacking at the moment.”

Do you get the impression that there is any kind of movement towards harmonized or common standards within the European market?

Guilio Coraggio - “In terms of shared liquidity, I think Italy and Spain need to understand how their technical standards are going to interface before we can make a decision. Everyone was waiting for France to do the same, but unfortunately the French Parliament decided to consider it further. Italy was waiting for Spain while it was thinking of opening a dot com environment, which is something that Italy wouldn’t accept, so we need to find a common agreement. In relation to common technical standards, the position I got from the Italian regulator is that they were going to use common UK standards as a benchmark.”

remain bound to the technical and regulatory requirements in Spain. This makes the situation more difficult. From a philosophical standpoint, therefore, I think the regulators in Spain, Italy, Denmark and so on are in agreement. The problem lies in putting the details down on paper. I would not be too optimistic in the short term, but certainly in the medium."

There are a number of regulations in different Member States that continue to flout European legal principles, and we know the Commission wrote to a number of them in November. Patrick, could you remind us of Germany's situation with regards to the infringement process?

Patrick Schwarzbart - Mr Schwarzbart explained that an infringement proceeding has been ongoing in Germany since 2008, which is one of the focuses of the European Commission and is still being assessed. He explained that, to his knowledge, there are currently two pending cases with the European Court of Justice. The first relates to the potential incoherency of a dual regulatory regime in Schleswig Holstein; one liberal and the other, the Interstate Gambling Treaty, more restrictive. The second deals with transparency issues surrounding the sports betting licensing process and, as Mr Schwarzbart noted, is unlikely to be resolved until 2015, during which time operators will continue pose legal challenges."

What should potential licensees look to do in the interim? Is it going to prejudice the process of acquiring a licence in a Member State? Specifically, where are people now, in the Dutch and German markets, if they continue to trade?

Niels Boef - Mr Boef first wished to focus on a single issue on the

regulatory side concerning a severe Dutch litigation case surrounding the gambling tax, which is currently pending and, he explained, is currently overshadowing a series of proposals under government consideration. Incumbent land-based operators are claiming that the current tax regime is not compatible with EU law. In the current proposals, online operators are offered a 20 per cent tax rate, while land-based casino operators incur 29 per cent rate. This differentiated regime is putting a lot of pressure on the current system and, he explained, is slowing down the legislative process.

In answer to Mr Ketteley's original question, Mr Boef explained that the Dutch industry had recently seen some M&A activity where the party acquired fell within the scheme of privatization policy. "So what I see right now is that the foreign players are circling around it and waiting to see what is going to happen," he added. "We will have to see, but I don't envisage regulatory change being too far off."

Generally, people continue to take casino and poker out of Germany. Some are betting on paying the tax. What is the situation there? "It's a very complex situation, particularly because we have Schleswig Holstein in the mix," Mr Schwarzbart observed. "First of all, many operators that are licensed in Schleswig Holstein take the view that they are entitled to operate throughout the rest of Germany, but we have yet to see to what extent they will be contested by the other federal states. On the other hand, it is important to understand that until we have that licensing regime in place we still have a de-facto state monopoly on sports betting in place in Germany. With respect to this state monopoly, the European Court of Justice has ruled that this is incoherent and therefore

"I think it's also worth mentioning that the European regulators do talk to one another, which means that an improvement in one jurisdiction often means an improvement in another"

“Developments are anticipated, however, and since the Italian casino black market is known to be the same size as the regulated market, we could soon see the regulated casino market double in size.”

not valid and operators can take the same viewpoint. Insofar as enforcement is concerned, that is a different issue. We don't have one regulator which is enforcing laws against unlicensed operators; we have sixteen states each with their own enforcement competence. There is no real coordination in their approach, but that will change one a single regime is in place.”

As everyone prepares for the new licensing regime in the UK, one of the questions we're asked the most concerns a particular line in a provision aimed at applicants with a business plan. This involves sharing with the Gambling Commission your rationale for doing business in jurisdictions where you don't have a licence. What view does your regulator take with relation to doing business in other parts of the world?

Ash Averill - Mr Averill explained that the requirement for a company to rationalize its desire to do business in other jurisdictions could be described as very 'Nevada style' in its implications of extraterritorial probity, but reminded the floor that this only applies to jurisdictions from which an operator takes more than 3 percent of its total revenue. Moreover, for smaller operators with a total revenue of less than £5million, that threshold is lowered to 10 percent. He explained that the Gambling Commission requires a company to provide a rationale to justify the legality of taking business from a jurisdiction in which that company is not licensed. In

addition, the Gambling Commission requires similar justification concerning any jurisdictions that are actively targeted by a company, irrespective of the 3 percent or 10 percent of total revenue threshold. He explained that the Gambling Commission wants to understand the processes and procedures put in place to engage with an outside jurisdiction, and how that engagement takes places i.e. through a dedicated domain name or the use of a local language. “This is still moving, but we understand that the Gambling Commission does not intend to issue a blacklist of jurisdictions from which business is banned. However, we don't understand what they are going to do with this information, whether it will be used to prevent a company from gaining a licence, or whether that company will be required to stop doing business in those jurisdictions in order to acquire and maintain a licence in the UK.”

Albert Agustinoy - “I think that the regulator should be banned pursuant to the powers of regulation it is tasked to fulfill and enforce. In the Spanish licensing system there was a similar requirement, but this was more for statistical purposes. Overall, I am surprised that this is the case.”

Giulio Coraggio - “In Italy, no director or ultimate shareholder is allowed to have a pending or active criminal proceeding in Italy, or criminal sanction worldwide. This extends beyond an individual's role within the company to any personal liability. What Francesco Rodano, Head of Remote Gaming in

Italy is doing is talking to regulators worldwide, say in New Jersey or Nevada, and notifying them of any licensees that are acting illegally in Italy. This is creating a lot of issues. For instance, major game suppliers in Italy will stop offering games to non-Italian operators that offer games to Italian players, so we have a double route: game suppliers offer the same games to unlicensed and licensed Italian operators, but the payout for unlicensed is, of course, much higher so players gravitate to unlicensed platforms. Developments are anticipated, however, and since the Italian casino black market is known to be the same size as the regulated market, we could soon see the regulated casino market double in size.”





KPMG eGaming
SUMMIT

Panel Session

Bitcoins & Beyond - payments, conventional & alternative

Moderated by:

Archie Watt, Director, KPMG Gibraltar

Panellists:

Paul Davis - CEO, Counting House

Stephen Quinn - Ukash

Ian Benson - Maclay, Murray & Spens

Eric Benz - UK Digital Currency Association

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

"I think we can all agree," Mr Watt opened, "given the amount of coverage they have gained over the past few months, that cryptocurrencies have evolved from something that would seem completely anathema to regulated eGaming markets, to a form of currency that is perhaps now entering the mainstream. It's one of the key points I would like to discuss with our panel, which today represents a large portion of the payments processing world. But before we begin, for the

benefit of the Summit, could I ask for an overview of what Bitcoin is, and what it means to the payments processing world?"

Eric Benz - "I've been working within the digital currencies sector for the past couple of years now and over that period I've seen something that initially attracted only a very small following grow to become very much larger than life," Mr Benz enthused. "We realised that we really needed to do something for the industry. We started an association that would spearhead engagements with HM Revenue and Customs, the Financial Conduct Authority, and other financial institutions and groups to provide the right guidance and understanding - whether from a banking or compliance perspective - as to how companies that use cryptocurrencies need to operate and do business within the regulated financial system. In many ways, it's very similar to the eGaming environment a decade ago. It's something that needs attention and I'm glad that we're here."

Paul Davis - Having briefly consulted the floor as to delegates' prior understanding of Bitcoin and its mechanisms, Mr Davis first opted to provide an overview of the technology: "A Bitcoin is a piece of machine code," he explained. "It can be passed

between electronic devices over the internet between two individuals and as long as those two individuals believe that it represents value, and they both have a way to do something else with it, then it operates exactly like a currency. We use the term 'fiat currency' to describe money issued by central banks, and 'cryptocurrency' is emerging as the most popular term for these privately issued alternatives."

Mr Davis continued: "Bitcoin and its cousins are very scary for governments, banks and, to be honest, even for payment processors. This is because widespread acceptance of a digital currency that can be transacted at no charge from person to person has the potential to put us all out of business. Consequently there's a massive political lobby against Bitcoin. Governments and banks who can influence the press in many parts of the world are content to encourage the publication of negative stories. But every single concept that is rallied against the crypto-currency cause - that it can be used for drug dealing, transacted across borders without banking fees, and can be laundered - can be applied to cash."

"Because of this fear and lack of understanding surrounding cryptocurrencies we are now in a space which is very similar to that of

“I think the statement should be made at this point that there really is no anonymity to Bitcoin. There’s privacy, but every single aspect of Bitcoin is visible.”



debit cards in the mid-1970s; everyone thought it was insecure, that it could be hacked, and that it would never take off. I doubt anyone here today doesn't have a debit card in their pocket. There is a young, aggressive, powerful group of people that is developing, thinking of new applications and making it happen, and an older generation that's tut-tut-tutting and saying it'll never work. Bitcoin has been around long enough to have faced its challenges. It isn't now going to go away. The question for the eGaming community is how best to use it, not how to stop it from happening, because it transcends borders, it opens markets and it represents a powerful tool which, in my opinion, could be employed by forward looking companies."

Ian Benson - Mr Benson agreed with Mr Davis in terms of Bitcoin's potential as a new entrant with tremendous possibilities for global markets. "What's different, as Paul pointed out, is that it avoids international clearing systems," he added. "That means you can send currency, irrevocably, as good as cash, for the cost of sending an email. Of course, when an individual comes to trade or convert that cryptocurrency they would bear transaction costs, but the avoidance of clearing systems and charge backs are a key selling feature. There are a lot of

issues; it's new, the regulators are shying away from bringing Bitcoin services within the fold of financial services regulations, and there's a lot that needs to be resolved for that market to emerge, fully, as an alternative means of payment."

When we talk about anonymity, what are the subsequent anti-money laundering issues surrounding Bitcoin?

Eric Benz - "I think the statement should be made at this point that there really is no anonymity to Bitcoin. There's privacy, but every single aspect of Bitcoin is visible. If you could see every single transaction using Visa or MasterCard, for example, that would be a great thing. The reason for this is the 'block chain'. The block chain is an open ledger which shows every single transaction of a Bitcoin in real time as it functions within the eco-system. You're able to see every movement within the Bitcoin system in real time, so we can track and see everything; nothing is anonymous."

"The privacy aspect comes in because people are acting as their own bank. They have control of their own funds without operating on a fractional reserve type basis. From an AML perspective, sure, there are ways that people could find to launder money,

but Bitcoin is really not the best way to do it."

Because of the complete visibility of transactions, does that mean that Bitcoins should be incapable of being stolen?

Eric Benz - Mr Benz explained that there are two sides to Bitcoin, or what he termed 'big B', and 'little B'. "Little B concerns the price and its volatility, everything you may read about. But the big B is what I like to focus on," he observed. "This concerns the protocol and the software, the areas where the real investment and innovation is going right now. Honestly, I don't know if Bitcoin will be around in its current form in a year's time, but I do know for certain that the software will be, and it's growing. You'll see a lot of different systems being put into play and there will be innovations within the block chain and security to protect against hacking, or exchanges going down. In all actuality, this system has only been in place for five years, and it has only been gaining attention for two, so there's a lot of potential for growth."

“The big advantage of digital currency is that it functions in most ways like a currency, and there is already an established framework of best practices which we all know and understand.”

Ian Benson - “I think the issue comes sharply into focus when you have a fraud,” Mr Benson added. “That’s always the thing that uncovers any weaknesses in a regulatory or legal system. I mean no disrespect, but if the regulators are behind the curve then the judges are always going to be even further behind the curve.”

“In a fraud situation, accepting that the transaction is in a block chain model, you should be able to identify the ‘route of title’, or predecessors of title. If you then go on to try and trace those funds through a Bitcoin trader, however, you may encounter some problems because that trader, whether it likes it or not, is not authorised. This is because at the moment, apart from perhaps in Germany, no one is regulating the Bitcoin traders. This means you’ll have a problem trying to find that money and trying to secure a satisfactory court order to find that money. So without those systems in place and, to be fair to the Bitcoin trader, without the protection of AML regulation for client confidentiality, you may encounter issues.”

Paul Davis - “I think that lawyers like myself could wallow in fear for a very long time about the potential problems with Bitcoin, and we could charge our clients quite a lot of money for that concern. But the truth is that the digital currency economy, like any other field where there is an activity and a danger to the public – whether it’s food or car production, aviation, banking or insurance – there are going to be good and bad operators. The big advantage of digital currency is that it functions in most ways like a currency, and there is already an established framework of best practices which we all know and understand. All a Bitcoin exchange or vending operation has to do to protect itself is to follow those codes, even if it doesn’t have to. The best thing governments could do is to take those codes for banking and

exchange and apply them to digital currency as soon as possible.”

“The other advantage they have is that Bitcoin exchanges and operators really want to be regulated because they want the credibility and the safety, not only for marketing their product but also to be able to get banking facilities in the fiat world. There’s a free flow of value between digital currencies and banking currencies. The problem is that big committees of people my age sitting offline in rooms writing things down on paper can’t keep up with it – it’s terrifying for us.”

Eric Benz - “There’s no risk whatsoever to an operator that takes Bitcoin deposits, or deposits of any other cryptocurrency. You’re paid in USD, Euros or any other traditional currency instantaneously and with no risk. I’d also like to point out that the fees are minimal. You’re looking at a 0 to 1% fee for accepting Bitcoin payments from some of the merchant processors now, whereas traditionally the average is 5 to 9%, I believe. It’s a fascinating way for businesses to pass on those benefits to their players. This is especially true for micro-transactions.”

Paul Davis - Mr Davis agreed, stating his belief that there are two quite different routes in which digital currencies could have an effect within the gaming market. “The first is when playing at tables, or against the operator where the currency in and out is digital,” he explained. “There is a risk to the operator in that the rake won’t be worth what it was when the Bitcoin was taken on the table and the operator gets round to selling it, but it’s a minimal and worthwhile risk. The second, more risky, proposition is to allow people to deposit Bitcoin but then credit them, say, USDs to play poker or bet on a horse. Therein lies a piece of emerging business, which is currently very attractive to the digital

world, which allows the operator to take a Bitcoin deposit, instantly sell that and give that value. In that world, the operator would have to cover its risk by selling off.”

“But most credible gaming companies have deep pockets these days, and you’re very quickly going to see an emerging trend where big operators are quite happy to hold a portion of their wealth in Bitcoins,” he continued. “There are many operators taking Bitcoin deposits today and you’ll see perhaps one or two companies a week joining those operators for the remainder of this year. They cannot be blind to the fact that all those countries where it’s hard to take money from – Brazil, Argentine, Singapore, et al. – are suddenly opened up by Bitcoin. In Brazil there are already two banks participating in the Bitcoin economy which will send digital funds anywhere in the world for a very low transaction cost. I know everyone in this room is thinking about it, and if you’re not you’re about to miss a big boat.” What about price volatility; is this something we should be concerned about?

Eric Benz - Mr Benz explained that, from the perspective of the UK Digital Currency Association, price volatility distracts quite significantly from what it is trying to achieve for various markets. “This is not a big community at the moment,” he reminded the Summit, “but the software and what the community is trying to achieve is going to be massive. At the moment this is a thin market, with low trading volumes and, as a result, massive volatility.”



“Certainly in the UK, the consistent attitude from the Prudential Regulation Authority and the Financial Conduct Authority has been that Bitcoins are not money, there is no issuer of Bitcoins.”

Hypothetically, then; I’m an innocent party involved in payment made by Bitcoins. I’m involved in a transaction, possibly several stages removed, which has to do with money laundering. How do I stand? Is this situation made more complicated than it would be with traditional currency?

Ian Benson - “It is a problem, largely because Bitcoin traders have not yet been regulated,” Mr Benson explained. “Certainly in the UK, the consistent attitude from the Prudential Regulation Authority and the Financial Conduct Authority has been that Bitcoins are not money, there is no issuer of Bitcoins, and therefore anybody operating Bitcoin trading is not involved in a payment service and is certainly not taking deposits. That means that the Bitcoin trader is not able to respond to a court order for the production of documents in the same way it would if it was a financial institution and was protected in the UK by anti-money laundering regulations and under the Proceeds of Crime Act. This is something that the law is going to have to grapple with. It is more difficult, but not, I suspect, insurmountable.”

Moving onto the Point of Consumption Tax; it appears that the Gambling Commission is trying to move into regulation through the application of restrictions on companies that operators use to process payments on their behalf. Does the panel have any insight into what the restrictions might mean in practise? Are they workable? And are they in compliance with EU rules on the free-flow of transactions?

Stephen Quinn - Mr Quinn explained that, to his knowledge, Ukash has not been contacted by the Gambling Commission in this regard. He also noted that Visa, MasterCard and PayPal had an arrangement for

processing on behalf of regulated businesses. “Personally, I don’t understand how that can work,” he added. “Ultimately, the Gambling Commission is not the FCA, which is who we are regulated by. Ultimately it is they who decide whether we’re fit to process transactions. Indeed, picking up on something that was mentioned earlier today; without the proper enforcement, as a payments processor we risk being pushed into the grey.”

Paul Davis - Before passing comment, Mr Davis alerted the floor that he also acts as a consultant to the Gambling Commission on payment processing. “In my view,” he explained, “they are hopelessly misinformed about the flow of funds into British gaming and British licensed gaming companies. In a recent round of discussions the idea was floated that there would be a provision in the new legislation that a UK licensee would only be allowed to take payments that were handled by a payment processor that had a European PSD [Payment Services Directive] licence. This would mean that a company that takes bet payments from India on English Cricket, say, would have to go through a European licensed company, which is not particularly likely to happen. Similarly, large poker companies would not be able to take payments from Russian players because there are no Russian payments providers who are regulated in Europe.”

“Despite this,” he continued, “they have proceeded with the idea, which, in my view, is a massive overreach. I fail to see how the GC can tell companies how they should act in other countries. The announcement that the Gambling Commission had reached an arrangement with Visa and MasterCard to only process horse-betting transactions from licensees contributing to the British Horse Racing Levy, whether they are onshore



or offshore, is absolutely laughable. Not only can they not police it, but Visa and MasterCard cannot know what the betting product is that they're transacting funds for. Take the example of a person in Kenya, using a Kenyan debit card, who deposits money into an account with 888 (a Gibraltar licensee), then decides to place some winnings on a horse race in England: how on earth is anybody in that chain going to know that a bet was placed on an English horse race? It's absolutely ludicrous."

Ian Benson - "It's an odd suggestion," Mr Benson agreed, "because the whole payments agenda is to make the experience better for the consumer. In the UK we've just had an announcement that the Payment Council is to be replaced by the Payment Systems Regulator and the agenda has been given by the FCA to increase competition within the sector. Additionally, the FCA are perhaps moving more towards an e-money model rather than a payment services regulatory model, so from the PSD to the Electronic Money Directive. As such it seems extraordinary, given the agenda to make payments better for the customer and introduce more competition to the payments market, to introduce these measures."

"I should, however, add that the Payments Council has just managed to secure an agreement with the banks to make payments possible through mobile phones using the phone number, rather than the account details. This is clearly a positive step forwards and something that may well be of interest to a few people here today."

With the pending imposition of the PoCT, all operators are looking at ways to reduce costs. Do payments providers have any solutions to offer?

Paul Davis - "All well run businesses strive to reduce costs across their operations," said Mr Davis. "Payment processing costs are not a big piece of the equation in the gaming world; our rates tend to be low and quite competitive. I'm sure, however, that anything that impacts on an operator's bottom line will provide the incentive to revisit their outgoings and try to renegotiate down. Ultimately, it's the mark of a well run operation that they negotiate well for the services they buy. However, Bitcoin provides a way to keep costs down because it's free."

Eric Benz - "What the internet did for communication, Bitcoin is doing for money," Mr Benz agreed. "Everything has become open and peer-to-peer and costs are constantly being driven down. This means that those in payments and gaming are going to have to learn to adapt or disrupt your own processes in order to co-exist, or risk becoming extinct."

Where are alternative payment providers going?

Stephen Quinn - Mr Quinn echoed Mr Davis' sentiments, adding that the difference from the perspective of Ukash was that between cost and value. "Contrary to what many may think, there's isn't often very much we can do in terms of cost," he explained, "so we focus on adding value. If an operator feels pain, we feel pain. What we try to do is find out how we can help operators with the costs that impact them, such as acquisition or fraud, or we try to use our expertise to take them into new markets using new technologies. That's really where I see our businesses going over the next few years."

Question from the floor: where does Bitcoin come from? Who invented it? Where is its value derived?

Ian Benz - Mr Benz explained that a Bitcoin is a piece of 64-digit algorithmic code that gives a specific value. "The easiest way to explain it is to picture a virtual gold field. You have virtual miners who are awarded a block. When it first came out, this block would consist of 50 Bitcoins that were released every ten minutes, but the more miners there are and the more activity in the eco-system, the harder this is and the smaller the blocks become. They were created by Satoshi Nakamoto, which could be a name or acronym, there will only ever be 21 million released up until 2140, they are open source, are not controlled or owned by any one person or corporation, and they will be around for a very long time. Of course, at the moment there are volatility and liquidity issues, but this is due to problems with press and regulation. If there were any real problems, then Bitcoin would already have disappeared."

Paul Davis - "It's about belief," Mr Davis said in closing. "As long as the community believes there is value in a Bitcoin it will have value. If you find that hard to imagine, think for a moment about diamonds. You can go to any town or village in the world and find dozens of jewelry stores with diamonds in the window, yet people pay hundreds and thousands for them. The only thing that distinguishes a diamond from any stone on the ground is that there are only so many of them and that work has been done on them to create value. **Bitcoin is the diamond of the currency world.**"

Digital Banking - Africa leapfrogging the developed world

Matt Gorman

Head of Change, Personal &
Business Banking International -
Standard Bank

“Standard Bank is Africa’s largest bank with a presence in 20 countries and supported by nearly 50,000 staff. We also have offices in the offshore locations of Jersey, Isle of Man and Mauritius and we have a footprint in Gibraltar to support the eGaming and corporate banking market.”

Matt Gorman joined Standard Bank in January 2013, having previously worked as Head of Operations for the Royal Bank of Scotland for two years and, most recently, as Head of Operations, Channel Islands for Barclays from February 2011.

“Standard Bank has been around for just over 150 years,” Mr Gorman began, “and personally, during that time, I don’t think banking changed that much. Until the credit crisis, banking was running as you would expect it to; making money and investing funds. Then the credit crisis arrived and the world changed. Today it’s quite humbling to work in a bank,” Mr Gorman added. “We caused a lot of pain around the world, and this has led us to change.”

“So we’ve started using different technologies within our banking to make a difference,” he continued. “Standard Bank is Africa’s largest bank with a presence in 20 countries and supported by nearly 50,000 staff. We also have offices in the offshore locations of Jersey, Isle of Man and Mauritius and we have a footprint in Gibraltar to support the eGaming and corporate banking market. We focus on serving clients with connections to Africa.

Mr Gorman went on to explain that the most common mistake made is to homogenize African cultures and nations, before qualifying his statement by observing that 50% of the Kenyan population is under 18, while the Nigerian economy is this year expected to outgrow that of South Africa for the first time. “There are over 170 million people in Nigeria, 25 million of whom live in Lagos alone,” he enthused. “And that represents a huge opportunity.”

Africa’s Banking Experience

“One thing we can say about Africa as a whole, however, that is that it has undergone a series of experiences which are vastly different to those of ourselves,” Mr Gorman continued. He explained that the route to change and growth has been completely removed from that of the western world, drawing upon technological advances such as landline telephones, VHS and walkmans to emphasise that Africa has been a process of leapfrogging technologies to arrive today at those such as mobile and smartphone. Mr Gorman then drew upon the examples of Blockbuster, Kodak and The Encyclopedia Britannica to emphasise the imperative for companies to adapt to change, stating “Just because you’re the first to market, or have been around for over one hundred years, it doesn’t mean that you’re going to stand and make a difference.”

“The same goes for banks – they have to fundamentally change in order to survive, from their culture to their DNA.” Mr Gorman offered the example of M-PESA, a digital wallet that allows the transfer of payments between mobile phones. M-PESA was launched in Kenya in 2008, already enjoys over 6 million customers, allows customers to save and borrow money, and operates without a banking licence. “Technology reduces friction,” he emphasised. “Smartphone penetration in South Africa will reach 25% this year, which makes getting it right, making it easy, and making it always



Matt Gorman

available, three critical steps for today's banking providers. Take the Square app, a device which plugs into your Smartphone and enables chip and pin payment via mobile. Within 3 years it gained 2.5 million customers. It's transformational, not just in its impact on local businesses but also the developed areas themselves. At Standard Bank, we expect 80% of our customers to own a Smartphone within five years or less."

Pop-up banking

Mr Gorman then drew the attention of the floor to a slide entitled 'The branch of the Future', which depicted a pop-up Standard Bank branch in a township named Alexandra in Johannesburg, South Africa. "There are over 4 million people living in this township, some without running water or electricity, and we offer banking at the access sites to their local suppliers," he explained. "From a tent, we used a Smartphone to take a picture of their KYC documentation, we gave that person a bank card, and their account was open, up and running within 8 minutes. We have 86 Standard Bank access points dotted around the town that people can use to access and manage their finances."

Mr Gorman then drew the attention of the Summit to a video which demonstrated Standard Bank's recently released mobile banking application and which was described as allowing the user to see everything that's happening in their financial world. Users are presented with a wholly customisable dashboard which controls a number of applications. Users are able to conduct traditional transactions, transact using a

telephone number rather than bank account and sort code, create cash vouchers and withdraw cash from nearby terminals, purchase SMS credits, purchase electricity credits, monitor insurance policies, trade stocks and shares, and analyse market indices, all in real time.

Bringing data and customer thinking together

"This is a remarkable product," Mr Gorman added. "A client can sign up from a tent and be set up with this app within minutes. The product has already been launched and we hope to be able to offer it to our offshore and business markets within a year. Going back to our earlier point, however, one thing we are concerned about is the use of the data and information we've gained from our client base. I think we have a lot to learn from the eGaming community. That may mean going into partnership or another form of working relationship, but either way it's clear to us that if we don't do something to understand what our clients need to remove that friction, we're going to have a problem."

By way of example, Mr Gorman then described an app-supported advertisement type, which is location aware and provides both the customer and the bank with real-time information on the customer's shopping patterns and budget. During the purchase of a car, for example, the app could allow the user to request a pre-approved loan, forecast their financing obligations, request alternative purchase options and contact their relationship manager at Standard Bank directly.

"This could equally be applied within eGaming sites," Mr Gorman added in closing, "or it could be applied to any purchase within that client's financial window. If you then extend that window, you could be looking at engaging social media and other online behavioural patterns, you could even allow the customer to control accounts held with other banks. Ultimately, it's the client's choice, not the bank's choice. As such, my final point is, although Standard Bank aims to become the best digital bank by choice, the word bank may not necessarily apply. It could be any company that becomes the best according to customer preference, and if we don't watch out, it could be Africa that leads the way."

Landbased and Online: The Debate

Moderated by Russell Kelly – Director, Audit & Advisory, KPMG

Russell joined KPMG in 1993 and has also worked for KPMG in the Isle of Man, London and Jersey. Russell's audit experience encompasses banking, wealth management, mutual funds, shipping, real estate and e-gaming. Russell's transaction services experience includes acting for clients with respect to acquisitions, disposals and flotations, in particular Russell has advised on flotations on LSE, AIM, Luxembourg and New York Stock Exchanges. Russell also provides Internal audit and SAS 70 services.

“From the GBGA's perspective, it appears they are just not listening to our concerns about the risk of competition with the unlicensed, unregulated and untaxed online sector.”

Peter Howitt - Gibraltar Betting and Gaming Association (GBGA)

Peter has worked for 15 years in the e-commerce and financial services sectors as a lawyer and corporate advisor in England & Gibraltar. He is dual-qualified in England & Gibraltar. He is currently the CEO of the Gibraltar gaming industry association (www.gbga.gi), the Secretary of the Gibraltar E-money Association (www.gema.gi) and the founder of Ramparts - a European law firm in Gibraltar (www.ramparts.eu). Peter also has experience in establishing an online social network for artists.

Paul Leyland - Regulus Partners

Paul Leyland is a founding partner of Regulus Partners, a strategic consultancy focused on the gambling and related sectors. Prior to this he was Corporate Development Director at William Hill, from April 2012 to October 2013. Paul started in the City and was an Equity Analyst focused on the gambling sector for over a decade. He worked for a number of Investment Banks including Investec and Collins Stewart Cannacord.

The Association of British Bookmakers

Upon introducing the debate's participants, Mr Kelly first noted a change to the original Summit programme. Regrettably, Dirk Vennix of

the Association of British Bookmakers was unable to attend, and was replaced by Paul Leyland of Regulus Partners. KPMG would like to offer their sincere thanks to Mr Leyland for standing in at remarkably short notice, and kindly pass on Mr Vennix's apologies.

Mr Kelly then invited both Mr Leyland and Mr Howitt to introduce themselves and their respective organisations. Mr Leyland began, and introduced the Association of British Bookmakers (ABB) as the leading trade association for high street bookmakers in the UK. He explained that the ABB represents the operators of around 7,000 betting shops in the UK, including multi-channel operators such as Gala Coral, Ladbrokes, Paddy Power, Stan James and William Hill, adding that it is also increasingly representing the online or remote industry by its association, if not by its mandate. The ABB also represents the interests of 65 small family-owned businesses with around 400 high-street shops, which gives a total representation of around 80 percent of the landbased market in Britain.

Mr Leyland then identified three common challenges that the landbased operators share with their online counterparts. Competition, tax and levy he described as a tough commonality that is only likely to increase with the emergence and subsequent convergence of regulation

within the gambling industry. Concerning responsible gambling, Mr Leyland observed that the ABB is launching a new Code for Player Protection and that the two sectors are working together to share best practice on advertising and self exclusion, adding that 'the sooner the industry follows in a similar vein, the less likely it is that the politicians will intervene and do it for you.' Finally, on the 4th European Anti-Money Laundering Directive, Mr Leyland noted evidence that both sectors are low risk, a message which must be promoted coherently and effectively, and emphasised the importance of implementing a risk based approach that is effective at fighting crime.

The Gibraltar Betting and Gaming Association

Mr Howitt took over in introducing the Gibraltar Betting and Gaming Association as the single voice of the Gibraltar online gambling industry, representing most of Gibraltar's 28 licensees. He explained that Gibraltar is within the European Union Single Market and that the GBGA is an affiliate member of the European Betting and Gaming Association (EGBA). GBGA members are rigorously regulated by the Gibraltar Gambling Commission, are leading e-commerce suppliers of online gambling services and provide approximately 60 percent of all UK online gambling transactions.

Mr Howitt continued in explaining that over the last 12 months the GBGA had been in close conversation with the UK concerning competition, tax and levy. Particular focus had been placed on the extent to which competition to the regulated online sector increasingly comes from the unregulated online sector rather than the landbased, which the GBGA does not consider to be a substitutable service. "When we spoke to HM Treasury and mentioned that online needs bespoke consideration," he added, "the initial view we got back was that it would be difficult to implement different rates for landbased and online, which is why I was interested to hear earlier about the legal challenge that was taking

place in the Netherlands. We know that in Belgium the Commission approved a differential rate on public policy grounds, so we were surprised that the UK was finding it difficult to take a different approach. Thankfully, in this year's Budget we saw that the UK wasn't quite adhering to that principal when they reduced the tax for landbased Bingo to a rate below online!"

"From the GBGA's perspective, it appears they are just not listening to our concerns about the risk of competition with the unlicensed, unregulated and untaxed online sector. I also don't think their taxation objectives are coherent with concerns about consumer protection. The justification for having reduced taxation for land-based, as opposed to online for example, shows that they are not really consumer protection driven at all."

"I think that has certainly been true during the first phase of remote gambling," Mr Leyland agreed. "But I do think that is starting to change. Mobile and tablet gambling is undergoing what we euphemistically call 'channel shift'. It is a significantly more simple transaction medium, it is demographically more similar and, certainly around large sporting events, we are starting to see volumes increasing on mobile but less so in a landbased environment. So I think there is a greater degree of direct competition with landbased and I suspect that will be exacerbated by increasing levels of country specific regulation where you end up creating more homogenous markets, rather than a bunch of disparate landbased operators with a dot com umbrella over the top."

He continued: "A combination of regulation, technology and a change in customer behaviour is going to make them more competitive and I don't think anyone from the ABB will disagree that the government won't take an entirely political view on tax. We saw that very clearly in the Budget. Not only did Bingo duty go down, but duty on category B2

machines, or FOBTs, went up. There's no specific customer protection issue around tax, but I would say that where landbased operators have a significant advantage in many jurisdictions is that the tax, and particularly the employment, footprint is considerably higher than online. It will be so still for a number of years."

"Also, if landbased operators are clever they can be very entrenched. My observation would be that the bookmakers in the UK forgot how entrenched they were a few years ago. They got on with operating their businesses, forgot to talk to government and the regulators and, as a result, lost battle after battle. That's something very important for the remote operators to understand: government in a regulated environment is your biggest, most powerful and potentially most dangerous stakeholder, and unless you treat them in that way you're going to get caught out, and caught out very painfully."

Mr Kelly - You touched very quickly there on FOBTs, which is a key area for debate in the UK at the moment and one upon which government policy is bound to have an impact. What are your thoughts there with regards to possible future regulation?

"I think this is a really, really useful object lesson in what not to do," warned Mr Leyland. "Broadly speaking; if you have your ear to the ground, you talk to your regulator very often and you understand what the mood is, you make sure that you do just a little bit more than that in terms of protecting people so that the regulator is happy and it doesn't get on the front page of the newspapers. It's relatively simple to do. If, however, you say 'there is no problem' regardless of whether there's a problem or not and the regulator feels it needs to intervene, you then increase the risk of it becoming a political as well as a regulatory issue. That's exactly what has happened with FOBTs."

“From the GBGA’s perspective, it appears they are just not listening to our concerns about the risk of competition with the unlicensed, unregulated and untaxed online sector.”

“The addition to that is that there is an awful lot of data out there, but the extent to which that data has been presented in a clear and transparent way that persuades the layman that there is no problem is open to question. That again is a huge problem for the sector. It’s no good just saying we’ve got the data, we understand everything’s ok. If you can’t put that point across in a very clear way that makes people feel less concerned then, when they get off the fence, they get off the fence with a view to regulating you. Regulators are always going to be a little bit behind the curb in terms of understanding how the industry behaves, but politicians are even worse. When you get yourself in to the political arena, only bad things will happen.”

“So, from a political standpoint, I think Labour made it very clear what they wanted to do. I think the Lib Dems are broadly in support of that, and in a Lynton Crosby Conservative Party 2015 campaign consultatnt, known as the Master of the Dark Arts] style, I think what the Tories probably need to do is ensure that the debate moves on away from the Labour debate, look like they own it, and try to put it to bed before the election. That means doing something pretty aggressive so that it gets off the papers and the Tories look like they’re being tough on something that it’s popular to be tough on.”

Russell Kelly - Concerning responsible gambling; despite the fact that the online industry does a huge amount to protect consumers, this is often more difficult to see from a public side than for landbased. What is your view about the online space and how that would be affected?

Peter Howitt: “To tie in to the political point, you’re right, just dealing with the FOBT issue and the landbased is clearly easier for the politicians and the public. It’s easier to see the prevalence

of machines, or their use, in shops. But it would be shortsighted to think that once they’ve finished with landbased they won’t turn that focus to online. The industry here in Gibraltar does do a lot, but I actually think that this is an area in which we need to do more. The industry needs to take the lead and not wait. If you wait for people who know very little about what you do to get involved and tell you what to do, that would be very bad for your business. They’re likely to have you implement measures that may have an effect upon those with a gambling problem, but may equally affect those without, which is the vast majority. This is one of my key areas to focus on with the GBGA over the next 12 months. I want to make sure we’re able to show and communicate our obligations and show that we’re taking them seriously, rather than just wait for the politicians to take the lead and decide what’s best. It is difficult online, but the fact that something is difficult is not a reason not to do it, it simply means that you need to be careful in what you do.”

“I think Peter is absolutely right”, Mr Leyland agreed, “and I would add that the most damaging thing that the gambling industry does to itself is talk down other operators, products and jurisdictions and say ‘I’m alright but they’re terrible’. There will, for example, be an awful lot of landbased operators based in the UK who are very smug and very crowing about all the problems the bookmakers face at the moment, but it’s very dangerous and very shortsighted. You will be next. That’s how it works.”

“So I think one of the very important things that needs to be done is every operator and trade association ought to work out what the key messages are, make them as similar as possible, and keep getting those messages out there. We need to make it absolutely clear that this is a safe, trusted, and

well regulated industry because at the moment that message is absolutely not getting across.

“Tying in to the UK’s proposed changes, one of the things I expect to happen is that the online operators, particularly those with a UK focus, will have to coordinate much more closely,” Mr Howitt added. “If we’re right and we think the evidence is there, they’re going to be competing much more with those outside of the regulatory sphere. So it might actually become easier to reach agreement on a lot more, and the consequence might be that we realise we actually share a lot more common ground. That way, the politicians will realise that we’re the people they want to interact with, that we’re not the enemy. At the moment, the sense that I have is that, in the UK, regulated online and landbased –all of it – is open for attack, possibly because they haven’t had a large unregulated supply, which is going to change.”

Russell Kelly - Do you think that a future approach to the UK will be driven by some of the large, integrated operators that have an estate who will try to converge the agendas of online and offline, or do you think it will be two very separate lobbies hopefully working in the same direction?

“I think we’re likely to see different stakeholders making different points, but with an element of commonality,” Mr Howitt explained. “On responsible gambling, for example, we’ve seen that an industry group has now been formed by the ABB members and the RGA, so we’re seeing some coherence across channels and sectors as they realise that all of the operators are experiencing similar problems when it comes to making sure that they take measures and communicate those measures to the wider public.”

"Where you've got quite invasive regulation I think that will start to divide operators not so much by remote or landbased but by what their risk exposure is to that regulation," added Mr Leyland. "Just to give an example; there's the Gambling Commission's 3 percent rule which says that they want to understand whether or not every single bit of business you do over £5 million or 3 percent of gross income is going to be legal, and at the moment we'll see how they get on with that. But let's say you take a Coral, a Ladbrokes, a Paddy Power, these operators would be quite relaxed about that, in fact I think they would be quite pleased. But there's a whole bunch of other operators who I think would be nervous. That would not only divide opinion, but would also start to divide behaviour."

Russell Kelly - Moving on to the 4th European Anti-Money Laundering Directive; that must present very different challenges for the online and landbased industries. What sort of impact do you think it will have on each?

Peter Howitt - "As we've mentioned in previous discussions, in the UK, Gibraltar and other jurisdictions, online has been covered in existing legislation in one way or another. The 4th Directive does have some very good features. It starts with principles and objectives and, in particular, asks jurisdictions and stakeholders to undertake risk-based assessments and make sure their policies and approach to money laundering are evidence based. That will have a benefit for the online industry because, in our view, there's very little evidence to suggest that online gambling is a very useful tool for money laundering. This is not to say that it doesn't happen, but we believe that the electronic nature, the fact that its transactions are all logged through

authorised financial institutions, makes online an extremely unlikely place through which to launder money."

"There are some negatives however, particularly surrounding structural issues in the sense that the directive appears to not take any account of the digital economy. A lot of what is going on in Europe at the moment is focused on the reduction of compliance costs and the legal complexities for electronic businesses, and this directive appears not to take into account the issues of firms that conduct business across borders. There are things that could be done to fix that quite easily, as they're doing in the current data protection regulation with a one-stop-shop style approach. That's not going to happen for this directive if it goes through as drafted, however. I think operators need to be aware that the AML laws that apply to their supplies across Europe might include some surprises. One jurisdiction may have adopted a place of supply model, and another a place of establishment. One jurisdiction may have gold plated, or added, to their interpretation of the directive and other may simply have different adopted a different assessment of risk."

"Quite frankly, moreover, it's going to be difficult for an operator to persuade a national court that they should overrule their jurisdiction's assessment of money laundering risk. I think that changes the game if some of the Member States, as I suspect they will, seek to use the stronger directive, with stronger enforcement powers with specific reference to online gambling to find a way to reduce gambling supplies. So I do have some concerns. It's going to be a huge amount of work for people, and at the end of it operators may not be able to do business in some states"

Paul Leyland - "I think the challenges for land based might be considerably simpler but certainly no less problematic, and I should reiterate that this is my view and might not be that of the ABB. To my mind, the industry is very good at batting averages about and every operator in the room knows that those averages are very misleading, that the industry's reliance upon higher spending customers is pronounced. The case of Graham Calvert vs. William Hill was a great example. It was thrown out, but it does highlight, as an extreme, the huge sums of money that can change hands between relatively few people. The fact that the average bet size is completely irrelevant in that context; there is absolutely a need to apply AML regulations. There was, of course, a debate about the limit, but if any operator is suggesting that there is absolutely no need for AML, that would be not only risible, but counterproductive."

Russell Kelly - How do you think they will police AML in the landbased environment? Are you going to have to produce ID, and what assurance is that going to give the bookmaker that those cash funds are not the proceeds of crime?

Paul Leyland - "I think there are two points to this argument. Number one is that the betting industry, as opposed to the casino industry, is not used to doing it. Number two concerns the problem that you're actually solving. In general terms there is almost certainly a problem and almost certainly a need for regulatory intervention. That debate should focus on proactively solving the problem, rather than act as a forum for bookmakers to protest their innocence."

The dangers of the UK Point of Consumption Licensing and Taxation Regime

Sir Peter Caruana KCMG QC

Sir Peter Richard Caruana, KCMG QC is a former Chief Minister of Gibraltar (1996-2011) in which capacity he also held the portfolio of Minister for Gambling, was an architect of Gibraltar's pioneering legislative and regulatory regimes and oversaw Gibraltar's growth into one of the world's premier and best regulated online gaming jurisdictions. He has now returned to legal practice and acts as a consultant to the Gibraltar Betting and Gaming Association.

Despite acting as a representative and consultant for a number of private firms and public regulatory bodies in various roles, Sir Peter addressed the KPMG eGaming Summit in an individual capacity, and as one privately concerned with the impact of the UK's Point of Consumption Tax model on both the UK and Gibraltar's eGaming economy.

"This is an important moment for this industry in general, and for Gibraltar in particular," Sir Peter began. "Let me say at the outset that I am optimistic, and in no sense pessimistic, about Gibraltar's ability and indeed prospects of remaining a jurisdiction of choice and excellence for your industry. It is reflective of the fact that Gibraltar is an important player in this industry, particularly the part that faces the UK, that all stakeholders have taken part over the last 18 months or so in the attempt to ensure that what the UK does in relation to its announcement to alter the basis of its licensing and taxation system was sensible. Sensible, not just in relation to the interests of the industry, but sensible in their impact upon those who these measures are purported to be in the interests of: the consumer, and sensible also in relation to the UK Treasury that was obviously after more money."

"Part of our objective had been to try to prevent the United Kingdom from committing the same mistakes that other European countries had committed and try to ensure that the UK would learn those lessons," Sir Peter continued. "There has been some quite intense dialogue with the Department of Culture, Media and Sport (DCMS) and with HM Treasury to achieve that. Usually when governments are lobbied by sectorial interest groups, there is an intrinsic conflict of interest between what industry doesn't want, and what the government wants. Here, we thought, was an opportunity, rare indeed, where it was possible with a little bit of intelligence, application of industry expertise and sensitivity to the government's objectives, to actually line up all the stakeholders' ducks in a row – the British consumer, the British industry, the Gibraltar industry, and the UK Treasury."

"We could see a clear win, win, win scenario; a win for the sector, the consumer and HM Treasury's tax yield. In the event, we have not enjoyed a great degree of success for any. Indeed on licensing we have enjoyed none, and on tax it looks as if it may be none, but it looks like we may still succeed in the latter areas. We think that a great opportunity for a win, win, win scenario has been spurned. The opportunity has been wasted and, therefore, if we were driven and

motivated as a collection of Gibraltar stakeholders to engage with the UK Government by concerns about certain outcomes, it is axiomatic that if we have failed then we now face the very dangers that we were seeking to prevent in the first place."

Licensing

Sir Peter continued in explaining that the UK Gambling (Licensing and Advertising) Bill, which was expected to receive royal assent in May 2014, establishes a quite unprecedented system. Effectively, in his opinion, the Bill allows operators with little or no market penetration or nexus to the UK to obtain a UK licence. Indeed, the Bill provides that operators must obtain a licence if their facilities are used in the UK. This obligation extends to every operator on the planet that offers facilities into the UK on penalty of committing a criminal offence.

"Those of you who are UK lawyers, and those of you that have had recourse to the UK judicial system before will know that, almost uniquely, the UK has a legal system of public administrative law and judicial review which is considerably more intrusive of administrative and executive discretion than most other legal systems around the world. The idea that in a situation where people commit offences unless they have a UK licence - and that that offence is committed as easily as

“We could see a clear win, win, win scenario; a win for the sector, the consumer and HM Treasury’s tax yield.”



“How will the Gambling Commission obtain the capacity and ability to monitor compliance? How will it enforce sanctions?”

having equipment anywhere in the world that they know, or should know, is being used by just one person in the United Kingdom – the UK courts are going to allow the Gambling Commission to exercise the degree of administrative discretion as would a jurisdiction that is being selective in their licensing process, is naïve in the extreme.”

Sir Peter continued: “I believe that, on the basis of the way in which this statute has been drafted, the Gambling Commission is going to be inundated with licence applications and is going to be hard put to restrict the numbers and nature of the companies that are allowed into the United Kingdom in a way that is going to bear scrutiny in court. So there is a danger of a multitude of UK licences, and the UK Gambling Commission will simply not be able to effectively and reliably regulate those operators spread around the world. In good times it doesn’t have the resources, let alone in stringent, austere times which show no signs of abating.”

The alternatives

Sir Peter explained that Gibraltar had suggested an alternative model designed to protect the UK, its consumers and its industry from the consequences of these provisions, and had proposed a system of modified passporting that would have allowed the UK regulator to have relied on and used local regulators in the (approved) home jurisdictions of overseas companies as an extension of the UK regulatory reach. Through regulatory memoranda of understanding, the Gambling Commission would have been able to effectively regulate companies established in jurisdictions which were approved by virtue of the UK’s own regulation and statutory systems. “Yet we failed, at the highest level, to persuade the DCMS to adopt them.

This was in the face of dogged opposition from the Gambling Commission who saw it as a frustration of their desire to achieve the powers and functions that they felt were necessary, but that those of us in Gibraltar and elsewhere where there was a store of experience knew would operate to precisely the opposite of the intended effect to enhance protections to the UK consumer.”

“How will the Gambling Commission obtain information?, Sir Peter asked. “How will the Gambling Commission obtain the capacity and ability to monitor compliance? How will it enforce sanctions?”

All of these are unanswered from an organisation that has already demonstrated how difficult it can be to regulate distant operators that it has already licensed in to the UK. How, too, will the Gambling Commission protect the UK consumer and police or prevent the black market operators which have suddenly been handed the incentive to target the UK market?”

“This is all to take place at huge reputational risk not just to the United Kingdom but to reputable regulated entities in the UK because, effectively, the government has set up “brass plate Britain” when it comes to online gaming. Companies will be able to operate under a licence, tax free as far as Britain is concerned, anywhere else in the world. Companies established in whatever remote corner of the planet you might wish to imagine that may have no UK business and indeed no intention of having UK facing business will nevertheless be able to apply for and obtain a UK licence which will provide them with the imprimatur - the badge of honour – which the rest of the world, rightly or wrongly, may interpret as a badge of reliability, quality, and of respectability.”

“This is all to take place at huge reputational risk not just to the United Kingdom but to reputable regulated entities in the UK because, effectively, the government has set up “brass plate Britain” when it comes to online gaming. Companies will be able operate under a licence, tax free as far as Britain is concerned, anywhere else in the world.”



Compliance and AML

Sir Peter posed the question of how, therefore, the UK will continue to comply with its international anti-money laundering obligations, an area in which the British Government itself currently leads. He posited that the implications are of huge reputational risk, and indeed danger, to the UK and those companies already established in the UK, all for no discernible net gain. "So despite the absence of evidence for the need for this change in regime - in the context of the way the existing one is working, for which no evidence has been provided that it is exposing the UK consumer to particular levels of risk, certainly no more than they will now be exposed to under the new regime," he added; "this will saddle compliant, licensed operators with additional and unnecessary licensing and compliance costs."

"These companies are, therefore, faced with a choice. In an industry where there is already a low margin they will either have to absorb the costs themselves, or they will have to pass it all, or in part, to the consumer, becoming in the process uncompetitive in the global virtual market with which we are concerned. When that happens, overseas, unregulated operators that hitherto have had no incentive to target the UK market will do so because this Bill risks providing those consumers with the reasons they have never before had to migrate, to do business, to play, to bet, with those unregulated operators.

"This is an industry with a customer base that is savvy, extraordinarily mobile, and extraordinarily price

sensitive, and this Bill saddles the UK's reputable core of suppliers to pricing pressures that will make their products less competitive than it is almost too obvious to need saying. So a Gambling Commission that arguably lacks resources to regulate what it currently does in terms of online operators is hardly going to be well placed to enhance that level of consumer protection which is currently delivered to UK consumers by the vast majority of UK facing gaming operators today located in reputable, well regulated jurisdictions in which the UK has confidence," Sir Peter added.

European Legal Implications

"There is, to boot, a body of eminent legal opinion that considers that this Act is unlawful under European law. Why? Because it places unsuitable and disproportionate burdens on European operators whilst increasing consumer risk." Rhetorically, Sir Peter asked the question of 'why should the UK not be free to do what other European countries have been doing and continue to do?'. The answer, he submitted, is that the UK is restricting a hitherto open market as opposed to, in part, liberating their closed markets. He explained that Article 56 of the Treaty established in the European Union, which regulates restrictions on the freedom to provide services, makes it clear that the only justification for placing restrictions on the provision of services to consumers in the UK is if there is a legitimate aim. "And that by itself is not enough," he remarked; "the aim has got to be legitimate, and the means to achieve it have got to be proportionate. Those that subscribe to that view believe that the UK's measures do neither. There is no evidence for it and there are

alternative, less burdensome proposals available which will enhance the whole legitimate aim, but which have been declined. Indeed, it is difficult to find an expert in this profession that does not believe that this Act will degrade, rather than enhance, consumer protection."

"I won't take your time by reminding you about the global nature of this industry, about the effect of turnover and consumer migration, except to say this; governments often don't sufficiently recognise that, effectively, the government is a shareholder in every single business in their country. There are times, therefore, when the interests of the other shareholders in the business are actually aligned with those of the government, which as tax collector, probably has a bigger stake as quasi-shareholder than any other real shareholder. Anything that jeopardizes the volumes, revenue and sustainability of the client base of the operators who are the tax base of the UK revenue undermines, in similar measure, the sustainability and the level of the yield for the treasury."

Sir Peter continued in explaining that when a conversation to this effect was engaged with the UK Government by UK stakeholders, their proposals included measures that would improve the sustainability of the country's tax base and reduce the effective rate of the tax to the UK's operators. Deductions included, for example, top-line areas that were currently deemed to be income, but which in reality are not, such as free bets and bonuses: "reasonable acquisition and retention costs"

Sir Peter referenced the critical effect, not least for the operators, but for the UK tax base of the loss of clientele through price competitiveness, drawing upon what he described as the “frightening figures” associated with business currently done through the affiliate markets. “These are people whose willingness to send traffic to UK licensed and taxpaying companies, as opposed to their unregulated counterparts who have not been saddled with additional costs, will depend entirely on whether the affiliates’ income is prejudiced or not,” he explained. “So the companies will have to pay not just a tax on the business the affiliates send their way, but also pay the affiliate its share of the revenue on a gross profits basis; effectively, therefore, succumbing to two losses. The price of not doing so is the risk that the affiliate sends the business elsewhere, the operator loses the revenue, and the British Treasury loses its tax base. You see, the ducks were in a row all the time.”

Jurisdictional comparison

In drawing towards a conclusion, Sir Peter explained that, ultimately, much will turn on the topic of enforcement. A summary of his arguments found that a lot was premised on the view that it is not possible to effectively prevent consumers from migrating to competitors and it is not possible to prevent unregulated operators from targeting the UK market. “But that view is not used simply for self-serving purposes,” he argued.

“You all know of the statistics that are out there in the public domain that demonstrate it. In Norway, more than half of online players have found a way to circumvent the payment blocking

measures that were introduced there in 2010. In Italy, despite website blocking, official sources close to the regulator estimate that up to 50 percent has gone to and remains with unregulated operators. In France, the situation is not much better; up to 70 percent of sports betting is in the hands of unregulated operators. The US demonstrated that legislation and prohibition is simply insufficient to guarantee the integrity of a national gaming market, unless you are willing to take extraordinary measures – which do not come easily or naturally to countries such as the UK – to physically and technologically enforce against the things that they want to prevent from happening. But in those countries that have tried it, and I don’t see the UK with any ideological propensity to go down this road, they have almost always demonstrated that it doesn’t work: the consumer will always find a way around such measures.”

Conclusion

“There are dangers, lots of dangers for both licensing and taxation,” Sir Peter stated in closing. “The Point of Consumption system is dangerous for the operators, and it is dangerous for the consumer in the UK. There are also dangers for the UK Treasury, which I think has been motivated by their drawing a figure of around £270 million in the air that they would rather not collect than have to explain to parliament why they are changing it. They will be lucky to collect that figure and they will be lucky to collect it sustainably unless ways can be found to protect the compliant, licensed sector operators from loss of business, loss of margin, loss of profitability, and loss of turnover in

favour of unregulated, unlicensed operators offering their products at a much lower cost base.”

“In so far as Gibraltar is concerned, I think concerns about the impact of these measures tends to be overstated. I think there will be a period of readjustment; some established operators in Gibraltar may choose to make alternative arrangements and others may wish to reconfigure their operations, but here is an industry that is still growing in Gibraltar, and is growing impressively in spite of all these months of uncertainty. In my view, it will continue to do so. The industry in Gibraltar is robust and established enough, and sufficiently engrained into the ethos of our companies, community and economy, that the Government will remain sensitive to its needs. Whatever the temporary disruptive effects of the introduction of this new system in the United Kingdom, the combination of that, I am certain, means that Gibraltar will remain a location of choice and one in which we can expect growth to continue.”

Panel Session 3

The Outlook for Gaming

Moderated by:

Peter Montegriffo, Hassans

Panelists:

Archie Watt - Director, KPMG Gibraltar

Juergen Reutter - Operations Director, William Hill Online

Martin Weigold - Chief Financial Officer, bwin.party digital entertainment plc

Michael Carlton - Chief Executive, BetVictor

Before putting questions to the final panel of the day, Mr Montegriffo first expressed his desire to set the scene very briefly by highlighting five main themes that are impacting on the sector at present. Firstly, he noted the political environment in which the sector operates. "Clearly the political environment in the United Kingdom is extremely difficult, even hostile," he remarked. "We need to ask ourselves if there's more we can do to correct that. The political tide in Europe, however, is probably, at best, indifferent. Those of us who harbored expectations that we might have had some relief from Europe probably gave up that expectation long ago, although we will always remain hopeful that perhaps some deeper engagement might still be possible in the future."

"The second theme," Mr Montegriffo remarked, "concerns the huge divide between the regulated and unregulated sectors. Operators are grappling with this reality more today than ever before. Developments not just in Europe but also in the United States mean operators are going to have to decide how to position themselves and decide what risk appetite they will have in a world where the challenges of dealing with both markets will, I believe, become difficult to handle."

"Thirdly, as a result of many factors, margins are being squeezed further. We will discuss what this means for market consolidation, what the new dynamics for the new market are, and what these will mean for the outcome

over the next few years. Then comes the role of technology, not just in delivering the product to the customers, but also in payment processing systems and indeed the way that businesses run. We are well aware of the significance of mobile, we are well aware that delivery of the product has changed dramatically. So have we moved away from the traditional methods of delivery, or are we moving into an area where the delivery systems are going to be multi-faceted or diversified than they were three or four years ago?"

"Finally, because we're in Gibraltar but also because we're in a business that operates internationally; what is the future of 'hub' jurisdictions given the inexorable move towards regulated markets in a domestic context, putting to one side the prospect of convergence at European and even US level. What is the value proposition of jurisdictions like Gibraltar? What more do we need to do to remain relevant and, indeed, be of value to operators? So with that introduction, a very simple question; what are the top three priorities for the development of your business over the next few years?"

Michael Carlton - "I think, firstly, it's important to focus on the multiple distribution channels that are available to us. We're focusing specifically on mobile of course, but it's important to make the complete range of delivery channels available so that the customer can use them at the times, and in the ways and manner that best suits them. Secondly, looking at the

pressures that we have to bear at the moment, we need to consider ways to broaden and increase our revenues to counter the new costs of operating. Third is maximising the efficiency of our cost base to ensure that we can generate profit as effectively as possible."

Martin Weigold - "Firstly, I agree that a critical part of the success of most companies now is to continue to evolve your products as we transition to mobile. The other two priorities include preparing for the transition towards internationally regulated markets, which are coming whether we like it or not. We've been experiencing this first hand, with 56 percent of our revenue coming from nationally regulated markets. That transition is very painful, so whatever you can do to set up your businesses to enable that to happen more effectively i.e. ensuring an open and adaptable platform to comply with all these regulations, is going to be a good thing. Also, that means you have to choose your battles more carefully; you can't be a winner in every market you operate in. When we see these markets opening up there will be new players that emerge, so you have to focus on those markets where you can be a top three player. My third priority concerns the agility of the business. Consumers are becoming increasingly demanding so the ability to react swiftly to consumer demand is very important."

Juergen Reutter - "Just to add to that, we believe there is a great opportunity awaiting for the sector in the general technological developments that are ahead of us. If we look at the UK, 4G and free WiFi coverage is increasing, Smartphone and Tablet penetration is booming representing underlying drivers that we must embrace. The industry is at the forefront of mobile technology and this must remain the case with emerging technologies if we are to continue to drive our business to the next level. This ties in with my final priority which is to have product and service innovation as an integral part of the organization."

Archie Watt - "I echo what has been said on technology; harnessing and making the most of it is a key priority. Secondly, I think businesses need to place more focus on keeping customers and enhancing their experience. Acquiring customers is expensive, but keeping them for longer must be a more cost effective option. Thirdly, and to pick up on an earlier discussion; if companies can get ahead of the curve in terms of what the regulators want for player protection and problem gambling, they can be seen as good corporate citizens. Being a good corporate citizen is going to be beneficial to the future of the industry."

Just to focus upon the point of broadening the revenue stream; are we talking about the retention of and extraction of more value from existing customers? Is it simply a case of being better at delivering the product they will buy? Are we talking about expanding client base demographics, or diversification into areas such as social gaming?

Michael Carlton - "I think it's a combination of all of those. As Archie was saying, the cost of acquiring customers is increasing day-by-day, so once you've got those customers it is vital to try to extract the maximum value out of them and for the longest period of time. This entails keeping the customers happy, keeping them playing, and it entails player protection as well. If the customer is content and

happy, and everything is working as it should, then they will naturally stay longer. It's in everyone's best interest to do that."

Juergen Reutter - "For us, again, it goes back to technology. Every customer in the UK, for example, has two to three accounts running at any one time, so retention is key. If you look at mobile we now have 1.5 million app downloads in the UK. This enables us to communicate with our customers via 'push notification'; a notification which arrives directly from the app on to the user's home screen. You cannot get closer to your customer unless you shake hands. This can not be a one size fits all notification, it has to be tailored and personalized to drive added value to each single customer. In order to do that you have to be able to complete the bridge between your front-end presentation technology and the data systems in your backend. This is one of the key challenges for the future: Leveraging on user data for a tailored personalized offering presented in real-time to your customers."

One of the bigger challenges is learning how to deal with the new regulated markets in Europe and elsewhere. What effects will that have upon the issue of market consolidation, and the issue of who survives and who does not?

Martin Weigold - "I think there will, to some extent, be a polarisation. There will be some M&A or consolidation in both the unregulated and regulated sectors, and there will be some companies that will happily operate in the unregulated markets – as we know, it is very profitable to be there. Equally, I think the larger companies will focus on the regulated markets in the future and so it is inevitable that there will be some degree of consolidation."

"Taking the UK as an example, I don't think there will be a rush towards consolidation. When the market opens there will be a large discrepancy between what the vendor expects the impact to be on their target business'

operations, compared to what the potential buyer thinks. So I think there will have to be a period of 12 to 18 months, during which the buyer will wait to see what the true impact is. This will result in some of the medium sized companies being absorbed, while some of the smaller companies, quite frankly, will struggle to survive."

Archie, are you seeing some of those stresses in the market?

Archie Watt - "The M&A market is quite buoyant at the moment, with some of the smaller entities actively looking to be acquired. These are entities which have a particular USP, something that they've developed and brought to market up to a point, and which are now looking to exit. That has always been the case, however, and the UK's new regime is not changing that. I agree with Martin: just as in France and Spain companies are looking for a voluntary exit from the UK market. As for consolidation, we've been hearing a lot of promises for a very long time."

Juergen Reutter - "I agree with Martin: I think the pressure on the tier 2 and tier 3 players in the regulated markets will only increase. To take the UK again, it's a big tax hit that has to be absorbed into the bottom line. Add to that the cost of acquiring a licence in order to remain compliant in those jurisdictions, and the cost of facing the incumbent operators, and you can see that it won't be an easy environment for smaller businesses. As a result, I think we will see an increased market share for the tier 1 players."

I think we're all agreed that we haven't done a very good job historically of defending and promoting the industry, or in presenting the safeguards inherent in our technology to dispel the prejudices that exist. What more do you think we should be doing?

Michael Carlton - "I think we ought to focus on what we're good at. This means delivering a product that is what the customer wants, it means working very closely with regulators in

the market, and it means working with the governments where necessary. It's about enhancing the reputation of the individual companies and the industry, and making sure it attracts the best people to deliver the best service to create the right level of perception and confidence in the industry. I think a hub such as Gibraltar, which does pick up on a number of those points with its support from the government, regulator, operators and individuals, can only add to the whole quality of the industry."

Martin Weigold — "I certainly agree with Michael, and I would add that one area in which the industry can definitely improve is lobbying and how it interacts with various interest groups. I think there should be more competition on commercial and technological merit, and perhaps fewer attempts to exclude certain types of operators by alleging that, say, one form of gaming from one type of operator is worse than another. It's bad for all of the industry. I have to say, however, that I've been very pleased with the level of cooperation the industry has shown in getting together on the Point of Consumption tax and I hope to see similar levels of cooperation in other areas in future."

Archie Watt - "I absolutely agree; speaking with a single voice has to be good for the industry. The UK Government seems to be driven by the front page of The Daily Mail so what the industry needs to be doing is projecting that single voice onto its front cover. It needs to show that it is taking positive action in the areas where The Daily Mail has had concerns in the past. That must be the right way to go forward."

Moving on to hub jurisdictions like Gibraltar; what do you think are the major issues we need to tackle in the medium term to remain a jurisdiction of choice for major international players?

Michael Carlton - "I think it's our ability to adapt: Gibraltar was terrific 15 years ago when it realised gaming would be a tremendous opportunity and it has enjoyed great success. Now, with the challenges that face us, we

must maintain that flexibility and adaptability to embrace change and sustain the positive environment that we work in, despite the fact that it will not look like it does today. It will change, and we need to drive that change. This includes the way we as operators, the government, and the supplier industry operates."

Martin Weigold - "I think Gibraltar has indeed shown itself to be very adaptive, and whilst recent national regulatory developments in other jurisdictions have made the principles of a hub jurisdiction less relevant, there are still many reasons to choose to be based here. We still enjoy corporation tax and VAT advantages, a robust licensing regime, and an established pool of industry expertise. Of course, there is still room for improvement. Ultimately all our businesses are about our staff, so we have to focus on attracting more people to our jurisdiction and keeping them here. Things like the border issue are relevant to our business to the extent that it affects our staff and their desire to live here."

Juergen Reutter - "We have around 450 people who we are able to recruit and retain because they are very happy here. We are looking for very specific skills in people, many of whom are working at the forefront of new and emerging technologies, and driving our product development. There are many reasons for us to be committed to Gibraltar, but the border situation remains a topic of discussion for the many who have to cross it daily."

Archie Watt - "I agree in that I think there are still many benefits to be had by operating in Gibraltar. I travel through many similar jurisdictions – Alderney, Malta, the Isle of Man, and the brass-plate operations in the UK - and I would split them into two categories; the brass plates of Alderney and the UK, and the ones where there are real operations taking place, such as Malta, Gibraltar and the Isle of Man. The issues we all have are staff related, but we have to understand that the 'generation Y' people we recruit have entirely different approaches to work

compared to my generation – the parents of the generation Ys. They want a different lifestyle, have a different outlook on life, want to do different things during the day and during the weekend. If a jurisdiction wants attract staff then they need to ensure that this generation is catered for. This means resolving such issues as the Gibraltar border and making sure that the leisure activities are available. That's the sort of stuff that really attracts people, and if you can't attract staff your business cannot continue in the long-term."

Do you see social gaming coming into the sector in the medium term? Even if it doesn't, do you see it as a viable means of broadening your revenues?

Martin Weigold - "I don't think that particular business needs to become regulated in order to become of interest to operators. It is a very good opportunity and you only have to look at some recent acquisitions in the space - Caesar's with Slottomania and Bingo Blitz, IGT with Doubledown – to see that there is the potential for a lot of growth. At bwin.party, our approach has been a little different. We've actually bought a development team based in the Ukraine, which is beginning to roll out some of the first social gaming slots. This is very much a 'hit' driven business, however, and the jury is still out on the level of conversion between social and real money gaming."

"Overall, I do think social gaming is an opportunity for operators. Personally, I don't think it ever will be the case that there is a large overlap between social gaming and real money gaming, but the numbers are so high that you don't need such a large cross-over for it to become a meaningful business. It is also important to remember that we can learn a lot from social. Without the real money aspect, the quality of the gaming experience needs to be enhanced, so what we're trying to do is take some of those social features and build them into our real money products."

"In terms of regulation, I think social gaming will inevitably attract the interests of the regulators at some point as the lines between social and real money gaming are becoming increasingly blurred."

Moving on to effective enforcement; is there more that we, the regulators, or the governments can do to impede the grey/black market or to discourage players from entering it at some point in the near future?

Juergen Reutter - "I think we as an industry all aim to operate in a regulated market, in strong partnership with the regulators and in a healthy eco-system. Enforcement is key for us. It is expected, in the end, of regulated operators and there are technical measures that can be taken by regulators to help the process of enforcement. In the short-term, the issue is one of resource; the expectation from licensed, responsible operators is that there should be some protection afforded to those operating within the regulated environment."

Martin Weigold - "To the extent that we are able to deal with it, I would say we need to deal with it 'at source' and get the regulation right in the first place. The UK is regulated at the moment, with almost no black market, whereas the French market has between 60 to 70 percent of it in the black market. Why is that? It's because the French regime is uncommercial and the market is substantially distorted by the product restrictions and high tax rates that are placed on it. For me, educating those that are drafting the legislation at the outset is important. We need to make them understand that the facts we provide are true, are not aimed to distort, and are for mutual benefit. Of course, as we've heard from Sir Peter Caruana QC in an earlier presentation concerning the UK, you can bring the horse to water, but you can't always make it drink. As far as enforcement is concerned, I think that it is as much about political appetite as it is about technical ability."

How do you see alternative payment methods gaining traction within the industry over the next few years?

Michael Carlton - "I think you have to be flexible and keep an open mind. The consumer is quite quick to embrace new technologies and concepts and virtual currency is one of them. I'm not sure to what extent it's going to penetrate into the market, however; even with the vast amount of e-wallet solutions that are available and the number of customers that use them, they are still eclipsed by credit and debit card. Yes, customers will use Bitcoin, say, and propensities for use will vary from market to market, but I think it will form another part of the many payment solutions available to them."

Where do you see the industry in two to three years' time? Are we in the throes of a transformation?

Juergen Reutter - "Again, I would like to answer from a technological point of view. Eight to ten years ago, when we were developing for the PC, operators only had to worry about compatibility with two to three major web browsers. Four or five years ago, with the emergence of smartphone, our developers were faced with a couple of hundred devices with which to ensure compatibility. Today, most operators have become flexible enough to accommodate both, but what we're also seeing is multi-device driven behaviours in our customers. A user may start their journey during the day on their smartphone and move on to a PC at lunchtime, while the evenings are increasingly being taken over by tablets. Looking two or three years ahead, we'll see wearable technologies – iWatches and Google Glass – coming to the market. So there are added complexities for the operators and their developers to work with and adapt in order to offer a seamless gaming and entertainment experience across different platforms. Those are the major challenges, but they are also the major opportunities for the sector."

Martin Weigold - "I agree with Juergen entirely, I think the market will still be growing on the back of new technology, but I also think that gaming in general has become more socially accepted – that's one of the benefits of national regulation and the freedom to advertise. This is good for the industry. Having said that; there will be a few bumps during the process of transition where restrictions are placed on the market. Casino and bingo as a product group are markets that will be adversely affected by national regulation. Certain countries, as with the Spanish slot offering, will look to restrict them in some way. Concerning poker, I think product growth is pretty tired in Europe - the potential there lies with the US as and when it opens up - while prospects for sports betting remain positive across the board. Asia shows little sign of regulatory development and I expect the market will remain somewhat in the grey area, despite its being a potentially very lucrative market for operators willing to accept players from that jurisdiction."

Michael Carlton - "It's a very exciting time. The markets are growing, the propensity to gamble is increasing and the availability of the product is increasing. There are new markets becoming available to transact business in and I've never seen an industry in which the people are so agile, resourceful, and resilient. Of course, we are going to see some changes in tax and regulation, but it will accept those, it will find resolutions, and it will be stronger and better for it."



Archie Watt

Russell Kelly

Closing Words

Russell Kelly

Director, Audit & Advisory
KPMG Isle of Man

Mr Kelly concluded the day's events with a closing address which remarked upon the rapid growth of the KPMG eGaming Summit Gibraltar series in just the four years since it first began. "Thank you everybody for coming along today to our fourth eGaming Summit here in Gibraltar. It is tremendous to see the level of support we enjoy for all of the Summits we run here and in the Isle of Man and I'm sure you'll all be pleased to know that for the first time now the Gibraltar Summit has grown in size beyond its Manx counterpart," he enthused.

"Key to this success has been the tireless enthusiasm of our eGaming team both here in Gibraltar and in pockets of influence across the globe. We all play our part in helping this industry to progress, perhaps none more so than our resident expert Archie Watt. It is for this reason among many, and with great pleasure, that I would like to take this opportunity to announce Archie's appointment to Director of KPMG Gibraltar and to offer my congratulations on behalf of everyone here at KPMG."

Mr Watt then took over from Mr Kelly in thanking the KPMG team and those who attended the day's events: "I'm sure the success of the KPMG eGaming Summit series reflects upon the quality of speakers who were kind enough to join us and offer their expertise, and upon the attitudes of the eGaming community here in

Archie Watt

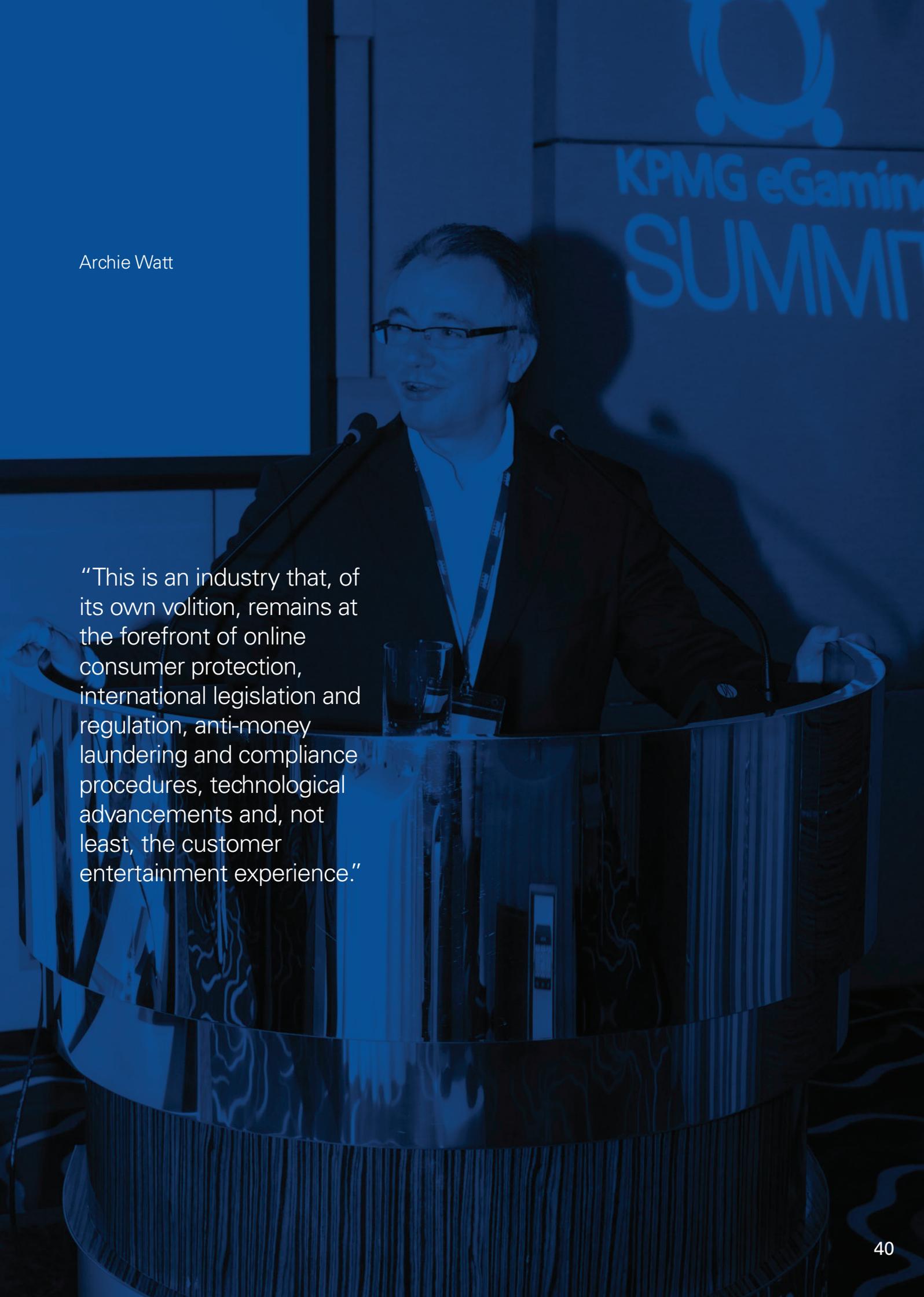
Director
KPMG Gibraltar

Gibraltar," he remarked. "It has been evident throughout the day that there is a growing acknowledgement of the imperative for the remote gaming community beyond Gibraltar to adopt a collective stance in extolling the virtues of the industry, rather than competing on common ground."

"This is an industry that, of its own volition, remains at the forefront of online consumer protection, international legislation and regulation, anti-money laundering and compliance procedures, technological advancements and, not least, the customer entertainment experience. What remains is to come together to tackle that final and most elusive of obstacles; public and political perception."

"As many of our speakers have already reiterated today, it is up to the industry to ensure that those in a position to have a significant effect on eGaming, its laws and regulation, contribution to the economy and, of course, customers, are made aware of the great care it takes and the progress it has made in little over the decade and a half since its inception. It is hugely gratifying, with the passing of each KPMG Summit, to take an active role to this end and to see the growing consensus that this is an industry that can meet any challenge and still only go from strength to strength."

Mr Watt then took the opportunity to thank the day's sponsors – Continent 8 Technologies, Gibtelecom, Counting House, Standard Bank, Sphonic, Hassans, Word Trade Center Gibraltar, Call Credit, Sunborn Gibraltar, DLA Piper and the Isle of Man Post Office for their generosity and support throughout the process before expressing his gratitude to the speakers and panelists who helped make this year's eGaming Summit in Gibraltar KPMG's most successful to date. "Finally," he added, "I would like to say a big thank you to my team at KPMG, particularly Katie Richardson, as well as the team at Ashgrove Marketing for putting all of this together. Thank you and we look forward to seeing you all again next year."

A man with glasses, wearing a dark suit jacket over a light-colored shirt, is speaking at a podium. The podium is a large, cylindrical structure with a metallic, reflective top section and a pleated fabric skirt. A glass of water sits on the podium in front of him. Two microphones are positioned in front of the speaker. In the background, a large screen displays the KPMG logo and the text "KPMG eGaming SUMMIT". The entire scene is bathed in a blue light.

Archie Watt

“This is an industry that, of its own volition, remains at the forefront of online consumer protection, international legislation and regulation, anti-money laundering and compliance procedures, technological advancements and, not least, the customer entertainment experience.”



Micky Swindale

Archie Watt

Mike Harvey

Russell Kelly



cutting through complexity

