KPMG

KPMG Malta Gaming eSummit Report 2019

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Contents

Introduction

I am immensely proud to be presenting you with the KPMG Malta eSummit 2019 report.

As many of you know, the eSummits are hosted in Gibraltar, the Isle of Man and Malta, each year. They are invitation only gaming conferences, and are here to provide the industry with thought provoking strategic insight, across a spectrum of themes.

The KPMG eSummits serve the purpose of saying thank you to our clientele for trusting in KPMG as your advisors. We believe that we bring together some of the greatest minds within the gambling industry, together under one roof, with an objective of providing valuable insight. This insight could be for the benefit of safeguarding an operator's brand, strengthening one's commercial efforts, or indeed, to capitalise on new horizons.

The other aspect is that the eSummit provides a platform for KPMG to grow closer to a truly dynamic industry. It provides us, as KPMG, with a deep understanding of the sphere from a 360-degree viewpoint, with the objective of providing you, the industry, with a more insightful and conscious offering, that is truly in-tune with your operational requirements.

This KPMG eSummit report will provide the reader with a synopsis of the main room sessions that were shared by market-leading thought leaders on the 26th November 2019 in Malta. I hope you find it to be as fruitful as we intend it to be.

Best wishes,

Russell Mifsud
Director - Gaming Lead
KPMG in Malta

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A Word from the Sponsor

It is my great pleasure to present the eSummit report once again this year. As ever Continent 8 is grateful to KPMG for the opportunity to sponsor and support this event in Malta.

Indeed, thanks are due to Hon. Silvio Schembri MP for his most informative opening remarks. Like the day itself I hope you will find this report engaging and beneficial.

The thought-provoking eSummit agenda themes clearly caught the industry mood well given the number of visitors to Malta, with both the main room and break out rooms packed to capacity! As the industry considers this report with challenges and opportunities around regulation, advertising and M&A to name a few, Continent 8 will remain a solid hosting, network and security partner to you both in Malta and elsewhere.

Since the 2018 KPMG Malta eSummit we have significantly expanded our Malta network and services further emphasising our commitment to local and international solutions for our customers and the Island's economic development. Other expansions also took us further into the United States, Latam and Asia including a range of new data centre facilities, Cloud and connectivity solutions across the globe.

I look forward to seeing everyone again at the KPMG Malta eSummit later in the year to share our collective experiences once again.

With best wishes,

Michael Tobin
CEO
Continent 8 Technologies

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> “From an industry perspective, 2019 has certainly been another busy year for the remote gaming sector and I don’t think anyone expects it to slow down over the course of 2020.”
>
> **Russell Mifsud**

Opening Speech

The KPMG Malta Gaming eSummit 2019 began with a welcome from **Russell Mifsud,** director of gaming for KPMG in Malta.

Mifsud explained that the event, which featured 65 speakers, aimed to cover the major themes of 2019, as well provide insight into the years ahead.

“From an industry perspective, 2019 has certainly been another busy year for the remote gaming sector and I don’t think anyone expects it to slow down over the course of 2020.

“Compliance, with all of its complexities, has continued to drive consolidation into play as a result of margins being squeezed and an ever-growing need for strategic growth. Responsible gambling, advertising restrictions, taxes and AML have continued to play a dominating role in this ever-maturing industry.

“New legislation and regulation continue to drive the sector on a global scale, and as the gaming sphere continues to become increasingly more complex, then the need to anticipate the emerging trends and obligations of the industry continues to grow tremendously.”

Mifsud thanked KPMG’s law partners for their collaboration in the event: Asensi Abogados, Hambach & Hambach, Tonucci & Partners, Kalff Katz & Franssen, Wiklund Law, Duane Morris LLP and Wiggin.

He also thanked the eSummit’s sponsors: Microgaming, Gecko Technology Partners, Continent 8 Technologies, Gaming Malta and IDnow.

Opening Words

Silvio Schembri, Parliamentary Secretary for Financial Services, Digital Economy and Innovation for Malta, then provided his view on the industry

"It is most satisfying to be here today this morning to address yet another KPMG summit, which is testament to another successful year for the gaming industry and our country's contribution to this aim. At this point, to say that Malta is considered the leading jurisdictional hub on the global stage would be nothing short of an understatement.

A trailblazer among its European counterparts at regularising the remote gaming industry, Malta can now boast that over the past years this thriving sector has become one of the fundamental cornerstones which strongly contributes to Malta's unparalleled economic growth.

But this sure progress of the sector within our shores is no random coincidence. A strong IT infrastructure, a collective innovative drive, a government who has a long-term vision for this industry and is open for business, as well as a first-move approach which allows our country to adapt to ground-breaking technological advancements, are all favourable factors which converge to enable this momentum.

However, it is our foresight and commitment as the government to regulate the sector which has ultimately established the reputation of Malta as an exclusive hub for iGaming companies. The development of an unrivalled ecosystem, coupled with a reputable regulator, strengthening the Gaming Act since 2018, retains Malta's ranking as the ideal jurisdiction for the sector.

However, both the government of Malta and the Malta Gaming Authority are acutely aware that the gaming industry is a fast-paced and dynamic one, which continually seeks to innovate. In light of this, the new regulatory framework that was published in 2018 was structured in a manner which not only ensures that the MGA is empowered to act rapidly and flexibly in order to ensure that advancements in technology which are embraced by the industry are also well catered for in the legislation requirements, but also strives to ensure that innovation is not stifled by the regulatory objectives that the authority is required to follow.

A clear example of the application of this ethos is the Sandbox Regulatory Framework, which was issued by the Malta Gaming Authority, establishing requirements for gaming licensees to be able to accept virtual financial assets as a means of payment and to avail themselves of DLT [distributed ledger technology] in their technical infrastructure. It is designed to be highly adaptive and easy to amend, enabling therefore the authority to ensure that the requirements are tweaked as required on an ongoing basis to ensure not only their effectiveness, but also their proportionality and appropriateness to the innovative technology being applied.

By raising the regulatory bar and providing the much-coveted legal requirements within this industry, we have inspired not only growth within the sector but have drastically minimised the possibility of criminal activity within.

To this end, in 2018, the Malta Gaming Authority, together with the FIAU [Financial Intelligence Analysis Unit], conducted 33 AML examinations with FIAU's compliance monitoring committee expected to reach their conclusions on these in the coming months.

In the meantime, the next wave of 40 AML examinations is currently under way and these are expected to be concluded by July 2020. Over the past year the MGA also introduced interviews with money laundering reporting officers within the gaming operators. This therefore means that for an MLRO to be approved for a licensed gaming company he or she would need to be assessed and confirmed also by the MGA.

Additionally, during the past few months the Malta Gaming Authority has merged its compliance and AML functions with the main goal of obtaining a holistic view of gaming operators from an AML and gaming perspective. This merger will serve to further strengthen the MGA's approach to AML and compliance, particularly in addressing any possible breach of gaming laws and the prevention of money laundering and terrorism financing regulations.

Here the MGA has also tasked the AML team with the monitoring of the onboarding process of licensing, with the intention of ensuring AML/CFT compliance from the very beginning.

This ensures that all licensees commence operations on the right foot when it comes to compliance with the AML regulatory framework. The MGA is further planning to increase its AML workforce by the end of 2020 by recruiting another five AML officers, whose focus will mainly be on carrying out AML compliance examinations on behalf of the MGA and FIAU and I therefore would like to thank the MGA, headed by Heathcliff Farrugia, CEO, and all the staff for the sterling work they are doing in regulating the sector.

But beyond regulation, we are also highly aware that for the industry to continue to flourish, its ultimate propeller remains its talented workforce. It is also our understanding that at present, at least with regard to the relevant skills required within the sector, demand is by far outstripping supply. In fact, at the end of 2018 a total of approximately 730 unfilled positions have been reported by the online gaming companies in Malta. Although this is much better than having a high rate of unemployment, and it is still what some would say a nice problem to have, it is still a problem and a challenging activity to cater for.

In fact, with this current scenario in mind, several policy efforts have been made to ensure that training courses are aligned with the industry's needs. In 2017 the European Gaming Institute of Malta was launched, following an agreement between the MGA and the Malta College of Arts Science & Technology (MCAST). In 2018 56 students applied for an iGaming diploma with MCAST and an additional 43 enrolled between January and mid-November 2019. It is also encouraging to see that by mid-November 2019, another 58 students signed up for the Award in iGaming courses with the iGaming Academy.

That is a joint collaboration between MCAST and the European Gaming Institute of Malta. Twenty-one students were selected and matched with seven companies through the Gaming Malta Student Placement Programme in 2019, which is going to be extended this coming year. This is an initiative that aims to address the deficit that exists between the supply and demand for gaming skills in the Maltese labour market. These initiatives go further than simply creating jobs, but also encourage stimulating career-oriented paths, which provide for creative thinking and innovation.

We shall continue to strive to provide the ideal tools for our local citizens to flourish, be recognised and also awarded accordingly. It is by now highly apparent that our solid commitment to innovation, our unwavering adoption of new technology and our dedication to providing legal certainty for the industry as a whole clearly sets us apart from other jurisdictions.

Our solid commitment and continuous nurturing of this fledgling industry is what makes Malta the natural choice for operators. Our continuous nurturing of the holistic ecosystem for this fledging industry is now bearing valuable fruit, strongly contributing to Malta's economic growth. As a government we shall always remain accessible to all relevant stakeholders within the sector, reiterating our stance that we are always open to new ideas. Our vigorous ambition to continue to elevate and safeguard the prestige associated with the Maltese licence, as well as maintaining our country's reputation as the home of gaming excellence, will remain at the top of our agenda for the benefit of the industry, for the benefit of our country, but most of all, for the benefit of our citizens.

Thank you all and I wish you all an excellent discussion and interesting exchange of ideas."

Reflecting on 2019 and Anticipating 2020

Paul Leyland, Partner, Regulus Partners

Operators are likely to see better growth in 2020 than 2019, but this will come as a result of soft comparables rather than being a sign of a more meaningful rebound in growth, according to Paul Leyland, the first of the keynote speakers at the eSummit.

The maturity of the industry means the "glory days" of online gambling growth are over, in Leyland's view. "The main growth engines of online gambling of the recent past, all the way back to UIGEA, have stalled," he said.

While he said the Nordic countries and the UK had previously consistently grown at a rate of 15-25% per year, regulatory actions, coupled with the industry having already achieved mass-market adoption in these areas, meant that such growth was unlikely to be replicated in future.

For the upcoming year, however, he predicted a slight turnaround. "We think that 2020 might actually be a bit of a better year. We have got the Euros and some of the VIP and regulatory comps of some of the biggest operators are quite soft."

And while long-term growth in the major European markets may be stagnant, Leyland said this wasn't necessarily the case in newer jurisdictions. "The growth that we saw in Northern European markets, that was largely driven by really strong underpins of increasing mass market adoption, increasing connectivity, greater use of smartphones for transacting, payment methods becoming more readily available and cheaper, and data costs coming down. All of those things are still very much the case and intact in Southern, Central and Eastern Europe and also emerging markets."

However, he warned: "If you just need to get the UK and the Nordics right, it is much easier than getting 20 different countries right, all with different languages, payment methods, regulations, et cetera. So while the growth is still there, first of all it is coming from a lower base and second, it is fragmenting the market further and also creating more and more barriers to success and more and more opportunities to fail."

> "We think that 2020 might actually be a bit of a better year, we have got the Euros and some of the VIP and regulatory comps of some of the biggest operators are quite soft.
> **Paul Leyland**"

Caution across the pond

Leyland also suggested the opportunities in the US and Latin America may not be as strong as the industry's level of optimism would seem to indicate.

While he said the opening up of the New Jersey and Pennsylvania markets had undoubtedly been very positive for entrants, he was sceptical this success would be replicated across the States. "We are going to start running into the issue that not very many states in the US look like New Jersey and Pennsylvania and we are going to start noticing just how much it costs to get that kind of growth in those markets."

> We are seeing huge channel shifts in Asian markets, away from land-based points of payment principally to direct online.
> **Paul Leyland**

He said he also expected regulations would not be as favourable as the industry expects. "While there is a lot of hope in the US, for example, and in Brazil, we think that the reality when it meets the kind of regulations that are going to be put in position rather than the kind of regulations that we hope for, is going to make life really challenging for a lot of operators.

"Brazil, for example, if it does only allow betting, then I can think of one or two operators that will benefit and I can think of about 25 that will lose and yet Brazil is nearly always presented as an opportunity. We don't think it is for the vast majority of gaming-driven operators."

And while it's well-known within the industry that regulatory headwinds are increasing in countries such as the UK, where every major party has promised some type of gambling reform, Leyland suggested that China's aversion to gambling was perhaps flying under the industry's radar.

"We are seeing huge channel shifts in Asian markets, away from land-based points of payment principally to direct online.

The Chinese government has noticed that, doesn't like it and is already putting a huge amount of pressure on the Philippines. This is a level of pressure that China can exert pretty much globally and if you ask any politician, anywhere in the world, 'what do you like more, online gambling or China?', it is a really easy choice for them to make.

"We think that the geopolitical tension around China is going to keep bubbling up and is going to have some really interesting implications for our industry that we probably haven't really thought through yet."

Bright spots

On a more positive note, Leyland said the past year had shown there are still opportunities for operators to outperform the market. "888 had 50% growth in its UK casino division in the first half of this year, which got the entire group all the way back to where it was in 2014. That is what 50% growth can do in a challenging market environment."

He was also cautiously bullish on the continuing M&A activity taking place across the industry, referencing the potential deal between The Stars Group and Flutter as the next big deal on the horizon. However, he added that while much of the consolidation in the market stacks up strategically and from a business point of view, operators also need to impress their customers.

"What we want to see is a consolidation market or a R&D market which actually focuses on product development, on actually changing the dynamics of what the customer is seeing, rather than the customer getting the same old set of brands on a smaller operating base, because that is not going to create growth."

He concluded by saying operators must focus not only on customers, but also on politicians if the industry wants to turn 2020's predicted rebound into a more sustainable bounce-back in growth.

"Our message for 2020 is: beware the soft comps providing a little bit of relief in terms of making it look like growth is a little bit better, because the number of problems and the number of critical points of failure in the industry that are building up are such that we think we are building up to a much more challenging period to operate successfully.

"There probably needs to be a strategic realignment around the customer and around getting buy-in from politicians that this is an acceptable activity, as well as running businesses more efficiently."

C-Suite Insight – Next up on the Horizon

Vanessa Borg, Director, Strategy Advisory, KPMG Malta

Nigel Birrell, CEO, Lottoland

Jesper Svensson, CEO, Betsson Operations

Cormac O'Brien, CFO – Malta, Paddy Power Betfair

Richard Carter, CEO, SBTech

Jean-Luc Ferriere, CCO, Microgaming

While the increased competition, maturing ecosystem and ever-shifting regulatory landscape are all undoubtedly creating challenges in the iGaming market, industry leaders acknowledge the importance of having a long term rolling strategy to remain ahead of the curve. Vanessa Borg kickstarted the C-Suite panel discussion stressing on having an agile strategy which is not an opening act to a budget, but a 'live' framework enabling an organisation to leverage on its resources. This was reinforced by Jesper Svensson who added "Although things are changing, there's still growth. If you are faster than your competitors to change, you have a great opportunity to grow more than your competitors".

Richard Carter said many of the supplier's customers were taking a similar view. "With the maturing ecosystem we're seeing in Europe, a lot of operators are looking to expand outside of Europe.

On this front, Cormac O'Brien said he saw speed to market as the main determinant of success. "How fast you can have what I would call your 'black ops' team fly in and get into new markets as quickly as possible is key to growth."

All eyes on US

In relation to the potential merger between Flutter and The Stars Group – which unsurprisingly drew a lot of interest from the audience – he cited the US as a key attraction.

"What's already been announced is some cost savings from synergies, but the main bit, the exciting bit, is the growth in the market."

"America is obviously a big, key player for all of us. One state opening up there is equivalent to a massive country over here in Europe. So it's really positive and that's where I'd see the growth in the short to medium term in any of the larger players."

Carter agreed. "I think it'll have a very profound impact, both on a B2B level and also a B2C level."

However, he added that there could also be some negative consequences flowing from developments in the US. "I hope I'm not right about this, but I think if you look at what's happened with the NBA and the NFL in the US, where they're asking for contributions from the operators to be able to place bets on those sports, I wouldn't be surprised if associations outside of the US, in Europe and globally, start to see how they can take a bit more of their pound of flesh from the industry to allow people to bet on their sports."

He added that he thought the US would provide an additional catalyst for further M&A in the industry.

Svensson pointed out that acquisitions, in particular, were popular with operators as they sometimes proved the fastest way to enter new markets. "That's something we have done in various cases in order to get a foothold somewhere.

"In an ideal world, of course, you can do it all yourself, because you have the technology teams and the infrastructure set up for that, but that's not always the case and then an acquisition to enter a market can be a very good route."

> The bigger companies in the industry are merging and getting bigger, and I think that trend is going to continue.
> **Richard Carter**

Even aside from a desire to enter new markets, panellists expected other factors, such as compliance, to drive the market to become even more consolidated. Nigel Birrell said he thought the industry would "polarise into several very large companies".

Carter agreed: "The bigger companies in the industry are merging and getting bigger, and I think that trend is going to continue."

Looking internally

While acknowledging the macro forces reshaping the industry, Jean-Luc Ferriere said it was important companies also remained focused on the micro in order to grow.

"For us that's really the key element, to focus our business around the most important things to us and sometimes actually not be distracted by a lot of the other things that are going on in the marketplace."

He said one of the big areas of interest for him was developing the company's use of data. "What I'm really excited about is the data and the growth of the use of data science and predictive modelling for all areas of our business, from product design through to responsible gaming.

"We've got decades' worth of information that we can mine and use for all sorts of purposes. For me the cloud-based services, the power of predictive modelling and machine learning are really exciting."

At Lottoland, Birrell said one main area of focus was its affiliate network, which has become increasingly important to the business. "Probably about 30% of our new signups now are coming through affiliates, but it was probably only 20% a year and a half ago.

"The KPIs for our team are very much growing our affiliate network. Whether they're small or large, we don't mind, we're trying to bring them in. But it's all about educating them as well in the way we want them to perform."

Though it's clear there are a number of headwinds facing the industry, it's also clear that operators are optimistic there is still potential for further growth if the right strategy is adopted.

What does it take to lead an iGaming business today?

Given the shifting sands of the industry, strong leadership is crucial. The three CEOs on the panel gave their views on what makes a good leader.

"Most important is being an all-rounder and having a clear, decisive strategy where the message is very clear to staff at all levels, not just the leadership team. You must also be able to shift that strategy when you need to, particularly, say, because of a regulatory intervention, which happens often."
Nigel Birrell

"It's important as a CEO to understand your workforce and in our case, almost 75% is Millennial. You need to be able to see what the trends are and what is important for people in certain groups today and learn from that when you look at adapting some of the initiatives you undertake within the company."
Jesper Svensson

"You need to be very strategic. You need to be able to build a vision. This industry is changing very, very, rapidly, so you need to be able to build a vision to take the business from here to two or three years down the road. And you also need to be able to put together a workable plan to be able to deliver it."
Richard Carter

BEPS 2.0 - Taxation of Digitalised Businesses?

The OECD's BEPS 2.0 initiative has the potential to change the global tax landscape significantly by changing how profits are allocated between jurisdictions (known as Pillar One) and introducing a new globally coordinated regime for a minimum tax and anti-base erosion measures (known as Pillar Two). There is no shortage of challenges and opportunities facing today's online and digital businesses and their tax functions, whereas the latest initiative could present a new set of pressures.

The Past and the Present

In 2015, the Organisation for Economic Co-operation and Development (OECD) issued its final report on its Base Erosion and Profit Shifting (BEPS) project. While the initial objective of the first Action 1 Report was to address the tax challenges of the digital economy, the OECD has recently gone a step further to propose new rules to tighten the noose, which are currently at public consultation stage.

The OECD's latest initiative will affect online and digital multinationals more than any other BEPS proposals in the last decade. The work in this area is currently partitioned into two pillars: Pillar One dealing with the allocation of taxing rights and profits, proposing new ways to apportion income between taxing jurisdictions, and Pillar Two tackling , as a 'backstop' imposing a minimum tax and denial of deductions or imposition of withholding taxes on payments made to 'low tax' entities.

On 9 October 2019, the OECD Secretariat released a new proposal under Pillar One.

The Proposed New Rules

Under the proposed new rules, profits of multinational enterprises would be allocated based on digital presence in a jurisdiction. Accordingly corporate income taxes could be levied on a company in a particular jurisdiction, notwithstanding the absence of a physical business connection with such jurisdiction. Highly digitalised businesses, including the e-gaming industry sector that prevalently conduct their activities online, may therefore expect to incur additional tax obligations in multiple jurisdictions where their customers are located, based on the newly proposed digital presence concept.

Unilateral Implementation of the New Tax Rules has begun

Certain jurisdictions have already taken unilateral steps (among which are several EU member states such as France, Italy, Hungary, Spain, United Kingdom and non-EU countries such as India etc.) by creating additional frameworks for the taxation of highly digitalised businesses models. Such steps are at different levels of implementation in these jurisdictions. While some have passed through local parliaments and have fully come into effect (even retroactively in certain cases), some are still in the pipelines.

For instance, in France, the French Digital Services Tax (DST) law has already come into effect, given that it was signed and published to be retroactively applicable as from 1 January 2019. Under the French DST, a 3% tax applies on gross revenues deriving from i) the provision of a digital interface (i.e. intermediation services); and ii) targeted advertising and transmission of data collected about users for advertising purposes. The tax applies only to companies exceeding in the previous taxable year the following thresholds: i) €750M in worldwide revenue and ii) €25M in taxable services supplied in France; the two thresholds are cumulative conditions and are to be calculated at the consolidated group level.

Italy has introduced a DST of 3% on gross revenue derived from i) advertising on a digital interface, ii) multilateral digital interface that allows users to buy/sell goods and services, iii) the transmission of user data generated from using a digital interface. The DST applies to both resident and non-resident companies with total group revenue of €750M and total revenue from digital services supplied in Italy of at least €5.5M. It has been announced that Italy's DST will take effect from 1 January 2020.

In Spain, the government proposed a budget bill for 2019, which included a 3% digital tax that would apply to companies with more than €750M of annual global revenue and €3M in annual revenue in Spain from certain digital business models. Companies that are primarily engaged in online advertising services; selling of online advertising (space) and selling of data. Parliamentary approval is yet to be obtained on this draft law.

In the United Kingdom, a draft DST legislation has been published stating that with effect from April 2020, the government will introduce a new 2% tax on the revenues of search engines, social media platforms and online marketplaces which derive value from UK users. These businesses will be liable to the DST when the group's worldwide revenues from these digital activities are more than £500M and more than £25M of these revenues are derived from UK users. The DST will be payable and reportable on an annual basis.

France

- Draft Law published in March 2019
- The tax will be levied
  - at a rate of 3%
  - on revenues generated from certain digital services (targeted online advertising, sale of user data for advertising purposes, and intermediation activities by platforms)
  - by companies whose total worldwide revenues > EUR 750 million and revenues generated in France > EUR 25 million
  - deductible for corporate income tax purposes
- The bill passed the National Assembly April 9, 2019 and by the Senate May 21, 2019, and will apply retroactively as of Jan 1, 2019.

United Kingdom

- 2% on in-scope revenues, targeted at revenue streams **linked to UK** users derived from **in-scope business models**
- Draft bill April 2019
- In-scope business models:
  - Search engines
  - Social media platforms
  - Online marketplaces
- Effective in January 2020, with the first tax bill due in April 2020.

Italy

- New tax introduced by the Budget Law 2019 approved in Dec 2018
- 3% tax levied on:
  - revenues generated from certain digital services (scope broadly in line with EU proposal)
  - rendered to Italian B2B and B2C customers
  - by companies whose total worldwide revenues > EUR 750 million and revenues from digital services realized in Italy > EUR 5.5 million
- Implementing decree?

Spain

- Approved by the government on January 18, 2019
  - 3% tax on online advertising services, brokering services, and the sale of user data
  - Following the EU Commission's proposal, incl. thresholds and scope

Unilateral DST initiatives

What to Expect

Compared to the current system, the proposed changes will - broadly speaking - re-allocate profits and taxable proceeds from "residence" or "source" countries to "destination" countries, being the countries where customers are located. As with any change, the OECD proposal will result in winners and losers. But which countries are the likely winners and which are not?

In an e-gaming context, taxing rights would be affirmed for countries where players are located, notwithstanding the absence of physical presence in the jurisdiction. Therefore, it can be expected that profits which have previously been attributed to activities such as head office activities, R&D, and to brands and technology, will now be attributed to 'sales' activities in jurisdictions where players are present, at least in part.

As a corollary to these new rules, the practical concerns that can be envisaged include:

- Potential additional taxation in multiple jurisdictions, with heightened risk of double or multiple taxation;
- Increased incidence of multilateral tax disputes which existing double tax treaties are not necessarily equipped to address. Significant costs to dispute resolution can also be reasonably expected;
- Increased tax compliance obligations to satisfy the new compliance demands;
- Increased need for adequate transfer pricing and profit allocations analyses.

Although the proposal is still a draft and many implementation aspects still need to be defined, including the level of routine profit and the share of surplus profit to be reallocated, we can get a glimpse of the future by considering that:

- countries with large B2C sectors will be affected more than countries with large B2B sectors;
- countries with strong high-end/high-value consumer product sectors are more likely to be affected than countries with low-margin industries;
- exporting countries are more likely to lose while importing countries are more likely to win.

Grey Areas: Who is Safe from the Reach of the Proposed New Rules?

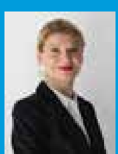
The OECD Secretariat acknowledges that the published proposal represents an architectural framework on which to build, and that it requires significant work before it will be usable. Nevertheless, pending the day when the OECD might be able to hammer out many details of the proposal, the recent draft and enacted unilateral DST measures by some jurisdictions as mentioned above already undermine tax certainty. Without consensus within a relatively short timeframe, it appears likely that more countries will adopt unilateral alternatives, making it increasingly difficult to navigate the global tax landscape. Recognising this challenge, the French government announced that the DST will be repealed as soon as an international agreement is reached and companies will be refunded the difference between the French DST paid, and the yet-to-be-agreed-upon international digital tax. It is yet to be seen whether the other countries will follow suit.

It is important to note that the new proposal does not apply to all companies, nor does it ring-fence the digital economy subjecting the highly digitalised businesses to a separate regime. Several implementation aspects of the proposal are still to be defined, including the exact sectors to which it will apply, whether it will affect all multinational corporations (MNCs) or only those with revenues in excess of €750 million, noting that some clarifying rules and carve-outs will likely be needed.

Preparing for the Future

Given the present uncertainty in the international tax terrain, MNCs have recognised the need to take proactive steps by commencing discussions with their tax advisors to mitigate the potential impact of the incoming rules. It is therefore essential that MNCs in the services industry – such as groups in the e-gaming sector whose business models are, by necessity, driven by digitalised business models – assess their readiness for BEPS 2.0, ensuring that the latest developments do not catch their businesses unaware.

KPMG Contact Information



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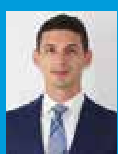

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The importance of collaboration, both between operators and regulators and also between regulators in different jurisdictions, was a key theme emerging from the panel exploring Malta's position as a leading iGaming jurisdiction.

Heathcliff Farrugia began by acknowledging that it is difficult for licensees to operate across Europe given the many different licensing regimes now in place. But he said that while many in the industry hope there will be some form of regulatory convergence or harmonisation, he felt this was still some way off.

However, he added there was already a level of co-operation between regulators. "We do share information between regulators, especially when it comes to onboarding or criminal probity checks. For example, in our case, obviously we share a lot of information with the UK, with Italy, with Sweden. With Italy it is because of the close proximity of the countries, with the UK and Sweden it's predominantly because we share a number of operators."

James Scicluna said that while the regulations in different jurisdictions were often very similar and appeared to have the same objectives, operators needed to be aware that these were sometimes interpreted very differently by regulators, with Sweden being a case in point.

"When [operators] are now facing the newer jurisdictions like Sweden, for instance, they must go in with a local compliance mindset. They cannot simply assume that regulations intended to achieve similar objectives will be applied similarly. These differences add a compliance burden, and this burden is constantly evolving and becoming more burdensome." he said.

Returning to the topic later in the discussion, Reuben Portanier, who previously worked as a regulator, said politics was one of the biggest barriers to greater co-operation between regulators. "When regulators used to talk to each other, there was a degree of understanding that we wanted to have an element of harmonisation, or at least effective non-duplication of controls. But then each regulator had to go back to their country and their politicians had a different view. It is political and I don't see how this will resolve itself in the near future."

Open dialogue

Panellists were more positive, however, that progress was being made in terms of operators and regulators working together, especially in Malta. Kenneth Farrugia said the FIAU had invested heavily in strengthening its supervision of the remote gaming sector, focusing some of its efforts on training and consultation with the industry.

He cited suspicious transaction reports (STRs), for which it had enhanced its guidance to improve the quality of reporting, as one area when the results were already evident. "As at today we received 1,230 STRs from the remote gaming operators. And that's a positive sign."

He added that the FIAU saw sanctions against operators as a last resort rather than a standard enforcement tool. "There are other tools that the FIAU is using in order to ensure compliance."

Portanier added that this was one of the key differences between Malta's approach and that of some other jurisdictions. "Enforcement and having proper compliance

does not necessarily equate to multimillion fines. A proper regulatory framework involves the regulator being there to educate, to provide proper and clear frameworks," he said. "There's this misconception that a regulator that is issuing a fine of a €1.5m is an effective regulator, whereas the others that are issuing fines which are of a lesser value are not as effective.

"In reality, I think is the complete opposite," he continued. "The UK system is easier for an operator to get into than, for example, the Maltese system. The level of education, level of engagement is very minimal compared to what you have here in Malta. And the only difference is that they are accustomed now to issuing multimillion fines and it makes the headlines."

In terms of the most effective way for operators to engage with regulators, Heathcliff Farrugia said he viewed trade associations as useful.

"There's a very effective trade association called iGEN and they are doing a lot of work for the industry. They communicate regularly when there's the need with the regulator," he explained. "When you have a trade association, a very effective trade association, it can do such a benefit to the industry because it can go to the regulator with one voice rather than going individually."

Scicluna agreed and said these could even help the push for greater standardisation across jurisdictions. "One of the roles of this industry's representative bodies should still be to push for common standards, technical standards, perhaps common social responsibility standards, and that would make life much, much easier."

On the last point, Heathcliff Farrugia pointed to the recent Responsible Gambling Week as a good example of operators working together even where common standards don't yet exist. "No operator wants to have problem gamblers as part of their customers because obviously nobody wants to end up with players not enjoying this industry," he said. "I think it's a good sign that the industry is realising the importance of responsible gaming and that they are now ready to collaborate together."

Soundbites

Wrapping up the session, moderator Charmaine Hogan asked panellists for their key messages for the audience.

"Put the innovators and the compliance people in the same room and get them to talk to each other so that there isn't this sense that compliance could actually stifle innovation."
Reuben Portanier

"This is the message to all licensees, not just in Malta but licensed anywhere: do not let enforcement action be the driver of compliance."
Heathcliff Farrugia

"Think more medium to long term. Think of sustainability and not just short-term growth."
James Scicluna

"Compliance should not be seen as a cost burden expense, but it should be seen as an investment because the cost of non-compliance is huge."
Kenneth Farrugia

Responsible Gambling: Profitable Sustainability

Jason Chess, Partner and Co-Head, Betting & Gaming, Wiggin

Gillian Wilmot, Chair, Senet Group

Pieter Remmers, CEO, Assissa Consultancy Europe

Lee Willows, Founder and CEO, YGAM

Wes Himes, Interim Chief Executive, Betting and Gaming Council

When Jason Chess opened up the session by asking whether or not the "penny really has dropped about social responsibilities", the question drew mixed reactions.

From an operator representative perspective, Wes Himes said he felt the direction of travel was overwhelmingly positive. "I think the evidence of that is that we are now doing things, not as a result of a fine being levied, or because of the Gambling Commission telling us what needs to be done. We're doing it because we think that's the right thing to do for our customers.

"If you look back on some things like GamStop, as an example, you'll see that the industry came together and decided that was the right thing to do."

However, based on his many years consulting on responsible gambling, Pieter Remmers expressed a more cynical view. "I think everyone knows and everyone realises that responsible gambling, corporate social responsibility, is very important. But, at the very same time, I feel I may be a bit on the other side of what Wes has explained. Companies know, operators know what it is about, but not all of them do it. It's still a minority, I would say, that really has a proactive approach."

Interestingly, however, Remmers said later in the discussion that there was a danger of overstating the problem gambling issue. "There's one thing we know from research looking at prevalence rates," he said. "If you look at most jurisdictions in Europe, they are rather stable since five years, 10 years and 15 years ago, when we didn't even have online gambling. So, don't make the problem bigger than it is."

Prevention focus

He further cited research that reported that very few problem gamblers, only about 10%, will ever seek help for their problem gambling, suggesting that this meant it was particularly important that the industry focused on prevention as the "new treatment".

Both Remmers and Lee Willows raised the issue of gaming rather than gambling becoming increasingly problematic. "Probably about 35-40% of the teachers who come through our doors for workshops aren't coming now because of gambling, they're coming because of gaming," said Willows. "In our world gaming is the unregulated stuff, so it's Fortnite, it's FIFA."

Willows said the issue was such that it had led to the charity changing its name from the Young Gamblers Education Trust to the Young Gamers and Gamblers Education Trust. He added it was also informing its programme delivery. "We look at building digital resilience through the lens of gaming and gambling. So we are all about training teachers and youth workers how to embed a programme of safer gambling, safer gaming, into their education institutions."

Chess, however, pointed out that it was only people like Willows and Remmers who could suggest that people should be taught to develop "digital resilience" or "self-help", and that if someone within the industry expressed such a view it would only worsen the industry's already poor reputation.

Gillian Willmot said this was one reason it was crucial for the industry to work with charities. "Partnership with the third sector is really important because that leads to transparency and accountability, and that's why, as part of the safer gambling commitments, a key part of what Senet was concerned about was ensuring that YGAM, and there's also GamCare, and others, got security of future funding to deliver these programmes.

"That's absolutely critical for their trustees, but that comes back to the industry taking leadership and being prepared to be transparent, and also understanding that it's got to be focused on the customer."

Willmot said there were two main aspects to the customer focus needed: technology that helps player remain in control, and culture change on ESG values that runs all the way through companies.

Asked how far along Willmot's vision he believed the industry was, Himes said he felt positive it was making good progress, even despite having had to contend with the recent merging of three associations into one to form the BGC. In particular, he said work relating to VIPs and affordability was well under way.

"We are committing ourselves to a process and a methodology that exposes us to outside opinion and independent evaluation," he said. "It's a matter of making sure that we marshal the resources and the bandwidth to take it forward, but all of the intentions are there. I've not had anybody backpedal on any of that.

"We will have the ongoing discussions in working groups and broader stakeholder groups, and there will be ebb and flow, but it will be up to us to make sure we have baked into the procedure that we will demand that we are as ambitious as we can be on those outputs."

> Partnership with the third sector is really important because that leads to transparency and accountability.
> **Gillian Willmot**

Changing perceptions

Rounding up the session, Chess asked panellists what needed to happen "to turn the tide of the horrendous onslaught that we're getting, not just from the media, but from the politicians"?

View from the industry
"Leadership is number one. Be ahead of it, be ahead of the issues. Commit to it, lean into it, own it. Delivery delivers. Do what you say you're going to do, on time. Be ambitious and comprehensive. And then, finally, communicate. Not amongst ourselves, but to the public at large, the politicians, and the government, that we're doing the first two things, and then wake up and do it again the next day."
Wes Himes

View from the charity side
"I think the industry is doing a lot, certainly from a former problem gambler's point of view. So, I think our responsibility, as charities working with you, is to champion that middle ground. I'm spending more time in Westminster and I have a duty to get digital resilience onto the curriculum and actually move the conversation away from problem gambling almost, and try and celebrate some of the successes without being seen to be complimenting, or patting anybody on the back within the industry."
Lee Willows

Is Advertising Dead?

Sarah MacDonald, Partner, Wiggin

Ola Wiklund, Founder, Wiklund Law

Quirino Mancini, Global Head of Gaming and Gambling Practice, Tonucci & Partners

The gambling industry needs to take action to self-regulate and improve its reputation if it is to avoid further advertising bans such as the one already in place in Italy, panellists agreed.

Sarah MacDonald said that while steps had been taken by operators in the UK, for example, the whistle-to-whistle ban, there remained a lot of noise about further advertising restrictions, especially in the lead-up to the general election.

Quirino Mancini warned of a "dangerous contagion" spreading throughout Europe, and said that although "politicians are responsible for the big mess that we have in Italy", the industry had not done enough to prevent it from happening.

"What I fail to understand is why the industry didn't take any pre-emptive action, knowing that the politicians would jump at them," he said. "They did not introduce any self-regulation in terms of advertising. They did not reach out to the establishment, to the politicians, to the media, as a whole industry."

Getting ahead of the game

One prime argument he said operators could have used in their favour was the level of funding they provided to the country's football teams.

"The Serie A and Serie B football used to get something like €100m in turnover associated with gambling advertising. That money is no longer available and that money was much needed for many football clubs, because it's not just Juventus or Inter Milan, it's also many other clubs, who are now striving to scrape a living without that money," he argued.

"So had the industry been able to come up with some hard and undisputable data and put them under the nose of the politicians, in time for them at least to think, 'OK, maybe yes, we need to do something, but let's do it without destabilising the ecosystem', maybe we would not be discussing this today."

Ola Wiklund said though operators in Sweden were also under pressure from politicians about the level of gambling advertising, in many ways they'd had no choice but to initiate large marketing campaigns. "It's very difficult for them to do anything else when the big monopolies in Sweden are raising their investments in advertising by 80% in view of the new licensing system."

However, Wiklund conceded that much of today's gambling advertising is poor and likened gaming advertisements to Seventies porn ads. "You have to fill your advertising with some kind of values and ethics. We have to start all over again in that sense, because if we don't have any substance, we can't win the war against the politicians."

Mancini said that while it was clearly too late for Italy, operators in Sweden and the UK still had the opportunity to put forward a fact-based case for their right to advertise, making particular reference to the need to highlight both true problem gambling levels and also the contribution operators make to state coffers.

However, Wiklund pointed out that in respect of the latter, the offshore nature of many major Swedish-facing brands posed a problem. "In Sweden, we can't invoke that argument, because Betsson has 1,000 employees in Malta. If they had 1,000 employees in Stockholm, maybe we could invoke that argument. But the industrial policy argument is very difficult to invoke nowadays in Sweden."

Feelings, not facts

Sarah MacDonald added that politicians weren't always willing to look at evidence. "Whilst I think having data is really important because it can help substantiate arguments, sometimes it really doesn't matter what the data says. Sometimes there is a move, there is just a feeling that people have, like say in Italy it's a Catholic country, so gambling is the devil. That's just a feeling people have, and you have to be able to deal with that."

Indeed, Wiklund, who recently represented Global Gaming, which had its Swedish licence revoked earlier this year, at a Swedish hearing, gave a prime example of data being ignored by politicians. "One thing that's interesting, which we found out when we were litigating this case in the Swedish court, was between 2015 and 2018 the market spending or investment in marketing in the Swedish gaming market increased by 100%, but gambling went down," he said. "The interesting thing is to go into the reasons why we don't have an increase in gambling when we have such an immense investment in advertising."

Mancini pointed out that whether politicians allow advertising or not, demand for gambling products remains high in Italy and elsewhere, and argued that the only consequence of trying to restrict gambling advertising, or gambling itself, was that players use unlicensed sites.

Wiklund agreed and also expressed some doubts about the true channelisation of the newly licensed Swedish market. "Officially in Sweden, the government says that it is 85%. They have revised their figures from 90-95%. But I think when it comes to casino, it might be down to 60%. And if it's 60%, the Swedish licensing system is a complete failure from the political side, and the politicians don't want to hear that. That's a big problem, also, when it comes to the competition in the Swedish market between the licensed and the unlicensed."

While panellists wrapped up the session by agreeing that the answer to the headline question was that advertising, at least in its traditional form, was indeed dead, they also felt innovation could allow operators to continue to get their marketing messages in front of players.

"Undoubtedly technology will play its key role at a time when you cannot resort to traditional means of advertising. And so there will be some special services, highly technological services, that will become available – some of them are already available – to facilitate the bridging between the operators' offer and the market," said Mancini. "There are ways to do that. AI is certainly helping do that."

Breakdown of UK advertising spend

£1.5bn Total marketing spend of gambling companies	**£234m (15%)** TV advertising
£747m (48%) Direct online marketing	**£149m (10%)** Social media
£301m (19%) Affiliate advertising	**£60m (4%)** Sponsorship

Source: Regulus Partners research carried out for GambleAware in 2018

"You have to fill your advertising with some kind of values and ethics. We have to start all over again in that sense, because if we don't have any substance, we can't win the war against the politicians."
Ola Wiklund

Regulatory Masterclass: Germany and the Netherlands

Justin Franssen, Partner, Kalff Katz & Franssen

Wulf Hambach, Managing Partner, Hambach & Hambach

Christian Heins, Managing Director, DVTM

Dutch disease strikes again with more delays

Justin Franssen began the session with an overview of the situation in the Netherlands, although he said the situation was subject to change as an important debate was due to take place in Parliament the following day.

Though Franssen said the six-month delay to the enactment of the gambling legislation, announced by the Ministry of Justice on November 15, was one in a long line of delays – a phenomenon he called "Dutch disease" – he said there were some positives to be found this time around.

"What is new to me is that the delay now doesn't seem to be politically motivated, but seems to be purely practical," he explained. "The inputs the Ministry got on the consultation for the lower acts, they simply didn't manage to implement all the changes. And this has also led to further delay at the level of the gambling authority."

There were two motions to be discussed before Parliament that could have important ramifications for the industry. The first, the Dekker motion, concerned whether or not there should be a ban on advertising. "A complete ban for a market which is yet to open is a disaster," said Franssen.

He expected Sander Dekker, the Minister for Legal Protection, to argue against such a ban, having commissioned a study that failed to find a correlation between advertising and problem gambling. However, he added that "serious pushback, especially from the Christian Democrats" was also likely.

The second motion of importance, said Franssen, was the Postema motion concerning the 24-month cooling-off period. This proposed policy would require operators to have refrained from targeting Dutch players for a period of two years prior to applying for a licence.

He said the fresh delay could take away the advantage for compliant operators, and added there were also concerns some parties would lobby for the introduction of a "proper bad actor" clause, one that banned all operators that had ever been active in the market from obtaining a licence.

The other big issue in the Dutch market was related to underage gambling following the airing by public broadcaster NOS of an investigation exposing gaming operators, including Dutch state operator Toto, accepting underage players.

Franssen said an "enormous political outcry" had followed the broadcast and had led to a revision of the originally proposed 30-day period for operators to verify Dutch players' identity. It is now proposed that licensed operators will be required to do this instantly.

"The timeframe is extremely short. From a technical perspective, I've been told it's horrendous. The solutions available in the market today are not perfect, like in other jurisdictions. So it's an enormous challenge."

A complete advertising ban for a market which is yet to open is a disaster.
Justin Franssen

'Big questions' to be answered in Germany

Wulf Hambach said that compared with Germany, the Netherlands, with its national framework, appeared "easy" and that there were big questions over the contents of Germany's forthcoming Fourth Interstate Treaty, expected in July 2021.

Though it was envisaged this treaty should cover all aspects of gaming, he said it was difficult to predict how one gambling authority would take over supervision of the market when there is currently such a huge amount of variance between Germany's federal states.

"You have Schleswig-Holstein, which is more proactive, I would say. They have experience in licensing. They have issued 23 online casino licences and 25 online sports betting licences nearly seven, eight years ago.

"However, you have the neighbouring state, Hamburg, which is a small state. It's a bit comparable to the mindsets of New Jersey in the States and Texas – totally different mindsets how to regulate online gambling, how to regulate online casino."

The result, according to Hambach, was that, "currently we see some drafts coming, to be honest, a bit out of the blue", which he said proposed regulating the market in an "unbalanced way".

He cited a plan that part of the online casino market be restricted to monopolies and that online casino licences should only allow games similar to those offered in amusement arcades as an example.

Because of the difficulty in co-ordinating a uniform approach, he predicted the market could see a rerun of events such as Schleswig-Holstein going it alone with its regulation in 2012 and licence renewals in 2019. "There are rumours that even Hesse is ready to go it alone, and Schleswig-Holstein, and maybe more states," Hambach said.

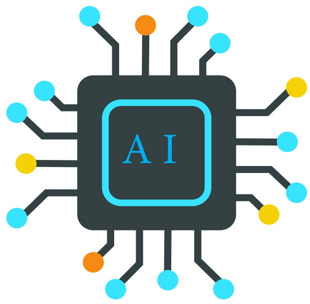
Speaking from the operator side, with about 30 iGaming companies in the German association for telecommunications and media, Christian Heins said the industry needed to provide a code of conduct rather than leaving the process in the hands of state authorities.

He urged stakeholders to organise themselves and make sure they were part of the discussion about the shape of regulation. "Co-regulation is key. So get involved in the process and help us to generate a code of conduct. We at the DVTM, for example, are quite experienced in this regard. We established a code for advertising in Germany 20 years ago, and it's now well accepted in the industry and also from the political side. So I think there is a big chance now."

He echoed Hambach's view that there were aspects of the most recent draft that operators would not be happy with. "The industry wants a fair regulation for both sides. So, while on the one hand, player protection, customer protection, data protection, youth protection, AML, KYC, whatever protection there is, yes.

"But on the other hand, you have to be able to make money with that. It's the same if you ban advertising, why should somebody apply for a licence if you're not allowed to advertise the products afterwards? It doesn't make any sense."

Betting on Automation



Much like the intense wave of automation which became apparent during the First Industrial Revolution, we are on the verge of a similar radical change affecting the way we currently execute work as human beings. First, consider the manner in which ATMs became the norm, freeing customers from lengthy queues and eliminating the restriction of the bank's working hours in the process. Now ponder the rapid reduction in our need for cash due to the efficiency of digital payments and mechanisms. In a similar sense, automation will continue to infiltrate, and integrate itself within our lives, eventually becoming a very standard part of the world we call home – for now.

Automation has already made its mark on the technology-driven gaming industry. It is expected to give iGaming operators a revamped and incredibly different operating model. This will surely encourage the delivery of greater value with significantly less effort. Operators will also benefit from increased agility, allowing more rapid responses to the fast-changing needs of their iGaming business. Industries around the world are greatly being affected by automation, and the iGaming industry is no exception.

Innovation is a key driver for prolonged success in this bustling era filled with frequent and dynamic change. The iGaming industry has been rooted in technology since inception and is fully embracing the next generation of automation.

The advent of Intelligent Automation

The exponential growth of new emerging technologies, such as **Intelligent Automation (IA)**, is allowing forward-thinking iGaming operators to get ahead of the competition in attracting and retaining customers. This is critical given the high customer churn rates across the iGaming industry.

The term intelligent automation serves as a catch-all phrase for disruptive technologies, as it combines **Artificial Intelligence (AI)** with **Robotic Process Automation (RPA)**. At its most basic level RPA replicates the execution of a task on any computer application where the said task is normally performed manually by a human user. Some explain RPA as a swivel chair product due to its ability to move and adapt to perform repeatable, rules-based tasks automatically and therefore allowing valuable resources to focus on more value-added tasks.

By integrating AI elements, such as natural language processing, image recognition and machine learning within the RPA framework, the extraction of unstructured data such as scanned documents may also be automated. This allows for the analysis of large volumes of information, aiding the identification of trends and patterns. This level of automation can also enable the broadening of margins and brand safeguarding.

Integrating IA within gaming operators' KYC procedures

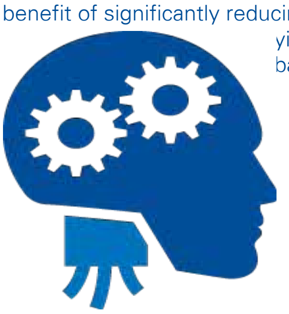
The recent KPMG International and HFS Research report, Easing the pressure points: The state of intelligent automation found that "cost savings alone should not be the only end-game for IA investments"[1]. As IA becomes more embedded within operations, business leaders indicate that their strategic objectives are increasingly focused on better analysis of data and improved operating insights. One area where this is evident is within the 'Know Your Client' (KYC) on-boarding processes, which include the collating of various identification documents to confirm the player's identity and the evaluation of any potential risks that might jeopardise the operator's reputation.

Since most of these documents are scanned copies which may vary in language, IA can be used as a means to indicate the validity of the document. In fact, KPMG Digital Solutions is currently working on a Proof of Concept (PoC) that uses AI to validate documents together with RPA to extract and analyse data in order to verify a player. This will speed up the overall player on-boarding experience, thereby increasing efficiency and accuracy for the operator.

Addressing Social Issues with IA

The reality is that malicious minds capable of carrying out illicit transactions are part of societies all over the world, posing a serious threat to several industries, including that of iGaming. Each year money-laundering transactions around the globe account for approximately $3 trillion, equating to approximately 5 percent of the global GDP. Indeed, money laundering became the leading source of compliance fines for North American and European institutions[2].

A study by KPMG International found that inefficient AML and KYC processes also lead to lower productivity, greater government scrutiny, and to potentially decreased customer satisfaction, whilst also bringing hefty fines and damage to a brand's reputation[3]. RPA can act as a facilitator to meet the increasing demands of regulators. This can greatly simplify and improve AML control processes, with the added benefit of significantly reducing compliance costs. In this regard, KPMG Digital Solutions is backing AI-based mechanisms in monitoring ying patterns and trends to enable real-time analysis of, and reaction to, transactions. AI may also help to based on historical data.



Given the stringent regulatory climate, iGaming companies are becoming increasingly motivated to make online gaming a safer and more responsible experience. IA-enabled tools possess the power to sift through vast amounts of transactions to analyse and predict user behaviour, enabling operators to take a proactive, rather than a reactive, approach in protecting vulnerable customers.

[1] https://assets.kpmg/content/dam/kpmg/xx/pdf/2019/03/easing-pressure-points-the-state-of-intelligent-automation.pdf
[2] http://www.independent.com.mt/articles/2019-05-09/business-news/How-AI-can-help-combat-money-laundering-and-make-online-gaming-safer-6736207886
[3] https://home.kpmg/xx/en/home/insights/2019/03/combating-financial-crime-fs.html

Transforming the Customer Experience via AI-enabled bots

Shocking as it may be, the potential of AI in allowing gaming companies to excel in customer services was recognised almost two decades ago when PhoenixVegas.com became the first online casino company to integrate AI within its Customer Service department. Players could communicate and ask questions directly to a 'smartbot' which had both a name and face, providing the player with an engaging experience.

Fast-forward to 2019 and one can find that leading gaming operators are increasingly incorporating similar AI technology into their operating models. These chatbots are AI-based software that use text-based live chat as instructions to carry out certain tasks for customers on behalf of the operator. For instance in the past year the Newgioco Group launched 'Chatbot', a service to assist customers through customised pattern recognition and machine-learning algorithms allowing it to assist with customer interactions, developing customer betting profiles, and providing the most effective play options for customers, amongst other processes. KPMG Digital Solutions is working toward the development of algorithms and platforms which could greatly enhance the customer experience.

Revamping back-office tasks

The McKinsey Global Institute (MGI) estimates that nearly half of all the activities staff carry out could be fully or partially automated via emerging technologies[4]. Compliance with increasing regulations is causing the daily workload and pressure on staff to increase. Automation can play an important role in developing greater efficiency and accuracy in back-office tasks, including finance and administration.

While this is very promising, it is important to highlight that human insight and review will still be critical in the most qualitative processes within an iGaming company. Automation can empower organisations by delegating the time-consuming, error-prone manual tasks to machines, allowing humans to focus on strategic, high-value tasks.

RPA will be complementing human activity rather than replacing their roles with faceless robotic algorithms. When integrating a number of emerging technologies together in an organisation, the end result will be a digital workforce where the collaboration between digital and human workers will result in greater organisational capacity and employee empowerment.

What's next: Cognitive Process Automation (CPA)

Cognitive Process Automation, referred to as 'judgment-based automation', combines basic automation with disruptive technologies, incorporating advanced self-learning capabilities based on technologies such as machine learning and data analytics. It provides real-time decision support on complex processes that generally involve human judgement. The solution would then be able to respond to stimuli, since it would have learnt to act in a similar manner to a human. Procedures that contain an element of subjectivity are good candidates for CPA as humans often make poor judgements, driven by emotion and other biases. A properly trained neural network would not have such issues and would be able to produce more consistent results, with greater levels of reliability.

In the midst of the iGaming industry's heavy regulatory climate, clear leadership, good governance, and agile operations are needed to steady and steer the ship in the right direction. Whilst many organisations have begun to implement one-off automation solutions, effort is required to embed such technologies into regular business operations in the years to come.

The next generation of business leaders will be those who continue to innovate and implement emerging technologies which are aligned with their strategic vision.

[4] https://www.mckinsey.com/featured-insights/digital-disruption/harnessing-automation-for-a-future-that-works

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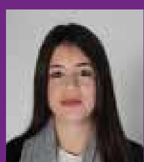

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The US: Coming up Trumps

Tom DiEnno, Managing Director, Deal Advisory & Strategy, KPMG

Frank A. DiGiacomo, Partner, Duane Morris LLP

Susan Hensel, Director of Licensing, Pennslyvania Gaming Control Board

Jeffrey Haas, Chief International Officer, DraftKings

Though US states have been able to enter the online gambling space for some time by legalising casino and poker games, it wasn't until the repeal of PASPA in May 2018 added in the option of sports betting that most became interested in the idea.

"The real growth recently has been in sports betting and online mobile sports betting," said Frank DiGiacomo. "Currently 17 states in the United States have moved forward, or are in the process of enacting, sports betting legislation. Twelve of those specifically allow for mobile and online sports… it's three times the number of jurisdictions that allow just iGaming."

And while recent developments have led to much excitement from potential market entrants, both in the US and beyond, DiGiacamo said they needed to be aware of the fragmented nature of the market.

"Each state is almost its own country in that it sets the rules, it sets the barriers for entry, it sets market access, tax rates. Although there are consistencies in terms of suitability reviews, each state has its own set of rules."

From a regulator's perspective, Susan Hensel said that, generally speaking, the various regulators are aiming to accomplish the same broad goals of ensuring operator suitability and compliance as well as player protection. However, she added: "How we each accomplish those goals is different. And it is important, I think, for companies considering entering the United States to get involved with the target jurisdictions early to form productive relationships with their regulators.

"There are nuances between the states. We all have different authorizing statutes. We have different policy goals that our lawmakers are seeking to accomplish, whether it is job creation, tax revenue, or creating a tourist destination or some combination of those and other objectives. Those policy goals are going to help shape what the regulatory scheme looks like.

"The devil is in the details and in order to understand the differences you really have to be talking to the regulator and studying the particular jurisdiction's requirements."

From the operator side, and with DraftKings now offering sports wagering in seven states, Jeffrey Haas agreed. "As Susan said, there are nuances and differences between each set of regulations and technical requirements in every state where we operate. That varies from internal controls on exactly how advertising is approved, how any type of individual is allowed to check data in accounts, how marketing occurs, et cetera, across different channels.

"There's a great variation in the format and frequency of reporting and a lot of technical attention needs to be paid to ensure we get those right because sometimes the long tent in the pole after licensing and full technology review is making sure that the regulator has access to the reports they want at the frequency they want, et cetera. Just dotting the I's and crossing the T's can sometimes take a little while."

Tom DiEnno asked how this was impacting the infrastructure of DraftKings, to which Haas replied that the level of scrutiny meant a huge investment had been needed. "I would say that the largest growing area of our business right now is probably around our compliance function to ensure that we're on top of all that."

Mergers ahead?

Given that the increasingly onerous compliance demands in Europe are regularly cited as one of the factors driving consolidation in the market, the panel's focus then moved onto whether this was likely to also be the case in the States.

Haas said M&A opportunities were definitely something DraftKings was keeping an eye on. "There are a lot of opportunities out there. We're always interested in having discussions with other companies about any type of relationship. We're watching the industry and the landscape, like everybody else.

DiGiacomo said he thought the technology and expertise of European companies would be vital for operators looking to build successful products in the US.

However, he added that a very different landscape was emerging in the US sports betting scene due to the involvement of the sporting leagues.

Despite having initially opposed the legalisation of sports betting, once PASPA was repealed the major leagues in the country have increasingly been looking to monetise their role in the nascent sports betting market.

"The early states, such as New Jersey and Pennsylvania, moved forward without the leagues, but the leagues have been lobbying the other States as they develop legislation, initially under the guise of an integrity fee, now it's a data access fee," DiGiacoma explained. "So you have states and legislation that mandate that operators use the official data from the sports leagues and that comes at a cost.

"Hopefully it's just a negotiated cost, but it's an extra cost to the operators going forward in these other jurisdictions. It's probably the reason why states such as New York have not moved forward with online yet, because the leagues have a very powerful presence there, with all their offices in the state of New York, and are lobbying to have a relatively large piece of the pie."

With sports media companies and land-based casinos also looking to capitalise on the opportunities sports betting provides, it's clear a very different market is taking shape in the US compared to that of Europe. And it's taking shape quickly – Tennessee, for example, had released its draft sports wagering regulations just one day prior to the eSummit.

There's little doubt there is plenty of potential when it comes to online gambling in the States, but operators need to bear in mind that there are also more stakeholders to negotiate with than has been the case in many other new territories.

> There are a lot of opportunities out there. We're always interested in having discussions with other companies about any type of relationship. We're watching the industry and the landscape, like everybody else.
>
> **Jeffrey Haas**

Next Stop: LatAm

Santiago Asensi, Managing Partner, Asensi Abogados

Francesco Rodano, Chief Policy Officer, Playtech

Martin Lycka, Director of Regulatory Affairs, GVC Holdings

Latin America is viewed as a huge opportunity by industry giants GVC and Playtech, despite the lack of clarity over when regulations will come into force and exactly what shape they will take.

Though Regulus Partners' Paul Leyland had been somewhat downbeat about Brazil in his earlier speech, Martin Lycka said GVC was very optimistic about the country.

"210 million football-mad people who are expected to be subject to federal legislation – not province by province, one set of regs. And that's why I, but also, of course, GVC at large, see Brazil in particular as a huge potential opportunity, provided that the market is properly and efficiently regulated."

He also said he expected the imminent regulation of South America's largest country to have a knock-on effect across the continent. "Once Brazil, the big one, plus yet another sizeable jurisdiction in Latin America, i.e., Peru, have regulations on top of what we've been observing in the province and ultimately the city of Buenos Aires, then that will probably, just like in Europe, speed up the overall or general regulatory process in Latin America."

Francesco Rodano expressed the view that Latin America was not that different from Europe 10 years ago. "Ten years ago there were only two local licensing systems in Europe, Italy and the UK. Ten years later most of Europe is regulated."

That 10-year delay could prove advantageous if regulators in Latin America are willing to learn from the mistakes of regulators in Europe, said Lycka, citing Colombia's success an example.

"Colombia is a massive shining light in the South American continent, in particular because it has produced very efficient regulation and has attracted a number of operators, and others I understand are in the process of applying for a licence," he said.

While Brazil was seemingly taking a different path, he said he believed regulators there had at least recognised there was a need for foreign operators to enter the market for it to be successful.

Rodano pointed out there was a lot of inconsistency between European models, so this was likely to be replicated in some way in Latin America. "When it comes to regulation, Colombia adopted a regulation which is similar to Spain I'd say. Peru is going to adopt a model that's largely inspired by the UK. For Brazil, I'd say they're going for the US model with a Swiss flavour. So the same diversity that we find in Europe, it's also happening in Latin America."

However, the insight regulators take from abroad won't always be positive for operators. "There's a lot of noise, negative noise, in the UK, Italy and many other European countries, especially in the press, and some of this noise reverberates abroad," said Rodano.

"We will actually pay the consequences in Latam for some mistakes that were made here in Europe. Unless local policymakers let the markets start off in a more responsible and sustainable way by imposing some limits on advertising because the industry couldn't self-regulate along with some more effective practices when it comes to responsible gambling."

Lycka said the industry had a role to play as well. "We could get on the front foot and prevent a lot of issues that we faced in the past, in particular, in terms of responsible gambling and sports integrity. That is, in my view, the only way of ensuring that these markets are sustainable."

Role of retail

Lycka added that one of the other big factors that would influence the design of Latin American markets was retail. While there is a substantial illegal betting industry in some Latin American countries, which regulators will be keen to bring into their licensed systems, there are also legal operators in some jurisdictions and these are likely to have a lot of influence with policymakers, he said.

"The land-based industry will have certain views on how things should go going forward. That I would suggest will be very much reflected in the regulators' thinking, and ultimately in the thinking of the decision-makers who, for obvious reasons, will have much closer links with the traditional, already-existing industry as opposed to the newbies such as ourselves, who are only now seeking to enter these markets."

One possibility is that foreign operators will have to form some type of partnership with local operators, as has largely been the case in the US. While not ideal, Rodano said that "sometimes, for political reasons, it's inevitable".

"As operators, we need to adapt. We did that in Switzerland recently. Again, Mexico, even Buenos Aires, we applied in partnership with the local operators," he added.

Similarly, Lycka said. "If this is the only way of entering the market, then that's the set of rules we would have to comply with.

"I would suggest that it's for every single company to do the maths and figure out whether it would be worth entering the market under the applicable conditions."

In terms of assessing the commercial viability of countries more generally, for the smaller Latin American countries such as Paraguay, Uruguay and Panama, Lycka said GVC's decision would depend on both the regulatory parameters and where that country fitted into the timeline of regulation across the continent.

Rodano was more optimistic about the lesser jurisdictions. "The beauty of being a supplier of B2B companies is that we can cater for even very small markets if we have a local client there."

> The most challenging, most pressing issue from licensed operators is a demand for enforcement, because no matter what, unregulated operators will always benefit from a competitive advantage – there's no taxes, there's no product restrictions.
> **Francesco Rodano**

A more pressing factor for him, informed by his background working for Italy's regulator, was enforcement. "The most challenging, most pressing issue from licensed operators was a demand for enforcement, because no matter what, unregulated operators will always benefit from a competitive advantage – there's no taxes, there's no product restrictions.

"That's why if establishing a sensible and complete regulatory framework is the best enforcement measure, then you have to add something to actually protect the licensees. That's something we are telling the policymakers there."

Whether or not they are listening remains to be seen. But given the industry's positive reception to Colombia's regulated market, there's at least some precedent to suggest regulators in Latin America will implement regimes foreign operators can succeed under.

> Colombia is a massive shining light in the South American continent, in particular because it has produced very efficient regulation and has attracted a number of operators, and others I understand are in the process of applying for a licence.
> **Martin Lycka**

Esports Betting: Winning the Next Generation

Mark O'Sullivan, Assistant Manager, Gaming Industries, KPMG Malta

Adam Savinson, Head of Esports, Betway Group

Sam Gomersall, Sports Integrity Manager, Pinnacle

Michele Magro, Chief Counsel, International Affairs and Policy, Malta Gaming Authority

In recent years, esports has seemingly come out of nowhere to become one of the most popular sports on the planet, with a correspondingly high amount of interest among the iGaming industry.

As Mark O'Sullivan noted opening up the panel, it's gone from something that "didn't have a name until just a few years ago" to an activity that is regularly watched by more than 200 million people globally and is on a par with some of the major sports worldwide."

Sam Gomersall said there were a number of factors driving the recent surge in esports, including the fact that more esports viewers actually play the games recreationally than is the case with sports such as cricket, tennis or football.

He added that sponsorship from well-known brands had also increased awareness. "Esports sponsorship used to be the gaming apparel – the chair, the mouse – and now it's the major High Street brands, the Coca-Colas that are sponsoring the events."

This development has been something of a double-edged sword for companies such as Betway, which was one of the first betting companies to recognise the potential of esports, said Adam Savinson. "The first tournament that I ever sponsored was ESL One Cologne 2017, and it was one of the events where there was us – we were a big brand – there was a computer company selling desktops and there was a company selling mice.

"Now we're competing against DHL, we're competing against McDonald's, Vodafone, and the landscape has changed. On one side it's more difficult to sponsor because the prices are going up, but also it's so much more legitimate than it used to be."

However, despite its growing popularity, thus far it has proven difficult for sports betting operators to monetise esports, with a frequently noted disconnect between viewership and betting.

"When we were first taking bets in 2015 it was something that we were really excited about, but the trading was really difficult. You saw the market wouldn't move when clearly there was information out there that some of the punters already knew and it was very difficult to make money," said Savinson.

"Where we need to assist the industry is actually the monetisation of it. The average fan wasn't spending that much, not even close to what your average football fan would spend on their team. So the issue, the growth needed to happen in the monetisation rather than the viewership."

Different approach needed

One of the other stumbling blocks for sports betting companies has been the need to build entirely separate esports offerings rather than slotting esports into their regular betting sites.

"The esports fan, in general, wants to go to a different landing site. They don't want to see all these other sports. They want to see esports and then under that have all of the different types of video games, all the different titles," said Gomersall.

"You need to have a whole different landing site for them to reach when they log onto your site. And it's similar for Twitter. The only sport that Pinnacle has branched off from the regular tweets about what's going on in the world of sports betting is esports because the esports fan doesn't want all the other background noise."

Partly, this is because of the evolution of esports, said Savinson. "Esports didn't come overnight. Esports has existed for quite a while and it's only been in the last couple of years that people have actually acknowledged and accepted it. Esports in 2010 and 2008 was still happening, but the wider audience, the media and the wider population, just ignored it.

"Now everything's turned on its head, the esports audience knows that they're valuable now and it's the idea of 'you ignored me for all these years. Why should I trust you?' So quite a cynical bunch! That's why authenticity is so important. You need that dedicated Twitter account to show 'actually, we know what we're talking about. We're not just trying to jump on the bandwagon here'. And that really feeds through to the success, I think, both of our companies have seen."

"Esports sponsorship used to be the gaming apparel – the chair, the mouse – and now it's the major High Street brands, the Coca-Colas that are sponsoring the events."

Sam Gomersall

He said the previous lack of interest from outside the esports community was also what drove the illegal betting that took place in the past; fans created illegal betting sites because there were no legitimate options rather than because they wanted to bet illegally.

Moving forward
In terms of the biggest illegal betting scandal associated with esports, that of skins betting, the panellists agreed the issue was largely in the past now. They also agreed that the idea that the core esports fan base was under-18 was largely based on misconceptions, with the typical esports fan in their thirties.

"It's generally the Nintendo generation grown up. That's like the mid-thirties, as of right now," said Gomersall.

"It's a myth that these are under-18s watching the games. The games are really complex," Savinson added. "League of Legends and Dota, you've got to really work at it for a long time to really understand and enjoy the game. There are other games that do have younger audiences. Fortnite is one of them, and I'm not denying that there'll be a larger, younger Fortnite-playing-and-viewing demographic, but that's not the games that we're talking about, that we're taking bets on."

From a regulatory perspective, there are still some concerns, said Michele Magro, largely because engaging publishers and game developers on the topic has been difficult.

However, he added: "Times are changing quite a bit. So we saw that there was a parliamentary inquiry in the UK where game publishers were quite active, and the same in the Netherlands and in Belgium. Finally, after a couple of years, they sort of heeded the call of the regulators and now things are moving a bit. So maybe things are moving in the right direction."

He said the fact each game was typically owned by a different publisher, and that esports lacked the type of central governing body that oversees other sports, posed problems more widely in terms of regulation. "The lack of structure that there is at the moment is the reason why many regulators look on it still with a sceptical eye. I hope these are things that will change in the next 10 years, because ultimately that's what's lacking in esports."

Key numbers

$1.1bn
Total esports revenues 2019

26.7%
Year-on-year growth in total esports revenues for 2019

443m people
Global esports audience 2019 (198m esports enthusiasts, 245m occasional viewers)

Source: Newzoo

The importance of integrity

The panel agreed that in recent times esports has come a long way in terms of integrity. Each offered a view on how esports was overcoming the challenges in this area.

"The good thing about esports is it's pretty good at self-policing itself. The fan base is really what drives esports. It's the difference between a video game and esports. It's purely just the fans wanting to play or wanting to see professionals play the game that they play themselves. So really, when the community gets a sniff that something's wrong, the players get called out, the league officials get called out, and those things don't generally stay around for a particularly long time. There's no team or player that's been fixing esport matches for years and been getting away with it, whereas that might be the case under the radar in other sports."
Sam Gomersall

"Working with the publishers, working with the developers and the people who actually own the game – if they get involved they can help fix this. That is still a bit of a pipe dream, but we are seeing movement from the developers and this is all down to the same thing, the same discussion we've been having this whole time of, 'yes, it was in a different place three years ago, but we're moving to a much more mature, much better space'. The deal between Riot Games and Sportradar that was done to assist with policing and ensuring integrity in all of their games is a massive leap in the right direction and other publishers will inevitably follow."
Adam Savinson

"There's also a lot of scope for sort of a public/private cooperation in this field. A few months ago there was a fixed match in Australian Counter-Strike and it was through data shared by betting operators to regulators and to other monitoring bodies that eventually got the fixers and the players on these Australian teams actually prosecuted in court and sent to prison for what went wrong."
Michele Magro

Given the enormous growth being seen in esports, it seems likely that the various parties involved in esports will work towards greater collaboration so that regulators don't put a stop to the lucrative industry.

As for its future growth potential, Gomersall was clear that there is still much further to go for esports. Taking into account player participation, viewing figures, sponsorship and prize pools, he predicted: "I'm pretty sure it will be the second biggest sport overall by the end of 2020, maybe 2021."

Tax Consolidation and VAT Grouping for Gaming Companies

In 2019 the introduction of fiscal consolidation in corporation tax and VAT became available to groups operating from Malta, making accessible some benefits of note, namely a cash flow and simplification of compliance advantages amongst others.

Fiscal Consolidation

For the first time, the formation of a tax group for Maltese income tax on corporate profits has become available by virtue of the Consolidated Group (Income Tax) Rules (2019) enabling,

Members of the fiscal unit may be either Maltese companies or foreign entities that fall within the definition of "company" for the purposes of the Income Tax Act, on condition that the parent company (the principal taxpayer) holds at least 95% of two of the following rights; voting rights, profits available for distribution, or assets available for distribution upon winding up, in its subsidiaries (the transparent subsidiaries). Such election is possible provided that the accounting periods of all the members are the same and subject to the consent of minority shareholders, if any.

Where a gaming company (like any other company) satisfies the above conditions, it will be eligible to form a fiscal unit and be able to benefit from such rules, mainly:

- Intragroup transactions are disregarded for tax purposes, excluding transfers related to immovable property in Malta
- Where shareholder tax refunds would have been available to an entity forming part of the fiscal unit, the chargeable income of the fiscal unit will be immediately reduced by such refunds thus, eliminating the cash flow disadvantage encountered under the current system; and
- Only one tax return is required to be filed for the entities forming part of the fiscal unit

VAT Grouping

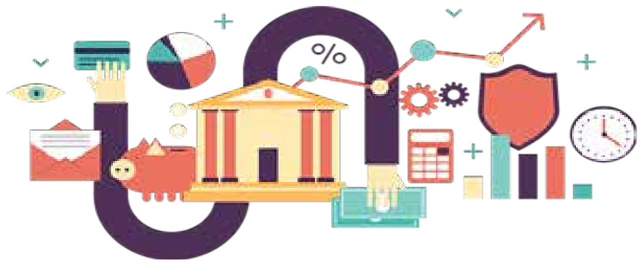
Where companies operate in the gaming sector, and bound to each other by financial, economic and organisations links (as defined), they may opt to be treated as a single taxable person for VAT purposes.

The main benefits associated with forming/joining a VAT Group are that:

- Any supplies of goods and services between group members are treated as non-supplies for VAT purposes. In turn, any supplies made by group members to parties outside the VAT Group and to group members by parties outside the VAT Group are treated as supplies made by/to the VAT Group respectively. The effect of the modified treatment provides a cash flow advantage.
- Gaming companies engaged in sports book or live casino offerings (supplies exempt without credit) will also access VAT savings as grouping does away with the self-induced VAT costs associated with intra-group supplies where the recipient is a taxable person engaged in exempt without credit supplies.
- Grouping leads to a simplification of the compliance obligations with one VAT return being due by the entire group.

Moving forward

Creating a fiscal unit for corporate income tax and VAT apart from being subject to the satisfaction of specific conditions, is also optional and hence not automatic. Given the cash flow benefits and real tax savings associated with these two relatively new tax measures, we believe that these two recent changes should be further explored by businesses engaged in the gaming sphere by obtaining advice and assistance with implementation sooner rather than later.



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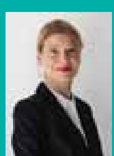

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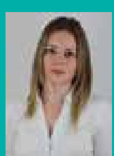

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Spotlight on Africa

John Kamara, Director, Gaming Intelligence

There are huge opportunities in Africa, but too often it has been unscrupulous operators taking advantage of them, leading to political backlashes against the industry. Reputable operators from regulated jurisdictions could help move things in the right direction, according to John Kamara.

Kamara acknowledged that in recent times the issues in Kenya had been heavily publicised, but said these were largely "teething problems" that had emerged from the continent's inexperience in gaming regulation.

"Africa is still a very young continent in terms of regulation, and it's important that a lot of operators understand how young this continent is when it comes to gaming regulation. Most countries in Africa have been regulating any type of remote gaming only for about three, four years," he said.

He explained that one problem in Africa – including in Kenya – was that regulators often came into their roles as political appointments and had little knowledge of the gambling industry, particularly the online side of it.

"So you get situations where the regulator is also learning on the job," he said. "A lot of these regulators are grappling with the problem of what to do."

Bad influence

He said this sometimes led to unsuitable operators being able to influence inexperienced regulators into setting insufficient regulation. The result is that regulators end up simply setting licence fees and taxes, but little else. "So that's the whole regulation. And that's not regulation, that is just the fees that you have to pay to the government," said Kamara.

"That then creates a situation where you expect some of the operators who come into the market to self-regulate, but as we know, that never happens.

"The operators themselves do not have any sense of sustainability for the gaming market. They've just seen a clear opportunity, and most of the operators that we've seen in Africa initially are technically what we would call 'cowboy operators', who probably are not licensed in any of the proper jurisdictions – Malta, Isle of Man, Alderney, UK.

> Now all of a sudden, because more mobile infrastructure is happening, the cost of data is being reduced, you now have operators who are purely going online, and they're making money.
> **John Kamara**

> Most of the operators that we've seen in Africa initially are technically what we would call 'cowboy operators', who probably are not licensed in any of the proper jurisdictions – Malta, Isle of Man, Alderney, UK.
>
> **John Kamara**

"They have no interest in the sustainable growth of the market, they're just interested in what they can get now.

"Then the whole situation gets out of hand. Then you have the situation of people talking about kids gambling or gambling companies having betting outlets outside schools, outside churches."

However, he said African regulators are very willing to listen to those with expertise from other markets, in fact, much more so that regulators in many of the more developed gaming markets. Partly, they are looking to overseas regulators for guidance, but he says international operators licensed in reputable jurisdictions could also play a role in shaping the future of regulation in emerging African countries.

"What we're not seeing is the right operators coming into the African market, the big operators," he said. "Our regulators can learn from the right operators coming into the market and also being able to advise and guide on how to actually operate, because the right operators have more to lose than somebody who just comes from the black market."

Strong growth prospects

While regulators could undoubtedly benefit from the expertise of large foreign operators, there's also something in it for those operators in terms of their bottom line, says Kamara.

"Nigeria only just really started going purely into online as of two years ago; [before] you couldn't do business in Nigeria as a gaming company if you didn't have the retail outlets. But now all of a sudden, because more mobile infrastructure is happening, the cost of data is being reduced, you now have operators who are purely going online, and they're making money.

"We had an operator that started in Nigeria about a year and a half ago, I'm not going to name names, but as of last month they were doing $11m in turnover with a 26% margin, and they're purely online. So if you tell me that that isn't an opportunity, then I would seriously debate that."

He says that growth opportunities also now exist in verticals outside sports betting, the traditional mainstay of African gambling. "We're now seeing companies who are predominantly now beginning to provide poker for the first time in the continent, which wasn't happening a few years ago.

"We're seeing companies now provide an online casino, purely as a product without sports, without anything else. Purely an online casino product and they're turning over $3-4m a month purely online on mobile."

He said the growth in gaming stemmed from the growth in Africa more generally. "This year alone in the fintech sector in Africa, we've had almost $6.3bn worth of investment, which is unprecedented. And a lot of it is small start-up companies across the continent," he said. "And what does that mean? That means it has a knock-on effect on entertainment and gaming falls under entertainment, so people have more resources to be able to be interested in gaming."

He added that the urbanisation taking place in many regions is also a factor. "By 2065, six of the African cities will be in the 10 largest cities in the world in terms of population growth," he said. "In terms of urbanisation, a number of these cities are becoming urbanised because we see a lot of global impact funds coming into the markets."

The relative youth of Africa's population, the increase in financial inclusion rates, advances in payment technology and improvements in mobile data infrastructure are all further trends Kamara listed as pointing to strong growth in Africa's iGaming market in future.

"We're seeing huge amounts of opportunities because we have consumer-driven markets, critical mass economies that are growing, and gaming is just one part of it," he concluded.

$1,515
GNI per capita

20.9%
Percentage of adults with a mobile money account

34.4%
Percentage of adults who made or received digital payments in the past year

590m
Population (age 15+)

Source: 2018 The Little Data Book on Financial Inclusion, World Bank. Figures for Sub-Saharan Africa

Stockholm Syndrome

Ola Wiklund, Founder, Wiklund Law

Tobias Fagerlund, President and CEO, Global Gaming Group

While the licensing of Sweden's online gambling market was perceived positively by the market, so far the actions of the Swedish Gambling Authority (SGA) seem to have left a lot to be desired from licensed operators' perspectives.

Tobias Fagerlund, whose company was the first to be stripped of its licence by the SGA in June of 2019, complained there was little clarity on the regulations and said the SGA had displayed a lack of willingness to engage with operators.

"The reasons behind the Swedish legislation are the same reasons as you see everywhere," he said. "I was one of the people that absolutely supported that we were, finally, after all these years, going to get regulation."

However, he said there had been "no real secondary legislation to it" and a lack of communication between the SGA and licensees.

"We and other operators have actively been seeking a dialogue with this Swedish authority on that subject. We asked questions, 'how do you see this? Is this a correct estimate that we do?' But unfortunately the legislator was not at all really interested in talking to us."

He was also critical of the manner in which Global Gaming's failings were dealt with. He said the company was engaging with and waiting for responses to correspondence from the SGA when it was hit with the news of its licence being pulled.

"I woke up in the morning on the 17th of June. I opened up my mailbox, I had an email from the Swedish authority. It was from 7:52, I read it at 7:55. It said that at 8:00 we will issue a press release saying that you are not operational in Sweden anymore. I find it quite difficult actually to cope with the way they are executing public power."

Ola Wiklund, who represented Global Gaming against Sweden's Consumer Ombudsman, which filed a case against the operator for not adhering to the requirement for moderate marketing, said the lack of detail in the legislation was a big problem.

"The legal concept is moderate marketing and there is no case law, and there is no actual help when it comes to interpretation if you look in the preparatory works. What is moderate marketing," he asked?

Following the legal case, which Global Gaming lost but plans to appeal, there is at least some clarification, he said.

"Now there has been one court case then others have some idea of case law. We are all looking forward to more legal certainty now when it comes to marketing, and I think the judgment went pretty far. But I am not sure how quickly the market will adjust to it. I have already seen some that are not really adjusting to it," he added.

Wiklund pointed out that it was not just Global Gaming in the regulator's firing line. "We have around 80 licences granted and when it comes to enforcement, we have over 30 cases at the Swedish Gambling Authority. Most of them are being appealed and concern violations of bonus provisions, violations of money laundering provisions and violations of responsible play provisions. And 75% of all violations are considered serious by the Swedish Gambling Authority."

'Political pressure'

"I think the Swedish Gambling Authority is acting under political pressure," continued Wiklund. "The politicians are extremely concerned about player responsibility and I think they have actually pushed the authority to act extremely diligently the first couple of months of the licensing system. Whether this is justified or not you can have different opinions. I don't think it's justified in our case."

He suggested there was also pressure to protect the monopoly operator Svenska Spel. "You have to understand that the government owns a competitor to the private sector," he said. "And they are really concerned with the revenues from this competitor. So as well as being the regulator, the Swedish Gambling Authority is actually under the realm of the government as well. And there are some signs that the Swedish government has pushed the gaming authority in certain directions."

He argued that it was in fact the monopoly operators that had started the ball rolling on what politicians are now referring to as "excessive marketing" in Sweden. "Svenska Spel, which is the monopolist, increased their market spending by 80% in December [2018] and January [2019]. So while on the brink of the licensing system, the monopolists set the tone for marketing in Sweden.

"The monopolists have invested huge amounts of money in the market before, over nearly two decades. Then we have a situation that the monopolists actually trigger the rest of the market to step up. [Private operators] also have to invest a huge amount of money in marketing to be able to take market share in the extremely important initial phase of the Swedish licensing system."

While there is now talk of an advertising ban in Sweden, albeit

"The legal concept is moderate marketing and there is no case law, and there is no actual help when it comes to interpretation if you look in the preparatory works. What is moderate marketing?"
Ola Wiklund

with indications of this being on casino rather than outright, Wiklund said this would actually favour Svenska Spel.

"They actually use the monopoly to cross-sell, to cross-market their brand into all other sectors. So for them it's not a big problem to have a marketing prohibition when it comes to casino. It's actually a competitive advantage for them to have that," he said.

Fagerlund said the market needed to move away from the current state of "hostility" between the private and government companies and instead needed to "educate the players, to actually make it really clear to the players that it's the difference between playing on licensed and unlicensed. Today the education is more about the difference between playing at Svenska Spel and the other 'dirty and dangerous' guys."

Otherwise, he said the government's channelisation aims were unlikely to be achieved. "Their aim was plus 90% and in the beginning the government said that, 'yes, we are getting that, we're getting 90%'. I think now as time goes by it's very clear to everyone that is at least a little bit interested in the issue that channelisation is failing in Sweden. It's failing dramatically. We see a lot of non-licensed operators being very aggressive in the Swedish market."

While officially it is claimed channelisation is about 85%, Fagerlund argued: "I think you are more right if you estimate that number to be maybe 60-65%, maybe below 60% when it comes to casino games."

He said one issue was that the Swedish system did not require B2B providers to become licensed. "I think it's important that you also have a B2B licence, that you also can hold the providers of the games and the payment providers liable," he said. "If the providers of games are selling around the corner with one hand and then selling openly and publicly with the other, it creates a very difficult situation in terms of channelisation."

Pecha Kucha

Micky Swindale, CEO, KPMG Islands Group

Ivan Filletti, Chief Operations Officer, GamingMalta

Micky Swindale began the final session of the eSummit by explaining to the audience the meaning behind the title of the panel: that the presenters had just 20 seconds to explain each of the slides in the presentation.

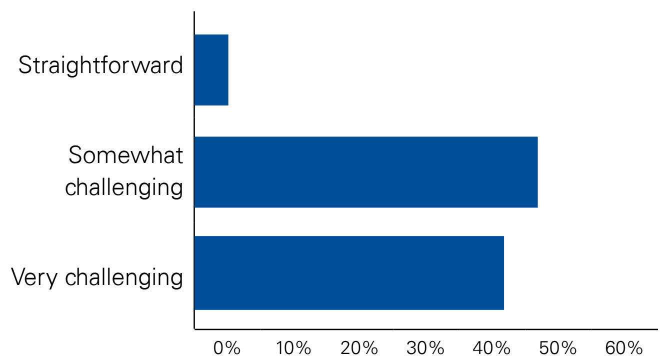
Swindale told delegates that KPMG regularly takes a "temperature check" on important topical issues by posing a series of questions to those at its eSummits. For this conference, six questions were put to attendees at the beginning of the day, three of which had been asked at summits in other countries.

Ivan Filletti began by discussing the answers to the question: "How challenging is it to attract new talent to the remote gaming sector in Malta?" Some 95% of respondents said it was either 'somewhat challenging' or 'very challenging', with just 5% answering that it was 'straightforward'. Filletti said his organisation was working on tackling the issue, as was the European Gaming Institute of Malta. "Hopefully we will have more and more people graduate in iGaming, which will help to feed the talent pipeline."

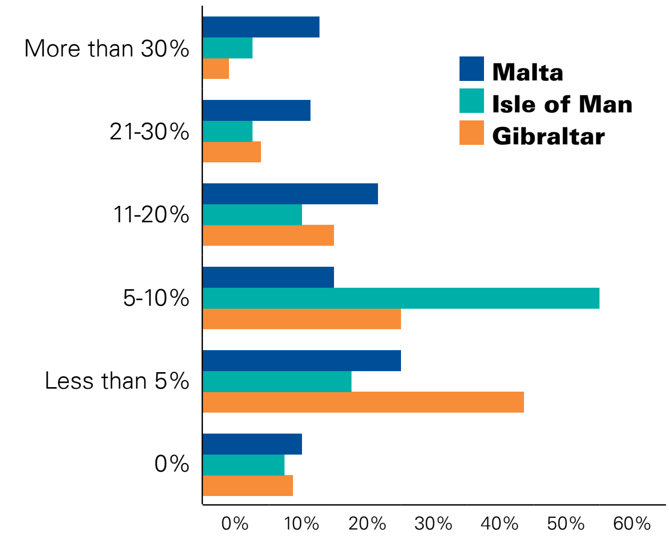
Swindale, who is well-known for her efforts to promote diversity in iGaming and heads up KPMG's #WeAllWantToPlay initiative, moved on to the question concerning how many women featured on operators' executive boards.

The results were compared with those from the Isle of Man and Gibraltar. Interestingly, it seemed Malta was ahead of its peers when it came to companies having more than 30% of

How challenging is it to attract new talent to the remote gaming sector in Malta?



At the gaming operator you work for, or know best, what percentage of the executive team are women?

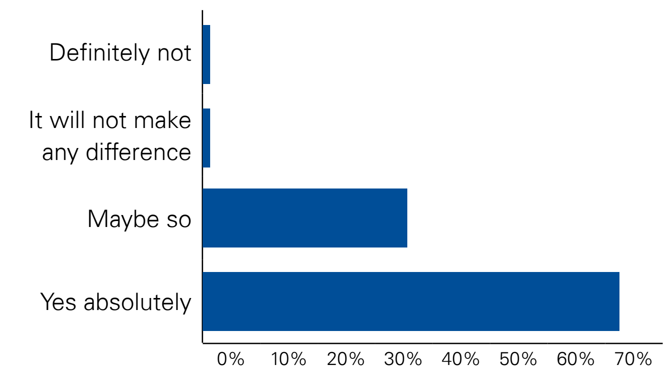


women on their boards. Swindale said this was particularly important as, "that's the point at which women's voices really start to influence the debate, and drive a more diverse agenda in the boardroom and within the executive team".

Swindale added: "When we asked this question in Gibraltar, only 3% of the survey respondents said that their executive team had more than 30% women. In the Isle of Man, it was just over double that at 6.5%. But here in Malta, it was more than double the Isle of Man at 14%. So a much more positive picture I think for gender diversity here in Malta, and I can't help but think that that's the Scandinavian influence."

Filletti moved on to the question: "In view of the current challenges facing the remote gaming sector, is a sectoral reputation management programme important?" Here, there was little doubt attendees were very much aware of the issues facing the sector, with 66% answering 'yes absolutely' and 32% 'maybe so'.

In view of the current challenges facing the remote gaming sector, is a sectoral reputation management programme important?



Filletti said this topic was something that was "close to my heart". He added: "I feel that the industry has never done enough to come up with a coherent reputation management programme.

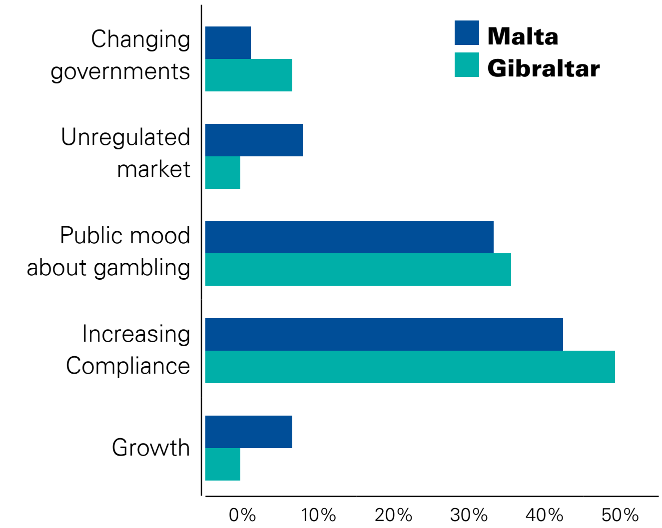
"What we're currently doing in Malta is working extremely closely with a trade association called iGEN, the iGaming European network. We have established a number of key audiences to which we want to explain what the industry does - because we mustn't assume that everybody out there knows."

"Hopefully we will have more and more people graduate in iGaming, which will help to feed the talent pipeline."

Ivan Filletti

Swindale said it was clear the sector's reputation was a huge challenge for the industry given the responses to the question: "What do you feel is the most important challenge for the industry?"

What do you feel is the most important challenge for the industry?



Although respondents in both Malta and Gibraltar were more concerned about compliance, the public mood about gambling was the second most pressing issue. "No great surprises there, but a real consistency across the jurisdictions," commented Swindale.

The penultimate slide referred to whether or not the industry was really pushing the envelope in terms of innovation and embracing new technologies, with three-quarters of delegates responding in the affirmative.

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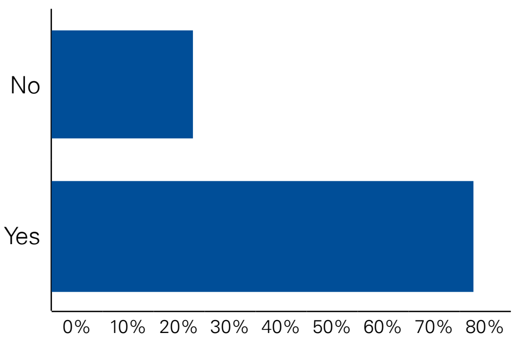
>
> **Micky Swindale**

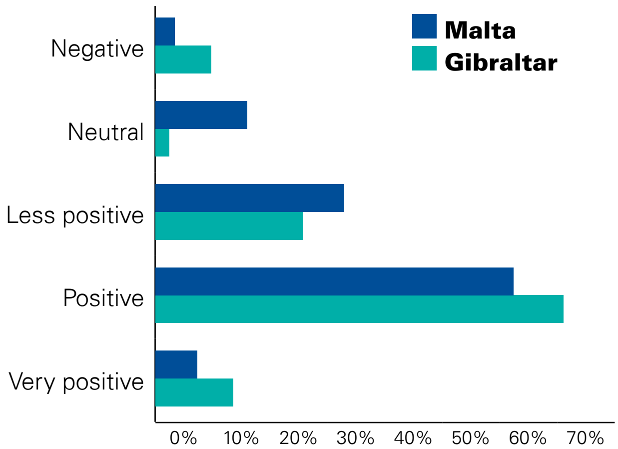
Innovation is key. In your opinion is the sector pushing the envelope here and is it embracing new technologies?



Filletti said Malta was particularly ahead of the curve in terms of innovation. "The only constant in life is change, and it's especially in Malta whereby we're spearheading efforts on blockchain and artificial intelligence, that the industry is really embracing all these new technologies."

Swindale rounded up the session and event with the results of the all-important question: "How positive do you feel about the prospects for the online gambling industry over the next five years?"

How positive do you feel about the prospects for the online gambling industry over the next five years?



The results revealed a high level of optimism. "When we asked you how positive you felt about the prospects for the online gambling sector over the next five years, 84% of you feel positive, leaving a small number who feel neutral and an even smaller number who feel negative. So we're certainly not going to be drowning our sorrows over drinks tonight, more raising our glasses," Swindale concluded.


KPMG
Are you prepared in the event of a UK Gambling Commission (UKGC) investigation?
Are your AML/CFT policies & procedures fit for purpose?
Contact us for value-adding expertise

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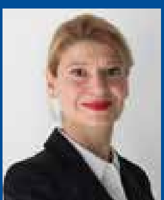

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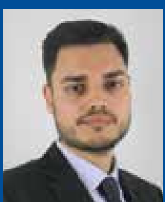

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Your Trusted Gaming Advisor

KPMG has built unrivalled knowledge and insight within the remote gaming sphere, on a global scale. Across each of our Advisory, Tax and Audit functions, we possess a core group of professionals, who are specialised in iGaming and its various intricacies. This has allowed KPMG to develop a deep level of expertise in Malta and internationally, alongside the KPMG Global Gaming Team.

Below is an indicative and non-exhaustive list of some of our key service lines, each of which has helped us to effectively support Remote Gaming operators throughout this ever maturing industry.

Licensing Assistance	Regulatory Insight	Internal Audit
Strategic Market Analysis	Robotic Process Automation	Executive Leadership Coaching
Risk Assessments	Tax Planning	Deal Advisory & Integration

Contact our Gaming Industry Lead, Russell Mifsud to discuss how KPMG can be of support to your company's efforts.

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