

ICE Totally Gaming 2017

Sarah Harrison, Chief Executive World Regulatory Briefing

7 February 2017

Good morning Ladies and Gentlemen. It's hard to believe that 12 months have gone by since ICE 2016.

February last year seems a very long time ago and events since then have been seismic in what has been a relatively short time since we were last together. These events have, and will continue to, reverberate across many economies, although for the time being consumer confidence seems to be strong in the face of uncertainty.

In gambling in the UK, some things have changed a lot in the last year and some have stayed very much the same – perhaps the biggest change we've seen arises from significant merger and acquisition activity in the year – deals which came through, such as Betfair and Paddy Power and then Ladbrokes and Coral, and those that did not. Most market analysts point to the trend in corporate transactions continuing into the future.

We've also witnessed operators coming under increased, and in my view, timely regulatory scrutiny for how they treat customers (CMA), handles their personal data (ICO) and protects the licensing objectives in relation to crime and social responsibility (GC). We've seen the publication of a new national responsible gambling strategy and the relaunch of GambleAware, as an independent led charity, and a focal point for research, education and treatment in Great Britain.

And of course some things have remained the same. Debates around gaming machines – allocation, stakes, prizes, social responsibility and gambling advertising have continued. The Department for Culture Media and Sport, with our support, will be looking to tackle these issues during 2017.

I have been asked by the conference organisers in this address to update on my remarks to this event last year. So I will structure my speech around:

- public policy and market developments
- the Gambling Commission's work over the last 12 months
- and conclude with a look ahead.

Public policy and market developments

In addressing this, I think it is helpful to pause and reflect on what is happening around us. Heraclitus, a Greek philosopher, is quoted as saying 'change is the only constant in life'. Today, those words ring true. Here in the UK, the Government is now putting into action our historic vote to exit the EU and shape a new Global Britain.

Despite the enormity of the task before it, the new PM is not allowing Brexit to paint the only legacy of this government and in January, in the course of two speeches over one week, Theresa May set out her agenda. Building on her speech to the Conservative Party Conference last autumn, she talked about a shared society that doesn't just value our individual rights but focuses more on the responsibilities we have to one another. She pledged that the Government will support free markets as the basis for our prosperity; but where markets aren't working properly for consumers, where they are broken, the Government won't hesitate to step in to fix them.

While I would be surprised if the gambling market had been uppermost in her mind as she spoke, this stance nonetheless sets an important public policy context for this industry, and for the Gambling Commission as its regulator.

A context that focuses on treating customers fairly; protecting the most vulnerable, and ensuring healthy markets that operate with the highest levels of integrity.

In terms of government policy on gambling, the current Gambling review dominated last year - well at least the anticipation of it - and will undoubtedly dominate this year. The DCMS review focuses on:

- **maximum stakes and prizes** for all gaming machines permitted under the Gambling Act 2005
- **allocations of gaming machines** permitted in all licensed premises under the Gambling Act 2005
- **social responsibility measures, including issues around gambling advertising.**

The call for evidence and subsequent consultation process, due in the spring, provides scope for debate, as well as a process in which to amass current evidence, and assess industry progress on social responsibility. It also has the potential to create a platform on which to build a direction of travel for the future.

The last time a review of the evidence in relation to machine stakes and prizes was undertaken was in 2013. In some ways, today seems in a very different era. In that time public attitudes about gambling in Britain have changed, and have hardened.

Research undertaken by the Commission in 2016 into attitudes towards gambling found that 78% of those surveyed thought there were too many opportunities for gambling nowadays; 69% thought that gambling was dangerous for family life; 23% thought that gambling should be banned altogether; 41% thought that most people who gambled did so sensibly, whilst 15% thought that on balance gambling was good for society.

While direct comparisons are difficult to make due to differing methodologies, when compared to the previous British Gambling Prevalence Survey in 2010, this research shows changing attitudes, with concerns increasing and tolerance decreasing.

In terms of the gambling market itself, the Gambling Commission's latest market analysis shows online gambling accounting for 33% of all gambling in Britain. Between April 2015 and March 2016 online gambling operators generated a Gross Gambling Yield (GGY) of £4.5 billion (€5.2bn). This means online gambling is the largest gambling sector in Britain, largely driven by mobile (and smartphone) meaning a broader demographic reach. Britain's gambling industry generated a GGY of £13.6 billion (€15.8bn) between April 2015 and March 2016. In retail, bookmakers generated £3.3bn (€3.8bn) GGY of which £1.7bn (€2bn) is attributable to FOBT machine play.

Costs and competition have put pressure on market operators, with 2016 being another year of consolidation and mergers. Competition puts pressure on marketing with inflation in spend and corresponding increased consumer exposure to advertising. Factors which led one independent expert, at a social responsibility conference at the end of last year, to dub the experience of current levels of marketing and advertising as a form of 'passive gambling'. The last substantial research in Britain on the volume of gambling advertising was conducted by Ofcom in 2013. Our own consumer participation survey work in 2014, showed that half the population claims to have seen gambling advertising on a daily basis, and that 60% of 18-24 year olds have seen gambling advertising online on a daily basis.

In terms of participation, nearly two thirds of adults aged 16+ have gambled in the past 12 months, which equates to an estimated 30 million people. Nearly 10 million of these have only gambled on the National Lottery draws, however we have seen a decline in Lottery draw based play in the UK consistent with trends internationally.

Problem gambling rates have remained stable according to the PGSI and DSM screens; in 2012 0.6% of adults in England and Scotland were identified as problem gamblers, and the latest data from the Scottish Health Survey 2015 shows a slight fall. Ongoing tracking of problem gambling shows a consistent rate since 2012. The latest Health Survey for England is due to be published in March and will, along with our new data covering Wales, provide the most up-to-date picture for Great Britain.

However, our interest is not just in problem gambling as measured by the internationally recognised screening techniques, but also in those at risk of problem gambling, where the numbers are far greater. Further, a focus on problem gambling is a focus on the individual - in our view important, but not sufficient alone to understand the wider impact of gambling-related harm. That is why the Commission has welcomed the priority given to gambling-related harm in the new National Responsible Gambling Strategy. Taking its cue from the new strategy, GambleAware is commissioning new research.

The first of the projects reported late last year, and, undertaken by the Institute of Public Policy Research, it estimated that problem gambling cost the UK government between £260m - £1.6bn per annum (€302m – €1.8bn). These costs come under the headings of health, welfare, employment, housing and criminal justice. By the authors' own admission, the methodology was partial given the challenge of measuring impacts. Further work is underway by PWC, which draws on methodology established by Erika Langham in Australia. This is important work for the Commission and, in combination with ongoing health survey data, has the potential to help assess the true, wider cost of gambling-related harm on individuals, the economy and society.

This in turn can also help deepen our collective understanding of the actions likely to be most effective in mitigating that harm; as well as helping to inform wider public debate on the place of gambling in British society.

Gambling Commission's work over the last 12 months

Last year, I talked about a consumer focus. I highlighted some issues that the Commission was concerned by. For example:

- fairness
- gambling-related harm and social responsibility
- crime and money laundering
- emerging products.

A year on, let me summarise the progress we have made.

In the area of **treating customers fairly**, British regulators have combined forces and powers.

Last year, I warned on this platform of our concerns with terms and conditions in online gambling. We are leading a programme of work with the Competition and Markets Authority, launched last October, to prioritise action in this area. This is drawing on consumer concerns about online operator practices to cancel bets, alter odds after bets have been accepted, and offer misleading sign-up promotions. The CMA continues to see complaints and has recently extended the scope of its work to include online betting promotions. Despite our clear warnings to industry operators, I continue to have grave concerns about terms which appear to bamboozle rather than help customers make informed choices. We look to this joint work to set a new benchmark for fairness and transparency. This is vital at a time when competition in the industry, manifesting itself in intense marketing, excessive and complex bonussing and free bets, risks creating further incentives to cut corners.

The combined power of regulators is also addressing issues with misleading marketing practices and unsolicited e-communications (notably, spam email and SMS). The Gambling Commission, the Advertising Standards Authority (ASA) and the Information Commissioner's Office (ICO) are working in partnership to drive up standards and, where necessary, take enforcement action.

In recent months the ICO has launched a wide ranging investigation targeting more than 400 affiliates associated with the gambling industry. We know that the gambling sector is one of the worst offenders when it comes to spam SMS (which breaks the law) – and these practices are often associated with affiliates. A major affiliate conference follows on from ICE and my message to those businesses is that they need to get their house in order. But far more importantly, my message to operators is there is no 'fudge' around this, no equivocation - the affiliates who promote your brand and who drive business to your websites are your responsibility, and it is you who are accountable.

Following action by the Commission, progress has been made by some operators to improve practices in affiliate marketing and while this is to be welcomed there is much more that needs to be done.

Consistent with a focus on consumers and in particular vulnerable consumers, **social responsibility** has been a priority for us over the year.

Our approach to protecting consumers who are vulnerable has been to create a framework, via the Licensing Conditions and Codes of Practice (LCCP), which puts responsibility firmly with the operators to minimise gambling-related harm.

In the last year, industry operators have come to terms with new requirements for Annual Assurance Statements (AASs). These are like internal control statements and are a vehicle for high impact operators, with a GGY of over £25m, to provide us with the most senior level assurance that compliance with the licensing objectives is at the core of the business. It covers control systems, risk management, governance and culture. They are a tool for operators, their boards and senior executives, as well as the regulator.

There is no surprise that one of the most contentious aspects of the Annual Assurance Statement framework has been the expectation that operators will identify a narrative description of the scale of problem gambling in their business (which could include identifying the revenue associated with problem gambling). The reason for this is that by measuring the problem, operators are able to understand the level of risk, and evaluate the impact of the actions they take to mitigate it.

The first year's pilot was poor. But with Commission-led workshops over the summer and early autumn, the new wave of reports covering problem gambling shows signs of improvement and differentiation among operators. Some have identified the revenues associated with problem gambling, and there are also examples of collaboration across some operators to better understand the drivers and mitigations. While there is a long way to go before we can point to best practice across the board, there are some positive signs on which we can build.

Beyond this, we recognise further signs of progress. Over the last year, as a result of Commission requirements, industry self-exclusion schemes have been introduced across the betting, casino, bingo and arcade sectors and good progress is being made to develop an online scheme for go live this year. Operators, both online and land-based, are stepping up their use of data and predictive analytics, and behavioural science to identify patterns of play which might present risk, and applying player protections and interventions which can help consumers stay in control.

There are examples of operators who are reengineering their compliance function and culture to put social responsibility and AML at the core of their business. There are others who are providing products which limit spend and loss, or alongside which third party affordability checks will be made. These are examples of operators 'designing in' practices which can help minimise gambling-related harm and the risks of crime – these are examples of leadership.

While encouraging, it is easy still for progress to be undermined by culture and practices in some businesses which puts commercial gain over compliance. I still hear now that some businesses are adopting a strategy of 'wait and see' - wait until the source of funds is **proven** to be illegal before acting. Wrap the customer in VIP status in preference to being curious about the affordability of the levels of spend. This is clearly unacceptable and industry must do better. It is these practices which put at risk the 'social contract' which permits gambling in Britain as a mainstream leisure activity.

Last autumn, the Commission implemented new rules to **tackle crime**. These put a principal objective on operators to identify and manage the risks of money laundering and crime in their business. The regulations, in combination with enforcement cases, have driven improvements in operators. Some businesses have shown leadership – Caesars and Rank both took time at the Commission's first Raising Standards Conference last November to share their learnings following adverse enforcement cases, and their commitment to continuous improvement.

Further initiatives have also been led across sectors, for example, the industry anti-money laundering group (GAMLG) led by the Remote Gambling Association (RGA) and the Association of British Bookmakers (ABB) and similar initiatives are being led across the casino sector.

The UK Government will soon determine the future implementation of the 4th Anti-Money-Laundering Directive. Whether gambling is exempt or not, in whole or in part, operators' focus on Know Your Customer (KYC) to keep crime out of gambling, and to mitigate gambling-related harm, will need to be intensified.

We have recently published our strategy for future enforcement. This signals higher fines, in particular in the face of repeated failures; it signals operating and personal management licence reviews where these are necessary and not just as a last resort; and it introduces incentives, by way of penalty discounts, for early acceptance of breaches and effective action to remedy consumer detriment. This new strategy represents the strongest message from the Commission of our determination to use all our powers, as Parliament intended, to protect consumers and safeguard the integrity of the market.

A further example of how the Commission has used its hard and soft powers in the year, is in the area of **new and emerging gambling products**. Last summer, we published a discussion paper setting out our thinking on virtual currencies, eSports and social gaming. This was prompted specifically by:

- the blurring of lines between some social gaming products and gambling
- technology advances and the expansion of digital or virtual currencies
- the growth in the market for gambling on eSports.

We continue to be concerned about virtual currencies such as 'in-game' items, which can be used to gamble. We will be publishing a position paper on virtual currencies, eSports and social gaming, in the next few months.

However, over the year we have seen international games platform providers act to disrupt illegal gambling – so called 'skins betting'. These actions follow engagement with us, and other regulators in Europe and the US.

In Britain, we have taken this a step further and in a landmark case for the Commission into the website www.futgalaxy.com, criminal action has been pursued to tackle unlawful gambling, of particular appeal to children. This involved the use of in-game items as a virtual currency and the case, heard yesterday in Birmingham, saw the defendants pleading guilty and sentenced. The District Judge described the video footage shown in court of a 12-year-old boy gambling on the site as 'horrific' and added that it had 'hit home how serious this is'.

The messages here couldn't be any clearer:

- the Commission will tackle unlicensed gambling wherever it occurs
- we will above all act to protect children
- we will use all the powers available to punish and deter
- we will work collaboratively where we can with fellow regulators to disrupt unlicensed gambling.

On a number of fronts, the Commission continues to engage with other regulators around the world to continually develop our approaches. In the spirit of being curious, we want to learn from others as well as to share our thoughts and experience. We will work to foster this collaboration wherever possible, through European and international regulatory representative groups.

The product of this collaboration has seen an increase in the number of jurisdictions who have visited the Commission over the last year to understand our approach to regulation (including for the first time from China) and it has also led to a significant increase in the number of requests to the Commission for information about operators facilitated by the cooperation agreements and MOUs and via the EU gambling expert group. Sharing information across borders about operators whom we regulate individually, is vital to the action we can take collectively to protect consumers and support well-regulated markets.

Looking to the future

The Edelman trust barometer tracks public trust in business, governments, NGOs and the media. The 2017 survey reveals that trust is in crisis around the world.

As with any business sector, the gambling industry's longer-term sustainability is hugely reliant on trust - a recognition that customers using products and services are valued, respected and treated fairly. Respect in this context, manifests itself in a number of ways: how operators write and present terms and conditions, how they handle complaints, how they act towards consumers who are vulnerable and so on

.....But it's also reflected in industry's vernacular. I think there are questions for, and about, operators who use terms such as 'price tarts' and 'bonus abusers' to describe customers. Equally terms such as 'grind action' to describe casino consumers who spend relatively little, by contrast to 'whales' who are highly valued and highly prized, beg serious questions. I would invite operators to reflect on whether these terms have a place in sectors that are serious about building long term relationships with customers based on trust and respect.

Building consumer trust and confidence are key themes for the Commission, as we develop our forward strategy over the coming year we are fortunate in that we have a strong basis of the licensing objectives on which to build – keeping gambling safe, fair and free from crime.

Our strategy will look to improve understanding of consumer behaviour based on our consumer engagement strategy published last year. It will also give greater emphasis to data: the use of data by operators to protect as well as promote, and, for the regulator, the role of data to evaluate compliance and to inform consumers and policy makers. The strategy process will provide a good opportunity for a dialogue with industry operators, consumers, representative organisations, government and other key stakeholders. We will plan events for this over the first half of the year.

In parallel, as an organisation, we will build on what we began last year to improve the way we work. In the same way that we challenge operators to change, so we too need to develop our ways of working. Investing in our people, our skills and our culture is a key priority for me as CEO. We have made progress over the last year and our employee engagement surveys (published on our new website) show this. But we know we need to do more in the spirit of continuous improvement.

As well as the Gambling review, an important focus for the year will be the National Lottery and the lottery market. While I have not dwelt on the lottery in this speech it is a key priority for the Commission. The challenge here is to apply the regulatory framework in a way that maintains the integrity of the National Lottery, and protects consumers, while creating incentives for the Lottery operator, Camelot to grow sales and contributions to good causes. Contributions that are fundamental to sporting, cultural and community projects across the UK.

The pressure on the lottery operator, Camelot, is intense in particular as it seeks, like every retail and gaming business, to develop its digital channels and products in a way that is appealing to consumers now and in the future. The themes from today of trust, integrity and player protection apply just as much to the running of the Lottery, both now and as we move towards the next licence period. It was Camelot that last December faced the Commission's largest fine to date for undermining consumer confidence.

As statutory adviser to the government, the Commission is developing now its advice on the Gambling review. Very soon we will publish part of our evidence base: machine data covering play over the last 24 months – 20 billion plays on machines in betting shops and 2 billion plays on machines in AGCs and Bingo premises. This is one input to our advice and we are publishing it now to be transparent and let other stakeholders draw on it to shape their own input to the review.

Interestingly, this review takes place in a 'post truth' world. As this cartoon conveys it is a world in which experts, pollsters and indeed gambling businesses have been 'called out' as the forces of populism have held sway.

Our interest in the Government's gambling review is not only in the question of machine stakes, prizes and speeds - consistent with the triennial stake review process - but also in 'structural' issues that will be important to protect consumers and reduce gambling-related harm over time, such as greater investment in research, education and treatment, a subject on which our position is well known.

Earlier I pointed to the growth of gambling online. The GB market is now at a tipping point - the largest regulated online gambling market in the world. Two years on from the legislation which created Point of Consumption regulation for the Remote market, the Gambling Commission will lead work in 2017 to review the online market. Work is underway and we will examine data, market trends (both current and future), consumer participation and action by operators on social responsibility and crime. We will report on what we find and where necessary make recommendations for future action.

Conclusion

I started this speech by talking about the wider context in which we operate. A context of the seismic changes and events that have seen the relationship (and the power balance) between the citizen and the state shifting fundamentally. These changes are also altering the relationship between consumers and business. Gambling operators need to focus now on how they should adapt, improve and build consumer trust and confidence to avoid the aftershocks, and retain sustainable businesses over the long term.

We will work, as the GB regulator, and including with our European and international regulator partners, to do all we can within our powers to put consumer interests first; to create regulation which can give confidence; and in turn support healthy gambling markets.