

Regulations – Interview with Trevor De Giorgio

How do you view the role of compliance and where does it fit into the games creation process?

The ever-changing regulatory landscape means that the role of compliance within a gaming company is always increasing. Regulations establish a lot from the taxation rates, the location of the servers, as well as the seat of the company that can apply for a license. In fact, they also delve into the maximum and minimum stake, the maximum hourly loss and other related matters. All of this needs to be taken into consideration when developing games that will be put out there for the consumers. This, in turn, follows the need to have ever-increasing synergies between compliance and game developers' personnel.

There's an ongoing great debate taking place around the world as to the rates of taxes big international conglomerates pay to individual countries in which they operate. Against this backdrop, is the gaming industry paying its fair share of taxes both at source and in the country of origin in which the bet is placed?

Taxation is a hot topic in the current regulatory scenario. The truth is that tax rates can either make or break a successful regulation. I believe it is a matter of balance – i.e. maintaining a balance between the fiscal needs of a particular jurisdiction and the commercial interests of an operator. The goal of every government seeking to regulate online gaming in an efficient, transparent and responsible manner is to channel as many of its players to the legal and licensed offering – the so-called “channelling rate”. One of the most important factors (besides having an entire portfolio of games available to licensees) in determining the “channelling rate”, is the tax rate imposed on licensed operators. In order for legislators to make the correct decisions affecting the “channelling rate” - the decisions need to be carefully prepared.

It is not easy to define or determine what would constitute a best case scenario for a successful “channelling rate”, although studies (as well as facts and figures in Denmark) consistently point to a “channelling rate” of at least 80% or more with a tax rate of 20% of gross gaming revenue (GGR) or less.

Each market needs to be considered as an independent entity that shares a number of similarities with other states, but also a number of differences. Hence, one cannot adopt a “one size fits all” method for regulating.

From an operator's perspective, one needs to understand that whilst it is true that with for example a 20% tax rate, 80% is left to the operator, one also needs to take into account that such 80% is not all profit. Costs related to marketing, bonusing, development as well as ancillary costs must be kept in mind.

This only leaves a small margin for operators, as a higher tax rate has an influence on all of the above. This includes marketing costs and bonusing initiatives that place licensed operators at a notable and clear disadvantage when compared to the unlicensed operators who don't have to contend with taxes. In this way, they are given the opportunity to invest heavily in marketing, bonusing and development areas. It is clear that such high taxes kill development – i.e. kill innovation.

How much of the M&A activity we've seen recently has been driven by the pressures of compliance and tax? And what will be the long-term effects on the industry?

Both regulatory and licensing costs have increased significantly for operators. What this means is that only well-financed operations can continue to develop and grow, and one of the ways is doing it by M&A activity. The downside is that by having fewer operators in the market there will be less competition and in the end it is the competition that drives innovation.

Do you agree with the argument that higher rates of tax lead to decreased consumer protection? The argument being that consumers will seek out illegal sites that are not paying taxes and where consumers are at the most risk.

High tax rates tend to have a negative influence on the pay-out levels of legal/licensed operators. This subsequently tends to have a knock-on effect in so far as illegal operators remain more attractive to players, for example, given the possibility of obtaining better odds on these sites. However, one tends to question the standards (or the rather lack of them) which illegal operators adhere to. Furthermore, it is becoming an ever-increasing occurrence that said operators also run illegally copied/cloned versions of the original games. This indicates the clear lack of standards within such operations and as a consequence putting the players at risk.

Enforcement is inherently difficult in the dynamic and 'borderless' markets such as online gaming. This could be due to the fact that changes and developments in technology are constant, making it challenging for regulators to always remain ahead of the latest developments. Therefore, given the difficulties of enforcing against the illegal offering, regulators need to be pragmatic and base their decisions on experience. Discussing with other regulators who have done this already and were successful is helpful, and why not – potentially also speak to operators themselves who generally have a very sound knowledge of the markets of interest. There is a concrete risk that when a legalized structure is created, licensed operators are put at a clear disadvantage compared to the black market. Licensed operators need to be given the best possible tools to compete against illegal operators. Although, the best case scenario would be to build a regulatory environment where illegal operators don't even arise in the first place. Learning from experience - bans on online gaming or strong restrictions only help the growth of the illegal market.

In addition, with a lower tax rate (thus a better channelling effect) - considerably less enforcement will be required. The higher the channelling rate, the more players will be playing on the licensed sites. This, in turn, will free up the resources of the regulator to dedicate the focus on the illegal/unlicensed operators.

Belonging to a group such as NOVOMATIC, is there a higher benchmark for the level of compliance expected of Greentube - and is being a subsidiary of NOVOMATIC make things much easier or more difficult in ensuring that those standards are met?

Both NOVOMATIC - as well as Greentube itself - take compliance very seriously. The NOVOMATIC Group is licensed in a multitude of jurisdictions and in order to ensure full compliance with the licensing requirements within said jurisdictions - a high standard has been set internally within the Group.

This set of standards applies across the board within the different group companies - including Greentube. We understand the importance of each and every license we have in our hands and always seek to maintain these. One's reputation takes years to build but seconds to destroy and therefore, we strive to ensure compliance in all the jurisdictions within which we operate.

Speaking to game developers - they see compliance as the department that "crushes their ambitions and says no to their best ideas." Is compliance just a 'necessary evil' or is there a more useful and important role that compliance plays in the development cycle of the game?

I fully understand this sentiment and agree that in certain instances compliance requirements tend to limit or let's say reduce the flexibility on the game developer's end. It can be very challenging to structure the game math around a maximum hourly loss with a set band of minimum and maximum bets and with a limited amount of spins.

This is why it is important to educate all the stakeholders involved in the sector, in particular, the regulators and the politicians who draft the law on how games actually work. This is an important step to be taken, to have a regulation which makes legal, fiscal, political and commercial sense.

How much do you rely on your in-house knowledge when it comes to compliance, as opposed to leaning on the help provided by external companies, such as GLI or PwC?

Being part of NOVOMATIC means there is a wealth of experience and knowledge that one can rely on. This ensures that should any queries arise, there is a centralized source of information which a company such as Greentube can count on. However, it is also ideal to have people on board that have good local knowledge. This allows us to make the adequate decisions.

Why have the costs of compliance increased and is this an area that can be tackled in such a way as to reduce the burden on companies in this sector?

As stated earlier, the ever-changing regulatory landscape has led operators to require multiple licenses in different jurisdictions in order to operate. This resulted in an increase of compliance costs, including the need to have more people in the team. In our opinion, one of the best ways to reduce the cost would be that the controls and checks done in one jurisdiction can be migrated to other jurisdictions - on the basis of the non-duplication of controls-principle - as far as those aspects are similar. A good place to start would be at game testing.

How onerous are the compliance demands of having so many European jurisdictions in regulating and taxing online gaming?

The regulatory landscape nowadays uses different licensing structures in various member states, and all of them have their own particularities. This is a huge burden on operators, both financially, as explained above, and also at the administrative level. Furthermore, by having little or no common features, keeping up to date with the different requirements such as reporting makes things complicated. All this often leads to the potential of mistakes being made. As a result, it is important that the regulator fully understands where its licensees are coming from and to always have an open channel of communication. Dialogue goes a long way in avoiding misunderstandings.