

GAMBLING COMMISSION

Key points of the Formal Consultation meeting between RGA and the Gambling Commission on Thursday 6 April 2006, 10am

Attendees	
<u>Gambling Commission</u>	<u>Remote Gambling Association</u>
Helen O'Kane (Remote gambling, problem gambling and machines)	Clive Hawkswood - RGA
Andrew Fraser (Betting and racing)	Sue Harley - Ladbrokes
Amanda Burrows (Remote technical standards)	Peter Nicol – Victor Chandler
Victoria Bazalgette (Minutes)	Ian Spearing – William Hill
	Nick Rust – RGA
	Nigel McLaughlin – Bell Fruit Games
	Philip Knight - Gala

Item 1: Introduction: timetable and Commission progress

1. HOK gave a brief introduction, highlighting that:
 - the deadline for written responses to *Licence Conditions and Codes of Practice* is 2 June – it is likely that a summary of key responses will be published – responses will then be incorporated into a final version of the document and any other amendments and checks made;
 - the Commission will start to invite operating licence applications from January 2007. Companies offering gaming services online who wish to be based in Great Britain will require a full remote operating licence.
2. AF highlighted that DCMS will be running a number of formal consultations over the coming months in preparation for the receipt of applications by the Commission at the beginning of 2007:
 - operating and personal licence fees – May
 - gambling appeals tribunal – July
 - definition of small-scale operators – summer

The Commission will be conducting consultations on technical standards for machines in the summer. The testing regime for gaming machines and remote software/ equipment will not be fully developed until much closer to September 2007. HOK said that in terms of the advertising regime, an initial informal letter will be sent to key contacts in the next couple of months and then formal consultation will take place in the summer.

Item 2: Employment of children and young persons by remote operators

3. HOK asked the group whether children or young people will be providing facilities for gambling in any remote companies. CH said this would depend on the definition of 'providing facilities' for gambling, but generally under 18s are not employed across the board; the exception could be children/young persons on work experience at a company's

offices. PN added that any under 18s employed would be very junior by definition and not sufficiently experienced to be involved in tasks related to gambling processes.

Item 3: Customer verification (para 5.2.16)

4. The group discussed the use of debit cards for online gambling in terms of age verification measures. RGA members made the following key points relating to policy and procedure:
 - debit cards now being accepted online has increased the number of customer verification checks being made (as under 18s can be debit card holders) and so the risk of children gambling online has not grown;
 - debit card payment for online transactions should remain centred around checks on certain high-risk cards and those who claim to be between the ages of 18 to 21 inclusive, rather than focusing on all debit card users;
 - age verification is a multi-stage process in the remote sector, and checks have been developed in line with the systems available and what is workable on a practical basis. If a player passes the first stage of checks, there is the possibility that they may then be able to gamble, but as stated in the RGA code of practice, all transactions are reversed and the account closed if it is subsequently discovered that they are under 18;
 - age verification checks are not foolproof, but action is always taken in accordance with the information available to the operator. It is common for an accounts to be suspended if it can not be determined that an individual is 18 and then reactivated if correct ID is then produced;
 - current debit card verification checks can prove too slow for those wishing to place bets and so customers go elsewhere; and
 - many operators' customer verification systems and ID/documents requirements have been developed in accordance with the UK market.

Action: *The RGA will supply one or more examples of figures to show how many customers use debit cards for their initial transaction on a site in their written response to consultation.*

5. HOK underlined that:
 - the Commission currently considered debit card use for remote gambling to be high-risk in terms of under-18 year olds accessing gambling facilities;
 - the Commission would deem allowing children or young persons to participate in gambling activities (even before money is paid out) a criminal offence and would have concerns about operators allowing individuals to gamble before customer verification checks had been completed. This policy will be reflected in social responsibility codes of practice;
 - the Commission would be interested in the particular checks to identify high-risk debit card users (18-21s) but would not necessarily agree with the approach that only identifies some debit card users to be high risk;
 - the Commission acknowledges operators' checks can only be as technologically advanced as current systems allow, but best endeavours would be required; and
 - licence conditions would require operators to make these checks for all players, regardless of where they are based. However, the Commission would understand that the information that could be obtained by operators about overseas players could vary and would expect best practice from operators when working with these players.
6. RGA members did not agree with the position as laid out by the Commission at the first and second bullet points above, and said they would expand their views on these issues as part of the ongoing consultation process.

Action: Operators will forward facts and figures about how under 21 checks work and the percentage of potential players that this check eliminates at the first stage.

Item 4: Money laundering (section 4.5)

7. RGA members emphasised they already have highly developed financial mechanisms to prevent fraud, and would not welcome further regulations being imposed by the Commission. They said that the Third EU Money Laundering Directive was driven by land-based casinos, and online operations should not be grouped in the same category.
8. HOK confirmed that the money laundering code of practice provision in the consultation document only seeks to clarify and reinforce existing money laundering legislation (see paragraph 4.5.15, fourth bullet point) and should not make any additional demands on operators. As the Commission will be seeking to treat remote and non-remote operators equally, it would seek to encourage all operators to take some responsibility in line with what is required for casinos under the EU Directive, such as submitting suspicious movement reports to SOCA.
9. In the written response to consultation the RGA will further expound its view how it believes the land-based and online gaming sectors to be distinct and how this would impact upon the Commission's proposed money laundering code of practice.

Item 5: Problem gambling

10. **Chapter 5: Protection of children and the vulnerable: Combating problem gambling.** HOK confirmed that although the Commission cannot require operators to contribute to RIGT, it does consider that operators would feasibly have an interest in the work of this organisation. There is no obligation for contributions to be made to RIGT rather than another organisation. The Commission would however require each operator to have policies about how they will encourage and contribute to problem gambling research, education and treatment, and contributing to RIGT would meet this requirement.
11. RGA members emphasised that they would like to direct how any money and resources contributed are used.
12. Commission representatives acknowledged CH's point that RGA members provide gambling facilities to an international clientele, and may prefer to reflect this by making contributions in a more international context. The RGA will reflect this point in more detail in their written response to consultation.
13. HOK confirmed that the Commission would have the option of advising DCMS to impose a levy to fund problem gambling research, treatment and education if sufficient contributions were not made by the industry.
14. **Section 5.4: Information on how to gamble responsibly and on help for problem gamblers.** Operators were concerned that the Commission draft licence conditions and codes of practice were giving more weight to the third licensing objective, protecting children and vulnerable people from harm by gambling, than to the other two. HOK replied that conditions and codes relating to all three objections were equally balanced, but would require different types of action at different stages during the licence application procedure and the tenure of the licence. The Commission has issued a separate paper on problem

gambling partly due to the fact that some groups and individuals have an interest in this policy area only.

15. **Section 5.5 Intervention and section 5.6: Self exclusion.** HOK asked RGA members whether identifying customers via player tracking systems would be a viable option. Members said that for this to be possible, certain intervention 'triggers' for the remote environment would need to be identified. HOK agreed, confirming that it would be helpful if operators could make suggestions about sensible triggers in their written responses.
16. The Commission considers that one form of intervention could be operators drawing customers' attention to the tools to help them control their gambling, such as spend limits, and self-exclusion options. One operator confirmed that staff providing online facilities are encouraged to note irregular customer behaviour that concerns them. However, this can be an even more sensitive issue for telephone customer service staff. Agreement was expressed with the Commission's view that repeated complaints from a particular customer should trigger a review.
17. One operator emphasised that from a civil law perspective, operators could not have an intervention policy that could possibly render an operator liable if a problem gambler's behaviour was not identified and challenged by them in a particular instance. HOK agreed that the Commission would not be expecting operators to accept liability for individuals' gambling behaviour and emphasised that players should be given the tools to control their own gambling to prevent this very scenario.
18. Operators had mixed views on how self-exclusion and self-limit functions should feature on sites. Some stated that currently on their sites, players are reminded of all available controls and self-limits every time they deposit funds; operators cannot seek to influence player behaviour beyond offering these measures. However, other operators took the view that players would quickly become immune to mechanised notices/information which would considerably lessen its impact.
19. The group agreed on the general terms proposed in relation to intervention and self-exclusion and agreed to discuss ideas about triggers and specific procedures in pace with policy development. Best practice in terms of combating problem gambling will develop over time, and the Commission's conditions are intended to be flexible enough to allow for this best practice to be taken into account.
20. **Section 5.8: Provision of credit by operators and the use of credit cards.** AF informed the group that the Commission proposes not to permit remote gaming operators to offer credit to their customers (paras. 5.8.2 to 5.8.9), but that offering credit would be permitted for betting transactions. The Gambling Act 2005 prohibits the use of Global Cash Access. CH queried the principle behind the proposals to not allow remote gaming operators to provide credit to customers when betting operators will be allowed to do so.
21. Operators said that they would want the option of offering credit to customers, but emphasised this would only be done if a customer was deemed to be credit-worthy.
22. Operators stressed that it would be technically difficult to give credit for betting and not gaming under the customer single wallet system.

23. AF urged operators to express their views on the Commission's proposals in relation to credit in their written responses to consultation. Licence conditions and codes of practice will be open to review (para. 5.8.5).

Item 6: Financial reporting

24. Chapter 4: Financial and related requirements: Section 4.1: Financial robustness.

AF said that KPMG will be advising the Commission on which probity and audit checks to conduct in regard to operators in order to obtain the necessary information about financial robustness (para 4.1.9).

25. Section 4.2: Protection of customer funds. AF said the Commission proposes that operators should safeguard clients' interests by 'ringfencing' (para. 4.2.5) their deposits (not potential liabilities) in case of operator insolvency. No decisions will be reached on financial requirements however until KPMG's recommendation has been received. Operators agreed with the principle that customers' money must be protected. However, they also expressed the following views:

- ringfencing would prove very difficult practically, especially in the online betting sector, due to the speed at which bets are made and processed;
- if financial checks show an operator is solvent at the time of application, he/she should not be required to ring fence customer funds. The Commission should only ask operators to ring fence these funds if it receives information indicating that an operator is no longer financially sound;
- ringfencing would not be an effective safeguard of clients' interests as a company would become insolvent as a result of not covering potential liabilities rather than not being able to refund deposits;
- smaller operators may be unable to satisfy onerous financial requirements.

26. HOK and AF confirmed that the Commission would not expect operators to meet financial/accounting standards that are not technically possible, and no conditions will be determined in advance of KPMG recommendations being received. It is anticipated that the final requirements will be a balance between financial reporting and covering liabilities.

Action: RGA will submit further comments on ringfencing to HOK, but will not offer comments on financial reporting until KPMG recommendations are made.

Action: SH will provide HOK with details about how shadow accounts operate in a retail environment.

Any other business

27. Remote operators need *Licence Conditions and Codes of Practice* to provide much more information on practical issues, such as financial requirements and technical standards in order to ensure that they will be well prepared to comply in advance of September 2007. HOK replied that the Commission is looking to set a standard and to be flexible about the way in which it is set. She encouraged operators to consider the proposed regulations for their sectors, and respond to the Commission with any specific queries.

28. CH said that rather than only using software providers licensed by the Commission, many remote operators would prefer to get software tested and underwritten on the strength of their own operating licences. Operators would wish to avoid an anti-competitive system and the risk of dual-licensing. The Commission still has further work to do on how licences

for software suppliers and gambling operators will intersect. AB is working on this area and discussion papers will be issued for comment in the summer.

29. HOK confirmed that the CEO/managing director of remote gambling companies would require a personal licence for management functions (PML) from the Commission, and individual operating licences may have conditions attached requiring more PML holders within the company. Personal licences will have individual endorsements covering functions the holder is licensed to perform. She also explained that the Commission has not yet identified who will need remote personal licences for operational functions (PFLs) under the new regime. Views on this point from the RGA as part of their written response to consultation would be welcomed.