

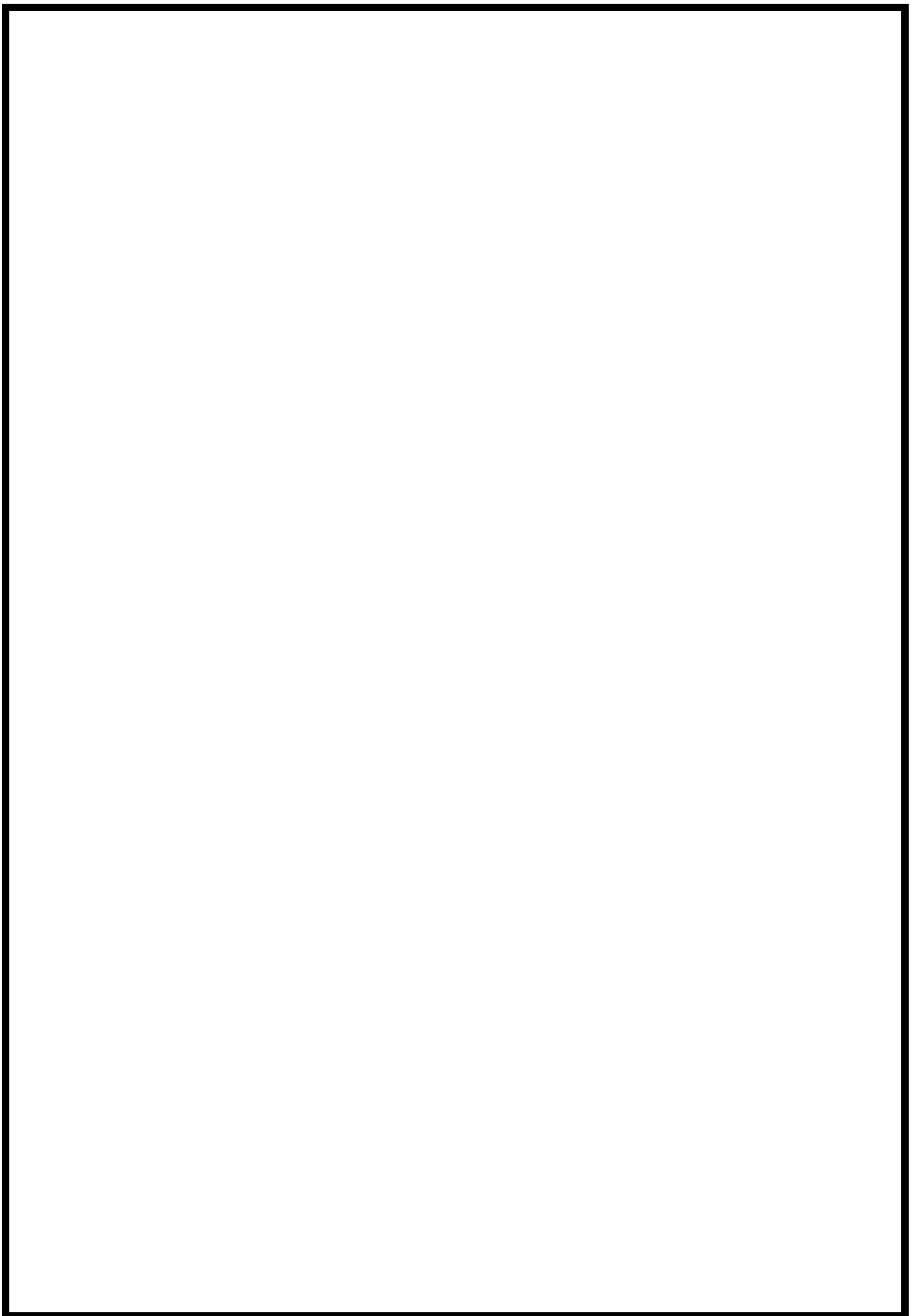
Isle of Man  
Gambling Supervision Commission



Annual Report  
2011 – 2012  
GD 0023/12



The Calf of Man



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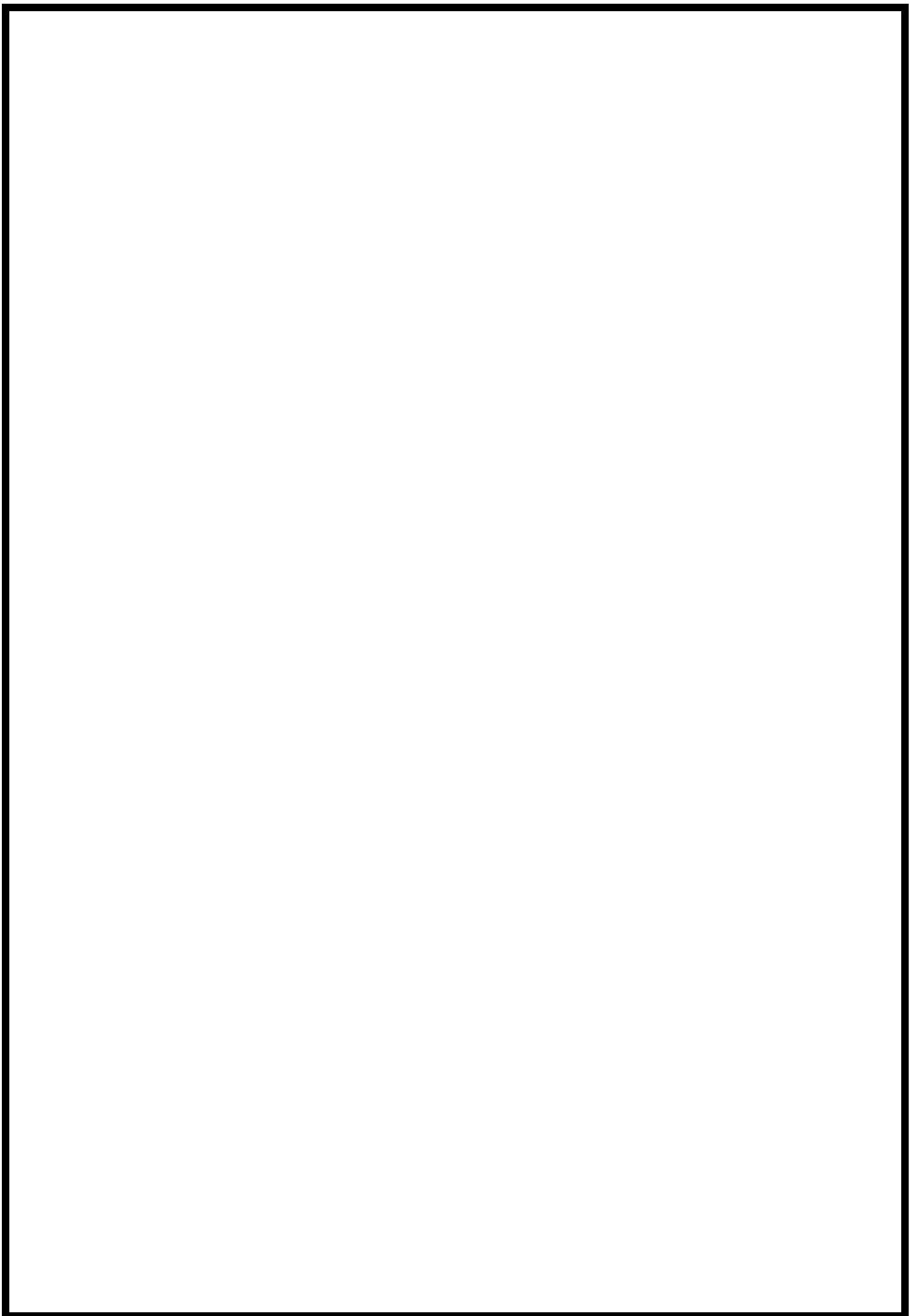
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St. George's Court



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## **Chairperson's Statement**

It is with great pleasure, that I present the Gambling Supervision Commission's Annual Report 2011-12. This will be my last Report as my tenure as Chair of the Gambling Supervision Commission expires at the end of August. I have worked with the Commission for six years – the last five years as Chair. The Chair's tenure is for five year periods and with the end of my tenure approaching, I decided not to re-apply but rather, now would be an appropriate time to hand on the baton. That baton is being passed to Mr Ron Spencer, who has been a Commissioner for over seven years. During that time Ron has been an invaluable member of the Commission and I know he will bring the same enthusiasm, work ethic and drive that he had as a Commissioner to his role as the new Chair.

I often quote the Chinese saying "may you live in interesting times." Over the past five years, the Commission has indeed lived through interesting and challenging times but I hope, ultimately rewarding times. Over my period of tenure, the number of licence holders has grown significantly, we have had a successful review by the IMF, we have become a Statutory Board and have faced and met the challenges that such a dynamic and fast moving industry inevitably brings. The online gambling sector is maturing and is now the third biggest contributor to the Isle of Man economy in terms of Gross Domestic Product. The number of licence holders continues to grow steadily and there is also a well structured and professional support sector growing around this regulated industry. In a time of economic turmoil bringing pressure on Government revenues, this growth is very welcome. But with a growing industry comes a correspondingly increased responsibility to all our stakeholders and the requirement to maintain high standards of oversight. As the licence base expands, so too of course must the Gambling Supervision Commission's responsibilities. I remain confident that the support Isle of Man Government has shown the Commission and the sector in the past will continue to underpin a growing industry which has established a commercial and regulated reputation second to none. I can with no hesitation state that my time as Chair has been the most challenging but also the most rewarding time of my professional life.

I would like to thank Ron Spencer, Jon Allen, Howard Callow and Neil Kinrade, my fellow Commissioners for the expertise, hard work and dedication they bring to their roles. It has however, not all been hard work and we have had a lot of laughs too – many thanks especially to Mr Spencer in this regard! I would also like to thank Steve Brennan, Mark Rutherford and the excellent team at the Commission for all their support, advice, hard work, and relentless enthusiasm and drive to make the Isle of Man a well regulated and good place for operators to do business. There is no doubt that the Commission will continue to face challenges in an increasingly competitive, fast moving and international area but I am confident that they will deal with such admirably.

**Claire Milne**

**Chairperson**

## Chief Executive's Statement

This year has seen the Commission face a number of considerable challenges not least the events of April 2011 – quickly labelled by affected players as 'Black Friday' – which saw three global poker operators, an Isle of Man licensee among them, under increased scrutiny by the US Department of Justice. Investigating and managing the actions arising from this event were detailed and involved, with the Commission's primary focus on protection of the consumer and in particular their deposited funds.

The robust regulatory requirements we place on licensees to have offices and staff in the Island played a large part in quickly and accurately understanding the situation. The decision taken over a decade ago to insist that player funds be protected by law was to prove far-sighted and indispensable. In marked contrast with the challenges and uncertainties which beset other players, the players registered with the Manx licensee were able, within two weeks, to access their accounts and make complete withdrawals of their deposits and winnings.

2011 also saw the United Kingdom's Department of Culture, Media, and Sport announce reforms to its gambling industry and in particular the intention to introduce a licensing regime centred around a "point of consumption" model and the replacement of the White List with a modified regime. The Commission understands the impact these changes could have, not just in the Island, but to the online gambling sector worldwide. For that reason it is committed to sharing its experience of the sector with the UK both within and outside of its consultation framework and believes that the excellent and professional relations it has fostered over the years with its counterparts in the UK could be pivotal in ensuring that the changes made by the UK offer as many opportunities as they do challenges for the Island.

Despite the global economic climate, the number of licence applications being received and processed by the Commission remains high and interest remains strong. Consequently the licence base has increased steadily – a total of 18 applications were processed during the year.



Corrins Tower

The gambling sector however is susceptible to the same kinds of pressure that business is experiencing universally during the economic downturn which most observers agree is unprecedented in modern times. Not all licensees remain viable and some reluctantly recognise that their time is up and cease trading. In every case the Commission has overseen the licensee's exit to ensure that it complies with Isle of Man requirements and that all players were fully informed and had the opportunity to withdraw their funds before closure.

As a leading international business centre the Isle of Man works hard to build mutually beneficial partnerships with jurisdictions around the world. The Gambling Supervision Commission is no different. The Commission has had constructive dialogue with a number of jurisdictions to further this aim. In December the Commission was delighted to announce that a formal agreement had been reached between the Isle of Man and Denmark which paves the way for mutual cooperation and benefit between its two regulatory authorities. It is hoped that this will be the first of a number of such agreements with work continuing in this area.

The gambling sector is renowned for its fast paced innovation. Speaking as a regulator, I can also report that there is no shortage of ability in the sector to identify where the law may offer an opportunity that it didn't intend. I am always happy therefore to reflect on the legislative changes and the innumerable positions we establish in a year and I would like to think that amongst our local stakeholders we are known for our endeavours to remain consistent.

I opened with the challenges the Commission faced during the year and will close by saying thank you to both the Commissioners and Inspectorate who dealt with those challenges with both determination and professionalism. Their support has been very much appreciated.

Finally and in closing, I would like pay tribute to Claire who retires from her post as Chair this coming autumn. During her term of office the Gambling Supervision Commission has been transformed into a world leading supervisory authority and has managed, to achieve the often difficult balance of robust regulation, commercial sensitivity and adaptability towards new challenges. Her legacy is a Commission that is reasonable, approachable and innovative and which has established an enviable track record of regulatory excellence.

**Steve Brennan**

**Chief Executive Officer**



## Responsibilities

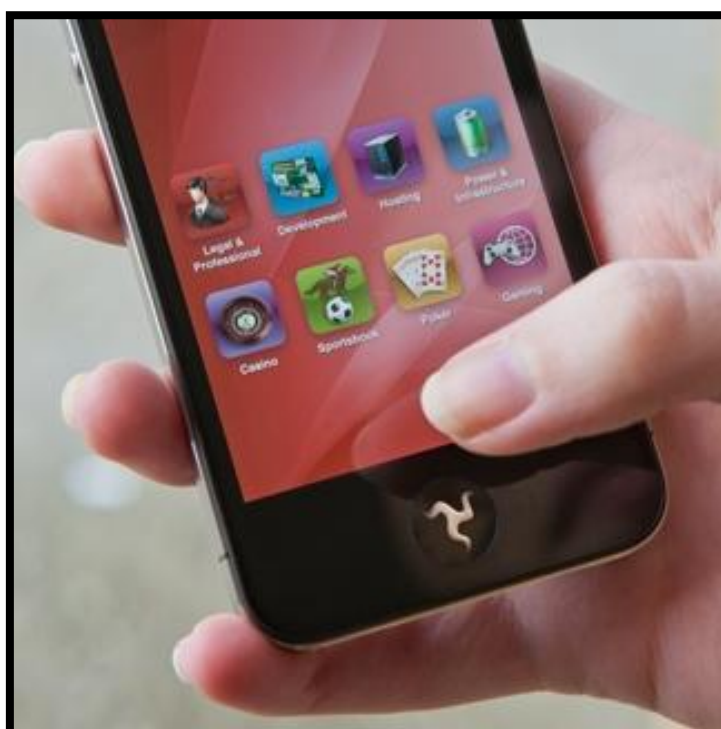
The Isle of Man Gambling Supervision Commission has three core principles. They are:-

1. Ensuring that gambling is conducted in a fair and open way
2. Protecting children and other vulnerable persons from being harmed or exploited by gambling
3. Preventing gambling from being a source of crime or disorder, or being used to support crime

And where these key principles are not compromised:-

- Ensuring that gambling products promoted by operators in the Island can compete effectively throughout the world
- Facilitating competition and the provision of modern products and services

The three key principles are protected through a combination of rigorous checks on operators at the application stage; a thorough, ongoing inspection regime for licensees and a complaints and queries procedure which is designed to identify patterns that could highlight issues before they become problems.



## **Licence Application**

When operators apply for a licence we conduct checks and due diligence on all activities of an operator's business, including:-

- Procedures for handling problem gamblers
- Anti-money laundering procedures
- Arrangements for the protection of player funds
- The integrity of the people and companies connected with the application
- The ownership of the company
- The sources of wealth used to fund the company
- The financial health and projections of the operation
- The corporate governance of the company and fitness of its procedures
- Details of the games and their terms and conditions
- The randomness of the games
- The transparency of terms and conditions
- The standards of protection for personal data
- The look and feel of the websites
- The robustness of the infrastructure
- The player registration process
- The money flow around the systems
- The suitability of the business model

## **Post Licence Compliance**

The inspectorate's involvement with an applicant does not cease after licensing; if anything, it increases as the new licensee becomes subject to the inspection regime. This inspection regime includes:-

- Interim reviews for all operators
- Quarterly returns to report on the financial performances of the operators
- Regular visits to operators to comprehensively verify their activities
- Weekly website checks and pre-programmed inspections on remote assets
- Complaints handling

## The Commission



### **Claire Milne**

Claire Milne is the Chair person for the Isle of Man Gambling Supervision Commission.

Claire Milne is a qualified solicitor and Manx Advocate who is a partner in a leading firm of international advocates. Mrs Milne has a background in intellectual property, IT law, data protection, e-money, e-commerce and e-gaming.

She is a published co-author of a book on Intellectual Property Law and Practice for Scottish lawyers and has lectured at the University of Stirling, the University of Dundee and is one of the contributors to the University of Edinburgh's LLM Distance Learning Programme.

### **Ron Spencer**

Now retired, Ron Spencer was formerly Director of Merrill Lynch Investment Managers (formerly Mercury Asset Management Ltd) in the Isle of Man. Mr Spencer completed the Institute of Directors Company Direction Programme in December 2002, and successfully sat the Diploma examination in April 2003. Following peer review, he was admitted as a Chartered Director in May 2004.

He is a member of the Audit Committee Institute; the Chartered Management Institute; the Institute of Directors and is also a member of the Chartered Institute for Securities & Investment.



## **Jon Allen**

Jon Allen is a Chartered Accountant and successful local entrepreneur. Jon came to the island for 2 weeks in 1988 when the bank he worked for bought a small insurance company that is now Royal Skandia and has never left. In the early 90's he co-founded PDMS, an Island based Software Company which has around 60 employees in Douglas and London. Before joining the Commission, Jon was Managing Director of Domicilium which he co-founded with Dr Phil Adcock in 1999. Domicilium is an Island based Internet hosting company. From the outset Jon has worked in partnership with the Isle of Man Government to establish an e-gaming sector and promote the Island worldwide. Jon has been a frequent speaker at e-commerce conferences and has active roles with the Chamber of Commerce and public / private sector committees. In recent years he has also established Live and Work Hotels which owns two hotels located on the Isle of Man and an electrical import business.



## **Neil Kinrade**

Neil Kinrade was born and educated on the Island and served for 33 years in the Isle of Man Constabulary, rising through the ranks to the position of Deputy Chief Constable, before retiring in 2004. During his career in the police service, Mr Kinrade specialised in criminal investigations including illicit drugs and anti-terrorism.

For a number of years Mr Kinrade held responsibility for internal force discipline, complaints and standards, as well as the financial budget for all police operations in the Island. Mr Kinrade also sat on the All Island Child Protection Committee; the Drugs and Alcohol Strategy Committee; and the Children and Young Persons Strategy Committee. Mr Kinrade has served on the Commission since 2005.

## **Howard Callow**

Howard Callow was born on the Isle of Man and after attending King William's College he went on to obtain a degree in Economic and Social History at the University of Birmingham. He has spent over 30 years working in the Fiduciary and Corporate Services sector, mainly in the Isle of Man but with a 5 year spell in the Cayman Islands. His most recent position prior to his appointment to the Commission in 2011 was Managing Director of HSBC Trustee (Isle of Man) Limited and he previously held senior posts with Bank of Bermuda's operations on the Island.

Mr Callow became a Chartered Director in 2005 and has been involved in the Institute of Directors' Isle of Man Branch for many years, having served as its Secretary and Chairman. During his career he has also been a member of the Society of Trust & Estate Practitioners, the Institute of Management and the Audit Committee Institute. He is a member of the Rotary Club of Douglas where he has held a position on its Council for 6 years.



## Senior Management Team



**Steve Brennan**

Chief Executive Officer

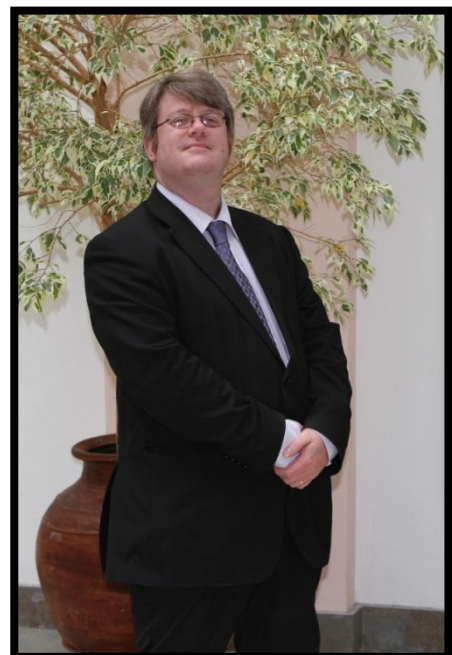
Steve Brennan has been the Chief Executive (formerly Director) of the Isle of Man Gambling Supervision Commission since June 2008. The Gambling Supervision Commission was initially established in 1962 and consists of an independent panel headed by a Chairman and four members. Steve's primary responsibility within the Commission is for the development and maintenance of the regulatory framework to licence and supervise all forms of gambling in the Island. Prior to his appointment as CEO, Steve held senior positions within Isle of Man Treasury.

### **Mark Rutherford**

Policy & Legislation

Mark Rutherford is the director of policy and legislation within the Isle of Man Gambling Supervision Commission with responsibility for ensuring that the Isle of Man's gambling legislation remains fit for purpose and for ensuring that the inspectorate's policy is properly aligned with the law.

Prior to working for the GSC, Mark spent twelve years with the Isle of Man Civil Service working variously as an assessing officer, business analyst and operational manager.





## **Ty Smith**

Operational Manager

Ty joined the Commission in February 2010 bringing with him 12 years worth of experience in compliance and management. Ty holds Member level status with the Chartered Management Institute.

As Operational Manager Ty's main responsibilities include financial management of the GSC, planning and delivery of the GSC's compliance regime in addition to management of the Inspectorate and resources to meet the demands of our stakeholders.

As a member of the Senior Management Team, Ty is responsible for input into the strategic planning process and the GSC's risk management strategy.

## The Inspectorate



Kim Manning   Stephen White   Paul Streeter   Tony McMeiken   Alison Bishop

The Inspectors are responsible for:

- Our ongoing compliance regime, ensuring that Manx gambling operations adhere to legislative requirements
- Undertaking a rigorous screening process of applications from prospective operators
- Implementing the Commission's complaints and queries procedures
- Participating in projects which contribute to the efficiency and quality of the GSC
- Ensuring that our clients receive a professional, accurate & efficient service

**Kim Manning** joined the Commission in 2011, coming from a background in compliance. Kim holds a BA (Hons) in Business Management and holds Associate level status with the Chartered Management Institute.

**Stephen White** joined the Commission in 1999, bringing with him experience from a background in bookmaking.

**Paul Streeter** joined the Commission in January 2008 bringing with him extensive experience gained in the online and land-based gaming industries. Paul holds a degree in Accountancy and Financial Studies.

**Tony McMeiken.** Tony joined the GSC in 2011 to provide support in relation to Anti Money Laundering and Countering Terrorism Financing related matters. Tony is an experienced Chartered Internal Auditor, with a background in corporate governance and investigations gained whilst serving the Treasury for over 30 years in a broad range of roles.

**Alison Bishop** has been with the Commission for 19 years bringing with her extensive Casino experience gained as a croupier and Inspector within various London casinos.



## The Secretariat



Wendy Christian Tracey Turton

**Wendy Christian** joined the Gambling Supervision Commission as Senior Secretary in 1992 with responsibility for providing secretarial and administrative support to the Commission and its Inspectorate.

**Tracey Turton** joined the Gambling Supervision Commission as a Secretary in April 2008 with responsibility for providing secretarial and administrative support to the Commission and its Inspectorate.

## Key Strengths

With over 50 years' experience of regulating the land based industry and a decade of experience in the fast-moving world of online gaming, the Island's regulatory strengths have never been more important to the gaming industry.

### UK White-Listed

The Island continues to be a part of the UK Government's White List which allows operators based in the Isle of Man to advertise their products to markets in the UK and to have UK based players. Continued membership of the White List reflects the fact that the Isle of Man maintains the highest standards of regulation.

2010 saw the announcement by the United Kingdom's Department of Media, Culture and Sport of a desire to move the UK to a licensing model with concessions for existing licence holders operating out of approved jurisdictions, including the Isle of Man. The Commission is pleased to remain in dialogue with the UK about the shape of the ongoing reform.

### Business friendly fees

During the reporting period and in response to increases in the costs associated with due-diligence checks, the application fees rose from £1,000 to £5,000. Application fees remain a single, fixed charge irrespective of the length or complexity of the process. Aside from the mandatory problem gambling levy operated by the Isle of Man and inspection costs for live dealing studios, the fees for sub-licences (£5,000 pa), full licences (£35,000) and the new network services licences (£50,000 pa plus £5,000 per partner, one year in arrears) are the only regulatory costs associated with licensing in the Isle of Man.



### Power and IT infrastructure

Operators on the Isle of Man have the surety of very high speed, high resilience internet connectivity with the rest of the world which is currently carrying less than one percent of its entire capacity. This is coupled with plentiful power from the Island's modern 88MW power station. Analysis by the Island's Department of Economic Development shows that the Island has continually achieved the lowest-priced bandwidth of any of the Island-based regulatory jurisdictions, a distinction that underlines the Island's commitment to future technology.



### **A track record of international cooperation**

The Island continues to work hard to build constructive, pragmatic and globally responsible attitudes and systems in response to international challenges. Encouraged by OECD white-listing, 2011/12 saw the continuation of the Isle of Man's approach to international cooperation with the offer to establish bilateral agreements with any country seeking to properly regulate its gambling sector and secure its borders against unlicensed activity. Such an agreement is now in force with the regulators in Denmark with additional agreements to be finalised in the near future.

Regular attendance of the European regulators forum (GREF) and its international equivalent (IAGR) remains a cornerstone of the GSC's international commitment.

### **A mature ancillary cluster**

The Isle of Man clarified its policy on gambling activities that were not required to obtain a licence in January 2010 when it created its online gambling exclusion regulations.

Since that time, the Island has attracted a substantial amount of support industry (payment solutions, software development and support, specialist consultancy, etc) which makes the Isle of Man an attractive platform for licensed operators.

### **A proven record of protection**

The operators that are licensed in the Isle of Man have been subject to a number of pressures over the last year; the recession has claimed a number of them and events in the United States at the beginning of the reporting year were to subject the Island's player fund protection credentials to a harsh and uncompromising test.

It is a matter of regulatory pride that in all cases, not one single player had cause to complain that they were unable to withdraw their deposits upon request as a result of company cessations or unforeseen occurrences.

## **Regulatory Safeguards**

Rigorous checks at the application stage as well as a strong inspection and compliance regime ensure that operators understand and adhere to the law, but it is also important that the law by which they abide is strong and exacting. The Isle of Man has a number of requirements, some of which are shared by the majority of reputable jurisdictions and some of which are unique (such as player funds protected by legal/financial instruments and mandatory operator contributions to a problem gambling fund), all of which serve to make the Island's regulation robust and well respected.

## Local officials

By law, Manx operators are required to maintain a local, official presence by the appointment of a resident designated official or operations manager. Experience has shown that face to face dialogue is far more efficient, reliable and effective than phone calls or e-mails when there is an issue or request. The Commission keeps in regular contact with Isle of Man based officials to ensure that local or international issues are detected and handled professionally by all licensees. In addition, the requirement to involve at least two local directors in the company, most of whom have other connections with business in the jurisdiction adds an additional layer of oversight on the activities of the licensee.



Financial District

## Expert testing

In order to stay ahead of the fast-paced developments in software and systems, the Isle of Man uses the services of dedicated software testing houses to perform verification checks on all applicants' software and games, including the randomness of all games of chance. In all cases, the test certificates have to confirm that the operators' systems adhere to the stringent system verification and registration of accounts regulations.

## Stringent white list access

Manx operators who wish to take advantage of the UK white list (which allows Isle of Man licensed operators to market into and have customers from the UK without requiring a UK licence) are required to move their operations to the Island. This prevents the white list from being taken advantage of by global operators who might otherwise establish a notional presence on the Island in order to obtain market access. The external guidance recently issued by the Commission states this clearly:-

*"Where the Commission suspects that an operator is coming to the Isle of Man in order to benefit from the advertising privileges the Island enjoys in the UK (the 'White List') then it will expect the operator to relocate a significant part of its operation to the Island. It reserves the right to decline applicants who appear to be creating a nominal Isle of Man presence in order to advertise in the UK their parent or sister organisations located elsewhere in the world."*

### **Appropriate separation**

In line with internationally accepted best practice, the Gambling Supervision Commission is a statutory board and maintains its independence from Government through the appointment of five Commissioners, presently drawn from the professions, the police force and from local enterprise. Furthermore, the marketing function for the Isle of Man's gambling sector is conducted by a dedicated Government body (the Department of Economic Development - DED) and while the Gambling Supervision Commission works closely with prospective applicants to ensure they are prepared for the regulatory environment, their independence is not compromised by the work of attracting business to the Island which is exclusively the preserve of DED.



### **Meaningful protection of players' funds**

Manx operators must protect player funds to the point where, in the event they become insolvent or are prevented from trading in any other way, the players are assured of their deposits plus any outstanding winnings, irrespective of subsequent events. This is currently facilitated through bank guarantees, trust arrangements and/or a purpose-built 'client account' mechanism as currently used by the legal and Corporate Service Providers (CSP) professions and which was introduced during 2010. The framework was successfully tested during 2011 when the entire US player account of an operator was repatriated to players within two weeks of an unforeseen development.

### **International scrutiny**

The Island welcomes regular audits at an international level to make sure it maintains the highest global standards. The Commission welcomes the periodic IMF audits as well as the 'mystery shopper' compliance tests conducted by the UK's Gambling Commission during which a child volunteer working for the Commission attempts to register for access to gambling in order to determine the strength of the operators' preventative counter-measures. It should be noted that all of the White Listed jurisdictions' operators performed very well.



### **Real and effective presence**

Manx operators must be located on the Isle of Man – this includes their player registration servers which need to be locally situated. This local presence of assets gives the players comfort that the Commission has real control over licence holders to ensure they conform to the law.

## Who We Regulate

The list of online licence holders as at 6 April 2012

<b>Operator</b>	<b>Status</b>	<b>Operator</b>	<b>Status</b>
Annexio Limited	Live	MarketstheWorld	Live
Boylesports (IOM) Ltd	Live	NYX Interactive Network IOM Ltd	Live
Camasino	Live	Novigroup Limited	Live
Cash Ball Ltd	Live	Pacific Sea Invests SA (Europe) Limited	Live
Celton Manx Limited	Live	Paddy Power Holdings Limited	Live
Chronicle Bookmakers Ltd	Live	Pariplay	Live
Cladstone Limited	Live	Phumelela Gold International Ltd	Live
Cube Ltd	Live	Premier Gateway International Ltd	Live
Goaldash	Live	Rational Entertainment Enterprises Ltd	Live
Golden Boys	Live	Regent Markets (IOM) Ltd	Live
Edict Egaming IOM Limited	Live	Sport Market Manx Limited	Live
Eurasia Sports	Live	Sun Gaming	Live
Ho Gaming	Live	TWLV Gaming Limited	Live
iGaming	Live	Tradagames Limited	Live
JenningsBet (IOM) Limited	Live	Viaden Gaming Limited	Live
Keen Ocean	Live	Velocity Wagering Limited	Live
Logispin Manx Limited	Live	Vuetec (IOM) Ltd	Live
Mandalay Gaming	Live	Webis Holdings plc	Live
Mahjong Logic Limited	Live	Welton Holdings Limited	Live
Market Bet Global Limited	Live	Xela Limited	Live

**Operators that are yet to launch or have rescinded a licence:**

<b>Operator</b>	<b>Status</b>	<b>Operator</b>	<b>Status</b>
Blackbird Gaming Limited	Not Yet Live	HighSixes	Not Yet Live
Bonobo Plc	Not Yet Live	Pearl Aces	Not Yet Live
Cozy Games	Not Yet Live	Spacemiles	Not Yet Live
Oneworks	Not Yet Live	Quinella	Not Yet Live
Betting Fun IOM Ltd	Ceased	Sport 77 Media Group Limited	Ceased
Know How Gaming Limited	Ceased		

**The land-based industry**

The year saw regulatory changes brought to completion in response to sector requests to provide wider scope for operations:

- The overhaul of the 1997 Casino Regulations was finalised, significantly modernising and streamlining the operational scope of the Isle of Man’s casino industry;
- The rules which determine how widely a society lottery (a charity or club) can be advertised were modernised;

The Isle of Man has had a land-based casino since 1962. The Isle of Man legislation currently carries the provision for up to two land-based casinos although only one of these has been in operation for the reporting period. A separate exercise, conducted by the Isle of Man government and which will ultimately involve the GSC was ongoing throughout the year to determine the requirement for a second casino in the Isle of Man and to determine the licensee.

**The amusements industry**

The Isle of Man has always had a tradition of coin operated amusements because of its heritage as a holiday destination. While the overall size of this sector has declined over the decades echoing the decline in the popularity of the venues, the decline of traditional tourism and inevitably giving ground to online gaming, the operators in this area continue to experience sustainable revenue and the GSC remains open to suggestions from them for any reforms that could allow the sector to remain profitable for the future while maintaining the high regulatory standards that protect consumers.

## **The betting industry**

The Island has a representative portfolio of licensed betting offices (LBOs) and these continue to operate a mixture of across-the-counter betting operations as well as controlled fixed odds machines offering roulette and numbers games. There are currently three permit holders with nine LBOs on the Island.

## **Society lotteries**

The Commission continues to take an unobtrusive but vigilant stance on the many charity draws and raffles that are collectively known as society lotteries. Low risk and high volume, the Commission's primary mandate is to ensure that the lotteries are run properly and that the many people charged with their organisation understand their obligations under the law.



Douglas Bay



## **Developments**

As well as restating the primary regulatory objectives of fairness, consumer protection and the prevention of criminality, the Act expanded the regulatory objectives to put requirements on the Commission, when discharging its functions, for the supervision of gambling in the Island to be:

- Effective;
- Responsive to commercial developments;
- Proportionate;

As well as having regard to:

- The economic and efficient use of its resources;
- The application of international standards;
- Cooperation with other Governments, Regulators and others;
- Safeguarding the Island's reputation;
- The responsibilities of key officials;
- The international character of gambling; and
- The desirability for Island industry development, securing competition and that its products can compete on a global level.

### **New law and regulations**

In response to requests from industry and also on a separate theme, from the United Kingdom's Gambling Commission, the feasibility of introducing a network environment in the Isle of Man's regulations was studied.

Networks are technical and commercial structures which allow players from diverse operators to play together in one space. The resultant increase in player numbers – called liquidity – improves the player experience by increasing opportunities to find a game. In addition, increased traffic often means that prizes can be larger, which in turn drives increased traffic to the network.

In July 2011, the Online Gambling Network Services Regulations were introduced and for the first time, networks could take advantage of the Isle of Man's infrastructure, regulatory framework and reputation for robust consumer protection.

### **Proposed legislative changes**

The legal framework regulating gambling on the Island is under constant review and the change process can be long and complex.

The Commission's attention this year has been devoted to an extensive remodelling of the casino regulations in order to allow a casino to host live tournaments in premises other than its own.

These changes mean that a casino can offer the right size of venue to cater for live tournament operators and it is hoped that the first live tournament will be possible as soon as early 2013.



Legislative Buildings

### **Consumer protection**

The Commission remains committed to consumer protection. Player fund protection is a key requirement of all of our online licence holders and this policy along with the protection mechanisms we insist on continues to benefit both the consumer and Island. Should an operator be unable to continue offering its products and services for any reason, players can and will be able to retrieve their funds. This policy provides players and operators alike a level of comfort not usually afforded elsewhere.

As with any industry there will always be some customers who feel aggrieved with the conduct or actions of the business they have a relationship with. Gambling is no different. The Commission requires all of its licence holders to make available a fair and robust procedure whereby any player can make a formal complaint and that complaint will be treated fairly, objectively and quickly. Should the player get no satisfaction from the licence holder or should they wish to exclude the licence holder, they can complain directly to the Commission. The Commission operates an open and transparent complaint procedure to ensure an efficient and fair resolution.

All online licence holders are required, by a condition of their licence, to make a contribution to the Island's problem gambling fund. Contributions are collected annually and the funds are distributed between the Isle of Man Social Services and the GREaT Foundation, a UK based charity.

Isle of Man Social Services use these contributions to fund third sector addiction support agencies which provide local service and support to those individuals for whom gambling is becoming or has become a problem. The GREaT Foundation is a UK based organisation that provides help, support, research and education in the area of problem gambling. The Commission's support of this cause has been recognised with the Silver GREaTer donor award, which stands as testament to the contributions and support provided by the Island's industry to this highly valued service.



### **Advice**

Open and transparent guidance is another of the GSC's cornerstones – allowing operators to understand the regulations and policy that they will be subject to prior to applying – and the guidance is constantly being updated. This year saw a major revision of the external guidance to version 5. The revision contained an overview of the new network services licence as well as sundry clarifications on procedure and protocol. During the year, the GSC has made available as required introductory sessions for CSP's seeking to enter the sector and assist prospective licensees with their applications or provide managerial and administrative support. These sessions provide insight into the nature of the GSC's work and explain the application process in detail. Two sessions were held during the year.

### **Efficiencies**

As with all businesses in the current economic climate, the need for efficient and effective use of resources to maximise a return is key. For the last three years the GSC's internal processes and structure have been extensively re-engineered to increase effectiveness while at the same time creating efficiency savings. Examples include:

- Increased use of process to accommodate the growth in new business and monitored with same number of staff;
- Flatter structure to allow for an extra inspector;
- Favourable renegotiation of key contracts;
- Strengthening of the compliance tracking framework.

### **Cooperation**

Just as the industry's expansion continues, so too does the dialogue between countries seeking to more efficiently regulate their licensees, conduct investigations relating to

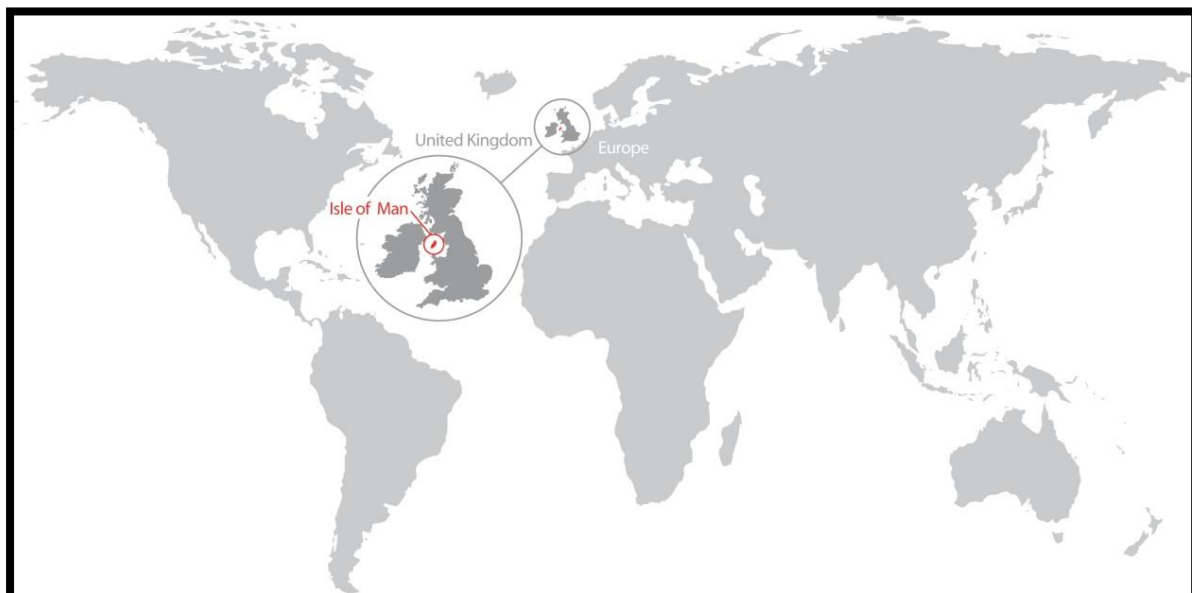
gambling or indeed, in some cases, to set up their own regulatory authorities – in the latter case the GSC has always made its experience available to interested parties.

In various capacities, the GSC has spoken with the following throughout the year:

- UK Department of Culture, Media and Sport
- UK Gambling Commission
- Danish regulator
- Alderney regulator
- Various Canadian and European regulatory or pre-regulatory authorities
- GREF members
- IAGR members

The GSC defines effective regulation as a regulatory framework which allows operators to compete effectively with operators elsewhere in the world whilst still preserving important, and in some cases, unique consumer protections. High standards of regulation are only meaningful if they can be applied to the largest number of consumers.

The reporting period in this document has seen steady growth in the number of licence applications and yet the jurisdiction's operators have still maintained the very highest standards of consumer protection. Perhaps most importantly, there have been no instances of players losing money as a result of insolvency or other unforeseen occurrences.



## Player Issues

### Complaints from players

While complaints remain very low in comparison to overall player numbers, the number of complaints during the period increased slightly from 249 complaints during 2010-2011 to 263 complaints during 2011-2012.

Two factors account for this growth:

- An increase in overall player numbers using services from the operators in the Isle of Man due to an increase in licensees and strong organic growth in a number of established operators;
- A sharpening of operators' internal KYC procedures (which exceed current AML/CFT requirements) and which are driven by commercial necessity, manifesting in increased requests for personal identification.

It also remains a key element of the GSC's licensing and ongoing compliance that the terms and conditions of registration and play are clear and easily understood and that operators consider player complaints in an objective and impartial manner. The overwhelming majority of complaints are dealt with satisfactorily by operators and complainants rarely feel the need to approach the GSC for advice or intervention.

Core Principle	Typical elements of complaints	Number of complaints.	Resolved to the complainant's satisfaction
To keep the gambling industry crime free.	<ul style="list-style-type: none"><li>• Account Suspension</li><li>• Withdrawal &amp; I.D. difficulties</li><li>• Rigging</li><li>• Collusion</li><li>• Other</li></ul>	148	145
To protect the young and vulnerable	<ul style="list-style-type: none"><li>• Self Exclusion</li><li>• Chat Issues</li><li>• Marketing Issues</li><li>• Other</li></ul>	87	87
To ensure that games are fair	<ul style="list-style-type: none"><li>• Bet disputes</li><li>• Games rules/ Terms &amp; Conditions</li><li>• Software/hardware issues</li><li>• Other</li></ul>	28	28

There were three complaints during the period that the Inspectorate was unable to bring to a conclusion. These complaints have been unable to be progressed due to the complainant choosing not to continue correspondence with the Commission.

## Our Accounts

### Income and expenditure

	2010/11	2011/12
<b>Income</b>	<b>£</b>	<b>£</b>
Gambling Amendment Act Fees and duty*	60,135	41,676
Terrestrial Casino licence fee	340,971	304,643
OGRA licence fees**	1,030,000	1,721,778
<b>SUBTOTAL</b>	<b>1,431,106</b>	<b>2,068,097</b>
<b>Expenditure</b>		
Salaries, pensions and misc. staff costs	399,547	450,817
HR costs (recruitment, training etc)	4,391	1,520
Rent (inc utilities)	61,392	55,475
Professionals' fees (accountancy, legal)	112,219	78,637
Subscriptions	7,000	6,838
Travel, accommodation, expenses	17,500	25,242
Office equipment	2,919	1,485
Administration	6,097	8,303
Additional licensing costs (public notices, other)	431	204
Hospitality	1,072	1,479
<b>SUBTOTAL</b>	<b>612,568</b>	<b>630,000</b>
<b>BALANCE</b>	<b>818,538</b>	<b>1,438,097</b>

#### Notes:

\* Arising from the certification and duty of controlled machines such as fruit machines, etc.

\*\* Arising from the application and annual licence fees paid by online operators.

## Future Plans

### Market access

The legislative position in Europe continues to be in a state of flux as many jurisdictions contemplate or indeed enact law to accommodate online gambling. The Isle of Man, with its track record of constructive and progressive relations with Europe has continued the process of securing access for its operators within the European framework and we expect this will continue to form a substantial part of the GSC's work in the coming months.

## Our Annual Plan

Item	Description	Priority	Timetable
Ongoing Compliance programme	The programme currently consists of: <ul style="list-style-type: none"> <li>- One operator visit per month;</li> <li>- Weekly visits to licensee websites;</li> <li>- Quarterly checks on finances and significant events;</li> <li>- Two themed portfolio checks (which analyse a particular aspect of compliance across all operators simultaneously) per quarter;</li> <li>- Checks on player fund levels;</li> <li>- Annual live-dealer facility checks;</li> <li>- Regular casino visits.</li> <li>- Monthly internet checks on the affairs of network operators' partners</li> </ul>	High	Ongoing
Market access	This process engages with European jurisdictions on a selective basis to establish constructive links to allow continued Isle of Man access to European markets on a fair and competitive basis.	High	Ongoing
UK	The UK's DCMS has indicated a desire to introduce a point of consumption based licensing regime and the Isle of Man is pleased to be amongst the stakeholders who have been offered the opportunity to provide input on the future regime.	High	Ongoing
Miscellaneous Provisions Bill	This predominantly legislative project will sweep up a number of inconsistencies and oversights that have built up over the last two decades. It will also create opportunities for all arms of the sector.	High	2012/13
Continued representation in international forums	A continuation of the work in the IAGR working groups to establish sensible common standards between regulators; continued attendance at GREF and key legal conferences to understand developments and sentiments in Europe.	Medium	Ongoing
AML/CFT upgrade	A project to introduce procedural changes to the existing AML standards to keep them in line with prevailing international standards.	High	Ongoing
System requirement specification	This initial project phase will create the requirement document that the GSC would put forward to an IT provider for the provision of a system for recording, maintaining and processing the increased volume of information that the GSC now controls.	Medium	2012/14

## Key Performance Indicators

### Efficiency of the application process

The following targets pertain to the processing of applications from prospective licensees. It should be noted that time is measured on a cumulative basis and only where the onus is on the Commission to process the application. The 'clock' is stopped when the Commission is awaiting further information and starts only when it is in a position to move the process forward.

<b>Activity</b>	<b>Target during the 2011-12 period</b>	<b>Performance during the 2011-12 period (Average)</b>	<b>Summary of performance</b>	<b>Revised targets</b>
Online applications	16 days	10 days	Pass	16 days
Casino applications	50 days decennial, 7 days on annual renewal	6 days to process annual renewal	Pass	7 days
Other land-based applications	3 days	3 days	Pass	3 days

### Adherence to inspection targets

The Commission maintains a schedule of planned compliance inspections, quarterly returns and portfolio checks. While the details of these checks are, by necessity, kept confidential, the timetable is monitored by the Operational Manager who notes infractions against a base-lined plan over the year.

<b>Activity</b>	<b>Target during the 2011-12 period</b>	<b>Performance during the 2011-12 period (Average)</b>	<b>Summary of performance</b>	<b>Revised targets</b>
Compliance inspection conducted in accordance with plan.	100%	100%	Pass	100%
Compliance inspection feedback report to operator.	Within 21 working days	16 Working days	Pass	Within 21 working days
Portfolio checks (thematic checks across all licensees)	2 per quarter	2 per quarter	Pass	2 per quarter



# **Gambling Legislation**

## **Online Gambling Regulation Act 2001**

- Online Gambling (Advertising) Regulations 2007
- Online Gambling (Prescribed Descriptions) Regulations 2007
- Online Gambling (Systems Verification) (No.2) Regulations 2007
- Online Gambling (Transitional Arrangements) Regulations 2007
- Online Gambling (Betting and Miscellaneous Provisions) Regulations 2007
- Online Gambling (Disaster Recovery) (No.2) Regulations 2007
- Online Gambling Duty Regulations 2008
- Online Gambling (Registration and Accounts) Regulations 2008
- Online Gambling (Licence Fees) Regulations 2009
- Online Gambling (Exclusions) Regulations 2010
- Online Gambling (Participants Money) Regulations 2010
- Online Gambling (Network Services) Regulations 2011

The Online Gambling Regulation Act 2001 (OGRA) was introduced to provide for the regulation of certain forms of gambling carried on by means of telecommunications. The regulations made under this Act provide for the regulation and good conduct of online gambling operations and ensure that the Commissions core principles are upheld:-

- Ensuring that gambling is conducted in a fair and open way.
- Protecting children and other vulnerable persons from being harmed or exploited by gambling.
- Preventing gambling from being a source of crime or disorder or being used to support crime.

And where these principles are not compromised:

- Ensuring that gambling products promoted by operators in the Island can compete effectively throughout the world.
- Facilitating competition.
- Facilitating the provision of modern products and services.

## **Gambling Supervision Act 2010**

The Gambling Supervision Act 2010 makes further provisions:

- For the status, consultation and functions of the Gambling Supervision Commission.
- Concerning appeals from the Commission to a Tribunal.
- To amend the Online Gambling Regulation Act 2001.

### **Regulations made under the Gambling Supervision Act 2010**

- Gambling Supervision (Permitted Disclosures) Order 2010

## **AML Codes**

- Proceeds of Crime (Money Laundering – Online Gambling) Code 2010
- Proceeds of Crime (Money Laundering) Code 2010
- Prevention of Terrorist Financing (Online Gambling) Code 2011
- Prevention of Terrorist Financing Code 2011

The provisions of the Proceeds of Crime (Money Laundering – Online Gambling) Code 2010 impose requirements on online gambling businesses to establish anti-money laundering procedures, training and record keeping.

## **Casino Act 1986**

- Casino (Licence Applications) Regulations 1986
- Casino Regulations 2011

The Casino Act makes provision for the Isle of Man to licence a maximum of 2 land-based Casinos.

## **Gaming (Amendment) Act 1984**

- Controlled machines Regulations 1985
- The Certification of Premises (Application Fees) Order 2003
- The Controlled Machines (Amendment) Regulations 2009
- The Controlled Machines (Prescribed Amounts) (No 2) Regulations 2009
- The Controlled Machines (Suppliers Licences) (Fees) Order 2003
- Controlled Machines (Exemption) Order 2008

The Gaming (Amendment) Act 1984 controls the keeping for use and the sale and supply of certain amusement machines.

## **Gaming, Betting and Lotteries Act 1988**

The Gaming, Betting and Lotteries Act 1988

- Defines gaming, the restrictions on certain gaming and gaming exemptions under the Act.
- Sets out general restrictions on betting and provides for Licensed Betting Offices.
- Places restrictions on Lotteries and prescribes conditions which allow for certain lotteries to be operated.
- The Licensed Betting Offices (Opening Hours) Order 2000
- Prescribes the hours a Licensed Betting Office May open.
- Bingo Nights (Prescribed Conditions) Regulations 2010
- Offers prescribed conditions for Bingo Nights organised by Society Lotteries.
- Racing Nights (Prescribed Conditions) Regulations 2010
- Offers prescribed conditions for Race Nights organised by Society Lotteries.
- Society Lottery Advertisements Regulations
- Details the conditions under which Society Lotteries may advertise using any legal medium.

## **Gaming, Betting and Lotteries (Amendment) Act 1996**

Makes amendments to the main Acts.

## **Gaming, Betting and Lotteries (Amendment) Act 2001**

Makes amendments to the main Acts.

## **Betting Offices Act 2001**

Amended the Gaming, Betting and Lotteries Act 1988 to Licensed Betting Offices.

## **The Gambling (Amendment) Act 2006**

- Outlines the licensing objectives
- Renames the Gambling Supervision Commission and restates its constitution.
- Provides for an appeals Tribunal
- Amends other Gambling Acts

## **Pool Betting (Isle of Man) Act 1961**

Legalised Pool betting and imposed a pool betting duty - Treasury Responsibility.

## **Pool Betting (Isle of Man) Act 1965**

Amended the way that Pools betting duty is calculated – Treasury responsibility.

## **Pool Betting (Isle of Man) Act 1970**

Treasury responsibility prescribes matters relating to the recovery of Pools duty.

## **Betting Act 1970**

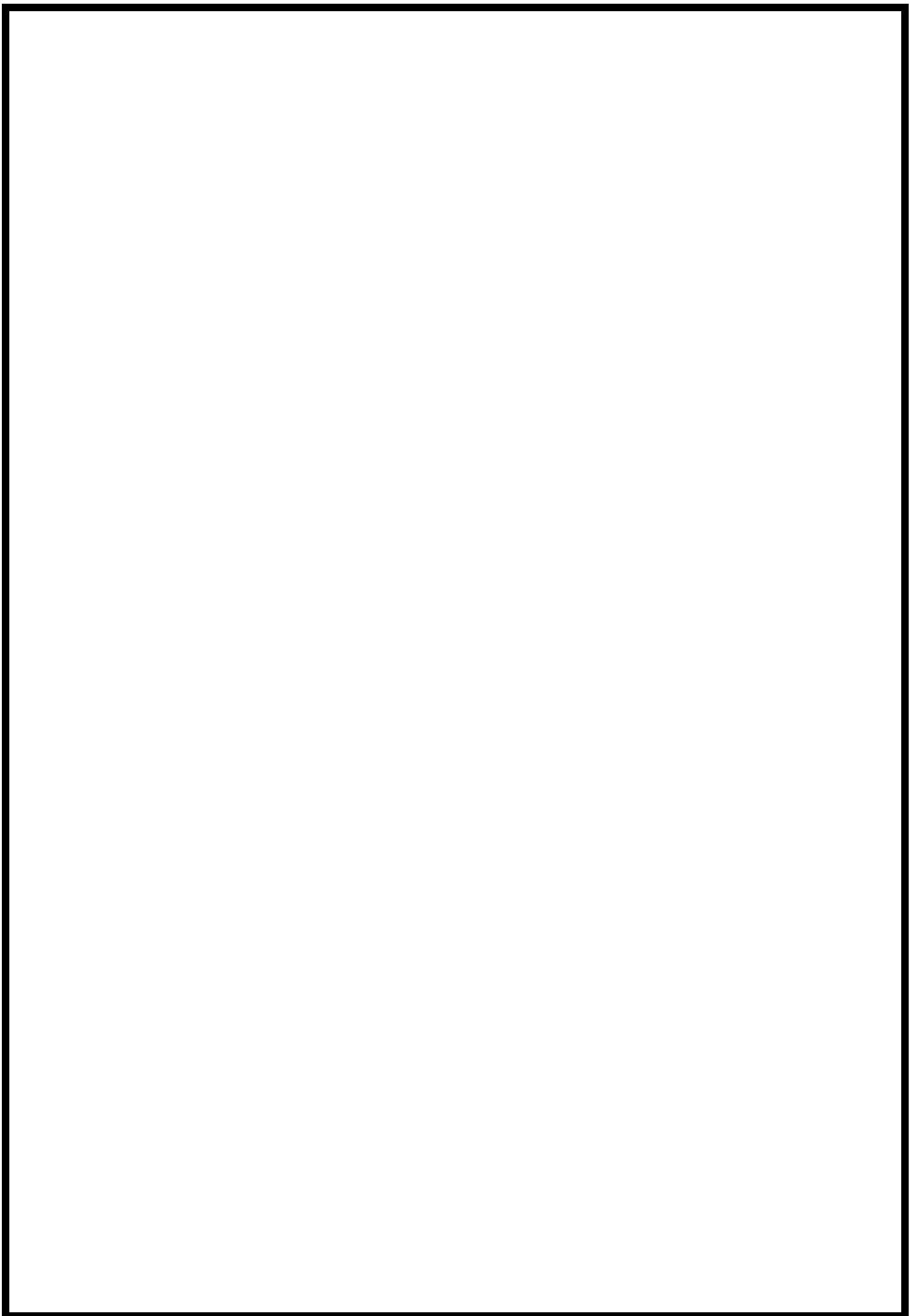
Prescribes the general betting duty for different types of betting - Treasury responsibility.

## **Public Lotteries (Amendment) Act 1993**

Treasury responsibility – to permit more than one public lottery in one year and to permit the sale of tickets or chances at any time of the year. To provide for the proceeds of the public lotteries to be paid to the Public Lottery Trust or such other charitable purposes as may be specified.

## **National Lottery Act 1999**

Treasury responsibility – to enable the application to the Island of the National Lottery Act 1993 and to amend legislation relating to lotteries.





View towards Ramsey from Guthrie's

