

# Isle of Man Gambling Supervision Commission



**Isle of Man**  
Government  
*Rellys Ellan Vannin*

Annual Report  
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## **Chairperson's Statement**

Every year brings change for the Isle of Man Gambling Supervision Commission.

For the last seven years I have watched, initially as a Commission member and latterly as Chair, as my Chief Executive Steve Brennan has transformed the organisation into a highly professional and well respected regulator.

Some of those changes have manifested as a result of the staff we have recruited and the training and development we have invested in them. Some of those changes have resulted from our participation in, and leadership of international forums.

One key change for the last two years has been the move away from a rolling programme for the supervision of licensees and the adoption of a risk-based approach.

The approaches are profoundly different. In the former we assume that if we check licensees enough times then everything will be fine.

In the new world, we analyse the factors that make our licensees different and we prioritise our visits and checks so that those with higher risk aspects are supervised more frequently and those with lower risk aspects less often.

It is a complicated business to effect a change such as this whilst maintaining operational continuity so Steve and his team deserve praise for introducing the changes carefully, but still in time for the Island's MONEYVAL visit.

Another change that we are anticipating is the adoption of a new computer system. The growing size of our data analysis requirement is not well served by our present systems and I am delighted that work has commenced on the new system. It will considerably improve our performance in this area.

And as computers assume ever greater importance in everyday life, I have asked the inspectorate to start considering the broader impact of cyber-crime in the gambling industry.

I commend this report to you and hope that we have shed some light on how we, as a Commission, seek to facilitate the growth of good quality business in the gambling sector.

Ron Spencer  
Chairman



## Chief Executive's Statement

Last year I reflected on the outcomes of the national risk assessment of anti-money laundering and terrorist financing controls and explained how the GSC intended to respond to the findings.

The national risk assessment exercise recommended a number of actions:

- Improve the quality of supervision;
- Obtain a suite of proportionate sanctioning powers;
- Work with the gambling sector and the Isle of Man's Financial Intelligence Unit (FIU) to refine the suspicious activity reporting process.

I am delighted to report that we have achieved the first of these objectives within the year.

With thanks to my deputy, Mark Rutherford and my director of Anti-money Laundering and Countering the Financing of Terrorism (AML/CFT) Helen Ault, I am now in a position to report that we not only have a modern and responsive tool for administering our AML/CFT regime but that we have had almost a year of experience in operating the new regime.

With a year of operations to reflect on, it is clear that the tools we now have to supervise AML are very sophisticated and I'm delighted to report that we can demonstrate tangible improvements in the way AML/CFT is supervised.

Where do we go next?

The answer is yet another year where AML/CFT will continue to dominate our projects.

I'm pleased to note that the risk-based approach for our anti-money laundering programme has now been introduced and I look forward to the mechanisms that it uses being re-used in the new IT system that is being jointly developed with the Financial Supervision Authority.

Of course, this year was also critically important for the Island's anti-money laundering efforts because it was dominated by preparations for a visit to the Island of the Isle of Man's FATF-style regional body, the Committee of Experts on the Evaluation of Anti-Money Laundering Measures and the Financing of Terrorism also known as MONEYVAL.

While that mutual evaluation exercise has yet to be finalised, it became clear to the GSC from the earlier national risk assessment exercise that one criticism the GSC could anticipate from the evaluators was the absence of a suite of powers to sanction non-compliant licensees.

We will be considering how to acquire, in legislation, a suite of escalating powers which would allow the GSC to impose sanctions for non-compliance with requirements. The GSC will be

consulting in due course with its stakeholders on the most appropriate legislative framework to introduce so that it meets its international obligations. The UK's experience in this area seems to offer a very constructive framework in which licensees can learn from one another's shortfalls while at the same time obtaining assurance that the effort they put into compliance is valued by their regulator.

We have also used the ongoing AML/CFT focus as an opportunity to bring the industry together and the newly inaugurated gambling Money-Laundering Reporting Officer (MLRO) forum has already indicated it is interested in a workshop to discuss how to refine suspicious transaction reporting. I hope to be able to write in our next annual report about this as an example of domestic industry and authorities cooperating for the greater efficiency of all.

Finally, as ever, I would like to reciprocate the thanks and recognition that I and my team have received from the Board and I would like to thank them for their continued support as we enter another busy year.

Steve Brennan  
Isle of Man

Steve Brennan  
Chief Executive





# **The Gambling Supervision Commission**

## **Statutory Board**

The Gambling Supervision Commission was established in 1962. The Gambling Supervision Act 2010 established the Gambling Supervision Commission as an independent Statutory Board setting out in law its status, constitution and regulatory objectives. In addition to the licensing and regulation of land-based gambling operations (casino, amusement and slot machines, betting offices and lotteries), the Commission also regulates all online gambling activities, which have grown significantly in recent years.

## **Regulatory Objectives**

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

- Ensuring that gambling is conducted in a fair and open way;
- Protecting children and other vulnerable persons from being harmed or exploited by gambling; and
- Preventing gambling from being –
  - i. A source of crime or disorder;
  - ii. Associated with crime or disorder; or
  - iii. 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 core principles are upheld through a combination of rigorous checks on operators at the application stage; a thorough on-going inspection regime for licensees and a complaints and queries procedure which is designed to identify patterns that could highlight issues before they become problems.

## The Board of Commissioners



Ron Spencer - Chairman



Jerry Carter - Deputy Chairman



Jon Allen - Commissioner



Howard Callow - Commissioner



Suzanne Collins - Commissioner

## Commission Appointments

Appointments to the Board of Commissioners are made by the Treasury subject to the approval of Tynwald<sup>1</sup>. Treasury will appoint one member of the Commission to be the chairperson and another, the deputy chairperson. When making appointments Treasury must ensure that at least one member of the Commission is an advocate, barrister or solicitor of at least five years' standing, one member has experience of online business and one member has experience of gambling business.

A member of the Commission is appointed for a five year term and is eligible for reappointment on conclusion of that term.

## Commission Hearings

The Board of the Commission meet on a monthly basis. In certain circumstances additional Board meetings are convened. For a meeting to be quorate a minimum of 3 Commissioners with one being either the Chairman or Deputy Chairman is required. The licensing decisions of the Board for 2015/16 are shown below:

Licensing decisions 2015/16		
Type of licensee	Licences approved, granted or renewed	Licences declined or surrendered
Licensed betting offices	3 renewals	0
Land based casinos	1 re-grant	0
Controlled machine suppliers	0	0
Online gambling operators	7 approvals 1 renewal	0

## Accountability and Scrutiny

The Commission is subject to scrutiny in the following areas:

- Tynwald through the approval of new Commissioners, new legislation and annual reporting;

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<sup>1</sup> Tynwald is the Isle of Man's combined court consisting of the lower, legislative house (the House of Keys) and the upper, revising chamber (the Legislative Council).

- Government and Treasury: strategic objectives, legislative policy and proposals, budgeting and funding and establishment headcount;
- Industry: consultation on regulatory and supervisory proposals; and
- Other national regulators of licensees.

Additionally a Memorandum of Understanding has been signed between the Commission and the Treasury setting out responsibilities and arrangements to ensure that the Commission is accountable to Treasury for its actions and clarifies the circumstances in which sensitive information might flow between the Commission and Treasury.

The division of responsibilities is based on four guiding principles:

- Clear accountability - Each Authority must be accountable for its actions, so each must have unambiguous and well-defined responsibilities;
- Transparency - Tynwald, the gambling and gaming industry and the public must know who is responsible for what;
- Avoidance of duplication - Each Authority must have a clearly defined role, to avoid second guessing, inefficiency and the unnecessary duplication of effort. This will help ensure proper accountability;
- Regular information exchange - This helps the Authorities to discharge their responsibilities as efficiently and effectively as possible.

## **Finance**

The Commission operates within a budget agreed with Treasury and within headcount as set out by Government. The Commission's income and expenditure, reviewed by the Commission and Government's Internal Auditors, is set out in appendix 2.

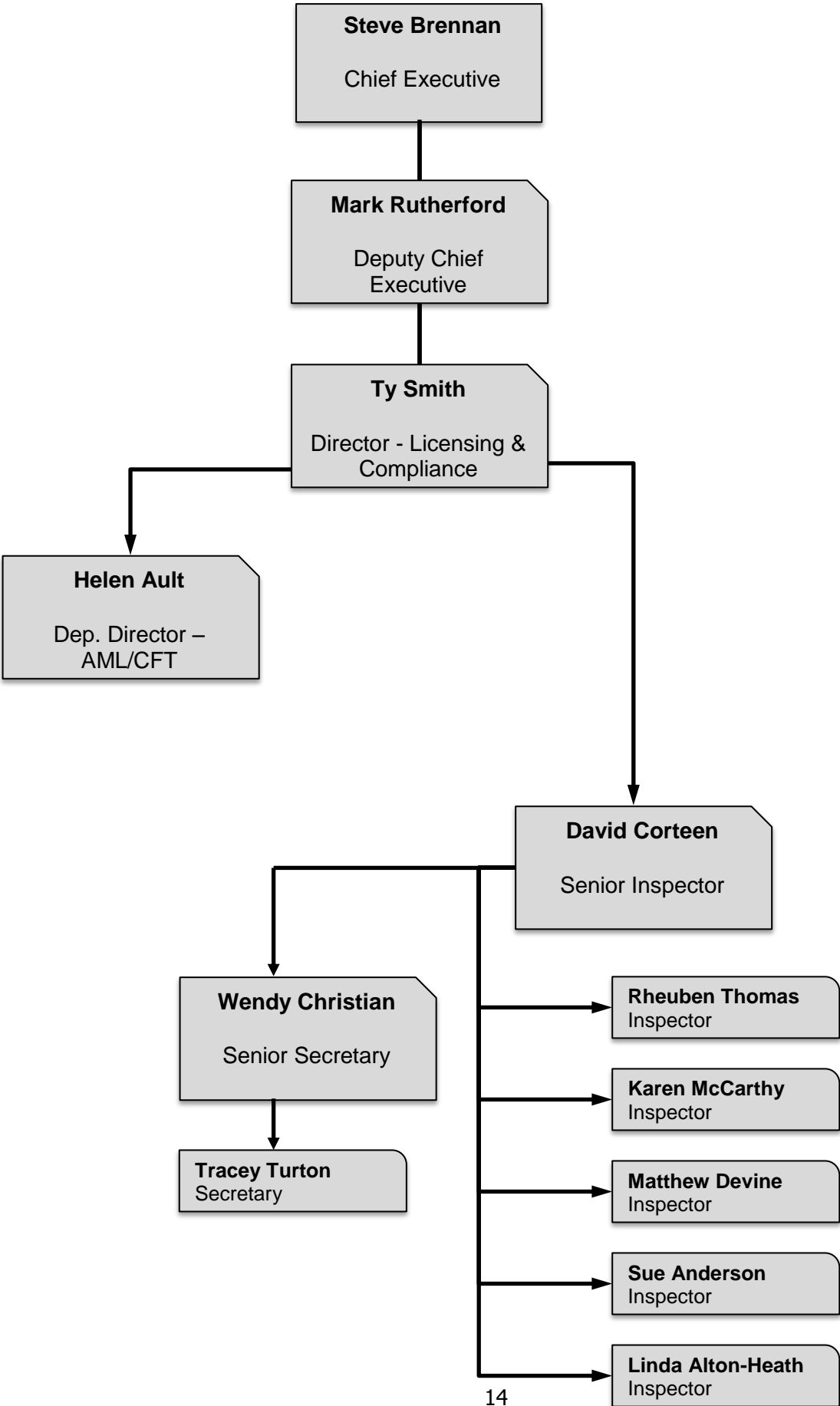
## **Corporate Plan - Strategic Objectives**

When discharging its functions, the Commission is mandated by law to have regard to a number of aims. When setting out its work plan, it is these aims to which we turn. The Commission's internal aims for the coming 3 years are:

1. Streamline processes through the use of technology - simplify and ease the process for collecting and uploading operator data submitted on a quarterly basis.

2. Refine the risk based approach for supervision in line with the Financial Action Task Force (FATF) recommendation 28 by determining which of the key factors (size, inherent product risk, compliance history, economic activity, adverse media) most accurately reflect AML/CFT risk.
3. Knowledge expansion and retention - our staff are our most important asset and the Commission will continue to invest in their training and development for them to remain knowledgeable and effective in their sphere of expertise. Staff and knowledge retention is an issue for the Commission and consideration will be given to strategies to manage staff and knowledge retention effectively.
4. Build strategic partnerships and relationships with international regulatory authorities and world governing bodies - The Commission recognises regulation of gambling, and in particular online gambling, is maturing with increasing numbers of international regulatory and governing bodies developing their regulatory positions. Shared learning and input into the development of internationally recognised and accepted standards and best practice through the strategic partnerships and trusting relationships remain key to the Commission's work.

# Organisational Chart





# **The Gambling Environment**

## **Local Sector**

The sector, comprising of a casino, retail bookmakers, a slot industry primarily servicing the local hospitality sector and society lotteries organised and operated largely by third sector bodies or sports and social clubs, remains largely static. The sector now reports frustrations with the law that regulates land-based gambling, some of which dates back to the 1980s. While the GSC has made changes to regulation where it can, many of the changes that are now required affect primary law. The GSC therefore intends to restructure its legislation in order that changes for this sector (and any others) can be made far more efficiently.

During the period, the GSC introduced a small change to allow Licensed Bookmakers to modernise their machine stock.

## **International Sector**

The international sector has experienced ongoing change during 2015/16, notably in Europe and the Far East (for example, in the Philippines). The Commission constantly monitors the international environment to identify the changes being proposed and regulatory frameworks being developed.

The most recent, significant impact to the Island's online sector was the UK's decision to commence licensing and the 2014/15 period witnessed changes in the way operators sought to license both in the UK and the Isle of Man. Those changes have now largely settled and while there has been a period of change for the online gambling estate in the Isle of Man, licensing numbers are again beginning to reflect the growth that preceded the UK's legislative change.

The GSC always seeks to identify examples of regulatory best practice that can be adopted to help better develop its regulatory framework in support of consumer protection, fairness or keeping the industry crime free. The GSC has changed regulations to allow consumers to control their gambling in more useful ways.

The Commission also has a responsibility to ensure gambling promoted by its licensees can compete effectively around the world. A number of regulatory changes have been commissioned this year which represent increased flexibility or the removal of business barriers.



## **A Year in Review**

### **Revisions to the Regulatory Framework**

It has been a busy year for regulatory change. While we have been preparing for a legislative rewrite to allow enhanced agility in the face of continuing innovation in the sector, we have also introduced a number of key changes to secondary legislation to open opportunities for business or strengthen consumer protection.

#### **Better tools to help gamblers**

One of the requirements of Isle of Man online gambling law is that gamblers have at their disposal tools for controlling their gambling if they wish. For example, gamblers can self-exclude from a website for a period of time if they feel they are beginning to gamble more than they want to. Another control a gambler can set is stake and betting limits. Using this functionality, a gambler can instruct a gambling website to prohibit further betting when a particular user-set threshold has been reached.

Feedback from the online sector suggested that these second types of control were not being used by gamblers, which suggested to the GSC that the controls were not useful. After understanding the controls used in other jurisdictions, the GSC changed regulations to allow a broader range of controls to be offered by licensees to players. The GSC will conduct a survey of these controls in a year's time to see which are being used and which are not.

#### **More flexible business models**

One of the types of licence an online gambling company can obtain is called a sub-licence. A sub-licence is substantially cheaper than a full licence (£5,000 per year compared to £35,000 per year) because it carries certain restrictions, specifically a sub-licensee can only operate if uses the products of a full Isle of Man licensee. Sub-licences allow large operators to franchise their products and support start-up businesses.

The regulations regarding sub-licences were very specific, stating that a sub-licensee only qualified for the reduced fee if it used the *games* supplied by a full licensee. The way gambling services are delivered has changed since these regulations were first framed and the online sector requested that the regulations be broadened to allow supporting back-office systems (in addition to games) to be a qualifying service for sub-licensees. After conducting an impact assessment, the GSC changed the regulations to allow the games, the back-office or both products to be offered to sub-licensees.

## **Fund protection concessions for professional gamblers**

While the majority of gamblers using Isle of Man licensed products are recreational players – i.e. they gamble as a leisure activity – some players gamble to earn a living. These professional players seek out the best value products they can and then place large bets. When they win money they use it to place additional bets.

The Isle of Man's fund protection law required that all winnings be protected by money set aside by the operator. Online gambling sites offering betting facilities to professional gamblers were restricted in the winnings they could allow gamblers to re-bet, making them less competitive. After discussions with the sector, it became apparent that the professional gamblers themselves like using Isle of Man licensees but consider fund protection to be irrelevant to their activity. Further, they did not like the fund protection because of the restrictions it imposes on re-betting winnings.

The GSC changed the regulations to introduce a concession which allows gambling operators who sign up professional gamblers (only) to waive fund protection requirements where winnings occur and are used to place further bets.

## **Extra flexibility for game certification**

In order to ensure that online games are fair (for example: that they are genuinely random, that no bugs exist that will cheat players of winnings, etc.) they are tested by independent experts called testing laboratories. Each laboratory issues a certificate which specifies the game, the tests that have been done and the outcomes. These tests vary from one jurisdiction to the next because there are no international standards and so each country must define its own standards.

A consequence of this is that a licensee offering games to other operators in multiple countries must obtain a separate test certificate for each country, which is expensive. The GSC recognises that the test standards in reputable countries all create fair games and so has changed regulations to allow test certificates from countries with whom it has international information-sharing agreements (i.e. where it can obtain access to inspect the standards) to be used to prove the fairness of games. The GSC will now recognise certificates issued by approved test laboratories if they conform to the standards in any of the following online gambling jurisdictions: Malta, Alderney, the UK, Denmark, Estonia and Jersey.

## **Greater fairness in fees**

Online licensees may change their licence type at any time during the five year licence period.

For example, a standard licensee might decide to upgrade to a network licence in order to obtain greater business flexibility.

The way the regulations were written meant that if a licensee upgraded or downgraded, the unused portion of their old licence type was lost. A network licensee downgrading after six months would essentially lose £25,000 (half of the licence fee).

The GSC changed the regulations to allow this unused licence fee to be offset against the new licence fee. The same licensee downgrading after six months can now use the previously wasted £25,000 as a payment towards the new licence fee.

In addition, the Department of Economic Development approached the GSC and explained that the £5,000 fee that was charged every time a foreign operator entered a business arrangement to send players to an Isle of Man network licensee was creating a barrier to business development. Existing operators perceived it as a penalty on expansion and new operators pointed out that not every partner that joined would necessarily generate a profit meaning that the extra £5,000 fee would have to be borne by the Isle of Man licensee.

The GSC considers that the removal of the fee would not impact on regulatory matters (i.e. consumer protection) and so repealed the fee. Network operators now pay a flat £50,000 per annum fee to operate.

### **Virtual goods and virtual currencies**

The Isle of Man Government supports the development of innovations in financial technology and one of these innovations is block-chain technology, a way of decentralising transactions (such as payments between people) in a secure way.

The GSC reviewed its law to check that licensees seeking to utilise block-chain systems could do so. Its review identified one change that was required in order to allow accounts to operate with virtual currencies and this part of the law was modified.

As a consequence of this change, it is also now possible to regulate a type of gambling which uses virtual goods associated with video games. This type of gambling is popular on the internet but has attracted controversy because many of its players are less than 18 years old. By allowing this type of gambling to come under Isle of Man regulation for the first time, operators can exclude those under the age of 18 from gambling.

### **BREXIT**

The GSC has undertaken a review of the UK's referendum decision ("Brexit") in order to understand the possible impact it will have on the gambling industry in the Isle of Man.

The GSC's analysis and that of many in the sector is that BREXIT will not have a significant impact for the Isle of Man's gambling industry. This is because:

- The Isle of Man isn't part of the EU and so the benefits of EU membership are not currently available to the Isle of Man;
- Even for jurisdictions remaining in the EU the benefits for a gambling operator are limited. This is because there is no European Directive for online gambling services and such a directive is a distant prospect for the time being. In place of a unified directive, each country has developed, or is developing its own set of gambling laws, which differ greatly from one country to the next. The result for gambling operators is that a licence must be acquired in each country that has a licensing regime irrespective of whether it originates from an EU country or not.
- Despite the EU being a big market (with the EU Commission estimating there are in excess of 7m of its citizens gambling online), it isn't the main market for Isle of Man licensees. Instead, the Isle of Man has followed a much broader, more globally focussed approach to business development and has developed specialist knowledge of certain gambling models and market such as the Far East and online poker.

## **Cooperation**

The Commission recognises it has a role to play in the ever changing regulatory landscape. We have long held the view that our operators will seek licences in multiple jurisdictions and it remains important to the Commission that we build trust with those regulators and where possible formalise relationships through Memoranda of Understanding, Letters of Intention and other such instruments. In the past Memoranda of Understanding have been signed with European counterparts including Denmark, Estonia, the United Kingdom, Malta, Jersey and Alderney.

Two important forums exist for global gambling regulators. The first is the International Association of Gambling Regulators (IAGR) and the second is the Gambling Regulators of Europe Forum (GREF). The GSC not only attends these forums but also plays a significant role in them.

Steve Brennan, the GSC's CEO is currently the president of GREF and is active in coordinating key themes and regulatory working groups on topics of ongoing regulatory interest.

Mark Rutherford, the GSC's deputy CEO co-chairs the IAGR information sharing group for anti-money laundering and countering the financing of terrorism, with France. The group meets

twice a year but does much between sittings to allow different global regulators to understand how gambling and AML/CFT requirements come together.

The Isle of Man's recent experience of national risk assessment has proven to be especially valuable to jurisdictions who are now starting to undertake those exercises.

## **Sports Betting Integrity**

Sports betting integrity issues, typically manifesting as instances of match-fixing, continue to be a focus of gambling regulators.

The GSC is party to a number of commitments which see it act as a broker for key information needed by investigative authorities and sports governing bodies in order to deter, disrupt and investigate sports integrity issues. These issues range from athletes betting on their own sport through to criminals seeking to alter the outcomes of sporting events in order to profit from bets placed on those events.

An enquiry in January 2016, in which the GSC assisted the Tennis Integrity Unit was recently concluded. The player, Joshua Chetty – a 21 year old South African, who was the subject of the enquiry has now been banned from the sport for life.

## **Player Fund Protection**

In the gambling sector the protection of player funds under law is unique to the Isle of Man and has served well in the protection of the Island's reputation. The overarching requirement is that in the event of an operator default (business failure, liquidation etc.) the value of money deposited by players is able to be repaid. The approach used by most operators is to hold the players' money in secure, specially designated protection accounts in Isle of Man licenced banks. However, the Commission keeps an open mind with regard to the mechanisms used to ensure repayment and considers approaches from licensees and others to use alternative mechanisms.

During 2015/16 the Commission was pleased to recognise insurance as a player fund protection mechanism, giving online operators a further way to efficiently protect players' funds.

## **Anti-Money Laundering – MONEYVAL Inspection**

In April 2016 representatives of MONEYVAL visited the Island to compile a Mutual Evaluation Report on the Isle of Man's compliance with international anti-money laundering (AML) and countering-the-financing-of-terrorism (CFT) standards.

This was a very important and correspondingly thorough exercise and the GSC was one of many authorities which sat with the evaluators. During the meeting, every element of the GSC's AML/CFT legislation, licensing regime, supervisory regime and track record of effectiveness was scrutinised.

The National Risk Assessment was an important component in these discussions and the MONEYVAL representatives were keen to understand how the GSC had incorporated its findings into its supervisory approach. It was noted that the national risk assessment had already identified that in order to comply with international standards, the GSC required a suite of proportionate sanctions to enforce compliance with AML rules (should that become necessary) and the GSC explained that it intended to consult on that legislation in due course.

MONEYVAL also visited a number of gambling operators to understand how the legislative requirements were being applied in practice.

MONEYVAL's final report is not due until January 2017, when the GSC will share its findings with industry.

## **Licensing and Approvals**

During 2015/16 the number of licensees in the land based sector remained largely static but movement in the numbers of online licensees (shown in the table below) was more complex.

A number of online operators returned their licences during the year, due mostly to the changes in UK licensing and taxation requirements and an increase in the competitiveness of the online gambling market which favoured larger operators (and which was responsible for a number of global mergers and acquisitions during the year). Two licensees relocated their business to other gambling jurisdictions. In total, 18 licensees ceased licensing in the Isle of Man. The most significant of these was Paddy Power which, after completing an acquisition exercise with Betfair consolidated its office facilities in another jurisdiction.

Seven new applications were received in 2015/16 with the majority approaching the GSC towards the end of the year.

Operators licensed in 2015/16	
Licensee	Licence type
Paddy Power Limited	Full
NoviGroup	Full
Rational Entertainment Enterprises Limited	Network
Binary (IOM) Limited	Full
Cube Limited	Full
Webis Holdings	Full
Premier Gateway International	Full
Celton Manx	Full
TGP Limited	Network
Mahjong Logic	Full
Welton Holdings	Full
Alliance Gaming Solutions	Network
MarketstheWorld	Full
Pariplay	Network
Tradagames	Sub
Annexio	Full
Xela	Full
Velocity Wagering	Full
Cozy Games Management Limited	Full
Rational FT Enterprises	Network
Galaxy Bet Ltd	Full
Asian BGE (IOM) Ltd	Full
Wombat IOM Ltd	Sub
Top Gaming Europe Limited	Sub
Knockout Gaming Limited	Full
MondoGoal Trading Limited	Full
LuxBet Europe Ltd	Full
Praesepe	Sub
Fesuge	Sub
Annatar Limited	Full
Playstone Limited	Sub
International Multi-Media Entertainments	Full
Mayfly Entertainment Limited	Full
Mersey Sports	Full
Nous Global Limited	Full
Babylon Gaming	Full
Eurorace Limited	Full
Hollywoodbets International Limited	Full
Sporaga Limited	Full
Totus Limited	Full
Solar Spirit Gaming Limited	Full
Microgaming	Network

The GSC's experience with the Asian sport-book model continued to attract licensees seeking to target Far Eastern markets and the GSC received its first applications in respect of gambling

operations available to gamblers in Africa, a significant emerging market which has its own geographical differences that the GSC has taken the time to understand and accommodate. At the time of writing the GSC is processing four new applications and a further application is anticipated imminently.

The GSC can also report that one of its current applicants is seeking to take advantage of recent regulatory change in order to offer a model which uses block-chain technology as part of its gambling model.





## Supervision Programme

The GSC applies an extensive supervision programme over all its licensees including on-site inspections, quarterly reporting and annual audits. As well as identifying non-compliance issues that require remedial action, the approach also provides a feedback loop for the improvement of the supervision framework. Changes to procedure, policy and legislation have been informed through this approach.

MONEYVAL's visit coincided with the GSC's move to a risk-based approach for its AML/CFT supervision. The move to a risk-based approach has taken two years to create and implement and the 2015/16 year has been a good opportunity to not only test the new approach but to also create a bench-mark for the online sector against which future progress can be measured.

The introduction of the risk-based approach has meant that certain thematic reviews that were conducted each quarter have now been replaced by risk-assessments of key areas. It is hoped this will reduce the compliance burden on online operators.

Appendix 1 shows the detailed supervision programme for 2015/16.

## Dispute Resolution

All licence holders of the GSC are expected to offer a dispute resolution process should a player feel aggrieved by some aspect of their interaction with the licence holder. Where satisfaction has not been achieved, a player has the option to put their grievance to the GSC. The GSC will investigate the dispute acting as an impartial arbitrator.

The following table shows players complaints for the 2015/16 period.

Core principle	Number of complaints received	Number of complaints resolved
Excluding crime	245	243
Protecting young & vulnerable	70	70
Fairness in gaming	196	196

The overall number of complaints to the GSC about operators has contracted.

This is primarily due to the fact that UK players who were formerly able to raise their complaints with the GSC are now obliged to complain using the UK's complaint procedures and the Isle of Man no longer offers the alternative dispute resolution services to UK players. This change occurred because of the introduction of a European Directive dealing specifically with providers of alternative dispute resolution; the directive specifies that only European institutions can supply these services to European citizens.

## Appendices

### Appendix 1 – Supervision activity 2015/16

The following table shows the visits undertaken in the period:

Licensee general compliance visits 2015/16	
Type of operator	Visits
Licensed betting offices	9
Casino	12
Online gambling companies	40

In addition to general compliance visits, the GSC also conducted detailed, specialised anti-money laundering visits on its online gambling licensees.

Licensee AML/CFT compliance visits 2015/16 – online licensees	
Bench-marking exercise	31
Full visit with report	31

A number of online licensees use the services of third parties to supply live-dealer services. These third parties are not licensed by the GSC and are globally distributed. It is a condition of the licence that the GSC is permitted to inspect the services and a licensee cannot use a studio that refuses to be inspected. Approved test laboratories act as the GSC's inspectors and the test personnel travel to the site and inspect it to the GSC's requirements before producing a detailed report for the GSC.

Live dealer studios are inspected every year.

Live dealer studio inspections during 2015/16	
Checks completed	4

In addition to visiting licensees, the GSC also requires licensees to make returns.

Licensee returns submitted to the GSC during 2015/16 period	
Type of return	submissions
Casino unusual incidents	12
Casino return-to-player reports	6
Online gambling quarterly reports	208

This table shows the information that is obtained from each return.

Return type	Details and purpose
Casino unusual incidents	<p>These reports detail disturbances, injuries and emergencies at the casino.</p> <p>The GSC uses this return to check that gambling isn't becoming a source of crime or disorder.</p>
Casino return-to-player reports	<p>These reports show the return-to-player values for each machine in the casino.</p> <p>The GSC uses this return to check that gambling machines in the casino are paying out fairly.</p>
Online gambling quarterly returns	<p>These reports show:</p> <ul style="list-style-type: none"> <li>- reportable incidents;</li> <li>- AML data such as player numbers on the database and the number of suspicious activity reports filed to FIU;</li> <li>- The value of players' funds held by the licensee;</li> <li>- Financial data on each licensed product; and</li> <li>- Financial data on the licensee;</li> </ul> <p>The GSC uses this return to confirm that player funds are being protected properly. The financial data is analysed for signs of financial difficulties and for anomalous patterns which could represent an AML/CFT risk. The reportable events checklist acts as a reminder to licensees on their reporting obligations.</p>

The analysis performed on these returns is supported by analysis of licensees' annual accounts which must be submitted to the GSC each year.

Licensees' accounts analysed during 2015/16	
Accounts analysed	50

Analysis of annual accounts is a useful corroboration of the financial data supplied each quarter by the operator. Any discrepancies are investigated by the inspectors.

For this reason, accounts must be supplied for the year even if a licensee has determined that it no longer wishes to be licensed in the Isle of Man.

### **Online checks**

The GSC can also inspect certain aspects of its online licensees by accessing their internet products from the desktop.

Each inspector in the GSC is assigned a number of licensees and the inspector becomes the relationship manager (RM) for these licensees.

This gives each inspector an opportunity to become the expert in those licensees' affairs. Part of that process is the undertaking of frequent desktop checks.

An entire RM check would take a number of days to complete and as the checks are of lower risk items, they are limited by time and executed on a rolling basis.

This means that when an inspector picks up an RM-check they start at the point on the checklist where the last check for that licensee ended. Over a number of weeks the whole of the check is completed and the check is then started from the beginning again.

RM checks are used to check the following:

- That the terms and conditions are fair. A copy of the terms and conditions is taken at this point;
- That the games available on the website are known to the GSC and have valid test certificates;
- That any special conditions attached to a licensee's licence are being adhered to;
- That links to problem gambling help are present and work;
- That sundries such as registered office, the GSC's logo and licensing statements are present;

- That under-age players are specifically excluded from registration and facilities for voluntary self-exclusion exist.

The inspector also conducts a review of complaints to the operator by players to determine if any trends are emerging that signal a potential problem.

RM checks conducted during 2015/16	
RM checks conducted	177

### **Monitoring of key controllers**

The licensing process described earlier in this report provides an important opportunity to check the integrity of key controllers of licences.

These key controllers include beneficial owners, investors, senior managers and directors as well as specialists such as money-laundering reporting officers.

However the GSC has to contend with the possibility that a key controller has successfully disguised an integrity issue or that an integrity issue has arisen since licensing.

For this reason, the GSC has introduced a database of key controllers and companies that is updated daily and checked frequently.

## Appendix 2 - Income and Expenditure

<b>GSC Income and Expenditure</b>		
<b>Income source</b>	<b>2014/15</b>	<b>2015/16</b>
Betting shops <sup>1</sup>	1,530	1,495
Gambling machines	24,563	26,784
Online gaming <sup>2</sup>	1,704,612	1,610,000
Domestic casino	299,629	285,314
Other income <sup>3</sup>	4,666	4,630
<b>Sub totals</b>	<b>2,035,000</b>	<b>1,928,223</b>
<b>Expenditure</b>	<b>2014/15</b>	<b>2015/16</b>
Salaries <sup>4</sup>	473,094	563,702
Commissioners' honoraria <sup>5</sup>	79,202	78,558
HR costs <sup>6</sup>	9,753	10,822
Premises	1,696	2,861
Professional fees <sup>7</sup>	72,073	70,108
Travel <sup>8</sup>	27,290	22,454
Operating Expenses <sup>9</sup>	8,501	21,375 <sup>9</sup>
Other Expenses	70	273
<b>Total Expenditure</b>	<b>685,957</b>	<b>770,153</b>
<b>Surplus for the year</b>	<b>1,349,043</b>	<b>1,158,070</b>

### Notes to the table

**1** The cost of a licence to operate a licensed betting office is split into two parts: a permit and a certificate. A permit allows a bookmaker to operate as many betting offices as it wishes. Each betting office is then separately certified.

A permit costs £700 to obtain and £100 to renew. Certificates for betting offices cost an additional £100 for each betting office the bookmaker operates.

**2** The costs of online licences vary depending on the privileges that attach to the licence.

A standard licence costs £35,000 for a year and allows an operator to offer online gambling to any markets where legal advice demonstrates it is not unlawful. Standard licences allow a significant degree of business flexibility and operators can engage with multiple business partners.



A sub-licence costs £5,000: Such licensees must use the games supplied by a standard or network licence holder in the Isle of Man. A network services licence costs £50,000 for a year and allows operators to offer services to non-Isle of Man operators' players.

**3** A single Commission member that sits on the GSC Board also sits on the board of another agency. For administrative simplicity the GSC pays the Commission member's monthly honoraria and then cross-charges the other agency at the end of the reporting period.

**4** The GSC pays its employees according to the following schedule:

GSC employee salaries	
Pay range	Number of employees
0-£99,999	11
£100,000-199,999	1
£200,000+	0

The amount paid includes overtime payments made to staff. The total amount paid in overtime for the period is shown below:

GSC overtime payments 2015/16	
Total paid	£295

**5** Each Commission member is paid an honorarium. The chair of the Commission receives an enhanced payment.

**6** Human Resource costs include fees paid for staff training which, during the period, were split between providers as follows:

GSC Training expenditure 2015/16	
Government providers	£3,255
External providers	£2,455

**7** Professional fees include fees paid to lawyers, accountants and investigative agencies as part of the due diligence the GSC exercises over applicants.

GSC Due diligence expenditure 2015/16	
Accountants	£28,400
Enhanced due diligence reports	£26,670
Police checks	£2,158

**8** The GSC sends two delegates to each of the annual GREF and IAGR conferences. It also supplies officers to assist with regulatory queries at two international trade conferences :

- ICE (International Casino Exhibition), a three day trade show held annually in London, covering all aspects of gambling. ICE is considered to be the largest show of its kind; and
- EIG (Excellence in i-gaming), a three day e-gaming specific trade show, typically held in a European capital such as Berlin.

Travel expenses are also incurred when officers travel to visit their regulatory counterparts in order to discuss common areas of interest, to assist with national AML/CFT efforts (for example, travelling to Strasbourg for the MONEYVAL plenary to discuss the Isle of Man's mutual evaluation report) and to meet to discuss GREF or IAGR working group matters, such as common test standards.

Where possible, the GSC arranges travel to minimise the requirement for hotel accommodation – for example, by flying staff on the early flight to the UK and the last flight back to the Island.

Officers may claim expenses during periods of work away from the Isle of Man.

GSC subsistence expense claims 2015/16	
Total claimed	£443

**9** Operating expenses include the costs for stationery and office supplies, telephony and information technology. The expenses include the following:

Operating expenses 2015/16	
Stationery, printing	£5,052
IT provision	£15,525
Of which, hardware	£6,665
Of which, maintenance	£8,860

## Appendix 3 - Annual Plan

Item	Description	Priority	Timetable
AML/CFT programme	This project continues to embed the risk based approach for AML/CFT.	High	On-going
On-going 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>- Occasional themed portfolio checks (which analyse a particular aspect of compliance across all operators simultaneously);</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	On-going
System requirement specification	This project seeks to create a common regulatory IT platform to be shared with the IPA and possibly the FSC. Work commenced on this project in 2015/16.	High	On-going
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	On-going
Legislative rewrite	The GSC intends to redraft its key gambling Acts so that changes to developments in the gambling sector can all be achieved using secondary law alone.	High	2016/17

## **Appendix 4 - Gambling Legislation**

### **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.

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

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

Regulations made and in force under this Act:

- Controlled Machines Regulations 1985
- Certification of Premises (Application Fees) Order 2003
- Controlled Machines (Suppliers Licenses) (Fees) Order 2003
- Controlled Machines (Exemption) Order 2008

### **Casino Act 1986**

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

Regulations made and in force under this Act:

- Casino (Licence Applications) Regulations 1986
- Casino Regulations 2011
- Casino (Temporary Premises) Regulations 2013

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

The Gaming, Betting and Lotteries Act 1988

1. Defines gaming, the restrictions on certain gaming and gaming exemptions under the Act.
2. Sets out general restrictions on betting and provides for Licensed Betting Offices.
3. Places restrictions on lotteries and prescribes conditions which allow for certain lotteries to be operated.

Regulations made and in force under this Act:

- Bingo Nights (Prescribed Conditions) Regulations 2010
- Racing Nights (Prescribed Conditions) Regulations 2010
- Society Lottery Advertisements Regulations 2011

### **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. In addition, it provides for the proceeds of the public lotteries to be paid to the Public Lottery Trust or such other charitable purposes as may be specified.

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

Makes amendments to the main Act.

### **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.

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

Makes amendments to the main Act.

### **Betting Offices Act 2001**

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

### **Online Gambling Regulation Act 2001**

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.

Regulations made and in force under this Act:

- 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
- Online Gambling (Registration and Accounts) (Amendment) Regulations 2014
- Online Gambling (Exclusions) (Amendment) Regulations 2014
- Online Gambling (Participants' Money) (Amendment) Regulations 2010

## **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.

## **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 amend the Online Gambling Regulation Act 2001

Regulations made and in force under this Act:

- Gambling Supervision (Permitted Disclosures) Order 2010

## **Anti-Money Laundering Codes**

- Money Laundering and Terrorist Financing (Online Gambling) Code 2013:  
The provisions of the Money Laundering and Terrorist Financing (Online Gambling) Code 2013 impose requirements on online gambling businesses to establish procedures on combating money laundering and financing of terrorism, training and record keeping.
- Money Laundering and Terrorist Financing Code 2015:  
Contains provisions in line with the Financial Action Task Force's recommendations on combating money laundering and financing of terrorism & proliferation.





