NEWSletter



June 2022

INSTITUTE
FOR GAMBLING
REGULATION

Welcome to another issue of our newsletter.

A number of important events took place before the summer, whether it is the upcoming amendment or the change in the administrative practice of the Ministry of Finance when assessing its own minimum resources. They have one thing in common: they will have a major impact on our sector in the near future. You can find out how big the changes will be on the following pages.

Enjoy reading.

FOLLOW US ON

WHAT NEWS WILL THE UPCOMING GAMBLING ACT AMENDMENT INCLUDE?

Another of the long-planned meetings between the IFGR and the Ministry of Finance on the upcoming amendment took place at the end of June. It was there that director Šabo and his team presented the changes of the upcoming amendment. The Ministry itself had waited a long time for the political assignment. They now have it, which is why work on the amendment could begin in full swing.



And what points of the amendment is the MoF currently working on?

The fight against illegal gambling is one of the government's main priorities, and therefore, it is no surprise that the amendment is supposed to address the current unrelenting situation, especially in the area of the Internet. **The concept of targeting will already be a thing of the past and will be replaced by availability, i.e., the territorial element.** This will result in a spike in websites that will be perceived as illegal, and it will be necessary to block them. The change will also have an impact on foreign visitors. They will no longer be able to play with their "home" legal operators. It will probably have the biggest impact on Slovak players. These are now used to playing with Slovak operators after crossing the Czech border. This will no longer be possible with the territorial element. So, if they want to play gambling games in the Czech Republic, they will have to do so with one of the legal operators in the Czech Republic.

In addition to the websites with gambling themselves, the **blocks should also apply to applications or websites that promote illegal gambling.**

Hand in hand, the blocking process must be changed, as it is currently demanding, lengthy and inefficient. Its new form, however, does not yet have any concrete outlines. The Ministry makes no secret of the fact that

they are seeking inspiration abroad. They are looking at a Russian, Polish or Slovak model, but no final decision has been made yet. Officials, however, do not hide their concerns as to whether political agreement will emerge to change the blocking process. It was precisely the blocking that was a frequent target of political criticism in 2016 for its restriction of freedom of speech on the Internet.

The deposit system will also undergo significant changes. In the case of land-based operations, the MoF was based on two options, namely the setting of deposits as a flat rate or within bands. In the end, the decision was made to go the route of approximately **three bands, depending on the scope of the activity.** With this, the Ministry hopes in particular to reduce the excessive administrative burden associated with the administration of deposits, as setting deposits within bands (e.g., 1st band from 1 to 10 gambling establishments) is intended to make operators plan more and therefore, limit frequent changes.

The Ministry would also like to change the current regulatory practice so that **a deposit is not required additionally, but would already be a condition for issuing the basic licence.**

Furthermore, the Ministry intends to narrow the range of claims for which deposits can be used. The deposit is only intended to cover the obligations of the state, but not to cover unpaid winnings, as is the case so far. Currently, there are several options considered as to how unpaid winnings could be covered (by special insurance, minimum resources or even with no additional guarantee), but the Ministry does not have a clear idea about this now, either.

The positive news on the tax front is that **no change in tax rates is on the table** now. In addition, the **minimum partial tax on technical games** should be cancelled. Its senselessness was shown in the most difficult times of the pandemic and the widespread closure of all gambling premises. The operators of gambling establishments and casinos, without any income, were the only ones affected and forced to pay the tax on an activity that was forbidden to them by the government. After we tried in vain to have it waived, it is positive that in the future, the institute of the minimum partial tax on technical games will be cancelled without any substitute.

It has been speculated for a long time whether there will be a change in the distribution of the partial tax revenue from online technical games. It was removed from the government's policy statement, only to unfortunately return like a boomerang into the upcoming amendment. Although the illogicality of the current setting, as well as the planned **cancellation of the distribution of revenues from online technical games depending on the number of gambling positions allowed in the territory of the municipality, is argued, it will have a negative impact on many municipalities.** Newly, they will be distributed in the same way as other gambling games, which also entails a change in the distribution ratio of tax revenues from online technical games. The state will improve, but instead of the current **65%, the municipalities will receive only 30% of the tax revenue** from the online technical game, which will naturally have a negative impact on the budgets of most municipalities.



What are our next steps?

The schedule of the amendment is rather crammed and that is why we are already **working on materials from areas that, in our opinion, need to be changed, or we want to convince the MoF of a different solution than what they have in mind.** In this direction, we rely on the feedback and help of our members as only they come into daily contact with the pitfalls of the current regulation and the functioning of the market. We will send the detailed areas to the Ministry during the summer, and they in return promised to look into them. Let us hope that some of them will be addressed and, above all, that the amendment will be beneficial for the entire market.

At the same time, we should have the opportunity to comment on the wording of the amendment before it enters the external comment procedure in the autumn. This should happen during September. If this actually happens, we assume that we will not have much time to react. Therefore, we are already preparing for possible options.

OPERATING RESULTS FOR THE FIRST QUARTER BREAK RECORDS

This year's assessed tax for the first quarter is a record in the sum of all types of games. The highest result to date from the first quarter of 2017 was exceeded by CZK 1 billion. The assessed tax for online gambling is still around half of the assessed tax. In total, the **assessed tax amounts to CZK 1.863 billion**.

As part of the comparison of the first tax period of 2021 with this year, we can see a further **increase in online gambling,** that is by **almost 40 %.** Compared to the previous period, the increase is more moderate, namely 7%. In addition to the increase in online gambling, we can also see the growing number of operators who operate the online gambling games. There were 19 of them as of 1 May.

If we take a closer look at the individual types of gambling, then bingo is not currently operated at all in the Czech Republic and the totalizer achieves completely negligible economic results.

The lottery recorded almost the same economic results (decrease of approx. 1%).

Fixed-odds betting showed an increase of about 14%.

Technical and live game cannot be compared with the same period, as in the tax period of 2021, gambling premises were completely closed (due to Covid), therefore, we will compare the results for the current period (1Q 2022) with the period directly preceding it (4Q 2021) with these two types of gambling games.

Technical game showed an increase of about 4%, live game showed an increase of about 23%.

CHANGE IN ADMINISTRATIVE PRACTICE WHEN ASSESSING OWN MINIMUM RESOURCES

The Ministry of Finance unexpectedly proceeded to change its administrative practice regarding the assessment of operators' own minimum resources. Newly, they will not consider the deposit deposited in a special account of the MoF as part of the company's own resources, and therefore, it will not be possible to include these resources in the statutory limit of EUR 2 million.



In 2016, at a workshop on the application of the new act on gambling, the Ministry of Finance announced that resources deposited in the special account of the Ministry for the purpose of deposits are also considered own resources, with the exception of a bank guarantee. So far, this has indeed been the case.

Information about the change in the assessment of own minimum resources was published by the Ministry on its website at the end of May but already a month earlier, the FAQ was changed in connection with the upcoming change in administrative practice. However, they did not publicly inform anyone about the change.

Therefore, for most operators, the change in administrative practice came as a surprise. And no wonder. Without any change in legislation, consultation with the sector or earlier notice or even the slightest hint, the Ministry of Finance proceeded to change legal practice, which will result in an increase in financial claims on operators.

In relation to the existing valid basic licences, a transitional period for the fulfilment of this obligation is set until 1 September 2022. The statement does not mention at all how the "change" procedures will proceed (e.g., additions to games), i.e., whether own resources will be assessed according to this statement also in these proceedings or whether the Ministry will in fact apply this interpretation across the board only begging 1 September 2022.

You can find a list of the reasons that lead to the change in the administrative practice of the Ministry of Finance and other details in the Czech official document of the MoF.

We do not want to simply accept the change in the administrative practice of the Ministry of Finance. In addition to the groundless change, we were also interested in the perspective on the whole issue. That is why we turned to renowned experts from PwC, who prepared an analysis for us in this matter. We will send this together with our opinion and a request for a re-evaluation of the whole situation directly into the hands of Deputy Kouba. We believe that the reaction of the Ministry of Finance will not be long in coming.

ILLEGAL GAMBLING ESTABLISHMENTS BUST

In the Moravian-Silesian and South Moravian regions, a coordinated bust on illegal gambling establishments was taking place between 10 and 14 April. The operation called "Vidle III" followed on from the previous operations from 2019 and 2021.

Customs officials inspected the establishments where illegal gambling was conducted and discovered 33 illegal gambling establishments during the inspections. They seized a total of 119 illegally operated slot machines (of Pegasus, Futura, Explorer types and various types of gambling machines) as well as cash of more than CZK 163,000.

The inspections were taking place throughout the week at various hours of the day and night. As is the case in many cases abroad during the inspections, Czech customs officials also encountered various ingenious traps with which illegal operators try to prevent the removal of slot machines. Anchoring them to the floor or walling them in is no exception. The seized devices are now stored in the warehouse of the Customs Administration, and their fate will be decided in the subsequent criminal proceedings. In it, illegal operators face a fine of up to CZK 50 million and forfeiture of the machines.

During all three inspection operations (VIDLE I to VIDLE III), customs officials carried out 108 inspections in 61 establishments and seized 442 illegal slot machines.

According to the Customs Administration, thanks to the regular deployment of customs officers, it was possible to suppress illegal gambling in the mentioned regions. Still, it seems that illegal gambling continues to thrive as during the Vidle III operation, more illegal gambling premises were discovered than during the previous inspection operations combined. In addition, the Customs Administration itself admits that illegal gambling premises appear in places where customs officials already intervened in the past.

LOOT BOXES AS A GATEWAY TO PROBLEM GAMBLING

It was 2018, when "loot boxes" significantly shook up not only the world of video games for the first time. Mystery crates, trunks, or - if you prefer - chests, are a specific type of microtransaction in video games where a random virtual item is purchased for real or virtual money. The player can further use the obtained item in the game or cash the item in. Loot boxes therefore exhibit the same characteristics as gambling: deposit, chance and winning.



It was their similarity to gambling games and their availability to children and adolescents that caused considerable concern among the professional public.

If you have not personally come across loot boxes yet, then your kids definitely have. The latest data, collected by researchers from the Universities of Plymouth and Wolverhampton, shows that almost **60% of all mobile games** contain them. A slightly more interesting finding is that **56%** of mobile games containing loot boxes are considered suitable for children **aged 7** and up, and even **93%** are considered suitable for children at least **12 years old. The alarming thing is that over 40% of children opened a loot box in the last month.**

This is a very lucrative business for development companies. There have been over 1.8 billion installs of games with loot boxes worldwide. The total revenue in the

video game industry reached $159.3 billion in 2020 and is increasing every year. A non-negligible part is income from at-risk individuals (likely to include people with gambling problems, video game addicts or children) for purchases of loot boxes or skins.

The vast majority of experts agree that there is a link between loot boxes and problem gambling. They are a clear hybrid between slot machines and decks of trading cards. They simply show signs of gambling and, therefore, should be regulated at the gambling games level.

In light of these findings, in order to protect children and youth, a legislative debate has begun in many states as to whether loot boxes should be considered "gambling". For example, in **Belgium** and **the Netherlands,** they already consider loot boxes an illegal form of gambling. And at the same time, also in the Netherlands, they are considering whether to ban loot boxes completely. However, **the Great Britain** has already banned the use of loot boxes but only if their content can be sold outside of the video game itself. Other countries, such as **China** and **South Korea**, require developers to publish the odds of winning a prize.

In 2018, the Czech Republic became one of the then fifteen signatories of the international agreement on cooperation in the field of Internet games, which is in the grey zone between computer games and illegal gambling. This also includes the aforementioned loot boxes. Unfortunately, since then, there had been no progress to protect high-risk groups from loot boxes.

That is, until this year, when dTest, together with 19 other European consumer organizations from 17 countries, joined the fight against loot boxes. Their **common goal is to ban loot boxes in case games are accessed by minors.**

We support this initiative, as, in the field of gambling, operators do everything to protect at-risk groups from developing high-risk or even pathological gambling, even beyond the scope of the act within the self-regulatory Responsible Gambling project. And loot boxes, on the contrary, demonstrably contribute to this negative phenomenon.

WHAT IS UPDATED METHODOLOGY OF MoI BRINGING TO GBDs?

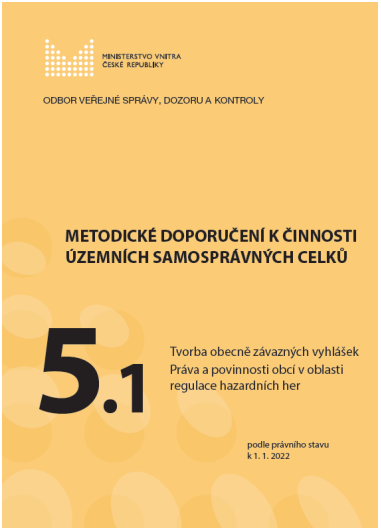
The Ministry of the Interior (MoI) in cooperation with the Ministry of Finance, the General Directorate of Customs and the Government Office has quietly published an updated methodological guideline to the creation of generally binding decrees and, in general, to the issue of gambling at the municipal level. It is supposed to respond not only to the legislative changes that have been adopted since 2017, but also to reflect the four-year experience of the aforementioned authorities.

It is a great pity that the MoI did not keep its promise and published the methodological guideline without us being able to comment on its partial parts and to provide a different point of view which would perhaps help the municipalities to find an alternative to the general prohibition of the operation of gambling games. Municipalities often approach the general prohibition of the operation of gambling games only out of fear of possible future fines from the Office for the Protection of Economic Competition, because they set conditions that violate economic competition.

The positive thing is that the guideline continues to encourage municipalities not to approach the prohibition of gambling and to thoroughly consider whether gambling really needs to be regulated in their territory before deciding to issue a generally binding decree regulating the operation of gambling.

Newly, the guideline points out to municipalities that they should proceed with caution when creating a generally binding decree in the event that they create a generally binding decree on the basis of requirements arising from their local districts or city districts and wards as these requirements (criteria) cannot be included in the text of generally binding decrees.

According to the latest information, the methodologies are now in print and will be handed over to municipal officials in the near future.



CONCEPT OF RESPONSIBLE ADVERTISING IN SLOVAKIA

The Office for the Regulation of Gambling (ORG) has prepared the concept of responsible advertising. It is supposed to proceed from new self-regulation and control mechanisms.

In the opinion of the ORG, the Slovak public is exposed to a massive impact of advertising not only through traditional media, but also various advertisings, electronic messages or banners directly at sports venues. And it is precisely the unregulated advertising that can attract vulnerable groups prone to addiction or minors to gambling.

That is why the ORG is trying to open a professional discussion on the intensity, focus and content of advertising with the relevant authorities, representatives of associations, operators and representatives of the third sector. A self-regulatory mechanism which would supplement the already valid legal and control system could emerge from this.

"Our interest is that gambling games represent a safe source of entertainment and that they are a legally predictable environment for operators and consumers. The result of the professional cooperation could be a new starting point for possible future legislative changes,"



adds the Director General of the ORG.

On the other hand, they are trying to deal with the protection of vulnerable groups of the population and children. Therefore, there will be pressure to use consumer-correct information about the products and services of game operators in advertising, not excluding information about the risks of problem gambling, financial losses, responsible gambling and the possibilities of help in the prevention, diagnosis and treatment of non-substance addictions.

We will continue to monitor the progress of this self-regulatory initiative, which does not come directly from the operators themselves.

GREECE RELAXES ON-LINE RULES

Greece has increased the maximum bet in online games tenfold, doubled the maximum amount a player can win in a single bet and reduced the time players have to wait between placing bets.

Single-bet limits of €2 per bet, along with a mandatory three-second wait between spins, have been introduced along with the new regulation that began to apply to new online gambling licences in July 2021. Their adoption caused strong opposition not only from operators, who in the first month lost 50% of the revenue from RNG games, but mainly from the players themselves who were frustrated with the rules and tried to satisfy their gambling needs with illegal competition.

Although online gambling revenues exceeded €700 million for the first time in 2021 and the GGR climbed up to €1.86 billion (14.5% more than in 2020), gambling tax revenues alone in 2021 fell to EUR 558.74 million, which is EUR 70 million less than in 2020 (EUR 628.87 million). Struggling with cash shortages, the Greek Ministry of Finance is currently trying to maximize its revenue, reduce tax evasion and illegal operations. It was, therefore, no surprise that it heard the call of the entire market and as well as the recommendations from the Ernst & Young (EY) study prepared for the Hellenic Gaming Commission (HGC). It was this study that proposed increasing the maximum bet for online slot machines from the current limit of €2 to €20.

Dimitris Ntzanatos, president of the HGC, a former head of audit at Grant Thornton, supported the EY study, which had a major impact on influencing the Ministry's opinion.

Following the aforementioned study, the Minister of Finance, Christos Staikouras, announced in mid-May a number of regulatory changes, which were subsequently published in the official gazette.

Starting 20 May, players can bet a **maximum of €20** on online casino games, poker and its other variants based on the random number generator (RNG). The **maximum winnings** in the mentioned games are now **€140,000** instead of €70,000, including all additional game rewards, except for the jackpot. Players will also no longer have to **wait** three seconds, but **only two**, to start a new game.

However, the rules only apply to online, as amending the rules for gambling premises would mean changing the entire act.

ILLEGALS SUFFERED WITH OPENING OF THE DUTCH ON-LINE MARKET

The opening of the Dutch online market has helped to increase the share of players who play with legal operators without increasing the total number of players. This is according to the Online Gambling Barometer, an annual survey by Ipsos commissioned by the Netherlands Online Gambling Association (NOGA).



Since October 2021, when the Dutch online market opened, **78% of Dutch people have only played with operators with a valid Dutch licence.** The number of Dutch people who played online games in the last twelve months remained the same compared to last year, at **11% of the adult population**. This means that Dutch people who used to play online games now largely do so with legal operators, in a safe and responsible environment where player protection is key. By contrast, the number of visitors to illegal gambling websites has decreased dramatically.

Barometer also revealed that 5% of the Dutch population is at risk of developing problem gambling. For young adults, it could even be 8%. *"It is this group that we need to protect as much as possible from the risks associated with gambling",* says Peter-Paul de Goeij, director of the NOGA. This is only possible if they play with legal operators. Although advertising is often perceived negatively, on the other hand, it helps to achieve this goal. It will continue to do so, if only legal operators will be able to advertise in the future.

It is probably no surprise that most players consider playing on an illegal website to be risky, but **70%** of them do not know how to distinguish a legal operator from an illegal one.

CONCERNS ABOUT CRYPTOCURRENCY WILL NOT DISPERSE BY THEMSELVES

Cryptocurrencies and NFT tokens are often seen as interesting investment opportunities. However, they have a reputation among regulators as a new area for fraud which is a major reason why regulators are in no rush to allow these new payment options.

If cryptocurrencies are to be accepted as a common payment method in the near future, operators need to discuss more often with regulators and work to remove all the pitfalls associated with them, agreed a panel of experts at the SBC's Betting on Sports Europe conference.

The fact that gambling cryptocurrencies can only be found in unregulated or grey markets does not exactly add to the conclusiveness nor does the fact that top VIP players in particular switch to cryptocurrencies. Therefore, they are trying to avoid the limits and various fees that they are forced to accept when frequently depositing large amounts of money into their player accounts.

Christian Reinheimer, director of payment products and technology at LeoVegas, said that *"regulators should actually see new technologies as an opportunity to solve existing problems and strengthen player protection, not something that leads to a worsening of the current situation."*

And how do the selected European countries view cryptocurrencies?

George Moschetas, from the company Kaizen Gaming, explained the experience from Greece. The so-called "no-go zone" applies to the connection of the local gambling market with cryptocurrencies, until central banks regulate them. At the same time, this point of view is reflected in many other markets, not only in Europe.

"All the parties involved, whether regulators or operators, want to improve anti-money laundering (AML) and customer identity verification (KYC) controls. If we can prove to the authorities that we can do it with these new technologies, we will see progress soon. It is the operators' responsibility to tread the path to the market," said Moschetas.

Since the restrictions due to Covid-19, Greeks have been able to access all public services via the Internet, thanks to the digital ID. While in the past they had to personally visit the offices, now they can do everything from the comfort of their homes and without waiting in queues.

Companies like Kaizen are now figuring out how to best use the local digital advances.

On the other hand, Germany is the opposite, the panel discussion participants agreed. There, the availability of new payment technologies gets delayed in terms of digitization and the absence of the digital ID. If there is no change in the attitude of the local political representation towards modern technologies and their use in public services, it is difficult to have a dialogue about their use in the gambling market.

SWEDEN INTRODUCED NEW TOOLS TO FIGHT ILLEGAL GAMBLING

The Swedish government is taking the final steps to make it easier for the Swedish Gambling Authority (SGA) to fight against illegal operators and help reduce the influence of results of sporting events.



If passed in their current form, the drafts will allow the government to issue regulations requiring payment service providers to provide information to help detect and fight illegal gambling, the Swedish government said.

The current system appears to be dysfunctional and not used at all in practice. It consists in the fact that the regulator asks the administrative court, which then orders the payment service providers to block the selected payments. As confirmed by Maria Wennerberg Sedigh, director of the SPER gambling trade group, although the SGA has had this option for many years, it has not yet used it.

An equally interesting new power of the SGA would be "check" purchases made under a false identity. With these, the SGA staff will check whether online gambling operators are complying with legal rules.

A number of organizations, for example the named business group SPER gambling trade, are very positive about the government's proposal. *"We hope that the new tools will lead to stronger player protection and create a more sustainable market by making a positive contribution to the fight against illegal companies,"* said Wennerberg Sedigh.

Another organization supporting the government's proposals is The Swedish Trade Association for Online Gambling, known as the BOS. In addition to support, however, they also expressed doubts that the new tools and powers will be enough against illegal operators. At the same time, attention should be paid to improving "conditions for law-abiding companies", e.g., by loosening marketing restrictions, a BOS representatives said.

A measure to limit the influence of sports results is to allow legal operators to share data with representatives of leagues and competitions. In addition, the government will be able to issue regulations to compel legal operators to cooperate with law enforcement authorities in cases of suspected match-fixing.

The proposals are now transferred to the Law Board, an agency made up of current and former judges that reviews all sub-drafts. If everything goes as planned, the amendment to the Gambling Act should enter into force on 1 July 2023.