



The President's Corner

ONLINE GAMING - THE IMPACT OF TECHNOLOGY FOR REGULATORS

6/7/2013

For 15 years the Gaming Standards Association (GSA- a not for profit organization), has been successfully creating platforms for industry collaboration. Prompted by the proliferation of online gaming in the US, GSA is considering the creation of a trusted regulatory environment to encourage closer collaboration between all stakeholders. GSA likes to call for a dialogue on the harmonization of datasets and assess the benefit for the industry. The dialogue might or might not result into an agreement for the creation of an online regulatory monitoring messaging standard to further assist the regulators and augment the level of transparency and integrity.

Today GSA's messaging standards are deployed by the gaming industry throughout the world to centrally monitor gaming devices. As the regulated land based industry starts to move online, GSA is working with its members to establish clarity on the key regulatory and standard issues that we are now facing.

THE WORLD IS CHANGING AROUND US

The Internet is doubling in size every 5.32 years. In October 2012 there were 620,480,777 domains registered and the total number of users was estimated at 2,405,000,000 with a global penetration of 34%. The US Internet growth alone was 153% between 2000-2012 and 79% population have access to Internet.

The fact is that the Internet has revolutionized our lives and has changed customer behavior. Today eBay is the world's largest garage sale online, Expedia the world's largest travel agency online, Amazon the world's largest department store online and Pokerstars the world's largest poker room online.

We have entered the exponential revolution age and we need to adjust to start thinking exponentially. Our linear thinking will no longer support the way we are living today and the environment that is being created around us. When we say that a computer will be 10 times faster in 10 years, we can easily understand it and tend to be impressed. But when we say that in actual fact a computer will be

1024 times faster in 10 years we tend to struggle with this notion. Some years ago we thought the Internet belonged to the Personal Computer. Today we have an 'explosive' growth of the Internet on smartphones, tablets, cameras, radios, TVs.... Information used to be stored on portable medium in limited capacities. Today information is accessed from the Cloud and it's anybody's guess where and how big it is.

New technologies are impacting the way consumers gamble too. Consumer demand is changing the perception of gambling itself. We used to believe that people gamble to win money and to have a good time, but social gambling where players pay to play with no chance of winning is showing us that there is a far greater leisure component to the game play than the industry imagined.

ONLINE GAMING - SOME MARKET SEGMENTS

Take a look at the data from some new market segments such as mobile gaming and live dealer games.

The massive growth of smart phones and tablets is one of the most important technology innovations in the online gaming industry in the last 5 years. In 2012 there are more than 1 billion smartphones in use and there are more than 6B mobile subscribers globally. Analysts predict an annual growth as high as 39%. Note that 49% of time spent on a mobile device is spent on gaming applications and 30% on social networking applications. On December 2012 a 28-year old Londoner won \$530,584 at William Hill property playing a game on his phone!

The live dealer market has grown by 18% in just 4 years from \$18B in 2008 to an estimated \$41B in 2012. Its growth is driven by technology as more people have broadband connections permitting high quality real time feed. The trust factor of a live dealer has the same effect as in a real casino, but adds a personal touch to the game as the player now has the game set in his own environment.

THE IMPACT ON THE GAMING INDUSTRY

This exponential transformation impacts regulators and the industry. Over the years regulators developed resources to control gambling. Today technology is outpacing them far quicker than they can manage to acquire the necessary competencies. In 2012, The Nevada Gaming Control Board decided to start relying on Independent Testing Labs (ITL's) for product compliance and certification. The regulator has started to collaborate with the industry to allow for innovation to move into the market quicker.

ITL's have been able to make significant investments attracting more technology savvy people. Additionally they have gained a global experience by testing gaming equipment in many states and even countries and reducing the cost of

testing. They created the required tools to support their business to become more profitable. The result of this partnership is decreased time to market of new products, reduced costs for operators and brought broader control to the regulator. This is the new way forward for policy makers who need to invest more in developing collaborative platforms than trying to build monoliths that will never be able to expand at the exponential growth of the market they control.

Old methodologies and technologies will crush the ability to drive business forward. As the markets mature, operators that do not innovate will simply die. Gaming is moving to a personal device anywhere anytime. The market is shifting from location centric to player centric and regulation is shifting from game centric to system centric. The new generation of players see value in playing to improve their social status rather than simply winning hard cash. Today social games are starting to drive revenue for land-based casinos (the US Social Gaming market for casino style games has been estimated at \$680m per annum), but land-based casinos cannot stay with only social gaming in the future.

Regulated, real money online wagering will soon be available from some of the most highly respected regulatory regimes in the world in Nevada and New Jersey.

Yet there are significant differences between regulating land-based gaming versus online gaming. In land-based gaming the gaming device is essentially owned by the manufacturer and the operator. The process of design, manufacture and placement of a gaming device is strictly controlled and its function is dedicated to gaming. It is maintained by the operator and supported by the manufacturer. The device is certified and located in a controlled environment. The experience happens on site within a limited space.

In contrast, in online gaming the gaming device is owned by the player. The device can be a smartphone, tablet, PC or public terminal. It is not dedicated for gaming only. The operator has to guess the type of the gaming device. It is not certified and unlikely to have adequate security. The device is used in an uncontrolled environment. Game content is delivered by the manufacturer to an unlimited amount of devices.

All this brings change to the way we regulate gaming today. We need to have technical standards for interoperability outside the gaming floor. Those same standards must address the needs of the industry as well as the needs of the regulators.

Regulators in Europe are discussing better ways of sharing information. Not only could this result into the pooling of player liquidity it will also significantly support the principles of gaming policy.

Online gaming involves many more stakeholders from service providers to operators to testing facilities. The complexity of creating solid gaming policies for the online gaming space is significantly more challenging as we are dealing with regulating gaming on the Internet that is likely to continue to develop exponentially in terms of use and technology.

Any time we are dealing with solutions to protect consumers and their money online, we are faced with a daunting task. The banking industry continues to deal with this on a daily basis.

CONCLUSION

Regulators and the industry must not chase the Internet. Collaboration is critical to support this exponential change we are all faced with.

Referring to one of my favorite books by Tapscott, Don and Williams, Anthony. *Macrowikinomics*, Penguin, 2010, it describes new solutions for an interconnected planet. It discusses the power of collaborate innovation allowing transformations of industries including openness and interdependencies.

One cannot simply bury ones head in the sand. Governments and regulators need to face the new challenges and become more open to new technologies. The industry needs to understand the new consumer of gaming. These new players play online for pleasure, win and social status.

To have effective regulations we need a new generation of thinking that are able to perceive the exponential expansion and create an environment in which it can thrive in a safe and responsible manner.

With its vast experience in technical standards GSA is committed to continuing to play a key role both in Europe and North America by facilitating a dialogue that can result into the much-needed online gaming regulatory messaging standard thus supporting the principles of the gaming policy makers.