



Manx eGaming Association Report 2015 EGaming on the Isle of Man

This is MeGA's ninth Annual Report; conducted against the backdrop of ever increasing global legislation and regulation, a more burdensome tax backcloth and a generally difficult business environment. It is the first time we have detected concern about the uncertain economic situation facing all business, both elsewhere and on the Isle of Man, including the egaming sector. Respondents to the survey were keen to discuss the implications of the changes facing their businesses and the need for a credible plan for dealing with the new circumstances. As is our usual practice, comments which may confer advantages to competitors have been redacted from this report. However, as has always been the case, the unexpurgated version was the basis for very frank and useful conversations with Government on measures to help the future development of the Island's economy.

Online gaming in the Isle of Man is a key driver of economic growth, provider of excellent job opportunities and the foundation for the development of other sectors, particularly those requiring technically advanced, secure and reliable data storage and transmission. Some respondents to our survey commented that it is very hard to sell anything without a clear USP, particularly in a competitive environment and that the IOM's USP is no longer clearly defined and articulated. However, there is a powerful counter-argument that considers that it is not possible to have a unique USP but that the Island's strong overall package of attractions coupled with the space to grow and offer the opportunities to provide substance actually does provide an exceptional sales proposition.

Globally, the online gaming industry itself is certainly not in decline; it is continuing to enjoy a period of growth, albeit at a slower rate than previously, with markets in Asia now developing more rapidly than in Europe. This may in part be attributed to increasing and divergent regulation throughout Europe, which is restricting growth. Niche markets, such as sports betting and lotteries, continue to grow but changing laws and regulations, which vary between jurisdictions, make it complex, onerous and costly to operate on the global stage. The importance of recognising the global nature of business today and therefore the need to compare and compete with the

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best jurisdictions, not simply the nearby traditional competition, was stressed frequently.

The Isle of Man's egaming sector has matured and the previous rapid rate of growth has slowed. However, the sector still contributes significantly to the local economy, contributing 13.5% of National Income in 2012/13, and employing some 900 people, with an average salary of over £50,000. Depending on how effectively the threats facing the Island are handled, the number of staff employed in the sector is predicted to rise by 5-8% in 2015.

Government's own figures, based on tax data, show that jobs in the sector grew by around 9% last year and duty has grown by around 9.5%. This growth was achieved even though Government responded to requests from the larger operators to grant Double Duty Relief by making the necessary legislative changes; these were implemented on the 1st December.

Licence numbers have remained static in total at 52, as usual a number of licensees failed to achieve their financial goals and were replaced by some new licensees. An initiative to help Asian operators split their licence into UK and Rest of World facing was introduced to help them manage the new circumstances. Provisional Government figures suggest that the gaming sector grew in GDP terms by another 20% a year in the last two years since 2012/13. Thus, there is a large measure of agreement between Government and MeGA figures, a useful check on the accuracy of both.

The growth predicted by the 2014 MeGA Survey appears to have been achieved and the trend for the sector to be dominated by large enterprises has continued. On the Isle of Man a very large proportion of egaming jobs and income is provided by a handful of large companies. Major corporate plans are closely guarded secrets, however, the increasing tendency of global companies to look throughout the world for new places to locate staff and services means that there can be no room for complacency. Those large companies with an established presence on the Isle of Man display the greatest growth potential, both in terms of staff numbers and infrastructure investment, strong reasons for ensuring that the business and living environment on the Island remains attractive to them. Some medium sized

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companies have also continued to expand with rising revenues and increased staff numbers while start-ups and smaller enterprises have been more susceptible to the difficult business environment. That said, there have been a couple of notable exceptions, with two relatively young companies finding their feet quickly and effectively and already displaying rapid growth.

The worldwide trend for mergers and acquisitions is an inevitable consequence of the increasing costs of compliance and doing business generally and has been manifest by the acquisition of Pokerstars, the recent bid by William Hill to acquire 888 and many other developments. A further development of local relevance is that Amaya Inc is apparently combining with GVC Holdings Plc to acquire Bwin.party Digital Entertainment Plc to thwart a rival bid from 888 Holdings Plc. Another indication of the increasing of the increasing merger and acquisition activity in the sector. These trends have important consequences for policy makers in the Isle of Man; they bring opportunities but also significant threats that must be recognised and countered. Those large companies with sufficient resources to deal with rising costs tend to be less vocal and sensitive to the changing environment, they have the capability and market clout to deal with challenges. At the same time however, large companies which move from family business to being reporting entities with responsibilities to shareholders or the capital markets, are inevitably more driven by economic considerations than emotions.

One recent positive and instructive case study of egaming business choosing the Isle of Man involves a New Zealand principal who arrived here last year. He invented and patented an innovative gaming system and his wife used the internet to look for appropriate locations from which to operate. The company is now headquartered in the Isle of Man, the family intends to locate here and the company has already obtained some very positive business opportunities in the USA and Asia. This shows that the Isle of Man is able to attract the best companies to locate here and at the same time to provide a high quality of life home for beneficial owners and their families.

Asian-facing companies have a strong reason to be on the Isle of Man as they have usually been attracted by efficient tax planning and corporate structures, so the continuing value and need to promote the 0/10 tax regime should not be

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underestimated. The ability to westernize assets and cash is also critically important, particularly to shareholders from less stable Asian environments. Financial privacy is extremely important to this group, personal safety and appreciation of the Island's very high ethical business climate are key advantages for the Island.

There are currently some 52 Isle of Man gaming licences in issue, a number of licences were surrendered during 2014, the result of a number of factors, including the introduction of UK licences, failed business plans and financing. Overall, there was no net increase in licence numbers from 2013-2014 and it is anticipated that, taking into account predicted new and surrendered licences, the total number will remain static in 2015.

The Isle of Man's GSC is highly-regarded by the egaming community, both here and internationally but the Regulator's excellence must be supplemented by an understanding that licence numbers alone should not be Government's main target. The most substantial employers may not require a licence so marketing strategies should explicitly recognise and prioritise sustainable job and income producing opportunities from any credible source.

As stated previously, there is a widely-held view that an understanding of the various elements of the Island's package is necessary when marketing the Isle of Man. This means the combination of low taxes, existing cluster of top-tier companies, good ethical environment, quality and safe living environment continue to be essentials for any marketing activities.

Increasingly, the only legal and safe way to minimize the impact of harsh taxes charged elsewhere is for beneficial owners to actually live on the Isle of Man. However, High Net Worth individuals considering coming here can be deterred by a number of factors, including level of air connections, restrictive planning policies and education and health services not up to the standards they experience elsewhere. Respondents to our survey reported that if the Island truly wants to attract inward investment and new entrepreneurial residents then these "soft" factors which affect their ability to travel to and from the Island and then to live here without undue hassle need to be addressed wherever possible if the Isle of Man truly aspires to be a Global player.

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Another topic of current debate is the terms and conditions upon which Isle of Man licences are offered. Opinions are divided regarding the most appropriate way to structure and price licences but discussions among interested parties continue with the aims of ensuring that the Island remains both a respected and competitive jurisdiction.

Debate also continues with regards to what advice should be given to companies with aspirations to trade internationally from the Island. All those who support the growth of the Isle of Man's economy will have an in-built bias towards encouraging companies to locate as many activities here as possible. However, this predilection must be tempered with an acceptance that professional advisers must give their clients best advice; this may sometimes mean that other jurisdictions must be used for licensing or other activities. Indeed, large companies now recognise that they must have a number of offices throughout the world if they are to remain competitive, placing staff and operations where the mix of market, labour, tax, regulatory and other variables indicates their opportunities will be maximized.

The introduction of the UK licence has inevitably had an impact on the Isle of Man's proposition. One company involved in our research explained that if it were setting up now, with UK licences available, the Isle of Man would not have been chosen. Now located here with key staff settled on the Island, inertia, the low corporate and personal taxation and the costs of re-locating will probably prevent its re-location. This sentiment is further evidence that there is no room for complacency and both Government and the private sector are involved with suggestions to counter such threats.

Generally, the Isle of Man enjoys reliable power supplies, efficient data centres and world class infrastructure. Although some respondents complained that internet connections can be slow and occasionally dropped the recent upgrade from 3G to 4G has meant significant improvements to the mobile network service and satisfaction now appears to be high.

Banking continues to be an issue for a large number of companies. While some, usually profitable, companies reported they have good relationships with those banks prepared to work with them, there was a universal view that the Isle of Man needs more top-tier banks.

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There is a worldwide shortage of IT professionals and the Island is not insulated from this problem. Local IT companies support the view that the Island has a skill shortage which has led to higher costs of employment and increasing reliance on alliances with companies based elsewhere which enjoy low costs and high levels of competency and efficiency. This adds weight to the contention that the Isle of Man must work closely with other countries and focus on those areas where it enjoys a comparative advantage, outsourcing where this is a more cost-effective option.

Companies have found it difficult to recruit the right calibre of staff for call centres and customer support teams, resulting in high staff turnover and requiring a great deal of management time. As a result call centres have not taken off as anticipated and one company confirmed it had moved its customer services department from the Isle of Man to Manila where staff are available at lower cost. It could be argued that call centres are not an appropriate activity for the Island in any event as suitable staff are a scarce resource and therefore relatively expensive.

Much has been done over recent years to improve the efficiency and reduce the difficulties of the work permit system. However, concerns remain and several companies reported difficulties, especially when making an application regarding other nationalities. The irritations caused by work permit requirements continue to cause frustration but it is an area that could easily be resolved with some effective decision making.

Another specific issue raised was that of spousal visas. When an overseas employee is employed their partner will also move to the Island and obtaining work permits for the spouse has caused challenges. The criteria a spouse needs to meet are wide-ranging and applications are said to cause uncertainty and delay. Responding companies state they are able to recruit high quality people but they need to be able to attract the whole family, especially as the Island's environment is so suited to families. It was encouraging to note that the DED has plans to reduce the bureaucracy involved with work permits and to introduce measures to facilitate the inclusion of family members on relevant permits.

There were a number of negative comments expressed with regards to living and doing business on the Island. The open skies policy has led to continuing uncertainty as to the long-term maintenance of key scheduled services.

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Respondents emphasised their need to be able to fly back to IOM on a Saturday. Comments by politicians that Ronaldsway should close during the weekend are concerning and based on inaccurate information. The importance of having secure, reliable links to an appropriate London airport should not be underestimated and it is hoped that progress will be made to secure good business schedules to sit alongside the cheap holiday flights now available.

While the Isle of Man health and education services compare very well with those of the UK, it is essential that we recognise the importance of lifting our eyes and comparing the Island with the best in the world. There were some positive comments about both health and education but there were a variety of negative comments, particularly regarding the services provided by Nobles Hospital. Discussions with Government reveal that such deficiencies are recognised and their resolution is one of Government's top priorities.

Respondents to the survey were impressed with the Island's sporting environment and the quality of leisure and cultural activities available on the Isle of Man. New arrivals in particular, expressed their surprise at the quality of life, particularly for families, suggesting that even more prominence could be given to lifestyle when marketing the Island.

Respondents felt that Government in general needs to improve its commercial awareness and be seen to deliver on its strategic initiatives, not merely announce them. There is a feeling that Tynwald Members are pre-occupied with the forthcoming election and lack the will to make and stick to decisions which may be unpopular. Being close to the electorate, it is understandable that MHKs are preoccupied by parochial issues, particularly when a General Election is looming, but this could have serious negative implications for the Manx Community unless sufficient attention is also given to overall economic development that produces the jobs, income and taxes we need.

Overall, this year's research emphasised the importance of the Island's excellent grouping of world-leading companies head-quartered here. It would be very easy to canvass their support and base effective growth strategies on their input. The many economic and financial challenges facing the Isle of Man mean that we must

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maximise the opportunities this key sector continues to offer and ensure that Government maintains an effective dialogue with these companies.

As anticipated, known key issues facing the sector were raised and conflicting opinions regarding some of these issues confirmed. The aim of this report is not simply to comment on the state of play but to provide a platform from which to develop constructive discussion to drive change and we would like to thank all those who have contributed to the research and subsequent debate. Constructive discussions have been held with Government at all levels and it is heartening to note that there continues to be widespread agreement and cooperation between the public and private sectors on the Isle of Man; this close relationship is envied by our competitors and is one reason why the Island continues to respond quickly to the changing needs of the world's business community. Comments from readers on any of the points raised in this report will be welcomed and considered seriously by MeGA.

John Webster

Chairman, Manx eGaming Association

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