

ESSA Q2 2017 INTEGRITY REPORT





EDITORIAL



The last six months have seen three significant changes within ESSA. First, we announced that Heike Mayer would pick up the baton of Chair after Mike O'Kane, a veteran of over 40 years in the industry stepped down following his retirement from Ladbrokes. Mike did a great job in repositioning the association and has been an influential and vocal advocate of ESSA members and our sector in general and I would like to thank him for all his hard work over the last five years. Heike, who is responsible for Public and Regulatory Affairs at GVC, is well-versed in the issues facing our sector and I look forward to working with her to deliver and implement a strategy that meets those challenges.

Second, we expanded our Board of Directors to reflect our growing membership and I'm delighted that Paddy Power Betfair and Betway will be bringing their wealth of experience to the table to help drive us forward to achieve our goals.

Third, we employed our first full time Betting Integrity Officer, Matt Fowler, who was previously at Paddy Power Betfair in a similar position. The creation of this role was part of our strategic objective for 2017 and it highlights our desire to continue to improve the association and build upon its two main aims of representing the views of members on integrity issues and to developing and utilising the ESSA alert platform to combat the menace from betting related corruption. In a future edition of the quarterly report Matt will be explaining his role in more detail.

In other significant news, I was contacted by the Council of Europe (CoE) which has asked ESSA to deliver a report on behalf of the private sports betting industry to feed into their ongoing efforts to ratify the CoE's match-fixing Convention. The principal focus of the report will be the information exchange between operators, sports and national platforms and how to identify risk and improve risk management. ESSA is well-placed to lead on this and it is an excellent opportunity for us to put forward our views and participate in a high-level international conference planned by the Council of Europe in early 2018. It will also feed into our own integrity conference at Lords Cricket Ground in London on 12 October, for which an attendee [registration page](#) is now available on the ESSA website.

In this edition of the quarterly report you will find an article from Professor Nolte, from the Institute of Sports Law at the University of Cologne, who has analysed the gambling regulation currently in place in Germany and finds that it has failed to adequately protect the betting-related threats to the integrity of sports competitions. We also have an article from Ian Smith who is the Commissioner for the eSports Integrity Coalition (ESIC). Ian explains how a lack of governance in the sector and the growth of betting on eSports saw the ESIC created to deal with betting related fraud and wider threats to the sector.

Khalid Ali
Secretary General

ESSA'S INTEGRITY FIGURES FOR Q2 2017

There were 53 alerts relating to suspicious betting activity reported to the relevant authorities for further investigation by ESSA during the second quarter (Q2) of 2017. There were 31 tennis cases (equating to approximately 59%), followed by football with 15 cases (28%), basketball five (9%) and one case (2%) each for handball and volleyball.

A betting pattern is deemed unusual or suspicious when it involves unexpected activity with atypical bet sizes or volumes that continue, even after significant price corrections have been made in order to deter such activity in the market. A betting pattern is only confirmed as suspicious after ESSA has made detailed enquiries with all of its members to eliminate any prospect that the unusual patterns could be for legitimate reasons, such as pricing the market incorrectly.

ESSA continues to play a key role as the regulated betting sector's representative body at national and international match-fixing policy forums and holds positions on important working groups at the European Commission, Council of Europe and the International Olympic Committee (IOC). It represents many of the world's biggest regulated sports betting operators, serving over 40 million consumers in the EU alone, and is continually reassessing and improving its alert and reporting systems.

ESSA's members work together using risk assessment and security protocols to identify suspicious betting patterns and have access to an unrivalled body of data which it provides to sporting bodies and regulatory authorities.

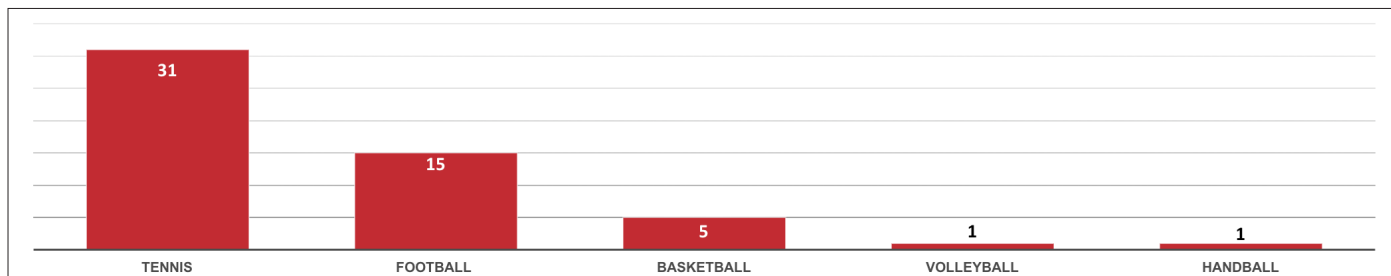
That includes essential transactional data on who is betting on what, where and when. Every year, our members invest over €50m in compliance and internal security systems to combat fraud, as well as funding other initiatives such as player education programmes.

HOW THE ESSA SYSTEM WORKS

The ESSA alert system primarily works on the input provided by its members, notably alerts created by members relating to suspicious transactions detected by their own internal control systems. If such an alert is issued, which occurs through ESSA's alert platform, members are required to respond quickly confirming whether or not similar trends have been seen elsewhere in their markets. Where evidence emerges that there may be potentially fraudulent activity taking place, e.g. because several members have confirmed an irregular betting pattern, ESSA will:

1. report that information under the applicable Memorandum of Understanding (MoU) to the relevant sports governing body and/or regulatory authority; and
2. advise the member(s) concerned to make a report to their own national regulatory authority in line with their associated licensing conditions.

SUSPICIOUS ALERTS IN Q2 2017



GERMAN GAMBLING LAW FAILS TO PROTECT THE INTEGRITY OF SPORT



The integrity of sports competitions is not being protected under the gambling regulation currently in place in Germany. This is the clear conclusion I have drawn from a detailed evidence-based evaluation of the German Interstate Treaty on Gambling, conducted along with my colleagues Professors Justus Haucap and Heino Stöver. Preventing betting-related threats

to the integrity of sports competitions was a regulatory objective adopted under the 2012 German gambling regulation. Whilst this is a laudable policy aim, our study demonstrates that the current German gambling framework fails to accomplish this objective on all counts.

The policy of limiting sports betting licences to a maximum of 20 has understandably resulted in operators unable to obtain a licence challenging this unnecessarily restrictive licensing system. As a result, we have not seen a single licence granted to any private sports betting operator to this day whilst up to 90% of the gambling population have sought out operators based in the grey or black markets. This circumvents any integrity-related measures established under the Interstate Gambling Treaty and renders it meaningless from an integrity perspective. The European Court of Justice has also determined that enforcement action cannot be taken against unlicensed operators as long as the existing sports betting monopoly prevails.

The study also proves that integrity-related measures are unsuitable to promote the goal of integrity protection when they are applied. Current rules, for example, generally prohibit most live (or in-play) betting on sporting events, instead restricting these to the final score of games. This product restriction is based on the false assumption

that live bets generally pose a greater threat to the integrity of sports competitions than pre-match bets. There is no empirical proof supporting this assumption, rather, the opposite is true: statistically speaking, attempts at match manipulation occur more commonly in pre-match betting. This is because there is greater opportunity to mask such illicit activity within larger traditional betting markets, such as the final score. Such product restrictions therefore fail to ensure integrity protection.

Sports organisations in Germany support this evidence-based position. The Sports Advisory Board set up to promote the protection of sports competitions, at the initiative of the German regulatory authorities, has drawn up rigorous expert reports and critical opinions on the German gambling regulation. These have however simply been ignored by the German gambling authorities. As a consequence, the Board decided to suspend its work in protest for two years. The response of the Sports Advisory Board to my study helps to unmask the hypocrisy of the sports betting regulation in Germany. It merely pretends to protect integrity in sports competitions, but actually seeks to prohibit market competition from private betting operators pursuing the objective of retaining a de facto state monopoly in sports betting in contravention of European law.

The full report and a short video summary are available here: <https://gluecksspielstudie.de/> (both in German).

Prof. Dr. Martin Nolte,
Institute of Sports Law, German Sport
University Cologne

THE RISE OF ESPORTS AND ESPORTS BETTING. WHO'S IN CHARGE?



It is as if esports has emerged from nowhere into the light over the past 12 months and now everyone is talking about it and pretending to understand what it is; but, of course, it hasn't come from nowhere – it was simply invisible to people outside of the esports community.

A lot of betting operators offering esports markets have emerged since the beginning of 2016, including a significant number of esports specific operators like Unikrn and ESP. When I checked back then, I was able to find 3 offering cash markets and a bunch offering skins betting (betting using in-game virtual cosmetic items). Last month I was able to find over 120 – regulated and unregulated – but findable (“visible”).

This takes no account of those skins sites that still exist and the enormous number of unregulated or “invisible” operators offering markets in China, SEA and elsewhere; coincidentally, one of the key epicenters of esports. Narus Advisors projected turnover in the “visible” markets to exceed \$13bn by 2020, with estimates of the total turnover for esports, including the vast unregulated market notably in Asia and the US, to be in the region of \$150bn globally.

Unfortunately, as with traditional sports betting, there are some unscrupulous people that seek to corrupt esports events to defraud betting operators. These are the people that esports and esports betting operators want kept away from our events and products. So what is being done to protect esports outside of betting operators' own internal integrity mechanisms?

This is where the esports integrity Coalition (“ESIC”) comes in. Having identified betting fraud as a major integrity threat to esports, especially

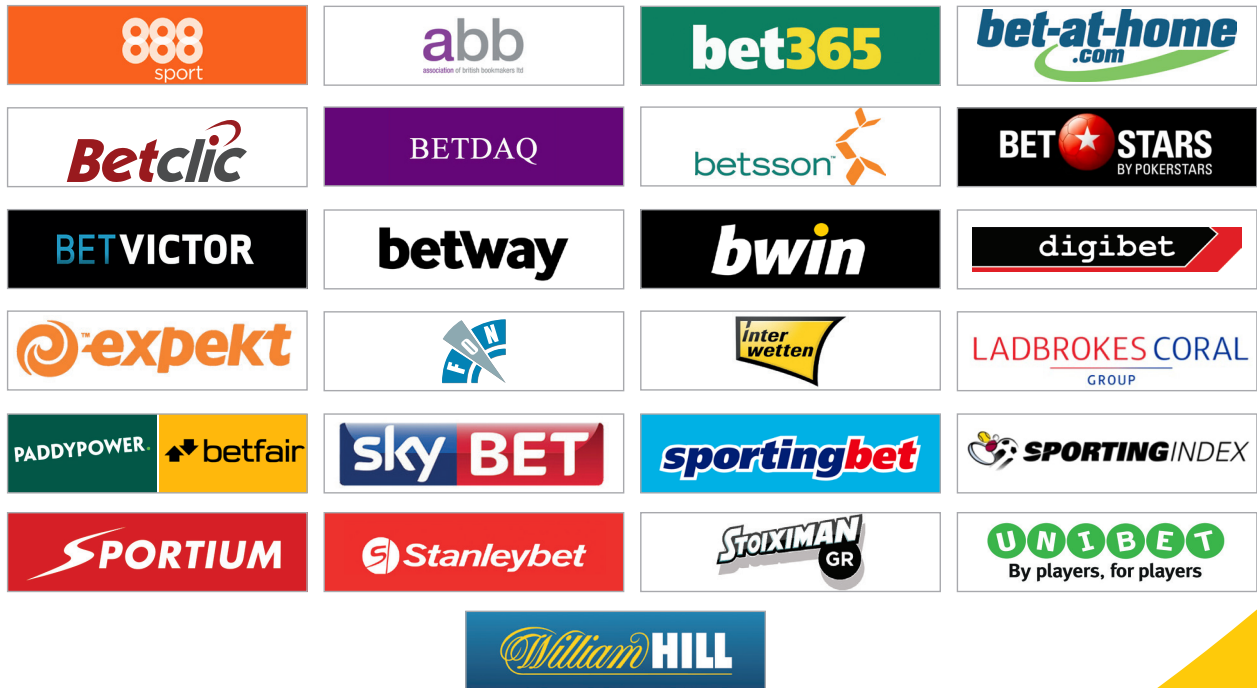
in the absence of any governance structure for the industry, the ESIC was established. The ESIC is a not-for-profit industry regulator formed as a coalition of concerned esports stakeholders and betting operators around the world focused on putting barriers in place to protect esports competitions against corruption.

In conjunction with Sportradar, multiple operators and key regulators, we monitor esports markets and operate a suspicious betting alert network to proactively combat betting fraud and match-fixing. If the match is being played under the ESIC Anti-Corruption Code, then we have the power to investigate and prosecute any breaches. We are also working with ESSA to combine our integrity efforts and hope to announce a more formal cooperation soon.

In addition, the ESIC has an extensive participant education programme covering players, admins (what esports call the “umpires” of matches) and technical staff, both face-to-face and through our new interactive online tutorial launch this month. We regard education as the key deterrent to corruption and the bulk of our resources are spent on this vital activity. We also lobby for regulatory and legislative change to make gambling a safer activity. We want to engage with operators in this space and invite anyone interested to get in touch. Everything is set out here: www.esportsintegrity.com

Ian Smith
eSports Integrity Coalition (ESIC)

OUR MEMBERS



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