

The Italian gaming sector as 2013 closes and 2014 dawns

The Italian gaming sector has not had the easiest of years, with operators having to contend with falling GGR figures, animosity from the media, and an ongoing tough economic climate. Quirino Mancini, a Partner at SCM Lawyers, reviews the past year for the Italian gaming market and the current state of play, giving his opinion in the process on what has ailed online gambling in Italy this year and on what needs to change to help Italy's gaming sector improve in 2014.

The year 2013 was definitely not a booming one for the Italian gaming market, both in economic and also reputational terms. This is attributable to a number of concurrent factors, among which were:

- The very deep economic crisis that the whole country is experiencing and that is leaving ever less spare money (if indeed any) in Italian's pockets for non strictly necessary family and living expenses;

- The heavily discrediting (and in certain specific aspects defamatory, too) campaign launched by many mainstream Italian media outlets about gaming, most often depicting it as 'highly addictive' as well as a 'family-breaker' and 'a dodgy business,' blending into the same negative coverage the legal and legitimate AAMS-licensed operators who notably in 2012 fetched to the Italian state coffers more than €5bn in gaming tax revenues (and already €3.6bn at the end of Q3/13) and the illegal 'com' operators who are unlicensed in Italy, as well as some rather sporadic cases of gaming and betting outlets found to be run

by organised crime gangs;

- With particular regard to the online sector (and common to other European markets) the drop in GGR figures relating to such traditionally popular card games such as poker tournaments and cash poker (in the last official data published on the Italian regulator's website concerning Q1/13, these were down by 35.5% on aggregate on the previous year) is consistent with the downward trend of other games like bingo (-27.3%), online lotteries and scratch cards (-33% on aggregate);

- With regard to the offline sector, the embarrassing handling by the Italian public authorities of the heavy fines levied on all ten Italian VLT concessionaires in connection with the unveiling of an alleged mass-tampering with the machines installed in the nationwide VLT outlets network, that resulted in huge tax evasion. Such fines originally amounted to a total of circa €2.5bn, yet following a long and fierce judicial dispute coupled with intense parliamentary lobbying by the defendants, the above bill was eventually slashed by a good 70%. Six out of ten concessionaires settled the dispute last November with the Italian authorities, paying just 30% of the original fine while the other four opted to continue the legal challenge. This outcome sparked lots of criticism within political circles and amongst the general public as the sales-style reduction of the VLT concessionaires' fines was regarded by many as an unwarranted and totally undeserved favour to the gaming industry in a situation where collection of the original fine amount would have instead provided a much-needed cash injection into the distressed Treasury budget.

Let alone the negative factors summarised above, it should be

noted that after seven full years since its liberalisation and with a full-fledged offering of games that have been regulated and launched, the Italian market looks very ripe, highly competitive and over-crowded, with a few operators taking the lions share (such as PokerStars, holding nearly 50% of the Italian poker market, and the duo of local bookmakers GTech-Lottomatica and SNAI holding together approximately 30% of the sportsbook market) and all others striving to reap little after-tax margins largely dented by high operational and marketing expenses.

In this not so thrilling scenario the only good news concerns the promising response of the market to the launch of online slots. Indeed, at exactly one year from their introduction (3 December 2012) the relevant GGR figures are already in the region of €106m with an average monthly spend of €8.8m, equal to €21.2 in gaming taxes. Not much in absolute terms, yet a good start as well as an effective way to commercially (far more than judicially) tackle the illegal gaming phenomenon that for the online casino sector alone is estimated to still drag away from Italy (and thus from Italian taxation) a good €270m.

Another recent regulatory development that is expected to have a positive impact on the market is the still ink-fresh launch of virtual bets, currently in the testing phase, which should go live early in 2014 with an estimated GGR of nearly €1bn in the first year of operations.

With all the above in mind, 2014 in principle is not set to prove a record year for the Italian gaming business although ADM (formerly known as AAMS - the Italian gaming regulatory body) seems to have taken a more operator-friendly approach aimed at

stimulating the market and providing the industry with more tools to make the gaming offering more competitive and diverse, as well as commercially enticing, rewarding and entertaining for the consumer. This trend is confirmed by such regulatory moves occurring over 2013 such as the opening up of the so-called 'palinsesto' (the programme of sporting events on which operators are allowed to take bets) that until recently was centrally run and validated by ADM, whose contents have now been made more fresh and flexible with the possibility to include in the 'palinsesto' specific events individually proposed by the operators, subject to ADM prior vetting and approval. In the same direction goes the imminent launch (the platform testing phase is expected to start in January 2014) of new forms of bingo, devising additional prize categories in an effort to revamp this type of game too.

Despite the remarkable amenability of ADM to respond to the operators' expectations and needs on the one hand, and their genuine efforts (and investments) to come up with an ever more palatable and diversified gaming offer on the other, the real challenge for the upcoming new year is for the local industry as a whole to finally pull its act together and thus better promote its business in the face of both the media and the consumers, to react to the unfair competition brought by the illegal gaming operators still active in Italy, and to lobby the Parliament to eventually introduce a more tax-friendly regime.

Indeed, as briefly mentioned above, over the past several months the Italian gaming industry has been heavily targeted and hit by the media whose bias, ill-information, superficiality and populist propaganda when it

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comes to covering the always quite controversial gaming issues are simply stunning. Adding damage to insult, many politicians looking for easy visibility promptly followed suit in the wake of such an ongoing media campaign, urging the government to freeze any new authorisations and licences to operators, so not to facilitate access to dangerous forms of ludopathy and money laundering, as if all Italian players were gaming addicts by definition and all operators were a bunch of crooks or gangs of criminals.

Obviously neither the media nor any of the politicians in question ever bothered to explain in their alarmistic reports and calls for restrictive action how to offset the ensuing shortfall in tax revenues that would immediately and substantially impact the Treasury's budget if it were ever decided to actually downsize gaming operations in Italy.

Such a misleading campaign notably mixing legitimate online and offline operators regularly licensed by ADM with both illegal '.com' gaming sites unlicensed in Italy and a few betting outlets (mainly located in Southern Italy) found to be run by organised crime, would definitely call for a prompt, vigorous and united reaction by the legal gaming industry. Regrettably though, so far the industry has been simply quite unable to put together a consistent and coordinated group initiative to somehow redress the negative effects of the media's discrediting campaign as well as to lobby the Italian authorities (the Parliament, ADM, the Public Prosecutor office, etc) in order to act more effectively and energetically to protect their massive investments on the local market.

In the interest of the whole gaming industry, it is therefore to be hoped that come the new year,

the Italian gaming industry as the victim of this unfair situation will wake up and smell the (Italian) coffee and set aside old commercial rivalries and egocentric approaches to finally act with one head and two armed hands in every necessary direction. This amounts not just to filing complaints and lawsuits with every competent administrative and judicial authority, but also entails mounting a communication campaign aimed at 'educating' Italian consumers about a more sound approach to gaming. By way of example, the public are generally not aware that gaming in Italy is fully trackable and rather secure (particularly so every form of online gaming, which notably requires full player identification and pre-validation of the related ID credentials by ADM for the purposes of detecting underage gaming, false identities and fraud), and that gambling on a '.com' site unlicensed in Italy entails a criminal offence.

In conclusion, 2014 will probably be yet another tough year for many, but if all the concerned stakeholders manage to converge and eventually implement a common agenda of deliverable objectives like a more effective crackdown on illegal gaming, easier and faster access to market compliance and operations as well as fairer and clearer communication to consumers, then the future of the Italian gaming business might be a bit less gloomy than it looks right now.

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