

Prepared for: Branschföreningen för Onlinespel

SGA Sports Betting Integrity Restrictions – Impact Analysis

Independent Report
January 2020

Prepared by:

**Data driven
intelligence**

 h2gc.com

H2
Gambling Capital

Executive Summary

This analysis has been prepared by **H2 Gambling Capital (H2)** - the leading independent authority regarding market intelligence on the global gambling industry. It provides an objective assessment of the **Sports Betting Restrictions** proposed by the Swedish Gambling Authority. The analysis has been run at the request of **Branschföreningen för Onlinespel (BOS)**.

Specifically, the following **8 conclusions** are drawn:

H2 Independent Report – 8 Key Conclusions

- 1. The Swedish Gaming Authority (SGA) has released proposals to restrict betting on certain products as part of a campaign against match-fixing and to uphold the integrity of sport. While these restrictions are targeting areas that appear most vulnerable to manipulation, the industry's concern is that restricting licensed operators from offering wagers on these products will merely shift the wagering offshore where there is no integrity oversight.*
- 2. In general, the most effective regulations focus on the overall aims and objectives of a regulatory framework at the macro level, rather than seeking to control what is offered at the micro level.*
- 3. H2 firmly believes that the optimum solution to preserving integrity in sport is through regulated operators who work with specialist integrity associations and closely monitor any perceived cases of match-fixing.*
- 4. Consequently, we question the rationale behind imposing restrictions on regulated betting operators that would likely drive revenues to the offshore market at the detriment of sports integrity.*
- 5. Analysis of the impact of these regulations implies a -7.5% decline in onshore GGR and a +30% increase in offshore GGR for commercial online operators. This translates to a -5.9 percentage point decline in the channelling rate to 75% of GGR from commercial operators onshore.*
- 6. Under the proposed product restrictions, we would then expect the offshore market to grow at a faster rate than the onshore market, leading to a continued erosion of the channelling rate. However, as long as the majority of major European operators retain their licensed onshore status, the majority of players will remain with licensed, onshore operators.*
- 7. By restricting the products that customers are able to wager on with licensed operators, the SGA will not be preventing wagering on these 'vulnerable' areas, but merely shifting the wagering to offshore operators.*
- 8. While the amount wagered on these individual products may be relatively small, customers will choose an operator that is a 'one-stop shop' for all their betting activities, and will therefore likely shift their entire betting activity across to an offshore operator, and not merely the GGR generated from the restricted products.*

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We hope our report is of value to all stakeholders in enhancing their understanding of the impact of the proposed restrictions of the sports betting market – particularly with regards to betting integrity.

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H2 Credentials

H2 – a global company based in the UK - is widely recognised as **the leading authority** regarding market intelligence on the gambling industry worldwide. Its consultants have been tracking the value of the sector in real time since 2000. We have strong professional credibility and impartiality, and good experience of our analysis and reports standing up to scrutiny from a variety of stakeholders including legislators, regulators and the news media.

The intelligence generated by H2's industry forecasting model has become by far the most quoted source regarding the sector in published company reports, transaction documentation and sell-side analysts' notes, as well as in the trade/business media – including the BBC, Thomson Reuters, Bloomberg, *The Economist*, *The FT*, *The New York Times* and *The Wall Street Journal*. Today, it represents a living databank covering approximately 130 world markets, with over 2m data points and 1,450 postings per year, and 5-year forecasts out to 2024e.

The independent expertise of the H2 analyst team, plus its network of associates now located all over the world, has been utilised by 500+ organisations over the past 17 years and is regularly used as part of market entry assessments, new business development, the due diligence processes associated with major investment decisions, financial transactions, and also for regulator policy formulation in the sector. H2 is partnered with *iGaming Business* as in the trade media, and is a Gerson Lehrman Group partner firm in the US.

Further details at www.h2gc.com.

Terminology and H2 Data Model Explained

H2 utilises the **‘gross win’ or ‘gross gaming revenue’** metric (i.e. turnover less prizes, but including any bonuses played) rather than the turnover/sales measure to value the gambling sector. This is due to the fact that across different product verticals, geographies and market channels pay-out rates are all different. Therefore, gross win/gross gaming revenue provides a much more consistent measure for comparison across the sector. Furthermore, it also provides a much better reflection of operators’ top line revenue as opposed to turnover, which can include the same money that has been recycled a number of times in many of the product verticals.

H2’s analysis categorises sector activity into three markets – betting where the operator is licensed ‘onshore’ in the same jurisdiction as the player is located (**‘white market’**); betting where the operator is licensed ‘offshore’ in a different jurisdiction (**‘grey market’**); and betting where the operator is completely unregulated or illegal (**‘black market’**).

The unique H2 model collates and compiles data via key **primary sources** that include:

- ✓ Actual published primary/secondary market and organisation data;
- ✓ Knowledge/assessment of the supply side by product vertical;
- ✓ H2’s own in house tracking of activity;
- ✓ Regular contact with private organisations/investors, including subscriber feedback;
- ✓ Knowledge/opinion of third parties - including providers and other industry analysts.

Market forecasts are based on a number of key **secondary drivers** including:

- ✓ Maturity of product;
- ✓ Expected product development;
- ✓ GDP/broadband/mobile growth;
- ✓ Benchmarked markets;
- ✓ Incorporating the impact of past and expected legislation.

H2 Disclaimer

Whilst great care has been taken in the preparation of this publication H2 Gambling Capital accepts no liability for the accuracy or completeness of all data and information provided, and no warranty is given as to its correctness or forecast estimates herein. H2 Gambling Capital (H2) is a leading firm in the provision of data and market intelligence regarding the global gambling and associated industries. In undertaking this assessment, H2 has relied on both information held for the purposes of its public subscription service as well as engaging in additional research of other reputable publicly available and industry sources. H2 has made its best efforts to ensure that information included in this report is accurate and appropriate at the time of writing. Conclusions, and any assumptions made in reaching them, are based on the information available and analyses of the facts as at January 2020 and H2 is of the opinion that the conclusions and underlying assumptions are reasonable at this time

Section 1: Sweden Sports Betting Market Overview

The Swedish online sports betting market is regulated by a new Gambling Act which came into effect on 1 January 2019, opening the market to commercial operators

In terms of achieving its primary objective of bringing the online market onshore, this has largely been effective, with the proportion of the online sports betting market onshore increasing from 25% in 2018 to 85% onshore in 2019; within this, the 'commercial' online sports betting market has gone from 100% offshore in 2018 to 81% onshore in 2019

Over the five years between 2019–24, we forecast the onshore market to be the grow the most in terms of additional SEK; however in percentage terms, we forecast the offshore market to grow at a faster rate, despite the controls put in place by the SGA to protect the onshore market.

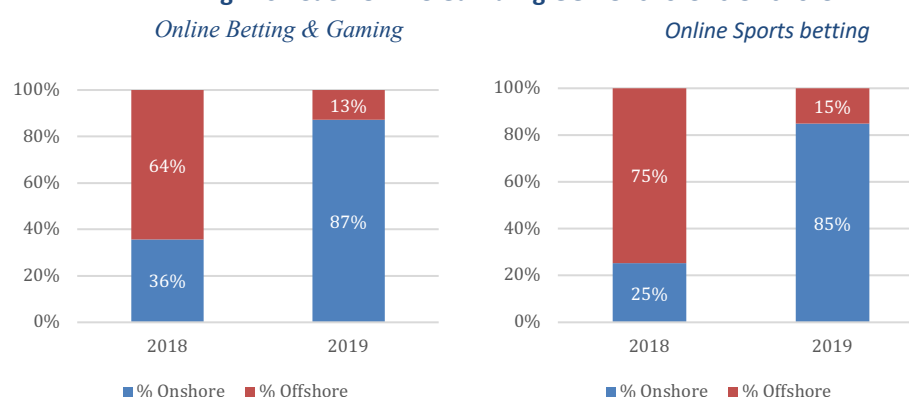
On 14 January 2020 the Swedish Gaming Authority (SGA) released proposals to restrict betting on certain products as part of a campaign against match-fixing and to uphold the integrity of sport. While these restrictions are targeting areas that appear most vulnerable to manipulation, the industry's concern is that restricting licensed operators from offering wagers on these products will merely shift the wagering offshore where there is no integrity oversight.

1.1 Current Regulatory Framework

1. The Swedish gambling market is regulated by the Spelinspektionen, with a new Gambling Act formally adopted by the Government in April 2018, which came into effect on 1 January 2019. The Gambling Act partitions the gambling market into three distinct sectors:
 - The interactive gambling will be an open/competitive market with offshore operators able to apply for licenses from 1 August 2018;
 - The land-based casino and gaming machine sector will be operated under a government monopoly;
 - The lottery and bingo sector will be reserved for non-profit operators.
2. The Act included a flat tax rate of 18% gross win for all licensed activities and required all operators to provide a self-exclusion scheme. Furthermore, the regulator published a range of responsible gambling requirements that licensed operators must adhere to, including:
 - A self-exclusion system that allows customers to block their accounts from one or all sites via the national shutdown system Spelpaus.se;
 - Pre-commitment tools to allow customers to pre-set time and spend limits;
 - A self-test feature that allows customers to monitor their gambling and avoid risky behaviours.
3. The regulator announced it had received a total of 60 license applications since the launch of the process on 1 August 2018. Of the applications, 55 were for interactive gambling licenses.
4. In terms of protecting the market from offshore operators, the Government is permitted to implement ISP and payment blocking of unlicensed offshore operators. Furthermore, in June 2019 Spelinspektionen warned payment processors not to facilitate transactions between unlicensed offshore operators and Swedish citizens. The regulator contacted several payment service providers directly and outlined that allowing transactions to and from unlicensed operators was a violation of the new Gambling Act.

5. The Gambling Act allows offshore licensed operators to advertise with national media as long as they hold a valid licence. However, Spelinspektionen set out plans to crack down on excessive advertising in the newly-regulated market and formalised a cooperation deal with the country's Konsumentverket consumer protection agency as part of this effort. The regulator said it would come up with a definition of what it considers to be excessive advertising as the regulated market matures and will set related penalties accordingly. In response to this, industry bodies BOS (Swedish Trade Association for Online Gambling) and SPER (Swedish Gambling Association) put forward a new advertising code of conduct that addressed a number of advertising and marketing practices in order to prevent excessive advertising. The code outlined nine essential requirements to which operators must adhere and scheduled the implementation of the new controls for 1 April 2019. However, the government criticised the advertising code of conduct produced by the industry bodies BOS (Swedish Trade Association for Online Gambling) and SPER (Swedish Gambling Association). Minister for Civil Affairs Ardalan Shekabari said it was "not sufficient" in addressing the government's concerns over the amount of gambling advertising since the (re-)regulation of the sector in January 2019.
6. The government directed the Gaming Market Commission (Spelmarknadsutredningen) to conduct a review into new regulations to reduce overly aggressive marketing and advertising. The Commission was granted until October 2020 to submit its recommendations. Meanwhile, in January 2020, Sweden's Minister of Social Security announced that the government is preparing to publish a "Stage II" of their regulatory approach to gambling, focusing on tougher advertising and marketing restrictions for licensed operators. This would allow the Spelinspektionen to take a closer look at advertising practices, and take action against operators found to be in contradiction of the regulatory guidelines.
7. In terms of achieving its primary objective of bringing the online market onshore, this has largely been effective, with the proportion of the online gambling market onshore increasing from 36% in 2018 to 87% in 2019. With reference to sports betting in particular, this increased from 25% onshore in 2018 to 85% onshore in 2019; within this, the 'commercial' online sports betting market has gone from 100% offshore in 2018 to 81% onshore in 2019.

Fig 1: Sweden Online Gambling GGR Onshore vs Offshore

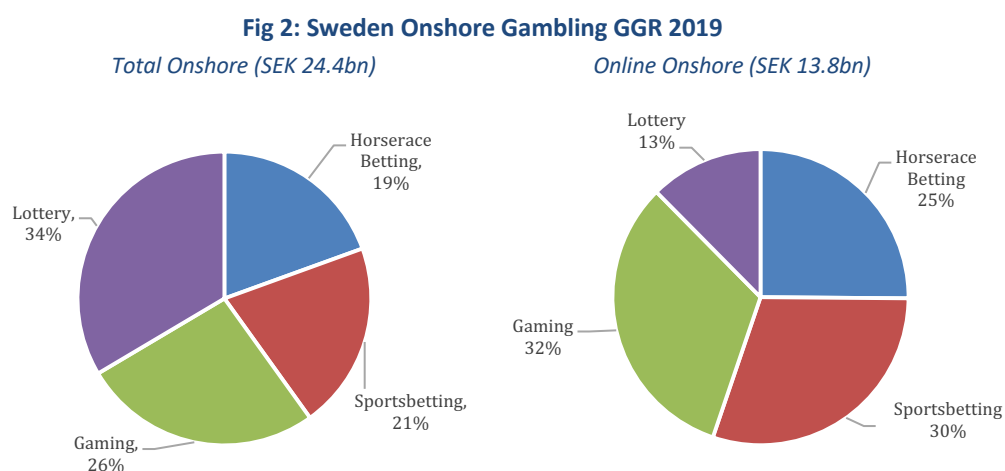


Source: H2 Gambling Capital, 2020

8. However, we note that the remaining 15% offshore is still higher than in some other regulated markets such as the United Kingdom (c.99% onshore), where regulations are viewed as less punitive by operators, which has almost entirely wiped out the offshore sports betting market.

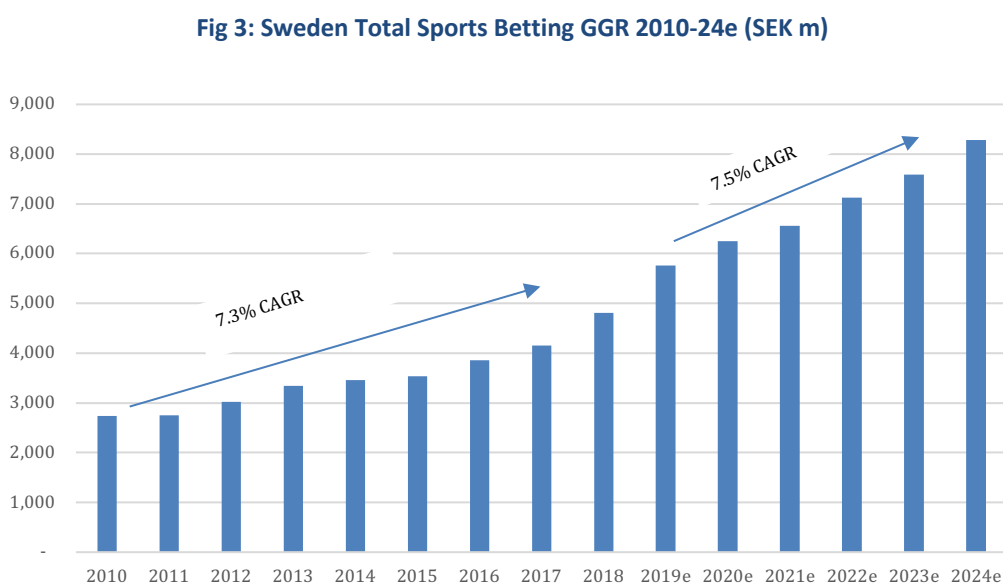
1.2 Market Evolution and Growth

9. **Product Definition:** We value the Swedish sports betting market using the ‘gross win’ or ‘gross gaming revenue’ (GGR) metric (i.e. turnover less prizes, but including any bonuses played).
10. Based on the above, we estimate that the total onshore Swedish gambling market (landbased and online) in 2019 was **SEK 24.4bn in GGR**, with sports betting representing 21% of this at **SEK 5.0bn in GGR**. When looking at the onshore online market specifically, we estimate 2019 **GGR of SEK 13.8bn**, with sports betting representing 30% of this at **SEK 4.2bn in GGR**.



Source: H2 Gambling Capital, 2020

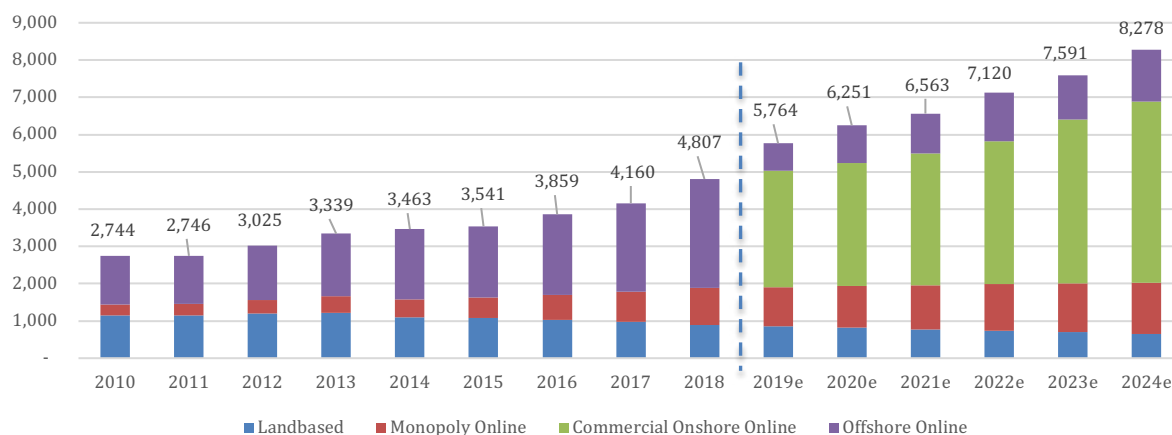
11. In terms of the growth of the Swedish sports betting market (landbased and online, onshore and offshore, combined), the market has grown at a 7.3% CAGR over the 8-year period from 2010-18, before the enactment of the Gambling Act. Following regulation of the market, we forecast continued growth in the online sports betting market, at a similar rate of growth of 7.5% CAGR over the 5- year period 2019-24e. We note that our forecasts are based upon the current regulations, and do not take into account the SGA’s proposed betting restrictions.



Source: H2 Gambling Capital, 2020

12. Within this, commercial online onshore sports betting is the largest part of the Swedish sports betting market, representing 54% of the total market in 2019, while the offshore online market represents just 13% of the market in 2019, down from 61% in 2018. However, we forecast the offshore element of the market to continue to grow, and will still represent 17% of the total sports betting market in 2024e on our forecasts.

Fig 4: Sweden Sports Betting GGR by Vertical 2010-24e (SEK m)



Source: H2 Gambling Capital, 2020

13. Landbased sports betting has been on a gradual decline over the past few years, as the online market has grown and taken share. Within this, we note that between 2010-18 Svenska Spel online has grown at a faster compound annual growth rate (CAGR) than the offshore online market; however this is coming from a very low base, and in terms of actual SEK, the offshore market has grown GGR at 2.3x the rate of Svenska Spel, showing the attraction to consumers of an enhanced product offering and better pricing.

Fig 5: Sweden Sports Betting GGR (2010-18) (SEK m)

GGR (SEK m)	2010	2011	2012	2013	2014	2015	2016	2017	2018	2010-18 CAGR
Landbased Svenska Spel	1,156	1,152	1,196	1,216	1,088	1,084	1,029	980	896	-3%
Online Svenska Spel	283	303	372	443	491	542	661	802	991	17%
Online Commercial	-	-	-	-	-	-	-	-	-	NA
Online Offshore	1,305	1,291	1,457	1,680	1,884	1,915	2,169	2,377	2,920	11%
Total Sports Betting	2,744	2,746	3,025	3,339	3,463	3,541	3,859	4,160	4,807	7.3%

Source: H2 Gambling Capital, 2020

14. Over the five years between 2019-24, we forecast the onshore market to be the grow the most in terms of additional SEK; however in percentage terms, we forecast the offshore market to grow at a faster rate, despite the controls put in place by the SGA to protect the onshore market.

Fig 6: Sweden Sports Betting GGR (2019-24e) (SEK m)

GGR (SEK m)	2019e	2020e	2021e	2022e	2023e	2024e	2019- 24e CAGR
Landbased Svenska Spel	855	816	778	736	693	649	-5%
Online Svenska Spel	1,057	1,120	1,185	1,249	1,313	1,378	5%
Online Commercial	3,110	3,301	3,536	3,838	4,395	4,856	9%
Online Offshore	742	1,013	1,063	1,297	1,189	1,395	13%
Total Sports Betting	5,764	6,251	6,563	7,120	7,591	8,278	7.5%

Source: H2 Gambling Capital, 2020

1.3 Proposed SGA Restrictions

15. On 14 January 2020 the Swedish Gaming Authority (SGA) released proposals to restrict betting on certain products as part of a campaign against match-fixing and to uphold the integrity of sport.

16. The SGA's new provisions propose prohibition on the following:

- **Betting on individual offenses:** Betting may not be offered on sanctions for misdemeanours, offenses or for provocative behaviours in connection with a match, competition or tournament.
 - Sanctions can involve red or yellow cards, penalty throws, penalty shots, penalty kicks, penalties, warnings, disqualifications or similar.
- **Loss in a segment of a match or competition:** Betting may not be offered on the failure in a segment of a match or competition.
 - Failure in a segment of a match can, for example, involve that participants will not scoring, will lose a game or point, or will hit an obstacle or overstep the foul line in a match or competition.
- **Betting on the individual performances of a minor:** Betting may not be offered on individual performances in a match, competition or tournament by a participant who is under the age of 18 at the time of betting.
 - If betting is offered on a match or event where several unnamed participants are included in a group of others, anyone under the age of 18 may form part of such a group. Such an occurrence or event can e.g. involve betting on a group of unnamed participants where one of them could potentially be the one who scores the first or last goal.

17. Furthermore, there is to be enhanced reporting of suspected manipulations of sports results that constitute an object of betting.

18. The rationale behind these restrictions is to preserve and strengthen the integrity of sport in Sweden, and the SGA's Impact Assessment states this clearly:

"Match-fixing and other suspected manipulation of results are today considered one of the biggest threats to sports. Suspected manipulation of results also runs the risk of eroding confidence in commercial gambling, sports and thus the licensing system for sports betting."

19. The SGA appears to have targeted these areas for betting restrictions as they are perceived as the most vulnerable to match fixing. The SGA's Impact Assessment goes on to note:

"These provisions propose that betting on individual rule violations, loss in part of a competition (e.g. not scoring goals, not winning a tennis game, not scoring, overstepping the foul line or hitting an obstacle) and betting on the individual performance of minors shall be prohibited. With these bans, there will be no reason to influence or manipulate the outcome of bets in these areas."

20. While these restrictions are targeting areas that appear most vulnerable to manipulation, the industry's concern is that restricting licensed operators from offering wagers on these products will merely shift the wagering offshore where there is no integrity oversight. By contrast, encouraging wagers on the most vulnerable products to go through regulated / licensed operators allows proper monitoring for any suspicious betting activities and potential integrity issues for sport.

Section 2: Regulatory Framework Assessment

In general, the most effective regulations focus on the overall aims and objectives of a regulatory framework at the macro level, rather than seeking to control what is offered at the micro level.

H2 firmly believes that the optimum solution to preserving integrity in sport is through regulated operators who work with specialist integrity associations and closely monitor any perceived cases of match-fixing.

By restricting the products that customers are able to wager on with licensed operators, the SGA will not be preventing wagering on these 'vulnerable' areas, but merely shifting the wagering to offshore operators.

In order for operators to play an important role in upholding the integrity of sport, wagering must be channelled to the onshore regulated market – and anything which has the potential to shift this wagering to offshore unregulated operators can only be detrimental to sporting integrity.

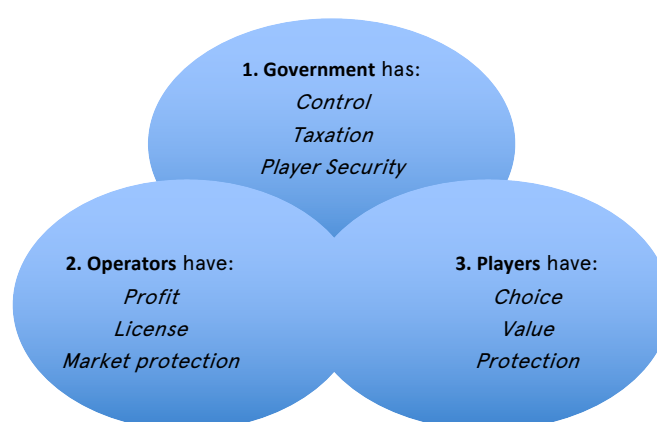
Consequently, we question the rationale behind imposing restrictions on regulated betting operators that would likely drive revenues to the offshore market at the detriment of sports integrity.

While the amount wagered on these individual products may be relatively small, customers will choose an operator that is a 'one-stop shop' for all their betting activities, and will therefore likely shift their entire betting activity across to an offshore operator, and not merely the GGR generated from the restricted products.

2.1 Market Equilibrium

21. In terms of regulation, the most mature online sports betting markets tend to balance government tax revenues with new commercial opportunity in order to achieve market equilibrium (see Fig 7 below). Such regulations reflect dynamic market conditions where technology advancements and pace of change – particularly online – can benefit all parties and attract new players, without disenfranchising core consumer groups.

Fig 7: 'Something for Everyone' – Online Sports Betting's Market Equilibrium



Source: H2 Gambling Capital, 2020

22. Financially, main benefits Include:

- ✓ **Increased tax revenues:** Driven by effective licensing;
- ✓ **Increased consumer spend:** As a result of increased customer retention, driven by a more transparent regulated system that makes players feel safer.

23. The economic benefits of a regulated market over an illegal market are not just financial. Other key factors are:

- ✓ **Security:** There exists a legal place to bet safely, in a straightforward manner, and securely (in terms of data protection and cash pay-out);
- ✓ **Jobs:** An upturn in employment opportunity, with the potential to replace offshore employment with onshore jobs – the majority within indirect sectors e.g. marketing (as onshore regulated activity leads to more use of the mainstream media), payments and geo-location;
- ✓ **Economic growth:** Enhanced cross-channel marketing opportunities for associated non-sports betting sector operators, brands and sectors.

2.2 'Bigger Picture' Regulation

24. In general, the most effective regulations focus on the overall aims and objectives of a regulatory framework at the macro level, rather than seeking to control what is offered at the micro level. For example, in the United Kingdom – generally viewed as the market leader within gambling regulation – the UK Gambling Commission (regulator) has three overarching licensing objectives: to ensure gambling is (1) crime free; (2) fair and open; and (3) responsibly protects children/vulnerable adults.

25. Innovation has also been the predominant driver of online market growth over the last 5-10 years. In sports betting, a number of recent developments have caught regulators off-guard – including e.g. betting exchanges, live streaming, in-play, bonusing/free bets, cash out early options, virtual sports, Daily Fantasy Sports. As such, online gambling regulation that restricts an operator's ability to innovate through delivering a new variation of a product or participating via a certain channel can risk consumer migration to potentially less-regulated (offshore unlicensed) entities, which can freely offer more advanced products and services. This has been acknowledged by the SGA in its Impact Assessment, stating:

"In order to channel gambling to gaming companies licensed in Sweden, the legal gambling offerings need to be attractive enough that players are not attracted to unlicensed gaming companies"

2.3 Tackling Offshore

26. It is also apparent that once established, eliminating an offshore gambling market is extremely difficult. Implementing a broad and fair onshore licensing system as opposed to blanket prohibitions has historically been more effective at combating offshore operators, as well as enabling licensed operators to service customers' existing (as well as future) demands for the latest technologies, products and services.
27. Effective blocking measures to help restore and maintain market equilibrium include prohibitions on offshore operator advertising; IP/financial blacklisting; imposing penalties; higher standards of player protection; legalising in-play gambling and other new product verticals; expressly outlawing unlicensed offshore betting.
28. It is clear from established onshore-regulated online sports betting markets that, providing the product is competitive and the value on offer is similar, consumers prefer to transact within an onshore-regulated scheme due to the additional protection that this ensures them.
29. The above said, if we accept that 'something for everyone' market equilibrium is the optimum industry model for online sports betting, then there are a number of key considerations (based on experience in other markets) that should ideally be addressed within the Swedish market as part of its regulatory framework, namely:
- ✓ **Range of product verticals:** The more product verticals permitted, the more attractive the market for onshore operators, due to both economies of scale and cross-sell opportunities (e.g. seamlessly switching from gaming to sports betting);
 - ✓ **Advertising ban on unlicensed operators:** Advertising is essential for licensed operators to develop and gain market traction. Blocking unlicensed operators from advertising is one of the most effective means to control an offshore market, though it may be difficult to limit it effectively online;
 - ✓ **Blocking (IP, financial, blacklist):** Blocking makes an onshore licence more valuable; however, there are methods for offshore operators to bypass this – in short, 'you can't police the Internet';
 - ✓ **Penalties for unlicensed operators:** Punitive measures including fines may deter some offshore operators, but regulation needs to be enforceable in the relevant offshore jurisdiction;
 - ✓ **Responsible gambling/player protection:** Fundamental – a legal and protected environment will draw in certain players whilst protecting minors and vulnerable persons; and
 - ✓ **Prohibiting offshore sports betting:** Making it a criminal offence for Swedish citizens to wager on offshore sports betting websites.

21. If a licensed market is too restrictive – as could be the case with the latest SGA restrictions – a **regulatory gap** emerges, within which offshore operators enjoy considerable economic advantages. In short, they:

- × *Pay no taxes;*
- × *Pay no licensing fees;*
- × *Pay no product fees;*
- × *Contribute no prize money to sport;*
- × *Contribute no funds to sport running costs – facilities, grass roots and/or elite programmes;*
- × *Contribute no funds to preserving sports integrity;*
- × *Contribute no funds to promoting responsible gambling.*

and also:

- ✓ *Generate straight profit;*
- ✓ *Do not have to create or sustain jobs, and pay associated taxes, nor invest in technology within their targeted country;*
- ✓ *Do not have to adhere to that country's licensing requirements, operating standards and/or codes of practice (including advertising controls and responsible gambling measures);*
- ✓ *Do not have to adhere to that country's regulatory practices (e.g. can offer products not permitted domestically and/or the same products cheaper);*
- ✓ *Avoid regulatory audit and submitting wagering transaction data to the authorities for scrutiny;*
- ✓ *Are harder to track if criminal or anti-money laundering proceedings are enacted;*
- ✓ *Operate with less risk.*

2.4 Regulated Markets and Sports Integrity

30. In terms of preserving integrity, it is clear that the optimum solution to decreasing the potential for match-fixing and corruption, lies firmly with the regulated sports betting operators themselves. Responsible licensed betting operators are constantly assessing the risk of each market they offer and will impose their own betting limits where that is deemed necessary and appropriate. They do this as a matter of course – and good business practice – as part of their own protections against fraud and/or money laundering. As a result, many work direct both with sports and through operator integrity associations such as the IBIA (International Betting Integrity Association) to continuously monitor and point out suspicious betting patterns as soon as they emerge. However, this is not the case with unlicensed operators, as noted by the SGA:

"Licensed gaming companies are required, through cooperation commitments via central surveillance agencies, to report suspected manipulation. Unlicensed gaming companies have little or no incentive to report to the police or otherwise cooperate with Swedish authorities or industry-wide bodies such as IBIA or GLMS."

31. Such operators are sport's solution to preserving integrity. They are focused on providing a safe and secure environment for all consumers, and employ advanced security systems to safeguard against fraudulent activity. Significant product restrictions tend therefore not to be viewed by the majority of jurisdictions in the sector as the way to combat the issue – simply because match-fixing is not primarily focused on regulated betting operators but on unregulated, 'black market' operators mainly based in Asia.

2.5 H2 Commentary on SGA Proposed Restrictions

32. As explained above, H2 firmly believes that the optimum solution to preserving integrity in sport is through regulated operators who work with specialist integrity associations and closely monitor any perceived cases of match-fixing.
33. In order for operators to play an important role in upholding the integrity of sport, wagering must be channelled to the onshore regulated market – and anything which has the potential to shift this wagering to offshore unregulated operators can only be detrimental to sporting integrity. This is acknowledged by the SGA in its Impact Assessment:

"The purpose of the gambling regulation is to, as far as possible, channel gambling to gaming companies licensed in Sweden. A high level of channelling is a basic prerequisite for successful work against manipulation of results. Channelling refers to the share of gambling that is channelled into the Swedish licensing system, i.e. to gaming companies with Swedish licenses. The non-channelled share ends up with gaming companies that do not have a Swedish gaming license.... Unlicensed gaming companies have little or no incentive to report to the police or otherwise cooperate with Swedish authorities or industry-wide bodies such as IBIA or GLMS."

34. By restricting the products that customers are able to wager on with licensed operators, the SGA will not be preventing wagering on these 'vulnerable' areas, but merely shifting the wagering to offshore operators. These are likely to be mainly based in Asia, where the SGA's ability to block the operators is more limited, and where organised match-fixing is more prevalent. Indeed, the SGA itself notes these concerns, and even highlights the attractiveness of the Swedish market to Asian operators:

"Match-fixing and other suspected manipulation of results are today considered one of the biggest threats to sports. Suspected manipulation of results also runs the risk of eroding confidence in commercial gambling, sports and thus the licensing system for sports betting. There is a greater risk of results manipulation if betting on the current event is also offered in the Asian market. Swedish football is, for example, very attractive in the Asian market as matches are played during a time when the Asian football season is over. However, the Asian market provides betting on most Swedish sports. Manipulation of results can be more or less organised. It may be a planned activity that involves several people both outside and inside the sports arena, including criminal gangs and organised crime, but it can also be occasional events that may only involve one person or a few people."

35. With the popularity of internet betting, and innovation in the different areas of betting, customers are accustomed to being able to bet on a plethora of products, and these in-match betting opportunities are now viewed as a pre-requisite of any betting operator's offering. Restricting these products for onshore operators provides the customer with a reason to move to an offshore operator that can offer a full range of betting opportunities, as acknowledged by the SGA:

"Players demand live betting and individual match events (e.g. yellow cards and corners). These offers will always be available outside the licensing system. A betting offer from the grey and black online gaming market is never further away than a click on your computer or phone."

36. While the amount wagered on these individual products may be relatively small, customers will choose an operator that is a 'one-stop shop' for all their betting activities, and will therefore likely shift their entire betting activity across to an offshore operator, and not merely the GGR generated from the restricted products. This has again been acknowledged by the SGA:

"Players' demand for live betting and individual match events is strong and growing. To counteract betting with unlicensed companies, the legal betting offerings need to be attractive enough that players are not attracted to unlicensed options. Once a player has switched to the grey or black market, betting that has never been the subject of bans for licensed gaming companies also becomes threatened, e.g. the outcome of a match in the top-flight of the Swedish football league system. The reason is that the player is already with a grey or black gaming operator who offers all bets, often with better RTP-rates (since no Swedish gambling tax is paid) and attractive bonus offers (since the Swedish promotions ban is not obeyed). In this situation, there is little incentive for the player to return to betting within the licensing system."

37. With the player now outside of the regulated betting market, all of their GGR is leaving a system where sports integrity and reporting of suspicious betting activity are of paramount importance to operators, at the detriment to the sporting integrity that these restrictions are trying to protect. This is again acknowledged by the SGA itself:

"A further consequence of a more extensive regulation is that the authority's possibility to control match-fixing in Sweden to a certain extent through the discovery and measures by licensed gaming companies disappear if these companies leave the Swedish licensing system."

38. Therefore, it appears that the SGA is in agreement that:

- Integrity in sports is of critical importance
- The best way to counter manipulation is to channel to wagering to the onshore regulated betting market, where operators are able to monitor and report any suspicious betting activity
- Restricting betting product for licensed operators is likely to push customers to unlicensed offshore operators, who are 'never further away than a click on your computer or phone'
- If customers shift to unregulated operators, they will not only shift their spend on restricted products, but also their spend on products that aren't restricted
- Unlicensed operators have little or no incentive to report manipulation in sports
- The Asian market is particularly interested in the Swedish sports market, and this is where there is the highest danger of organised manipulation of sports

39. Consequently, we question the rationale behind imposing restrictions on regulated betting operators that would likely drive revenues to the offshore market at the detriment of sports integrity.

40. Finally, we note that the amount of money needed to be paid for manipulation in professional sport tends to be high – although we recognise that this does depend on the sport in question, and there is likely to be a significant variation within this. However, it is generally accepted that the money needed to cause manipulation, along with the reward necessary to take the risk of manipulating a sporting contest, tends to be quite high. Therefore, to generate the requisite levels of winnings without causing any suspicious betting activity alerts, one would need to be in a highly liquid market with high levels of betting activity and turnover ; this is a key reason that the majority of manipulation takes place in the highly liquid Asian betting markets.

41. The size of the markets that the SGA has proposed to restrict are relatively small, and it would seem unlikely that anyone would be able to wager the amounts of money necessary for sports manipulation without it being flagged by licensed operators. By contrast, shifting this GGR to an offshore site – along with the rest of the GGR of these customers – adds further liquidity to the betting markets where manipulation is more prevalent and reporting is non-existent.

Section 3: Market Impact Assessment

H2 Gambling Capital has conducted a survey of the major Swedish licensed bookmakers to ascertain the size of the betting markets for each of the three restricted products, as well as the total GGR generated by customers who wager on these products, which is at risk of shifting offshore.

When analysing the impact of these restrictions on the size of the regulated and offshore sports betting markets in Sweden, we estimate the GGR shift offshore using two different calculations:

- i. An estimate based on the amount of GGR currently generated from the restricted products*
- ii. An estimate based on the amount of GGR generated by customers who wager on the restricted products*

The commercial online sports betting market currently has an 81% channelling rate, well below the UK (over 99% channelling rate) but significantly higher than Australia, where in-play wagering is prohibited online (63% channelling rate).

When taking an average of the two methodologies, this implies a -6.8% decline in onshore GGR and a +27.3% increase in offshore GGR for commercial online operators. This translates to a -5.3 percentage point decline in the channelling rate to 75% of GGR from commercial operators onshore.

There are many variables which contribute to the onshore channelling rate of online sports betting, including tax rates, advertising, wagering limits, number of licenses, blocking of offshore websites and plethora of other regulatory restrictions. It is clear that product restrictions are not the only driver of channelling rates, but when we benchmark Sweden against a number of other markets, it is clear that restrictions on onshore operators has a material impact on the channelling rate.

3.1 Evidence Base and Key Assumptions

42. H2 Gambling Capital has conducted a survey of the major Swedish licensed bookmakers to ascertain the size of the betting markets for each of the three restricted products, as well as the total GGR generated by customers who wager on these products, which is at risk of shifting offshore.
43. Each operator was asked three questions related to each restricted product, as well as for all the restrictions combined:
 - The proportion of GGR that is generated from wagers on the restricted event
 - The proportion of customers that place wagers on the restricted event
 - The proportion of GGR that these customers represent in total
44. We received detailed responses from a number of operators that we estimate represent a sizable portion of the overall onshore commercial sports betting market in Sweden, and therefore we believe that the data is a fair representation of the market as a whole.
45. Some of the proposals give scope for a wide interpretation of the final regulations – therefore in some cases there is a relatively wide range of results as some operators have interpreted the proposals in a different way to others; we have specified where this is the case.

Betting on Swedish sports

46. H2 understands that the proposals are only to take effect on sports that physically take place in Sweden. On average, 5.7% of Swedish sports betting GGR is generated from Swedish sports, according to the respondents of our survey.
47. However, it was also clear that there is not a clear separation of customers betting on Swedish sports and those betting on sports outside of Sweden – that is to say, customers who place bets on Swedish sports account for the majority of GGR generated in Sweden, even though GGR generated from Swedish sports themselves is only a relatively small part of the market.

Betting on individual offences

48. Betting on individual offenses generated c.1% of all GGR wagered on Swedish sports, which equates to c.0.05% of all sports betting GGR. Wagers on this are placed by 4% of all customers. In total, those customers account for c.18% of total sports betting GGR.

Fig 8: Swedish Operator Responses – Betting on Individual Offenses

Share of Sports Betting GGR	(%)
The proportion of GGR that is generated from wagers on the restricted event	0.05%
The proportion of customers / accounts that place wagers on the restricted event	4.1%
The proportion of GGR that these customers represent in total	18%

Source: H2 Gambling Capital, 2020

49. The majority of betting in this category was on yellow and red cards in football, which in itself is by far the largest sport. However, it was also noted that the vast majority of betting within this was on the total number of cards (e.g. over / under 5 cards per game), which accounted for up to 90% of GGR in this category, rather than individual cards for an individual player.

Betting on individual performances of a minor

50. Data on betting on an individual participant who is under the age of 18 was more difficult to obtain in the timeframe that was given for the consultation period, as it is not tracked by operators in this way. What was made clear by a number of operators is that, in recent months or years, there has been a move away from offering any betting on matches or competitions where the participants (or majority of participants) are below 18 years of age. Therefore, a number of operators stated the GGR generated from this as zero.
51. However, there are circumstances where a single participant is below 18 years of age (such as a single football player in a professional team) and betting in this instance does occur. Under this scenario, while it was not explicitly tracked, it was estimated that betting on the individual performance of a minor in a match based in Sweden could have represented c.0.03% of GGR, with bets placed by 0.1% of customers, accounting for c.1% of total sports betting GGR.

Fig 9: Swedish Operator Responses – Betting on Minors

Share of Sports Betting GGR	(%)
The proportion of GGR that is generated from wagers on the restricted event	0.03%
The proportion of customers / accounts that place wagers on the restricted event	0.1%
The proportion of GGR that these customers represent in total	1%

Source: H2 Gambling Capital, 2020

Loss in a segment of a match or competition

52. Betting on the failure in a segment of a match or competition returned a wide range of responses, as there were differing interpretations of this proposal by different operators. On the most narrow definition, it was viewed as a restriction on betting on the loss of a point / goal in a sports match. However, on the wider view shared by some operators, it was viewed as effectively reducing the number of markets available in some sports by up to 90%.
53. For example, in tennis, betting on someone to win a segment of a match / competition is by its very nature betting on the other person to lose. Therefore, this proposal restricts all betting (both winning and losing) in a match of tennis except for the end result. Taking this further, in a tournament (competition), even winning a match (and therefore someone else losing the match) would contravene this, as the individual match is a segment of the competition – thereby limiting the betting to a single bet of the winner of the entire competition.
54. Using the narrow definition, the results were slightly lower than betting on individual offenses, with 0.03% of total GGR generated from betting on the loss in a segment of a match. This was done by 3.0% of customers, who generated a total of c.15% of Swedish sports betting GGR.

Fig 10: Swedish Operator Responses – Betting on a Loss in a Segment – ‘Narrow Interpretation’

Share of Sports Betting GGR	(%)
The proportion of GGR that is generated from wagers on the restricted event	0.03%
The proportion of customers / accounts that place wagers on the restricted event	3.0%
The proportion of GGR that these customers represent in total	15%

Source: H2 Gambling Capital, 2020

55. However, when taking the wider definition of the proposals, which in effect limits the vast majority of bets in certain sports, this accounted for up to 50% of GGR generated from sports in Sweden, or almost 3% of total GGR. H2 was unable to gather exact data for what proportion of customers would bet on this wider definition, but it was implied that it could be c.10%+ of customers, generating c.40-50%+ of total sports betting GGR.

Fig 11: Swedish Operator Responses – Betting on a Loss in a Segment – ‘Wide’ Interpretation

Share of Sports Betting GGR	(%)
The proportion of GGR that is generated from wagers on the restricted event	3%
The proportion of customers / accounts that place wagers on the restricted event	10%
The proportion of GGR that these customers represent in total	45%

Source: H2 Gambling Capital, 2020

56. Given the difference between the two interpretations, we take an average of the two.

Fig 12: Swedish Operator Responses – Betting on a Loss in a Segment – ‘Average’ Interpretation

Share of Sports Betting GGR	(%)
The proportion of GGR that is generated from wagers on the restricted event	1.5%
The proportion of customers / accounts that place wagers on the restricted event	6.5%
The proportion of GGR that these customers represent in total	30%

Source: H2 Gambling Capital, 2020

All three proposed restrictions combined

57. The cumulative impact of the three proposed restrictions is estimated below, taking into account a relatively high level of overlap of the customer base who wager on these products.
58. We note the difference between the narrow and wide interpretation of the betting on the loss of a segment is very large, so for this analysis we take the average of the two definitions (Figure 12) and we assume that betting on minors is zero. Therefore, we acknowledge that there is potential that the actual GGR affected could be higher or lower than what we are showing.
59. We also include data from some operators who just gave an overall impact of the three restrictions, as opposed to the breakdown, and therefore the results of the 'combined' restrictions do not exactly correlate to the sum of the parts of the individual ones.
60. On this basis, restrictions on betting on individual offenses and loss in a segment of a match generated c.1.7% of all sports betting GGR. Wagers on any of these products are placed by an estimated 8.9% of all customers, and in total, those customers account for c.40% of total sports betting GGR.

Fig 13: Swedish Operator Responses – Combined Proposed Restrictions

Share of Sports Betting GGR	(%)
The proportion of GGR that is generated from wagers on the restricted event	1.7%
The proportion of customers / accounts that place wagers on the restricted event	8.9%
The proportion of GGR that these customers represent in total	40%

Source: H2 Gambling Capital, 2020

3.2 Sensitivity Analysis

61. When analysing the impact of these restrictions on the size of the regulated and offshore sports betting markets in Sweden, we estimate the GGR shift offshore using two different calculations:
- An estimate based on the amount of GGR currently generated from the restricted products
 - An estimate based on the amount of GGR generated by customers who wager on the restricted products
62. The extent of the shift in GGR offshore from banned products is based upon the channelling rate other markets where there are material restrictions in product – such as Australia where in-play wagering is prohibited online – compared to a market such as the UK where there are no material product restrictions.
63. When analysing the GGR generated from restricted products, analysis of the channelling of other markets suggests that c.61% of this shifts offshore, while a further 26% is substituted to other wagering onshore, and 13% of GGR is 'lost' through reduced spend.

Fig 14: Shift in GGR of Restricted Products

Share of GGR Generated From Restricted Products	(%)
Shift offshore	61%
Remain onshore, but substituted into wagering on other products	26%
'Lost' GGR from a reduction in overall wagering	13%

Source: H2 Gambling Capital, 2020

64. When analysing the total GGR generated by customers wagering on restricted products, analysis of the channelling of other markets suggests that c.34% of this shifts offshore. We assume the same amount of online substitution and lost revenue as calculated in the analysis of GGR generated from restricted products.

Fig 15: Shift in GGR of Customers who Wager on Restricted Products

Share of GGR Generated From Customers who Use Restricted Products	(%)
Shift offshore	34%
Remain onshore, but substituted into wagering on other products	As calculated in analysis of GGR from restricted products
'Lost' GGR from a reduction in overall wagering	As calculated in analysis of GGR from restricted products

Source: H2 Gambling Capital, 2020

3.3 Scenario Modelling – Market Estimates 2020-24e

65. We apply the above sensitivity analysis to the commercial onshore sports betting market only, assuming that there is no impact on the landbased or online operations of Svenska Spel. Therefore, our analysis and channelling rates apply only to the commercial online market.
66. The commercial online sports betting market currently has an 81% channelling rate, well below the UK (over 99% channelling rate) but significantly higher than Australia, where in-play wagering is prohibited online (63% channelling rate).
67. Using the above sensitivity analysis, based only on the GGR generated from the proposed prohibited markets, we estimate that this would not have a material effect on the onshore market, reducing it by c.-1.3% while the offshore market would increase by c.4.3%. This would lead to a reduction in the channelling rate of c.1 percentage point to 80% onshore.

Fig 16: GGR Shift Based on Prohibited Product GGR (SEK m)

Commercial Online Sports Betting (SEK m)	2019
Onshore	3,110
Offshore	742
Total	3,852
% Onshore	81%
% GGR from restricted products	1.7%
SEK (m) from restricted products	52
% offshore	61%
% lost	13%
% other onshore	26%
SEK (m) offshore	32
SEK (m) lost	7
SEK (m) other onshore	13
Onshore decrease	(39)
Offshore increase	32
New onshore	3,071
New offshore	774
New Total	3,845
% Onshore	80%
Change in onshore	-1.3%
Change in offshore	4.3%
Change in Total	-0.2%
Change in Channelling (percentage points)	-0.9%

Source: H2 Gambling Capital, 2020

68. However, as clearly noted by the SGA in its Impact Analysis, the risk is that customers move offshore and shift all of their spend to offshore operators – including revenues generated from products that are not prohibited. Therefore we repeat the analysis based on all GGR generated by customers who wager on the proposed prohibited products.
69. This leads to a significantly higher swing in GGR from the onshore to the offshore market. Under this analysis, we estimate that the onshore market would decline by SEK 429m (-13.7%) and the offshore market would increase by SEK 420m (+57%). This would lead to the channelling rate decreasing to 70%, or a -11 percentage points decrease.

Fig 17: GGR Shift Based on Total Customer GGR (SEK m)

Commercial Online Sports Betting (SEK m)	2019
Onshore	3,110
Offshore	742
Total	3,852
% Onshore	81%
% GGR from restricted products	40%
SEK (m) from restricted products	1,230
% offshore	34%
% lost	0.6%
% other onshore	1.1%
SEK (m) offshore	420
SEK (m) lost	7
SEK (m) other onshore	13
Onshore decrease	(426)
Offshore increase	420
New onshore	2,684
New offshore	1,161
New Total	3,845
% Onshore	70%
Change in onshore	-13.7%
Change in offshore	56.5%
Change in Total	-0.2%
Change in Channelling (percentage points)	-10.9%

Source: H2 Gambling Capital, 2020

70. When taking an average of the two methodologies, this implies a -7.5% decline in onshore GGR and a +30% increase in offshore GGR for commercial online operators. This translates to a -5.9 percentage point decline in the channelling rate to 75% of GGR from commercial operators onshore.

Fig 18: GGR Shift Based on Mid-point of Both Analyses – Commercial Online (SEK m)

Commercial Online Sports Betting (SEK m)	2019
Onshore decrease:	
From product GGR	(39)
From customer GGR	(426)
Average decrease	(233)
Offshore increase:	
From product GGR	32
From customer GGR	420
Average increase	226
New onshore	2,877
New offshore	968
New Total	3,845
% Onshore	75%
Change in onshore	-7.5%
Change in offshore	30.4%
Change in Total	-0.2%
Change in Channelling (percentage points)	-5.9%

Source: H2 Gambling Capital, 2020

71. When including the online GGR from Svenska Spel, this leads to a total decline in the onshore online market of -5.6%, and a total reduction in the channelling rate of -4.6 percentage points to 80% onshore.

Fig 19: GGR Shift Based on Mid-point of Both Analyses – Total Online (SEK m)

Total Online Sports Betting (SEK m)	2019	Mid-Point of Impact	Change	Change (%)
Svenska Spel onshore	1,057	1,057	-	0.0%
Commercial onshore	3,110	2,877	(233)	-7.5%
Total onshore	4,167	3,935	(233)	-5.6%
Offshore	742	968	226	30.4%
Total online	4,909	4,902	(7)	-0.1%
% onshore	85%	80%		-4.6%

Source: H2 Gambling Capital, 2020

3.4 Benchmarking versus Comparable Markets

72. There are many variables which contribute to the onshore channelling rate of online sports betting, including tax rates, advertising, wagering limits, number of licenses, blocking of offshore websites and plethora of other regulatory restrictions.
73. It is clear that product restrictions are not the only driver of channelling rates, but when we benchmark Sweden against a number of other markets, it is clear that restrictions on onshore operators has a material impact on the channelling rate.

Fig 20: Onshore Channelling in Other Markets

Market	Restrictions	% Onshore
Sweden	Current Regulations	85%
Sweden Proposed	SGA Proposed Restrictions Jan 2020	80%
United Kingdom	No material restrictions	99%
Spain	Restrictions on betting on minors, and in-play only authorised in some regions	87%
Portugal	Betting only allowed on authorised competitions and bet types	83%
Australia	No in-play wagering, advertising restrictions	63%

Source: H2 Gambling Capital, 2020

Section 4: H2 Opinion – Analysis and Conclusions

According to the SGA's Impact Assessment report, it appears that the SGA is in agreement with H2 that:

- ✓ *Integrity in sports is of critical importance*
- ✓ *The best way to counter manipulation is to channel to wagering to the onshore regulated betting market, where operators are able to monitor and report any suspicious betting activity*
- ✓ *Restricting betting product for licensed operators is likely to push customers to unlicensed offshore operators, who are 'never further away than a click on your computer or phone'*
- ✓ *If customers shift to unregulated operators, they will not only shift their spend on restricted products, but also their spend on products that aren't restricted*
- ✓ *Unlicensed operators have little or no incentive to report manipulation in sports*
- ✓ *The Asian market is particularly interested in the Swedish sports market, and this is where there is the highest danger of organised manipulation of sports*

Consequently, we question the rationale behind imposing restrictions on regulated betting operators that would likely drive revenues to the offshore market at the detriment of sports integrity.

Under the current regulations, we forecast continued growth in both the onshore and offshore online betting markets, but faster growth in the offshore market is forecast to lower the channelling from 85% onshore 2109 to 82% onshore in 2024e.

However, under the proposed product restrictions, the offshore market could increase by up to 57%, leading to a decrease in channelling of almost 11 percentage points for commercial online operators; we would then expect the offshore market to grow at a faster rate than the onshore market, leading to a continued erosion of the channelling rate.

That said, as long as the majority of major European operators retain their licensed onshore status, the majority of players will remain with licensed, onshore operators.

4.1 Impact – Overall Independent Assessment of Proposed Changes

74. H2 firmly believes that the optimum solution to preserving integrity in sport is through regulated operators who work with specialist integrity associations and closely monitor any perceived cases of match-fixing.
75. In order for operators to play an important role in upholding the integrity of sport, wagering must be channelled to the onshore regulated market – and anything which has the potential to shift this wagering to offshore unregulated operators can only be detrimental to sporting integrity.
76. By restricting the products that customers are able to wager on with licensed operators, the SGA will not be preventing wagering on these 'vulnerable' areas, but merely shifting the wagering to offshore operators. These are likely to be mainly based in Asia, where the SGA's ability to block the operators is more limited, and where organised match-fixing is more prevalent.

77. According to the SGA's Impact Assessment report, it appears that the SGA is in agreement that:
- ✓ Integrity in sports is of critical importance
 - ✓ The best way to counter manipulation is to channel to wagering to the onshore regulated betting market, where operators are able to monitor and report any suspicious betting activity
 - ✓ Restricting betting product for licensed operators is likely to push customers to unlicensed offshore operators, who are *'never further away than a click on your computer or phone'*
 - ✓ If customers shift to unregulated operators, they will not only shift their spend on restricted products, but also their spend on products that aren't restricted
 - ✓ Unlicensed operators have little or no incentive to report manipulation in sports
 - ✓ The Asian market is particularly interested in the Swedish sports market, and this is where there is the highest danger of organised manipulation of sports
78. Consequently, we question the rationale behind imposing restrictions on regulated betting operators that would likely drive revenues to the offshore market at the detriment of sports integrity.
79. The size of the markets that the SGA has proposed to restrict are relatively small, and it would seem unlikely that anyone would be able to wager the amounts of money necessary for sports manipulation without it being flagged by licensed operators. By contrast, shifting this GGR to an offshore site – along with the rest of the GGR of these customers – adds further liquidity to the betting markets where manipulation is more prevalent, and reporting is non-existent.

4.2 Likely Trends / Market Development

80. Under the current regulations, we forecast continued growth in both the onshore and offshore online betting markets. However, growth in the offshore market is still forecast to increase at a faster rate than the onshore market, and therefore we forecast channelling to decline slightly from 85% onshore in 2019 to 82% onshore in 2024e. For the 'commercial' online sports betting market, the channelling is forecast to fall from 81% in 2019 to 78% in 2024e.
81. However, under the proposed product restrictions, the offshore market could increase by up to 57%, leading to a decrease in channelling of almost 11 percentage points for commercial online operators; this would have a significant impact on sports integrity.
82. We would then expect the offshore market to grow at a faster rate than the onshore market, leading to a continued erosion of the channelling rate.
83. However, as long as the majority of major European operators retain their licensed onshore status, the majority of players will remain with licensed, onshore operators.

Section 5: Key Conclusions

H2 Independent Report – 8 Key Conclusions

- 1. The Swedish Gaming Authority (SGA) has released proposals to restrict betting on certain products as part of a campaign against match-fixing and to uphold the integrity of sport. While these restrictions are targeting areas that appear most vulnerable to manipulation, the industry's concern is that restricting licensed operators from offering wagers on these products will merely shift the wagering offshore where there is no integrity oversight.*
- 2. In general, the most effective regulations focus on the overall aims and objectives of a regulatory framework at the macro level, rather than seeking to control what is offered at the micro level.*
- 3. H2 firmly believes that the optimum solution to preserving integrity in sport is through regulated operators who work with specialist integrity associations and closely monitor any perceived cases of match-fixing.*
- 4. Consequently, we question the rationale behind imposing restrictions on regulated betting operators that would likely drive revenues to the offshore market at the detriment of sports integrity.*
- 5. Analysis of the impact of these regulations implies a -7.5% decline in onshore GGR and a +30% increase in offshore GGR for commercial online operators. This translates to a -5.9 percentage point decline in the channelling rate to 75% of GGR from commercial operators onshore.*
- 6. Under the proposed product restrictions, we would then expect the offshore market to grow at a faster rate than the onshore market, leading to a continued erosion of the channelling rate. However, as long as the majority of major European operators retain their licensed onshore status, the majority of players will remain with licensed, onshore operators.*
- 7. By restricting the products that customers are able to wager on with licensed operators, the SGA will not be preventing wagering on these 'vulnerable' areas, but merely shifting the wagering to offshore operators.*
- 8. While the amount wagered on these individual products may be relatively small, customers will choose an operator that is a 'one-stop shop' for all their betting activities, and will therefore likely shift their entire betting activity across to an offshore operator, and not merely the GGR generated from the restricted products.*

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