



Kristian Nylén

Chief Executive
Officer,
Kambi Sports
Solutions

Paul Jason, Public Gaming: *Your customers are reporting some astonishing sales increases. Paf is an established operator that switched from their in-house Sportsbook over to Kambi's Sportsbook in June of last year. The first full quarter turnover YoY increased 42%, the second 67%, and Q1 of 2012 increased by 121%. Net profit almost doubled. Unibet gross winnings are up by 58%.*

Kristian Nylén: Managing the Sportsbook for optimal results is all about creating a great user experience and optimizing risk. The positive player experience drives revenues, and effective risk management enables operators to achieve good margins with competitive paybacks to the player at the same time. And now we just introduced a new mobile application to our customers. This will dramatically increase the accessibility for the consumer and so will further drive revenues.

What are some technological and regulatory changes that are contributing to the evolution of the sports-betting industry?

K. Nylén: When I started in the industry ten years ago, the internet was just evolving and it has since had a profound impact on the sports betting market. Before that, in many countries you could bet on the actual result in only a limited number of matches. The internet enables consumers from hundreds of different markets to bet on the same event, and also enables in-play betting. The latest trend is mobile, which is overtaking more and more of this market. We are moving from the early-adopter stage and into the mass market for smart-phones. Mobile betting will comprise more than half of all

PGRI Introduction: Sports evoke some of the greatest moments of body and spirit. From the ancient Greek Olympics to Friday night's high school football matchup, keen opponents push their bodies and skills beyond the limit. The personal triumphs, the clash of larger-than-life personalities, the local and even national rivalries, all become part of the change of seasons of everyday people, and mark milestones in the lives of both athlete and spectator. Internet and mobile technology take us even closer to the action and are revolutionizing sports-based gaming, as they have every other aspect of our lives. And Kambi Sports Solutions is in the vanguard.

Kambi is a B2B supplier of quality sports betting products on an in-house developed proprietary software platform. The Kambi mission is to be the preferred independent partner to larger private operators and government lotteries around the world. Kambi employs 250 people in offices in London, Stockholm, Malta and Manila. Its clients include Unibet, Paf, Expekt, Nordicbet, Interwetten, Asian-Logic, and they have just signed with Grupo Acrismatic, one of Spain's leading casino groups, to deliver a complete sports betting service, including odds compilation, risk management, customer profiling and a technical platform. Kambi has exclusive responsibility to provide all of these sports betting solutions on all Acrismatic's distribution channels: online, mobile, and retail.

Kristian Nylén started in the gaming industry with Unibet in 2000 as an odds compiler. By 2003 he had become head of Unibet's Sportsbook. In late 2009 he launched Kambi (which means perfection in Japanese) as a special project for Unibet, and he became CEO when Kambi was set up to operate as an independent company in 2010. E Gaming Review named Unibet European Sportsbetting Operator of the Year in 2006, 2008 and 2009. PGRI talked about the revolution in sports-betting with Mr. Nylén at the ICE Totally Gaming Show in London.

online sports-bets in just a few years.

So technology has changed the essence of sports-betting. Before the internet, the player bet solely on the outcome. Now, the process of betting becomes an interactive game itself. With in-play betting the player is directly engaged and can bet multiple times during the game itself, right?

K. Nylén: Absolutely. When I started betting some 30 years ago, it was strictly on pool betting. You handed in a coupon consisting of 13 pre-selected football matches on a Thursday at the latest, and then matches were on Saturday. Now you can bet after a match has started, and continue to place bets as your assessment of the odds changes. It has had a massive effect on consumer engagement. It is way more fun for the player, creating a truly interactive experience in which the player is directly involved in the game. It is taking the entertainment value of sports-betting to a completely new level.

Live in-play betting, as opposed to conventional betting, turns the betting experience into a real game itself, a head to head competition between the player and the trader (odds compiler). You have more equal conditions, the pace is very fast so there is no time for second opinions. The house retains an advantage of the margin. But the house needs to present updated odds for all markets several times per minute so the player has the advantage of being able to bide their time and wait for the right opportunity to strike.

Kambi comes from a culture of “By players – for Players” and it has always been our aim to give the end user the best possible user experience in order to be able to compete on more equal terms. Relevant offering presented in an intuitive way, supporting data and stats, very fast odds updates pushed out to the client etc. - This is what will generate the most satisfied customers and in the end also the highest revenues for the operator.

And it has resulted in an explosion in the volume of sports-betting, especially over the last year or two, right?

K. Nylén: I would say that the new era started around 2000, and the internet was the change-agent. In-play betting started growing around 2006. What you

refer to is the recent exponential growth of sports-betting precipitated by in-play betting, both in terms of the number of events offered by companies, but also in gross winnings for operators.

Is there statistical data showing the percentage of bets that are the old style, Pre-match bet, versus in-play betting?

K. Nylén: In-play betting now constitutes around 60-70% of total turnover generated on sports betting. That has increased from 2007, when in-play betting was less than 20% of the market to over 60% today. This incredible growth rate will probably continue for couple of more years before it stabilizes.

Is the explosion in the market for in-play betting a result of technological change, i.e. the internet and smart-phones and such, or a regulatory change?

K. Nylén: It is all about technological change. Regulatory change does matter, but it is technology that is driving the changes, making new game-styles available. Companies like Kambi have also developed the kind of secure platforms to deliver new options, like in-play betting. We also developed the ability to do in-play betting on matches that are not even televised. In the beginning you could only bet on matches that were being televised. In effect, we are increasing the amount of game content, simply by making it possible to bet on far more matches, and even follow the play action live streamed in your computer so you can bet during the match.

Why is Kambi separating from Unibet?

K. Nylén: Unibet is a B2C operator. Kambi is a B2B partner. Kambi has no direct connection to the consumer. Like Unibet, our customers have the direct connection to the consumers, the players. As a B2B partner, we want our customers to be confident in our commitment to supporting their mission, and to divest ourselves of any interest in establishing a B2C approach ourselves. To that end, Unibet is divesting its interest in Kambi so that Kambi will be an independent B2B supplier. This really frees us up to focus on what we do best and develop solutions for all operators in the sports-betting market.

Consumer trends seem to be evolving

more rapidly in the sports-betting sector than other gaming sectors. How do your sports betting solutions position the operator to stay ahead and take full advantage of these fast-moving market changes?

K. Nylén: One very important change in the last couple years has been in the regulatory frameworks of many European markets. Kambi has made it our personal mission to fully understand how to comply with the regulations and public policies of all jurisdictions. That is important because the operator needs to know that their commercial partner knows how to support an approach that is compliant with all regulations. Kambi has developed the in-house skill-sets and the technology platforms that are flexible to support an approach that is compliant with regulations all over the world.

That is quite the challenge. In fact, the commercial operators lobby intensively for the EU Commission to force the member states to harmonize their regulatory frameworks. But, the member states have different public policy agendas and do not want to compromise the interests of their citizens by imposing a ‘one-size-fits-all’ regulatory framework. The regulated markets appreciate the efforts of commercial partners like Kambi who want to enable them to preserve their independence and rights to determine their own regulatory and taxation frameworks.

K. Nylén: It is a challenge and Kambi is dedicated to helping our customers, in all jurisdictions, to satisfy the needs of their own unique markets and preserve their own regulatory frameworks. We have a big B2B business in both Italy and Denmark, among many others, which have quite different regulatory frameworks. We have invested heavily in building that capability to adapt to the different needs of different jurisdictions. You’re right, it’s not easy!

Italy and Denmark are sports-betting markets that are among the most progressive and evolved regulatory regimes, correct?

K. Nylén: Absolutely, especially Denmark. Their government have an enlightened approach towards regulation and taxation. Public policy considerations are, of course, of preeminent concern. But a

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healthy market relies on a rational approach that works well for the operators too. Without that, the players will go to the illegal underground operators. That is unfortunate but it is also the reality. An enlightened regulatory and taxation framework enables the regulated operators to compete and get the business. That's a very, very important element of any regulatory system. Most important is to tax Gross winning rather than turnover. By doing that licensed operators can offer an attractive product. Secondly, not to restrict the offering too much. In France, for instance, where the taxation is too high, the underground markets are flourishing due to a massive competitive advantage. That is really not serving the interests of anyone. In fact, it leaves the players unprotected from illegal and potentially fraudulent operators. The only way to fight the illegal, untaxed operators is to offer a good alternative, one that appeals to the players.

How important is it for operators to offer a large variety of games? For instance, is there much crossover between sports-betting and other game categories?

K. Nylén: I do not know that there is data to answer that question with precision. However, I am from Sweden where Svenska Spel is the government operator of lotteries and other games and is also the dominant sports-betting provider. Other sports-betting operators have entered the Swedish market, but Svenska Spel still has the dominant market share. I would submit that the reason for that is they have a built-in and loyal customer base, a reputation for integrity and security, and a network of land-based retail outlets that already sell other gaming products. This gives them a huge advantage, and makes it very difficult for new entries to take customers away. Most government lotteries are in the same position. By providing the complete portfolio of gaming products including sports-betting, government lotteries could be the operator of choice for the vast majority of consumers.

How can we protect against corruption in sports that may result from match-fixing?

K. Nylén: First of all you can't regulate against match-fixing as betting takes place

globally., It needs to be a collaborative effort, between , the sports-betting operators and the federations of sports organizations. Government and shapers of public policy must also recognize that placing bets on fixed matches is predominately made anonymously and not online where you have to present valid ID's, credit cards and bank details. By regulating and taxing the sports-betting market, regulators get better control of the sports betting and also makes the underground market less important.

With respect to preservation of integrity in sports and eliminating match-fixing, the interests of licensed operators are totally aligned with those of regulators, governments, and sports federations. After all operators are the ones taking the hits of bent events. For the operator there is also a need that their customers can feel confident that the games are all honest; otherwise they will be afraid to bet because the odds of winning favor the criminals with inside information and are against the honest players. We all need to work together to fight the source of match-fixing, and that means eliminating the illegal underground market.

There is an organization for some of the leading European online operators called ESSA. It's a cooperative agreement among online bookmakers to share information for the purpose of eliminating match-fixing and corruption. ESSA has also agreements to cooperate with some of the major sports federations such as FIFA, UEFA and ATP.

Sports betting is really a transaction between a buyer and a seller, and as a seller you don't want to sell more to the people who are winning consistently. You would want to sell more to the people who are recreational players and enjoying the game more for that purpose as opposed to the professional who's basically taking profit out of the operator's pocket, albeit legally.

K. Nylén: Exactly. The outcome for the operator of sports-betting is not guaranteed. If there are more winners than losers, the operator loses money. That is why Risk Management is such an important component to an effective sports-betting operation and it is one of the cornerstones to Kambi Sports Solutions. By analyzing the customer behaviors Kambi is very successful

determining whether a customer will be a profitable customer long-term. Sports betting is a bit like Black Jack, it's very important to restrict the "wise" players (cf card counters on Black Jack). By knowing the customer profile the trader knows whether to accept high stakes or not as well as whether to change the price. The technological tools and know-how required for effective risk management are actually very sophisticated and pay for themselves by identifying and enabling the operator to avoid high-risk positions.

How does an operator determine which business functions to do themselves versus going with a complete turn-key solution?

K. Nylén: The smaller operator, and the start-up operator, really needs to go with a turn-key solution. It would take years and a costly learning process to replicate what a company like Kambi could implement in weeks. Too, you need to realize that many of these business functions are mission-critical. You can't afford to make mistakes because there is too much money involved. There is also the reputation of the operator which is a most critical asset that needs to be protected. The operator really must avoid miss-steps of any kind.

Even the large operator is better off outsourcing to a full-service provider, for most of the same reasons that apply to a small operator. The transaction-processing and risk management functions are mission-critical and that's true for large and small operators alike. In-play betting is the future and that is where it all gets complicated. Kambi offers more than 5000 in-play events per month. That is huge. Only a handful of companies do that. That enables us to implement a proven set of solutions immediately. It would literally cost the operator much more to do it themselves, and it would expose them to higher risk. It's quite expensive to build up a proper trading organization with today's demands on In-play betting. Kambi currently employ more than 250 people. Finally the operator can start making money right away, offering thousands of in-play matches with 24/7 service. ♦