

The Bigger They Are, The Harder They Fall:
Importance of Compliance in the Face of Tightening Regulation
iGaming Business Magazine: November / December 2008

For well over a decade we've had the opportunity to see firsthand countless examples of operators toppling over because they failed to comply with regulatory requirements.

Whether it was a critical weakness exploited by an attacker, a long-standing system problem that eventually resulted in a failure, or just a cautious regulator that shut down their operations, it's clear that compliance should never be overlooked. Failing to keep up can mean failing to make money!

Compliance with regulatory requirements is becoming increasingly important for both operators and suppliers alike. Even third-party suppliers are not immune to the necessity for compliance.

More and more, operators are migrating towards highly-regulated and reputable jurisdictions so that they can add credibility to their operations. On the one hand, this builds additional trust with

Sure, common hardware RNGs can be purchased off the shelf, and typical software RNGs can be researched and coded in a matter of days. But that doesn't necessarily mean that you're free and clear. With RNGs, it's all about how they're *implemented* into your system. While you're at it, you could easily order an engine from Ferrari, but would you feel confident installing it into your car at home, on your own?

Failing to implement your RNG properly can leave it with vital weaknesses creating biases or patterns in the outcomes. Inadequate RNG outcomes like that are just waiting for someone to find a way to predict the outcomes. Remember also that your RNG will have to be protected even from those who might have access to an old copy of your source code, like a former employee!

To complicate matters further, even if you have the best RNG on the market up and running perfectly, any subsequent changes can cause entirely new problems. We've seen many operators add new games to their RNG, assuming that what worked before will work again. Unfortunately, just because an RNG supports the requirements of one game, doesn't necessarily mean that it will work correctly for another game. Imagine offering a game with a jackpot that's physically impossible to be won. Needless to say this wouldn't go over well at all.

Even changes as simple as computer hardware on the RNG server can cause catastrophic failures. You'd be surprised by how much RNGs can act like card-houses: pull out one card, and watch the whole thing come crashing down!

Games

Many regulators also have strict requirements relating to your game design, especially the mathematics.

Time and time again, we've seen many leading operators fall victim to incorrect game mathematics. Often we are called in after one or more games is paying too much out over a period of time. Hopefully not too long though before it's noticed.

Game mathematics can also be extremely complex. It is critical for suppliers and operators alike to know the correct characteristics of their games to make sure that they pay out precisely as intended.

Some games require mathematical calculations only, where other games might also require full simulations to be coded. Either way, any mistakes could result in dangerous misunderstandings about how the games pay out.

Imagine the disastrous fallout from a game running live for several months before anyone uncovers that it is in fact designed to pay out at well over 100% Return to Player (RTP), resulting in a profit for the players and consequently a vacuum on profits.

Information Systems Security (ISS)

ISS encompasses the administrative, technical and physical & environment controls in place to facilitate an organization's operations. In fact, ISS relates not only to the gambling industry, but to any high-security organization, such as banking or e-commerce.

Many of the most reputable regulatory bodies around the world have ISS requirements in place to help reduce the possibility of costly and embarrassing exposures.

Administrative controls help an organization to protect itself from the damaging effects of negligence and fraud, both by external sources and by an organization's own staff, by ensuring that policies and procedures are documented and strictly followed.

Technical controls help to protect from various technological exposures like viruses, hackers trying to steal credit card information and perform Denial of Service (DoS) attacks, or any other form of electronic attack or failure of the system.

Physical & environment controls help to minimize the damage caused by natural disasters like fires and floods, and from more nefarious events like break-ins and attempts at theft or vandalism.

Recent scandals with super-user accounts are clear examples of how even reputable organizations can fall victim to failures of their own control environments. Such events are unfortunately more costly than the implementation of any reasonable control systems that would have protected them in the first place.

Player Identity and Location Verification

We've also seen operators face serious repercussions resulting from players in illegal jurisdictions, such as the US. Failing to block a player gaming from a prohibited jurisdiction, and thereby allowing them to register an account and make real-money bets on your site, can put your company at significant risk from the long arms of the law.

Of course, some regulatory bodies around the world have stood by their position that any foreign Government, US or otherwise, has no jurisdiction outside of their borders. On the other hand, many other regulators are quite apprehensive of such matters, and have put in place strict regulation requiring that players from illegal jurisdictions are blocked.

You might *want* to stand on one side of the fence or the other in this particular matter. But if you're operating in a regulated jurisdiction then your opinion doesn't really matter. If the regulator has chosen that players from illegal jurisdictions must be blocked, then the decision has effectively been made for you. Failure to comply will mean risking your license to operate!

Even if you comply with the regulator's decision regarding illegal jurisdictions, you must still fully verify the identity of your players, including their age.

We've seen countless examples of operators facing embarrassing reprimands and fines from regulatory bodies when underage players were allowed to place bets on their site. Not to mention the headache of trying to undo the effects of their fraudulent transactions – not an easy task, particularly with any form of peer-to-peer betting.

Underage gambling has always been a controversial topic, so failing to comply with player identity verification can mean attracting some very damaging press.

* * *

Whether the scandal of the day is an underage player betting on someone's site, a super-user account being compromised, or an RNG being cracked, the resulting impact is always the same... very, very bad!

Sometimes the bigger and more reputable the gaming organization, the more damage is caused by scandals and exposures.

These things may happen, but they don't have to happen to you. Protect yourself by running clean gaming operations, paying close attention to the details of your business, and getting your compliance testing independently performed. Accredited Testing Facilities (ATFs) stand ready to help you with your compliance testing, and the associated testing costs pale in comparison to what you risk losing if you fall behind.

We may find it challenging at times to keep up with tightening regulation, but the rewards of compliance far outweigh the alternative. Keeping up can give you an edge over your competition, and help to maintain responsible healthy business operations and revenues. Turning your back on compliance might land you in some very hot water indeed.

Bio



Mr. Noah Turner is the Chief Technical Officer (CTO) of Technical Systems Testing (TST), an internationally recognized Accredited Testing Facility (ATF) offering evaluation and consultation services for both the land-based (traditional / terrestrial) and Interactive gaming, lottery and Information Technology (IT) industries.

Office: +1 (604) 873-5833

Email: nturner@tstglobal.com

OFFICES:

Vancouver – Suite #420, 1367 West Broadway, Vancouver, British Columbia, Canada, V6H 4A7 // **O:** +1 (604) 873-5833 // **F:** +1 (604) 873-1075
London – Swan Centre, Fishers Lane, Chiswick, London, England, United Kingdom, W4 1RX // **O:** +44 (0)2087 474 956 // **F:** +44 (0)2087 427 967
Sydney – Suite #305 / 306, 30 – 40 Harcourt Parade, Rosebery, New South Wales, Australia, 2018 // **O:** +61(2) 9700 7023 // **F:** +61(2) 9700 7024
Melbourne – Level 28, 303 Collins Street, Melbourne, Victoria, Australia, 3000 // **O:** +61 (3) 9678 9095 // **F:** +61 (2) 9700 7024
Macau – Macau Number 39, 17F Central Plaza, 61 Avenida de Almeida Ribeiro, Macau, China // **O:** +853 8291 3992 // **F:** +853 8291 3889