

Taking a risk-based approach to regulation

The Alderney Gambling Control Commission (AGCC) is one of the most respected and experienced licensing authorities in the world. It is a pioneer in its field, and has spent the past 20 years honing and iterating its framework.

It was also one of the first in industry to adopt a risk-based approach to licensing, leveraging its knowledge and expertise to streamline the process for operators and service providers. Jorn Starck, Executive Director of the AGCC, talks about the advantages of adopting a risk-based approach, and why Alderney is one of only a few regulators in the sector that can do it.

What is meant by taking a risk-based approach and how does it work?

It means taking a practical approach to regulation and licensing, applying rules and requirements to businesses only if they apply to them. This differs to other frameworks, with many having a blanket obligation for operators and suppliers to conform, even if certain rules are not relevant to their business.

It is impossible for operators and suppliers to meet the criteria for all aspects of regulation and licensing in the myriad of markets and jurisdictions in which they are active. Taking a risk-based approach allows us to ensure they are compliant with those that apply to their business and the markets they are in, and that they are meeting those standards at the highest possible level.

Not all the world's regulators can do this with confidence, however, as it requires knowledge, expertise and experience that only a few have. The AGCC is one of them.

Has Alderney been taking a risk-based approach for some time now?

Taking a risk-based approach is nothing new for Alderney. Over the past 20 years, we have been able to fine-tune our approach, and work closely with other evaluation bodies to ensure we never miss a beat. For example, the Financial Action Task Force and Moneyval provide guidance on acceptable standards in several arenas, such as anti-money laundering and terrorist financing and we received a glowing report from our latest Moneyval inspection.

What are the main advantages of taking a risk-based approach?

For a start, it is much more efficient for operators and service providers. They can drive their businesses forward in a safe and secure environment, without the burden of over-regulation. The iGaming industry has grown rapidly over the past six years, but those plying their trade in the sector have struggled to adapt their businesses to the rules and regulations in each market.

There has been a lack of harmonisation and cooperation when it comes to regulation; there is no uniform approach via a common framework shared by multiple jurisdictions. Taking a risk-based approach – providing the assessors of the risk understands the risk in the first place – helps smooth the path for businesses entering multiple markets by relieving some of the regulatory pressure being applied by this patchwork approach.

This, in turn, has had a knock-on effect for all stakeholders, particularly banks and payment processors who tend to loosen their constraints when they are comfortable with the levels of oversight in place.

Are there specific challenges that come with taking a risk-based approach?

It is vital the regulatory body in question fully understands the sector they are applying the risk-based approach to. Alderney has always been a leader in the field of iGaming regulation, and it has taken time to develop our framework, which is now considered to be one of the most robust yet flexible in the world. That is the level of experience required to be able to take a risk-based approach to licensing.

Are there certain operators or service providers who face greater risk?

Yes, of course. This is often the case in developing markets and particularly those coming out of political and social turmoil. Bribery and corruption may be commonplace and a standard way of doing business, court systems may or may not be robust, and AML and data protection processes may not be in place. It is often the case, however, that with greater risk comes greater reward, and businesses want to get in on the action regardless.

In markets where this is the case, operators and service providers must put in place best practices ahead of time, or prior to them being written into law. This is to ensure they are operating to the highest possible standards, and that their customers are protected in line with internationally recognised best practices. Again, this can be achieved by taking a risk-based approach to licensing, but only by the most experienced and competent regulators, such as the AGCC.

Would you recommend regulators in new and emerging markets adopt a risk-based approach to licensing?

Yes, but only if they work hand-in-hand with experienced regulators such as the AGCC to ensure that best practices are adhered to. We suggest regulators in new and emerging markets go live with stringent requirements first, and then gradually migrate to a risk-based approach once the necessary experience has been gained. The AGCC has been working with regulators in new markets to help them build the necessary experience for several years now.