

LiAB

Latvian Interactive Gambling Association (LiAB)
Latvia Offshore Illegal Gambling Market Analysis

Report
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Executive Summary

This report has been prepared primarily for the **Latvian Interactive Gambling Association (Latvijas Interaktīvo Azartspēļu Biedrības or LiAB)** by **H2 Gambling Capital (H2)** - the lead authority regarding market data and intelligence on the global gambling industry. It provides a fresh, independent analysis of the size and depth of the current **offshore illegal and/or unlicensed gambling market** in Latvia.

We understand the context for the analysis given the increased commentary there is within Latvia on a perceived increase in the amount of unlicensed betting and gaming activity that has taken place particularly since COVID-19, despite the committed and strong stance on offshore law enforcement taken by the Latvia Lotteries and Gambling Supervisory Inspection (LGSI) as regulator.

As the trade association that represents the main onshore licensed interactive operators in the market, LiAB is particularly keen to work with the LGSI to develop greater insight into the main unlicensed operators offshore – particularly as one of the Latvian government’s primary objectives for the gambling sector in 2022 is the reduction of the share of unlicensed iGaming revenues that currently exist. A stand-alone, deeper dive H2 assessment of Latvia’s total offshore illegal gambling market is therefore required.

As part of the review process, we met with both the Ministry of Finance and the LGSI and have drawn on actual operating data submitted by all of LiAB’s members. We have also reviewed previous studies on the subject as context - including the most recent report *Latvian Interactive Gambling Industry: Challenges and Solutions to Reduce Illegal Market Share* prepared in March 2020 by Dr Arnis Sauka of the Stockholm School of Economics in Riga.

We believe this analysis therefore represents the most comprehensive and granular yet undertaken on the offshore illegal market and also succeeds current H2 Subscription data on the Latvian market which by definition is more topline.

The following **headline findings** emerged from our deep dive analysis:

Offshore Market Sizing, Channelling Rate and Lost Tax Take

The Latvian onshore online betting and gaming market generated €109m of gross win in 2021, having grown at a 3-year CAGR (2018-21) of 26%.

Looking ahead, H2 forecasts lower levels of growth of the onshore online market in Latvia, with the market forecast to achieve gross win of €172m in 2026, growing at a five-year CAGR (2021- 26e) of 10%.

H2 estimates that the Latvian offshore online betting and gaming market generated €33m of gross win in 2021, having declined at a 3-year CAGR (2018-21) of -2%.

Looking ahead, H2 forecasts a decline in the offshore online market in Latvia over the next few years. Overall, H2 forecasts a 2021-26e CAGR decline of -1%, leading to 2026 gross win of €31.6m.

H2 estimates that the onshore channelling has increased from 53% in 2018 to 77% in 2021 and is forecast to reach 85% by 2026.

Based on a tax rate of 10% of GGR, this implies that the Latvian Government is missing out on over €3m of gaming tax revenue per year. However, when taking into account other taxes paid, this doubles to over €6m per year – or a total of over €60m between 2018 and 2026.

Offshore Operator Profiling, Implied GGR and % Market Share

Our search found 27 offshore sites currently pointing at the Latvian market in the Latvian language. However, there are a further 239 sites which accept play from Latvian players with a Russian language option. On top of this, there are over 800 sites that have English language which allow play from Latvia.

The main success factors for the leading offshore operators are a well established and/or known brand operating in multiple markets; wide product offer; enticing bousing/sign up promotional offers; available mobile app option; varied payment options with the ability to use credit cards, crypto currency, and/or a range of other third-party payment methods alongside local currency. In terms of market share, a top 4 operators represent just over 40% of the offshore market, while the top 12 account for almost 80%.

H2 estimates that there are a total of c.11,000 customers currently using offshore betting or gaming sites

Offshore Market Regulation Benchmarking

The prevalence and availability of offshore betting and gaming sites generally is wholly dependent on the level of law enforcement and/or education of consumers undertaken by the incumbent government/regulator – and it is a truism that in most markets today, recreational consumers remain largely unaware who is and isn't an onshore licensed operator.

As well as a lack of awareness, many consumers are also drawn to offshore sites either through direct marketing or through accessing third party affiliate marketing sites.

The most sophisticated offshore operators stay ahead of an onshore market via adopting a range of tactics - such as targeting markets, attractive promotional offers and offering a wide variety of payment options.

Online gambling works best if the focus is on establishing 'optimum market equilibrium' – where the regulator has player security and taxation; the operators have market protection, advertising freedom, shared liquidity and profit; and the consumer enjoys choice, low taxation, value for money and player protection.

Those markets that have most limited offshore activity such as the UK, Czech Republic, Italy and Denmark – evidenced by having the highest channelling rates - are the ones that have generally liberalised and opened out their onshore product availability so that provision is better (at least comparable) to that available offshore.

Optimum regulated gambling markets operate an open licensing system, set a prudent taxation rate, have wide product availability and penalise unlicensed operators - resulting in a 90%+ channelling rate that doesn't encourage players to gamble offshore.

In Latvia, a 90%+ channelling rate will likely only be achieved if the licensed onshore operators are allowed to advertise more freely and the currently prohibitive personal income tax (PIT) is abolished.

H2 Credentials

H2 – a global company based in the UK - is widely recognised as **the leading authority** regarding market data and intelligence on the gambling industry. Together, our analysts 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. The 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;*
- ✓ *Ongoing 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.*

The **H2 Subscription** service is used by the vast majority of the sector's Tier 1 operators and suppliers; its major financial institutions, governments and regulators; and also its media outlets in their benchmarking of performance to shareholders.

The **H2 Premium** 'deep dive' service is used regularly as part of bespoke market entry assessments; strategy/new business development; tax rate benchmarking/sensitivity analyses; the due diligence processes associated with major investment decisions; financial transactions; market share analyses, and also to assess the impact of any regulatory change in the sector.

H2 is partnered with Clarion Gaming and iGaming Business in the trade media, Princeton Public Affairs Group in the North American market, TrustPartners within the EU and the International Betting Integrity Association within sports betting integrity.

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H2 Terminology

Products

We breakdown the global gambling market as follows:

Betting	Betting/wagering on the outcome of a sports competition or other event or process; the likelihood of anything occurring or not occurring; or whether anything is or is not true.
Gaming	Covers all real money gaming activity that takes place with a licensed landbased or online casino – including table games (roulette, blackjack, etc), gaming (slot) machines and bingo.
Lotteries	Random number draw games or instant ticket/scratch cards offered by national or society/charity lotteries.
Landbased	Physical gambling activity processed at licensed premises, including bets made via voice over telephone.
Online	Activity that takes place via the internet (i.e. computer, mobile, iTV). May also be termed: interactive, digital, remote, iGambling or iGaming).
Mobile	Any activity using a device with a mobile operating system i.e. mobile handset or tablet.
Channelling	Percentage of the online market that is via its onshore licensed operators

Onshore and Offshore

H2's analysis categorises gambling spend into three main markets - activity where the operator is licensed **onshore** in the same jurisdiction as the player is located (also known as 'white market'); activity where the operator is licensed **offshore** in a different market (aka 'grey market'), or activity where the operator is completely unlicensed or illegal (aka 'black market'). Definitions as to what constitutes **offshore** or illegal market gambling vary from jurisdiction to jurisdiction. For this study, we have defined offshore in Latvia as:

Operators that are not licensed by the Latvia Lotteries and Gambling Supervisory Inspection (LGSi) to provide online gambling services to Latvian citizens..

Gross Win or GGR

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.

Introduction Purpose Of This Report

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Section 1 Offshore Market Sizing, Channelling Rate and Lost Tax Take

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Based on a tax rate of 10% of GGR, this implies that the Latvian Government is missing out on over €3m of gaming tax revenue per year. However, when taking into account other taxes paid, this doubles to over €6m per year – or a total of over €60m between 2018 and 2026.

Onshore Market Size

1. We analyse the total market size of the Latvian online betting and gaming market, both in terms of the regulated onshore market and the offshore illegal market. We split each of these between betting and gaming and show the implied onshore channelling of each product.
2. The Latvian onshore online betting and gaming market generated €109m of gross win in 2021, having grown at a 3-year CAGR (2018-21) of 26%. We that the clear acceleration was in 2021, when the market grew by 92% year on year, however this was in part due to lower 2020 base where the market was closed for 2 months.
3. Within this, gaming is the largest segment, accounting for €90m of gross win (82% of total market gross win) and has seen stronger growth than betting over the past few years.

Fig 1: Latvia Onshore Market Gross Win 2018-21 (€m)

GGR (€m)	2018	2019	2020	2021	2018–2021 VII	2020–2021 izaugsme
Onshore Betting	13,3	14,9	13,2	19,4	9 %	47 %
Onshore Gaming	27,9	39,8	43,7	89,6	31 %	105 %
Total Onshore	41,2	54,7	56,8	109,1	26 %	92 %

Source: H2 Gambling Capital, 2022

4. Looking ahead, H2 forecasts lower levels of growth of the onshore online market in Latvia, with the market forecast to achieve gross win of €172m in 2026, growing at a five-year CAGR (2021-26e) of 10%. Within this, betting is forecast to grow slightly faster than gaming, although this is from a lower base, and gaming is still forecast to represent c.80% of all onshore betting and gaming activity in 2026.

Fig 2: Latvia Onshore Market Gross Win 2021-26e (€m)

GGR (€m)	2021	2022	2023	2024	2025	2026	2021–2026 VII
Onshore Betting	19,4	24,5	26,3	30,2	32	36,1	13 %
Onshore Gaming	89,6	109,8	120,8	128	133	136,2	9 %
Total Onshore	109,1	134,2	147,1	158,2	165	172,3	10 %

Source: H2 Gambling Capital, 2022

Offshore Market Size

5. We estimate the Latvian offshore market based on a comprehensive scan and site/app traffic analysis audit of all URL domains either (a) proactively or (b) passively accepting business from the market in both the local language and currency, as well as any product actively tailored to Latvian citizens via third-party affiliate marketing sites. Given the high levels of web blocking that the Latvian authorities have put in place, this is harder to estimate than in other jurisdictions.
6. We note that the list of blocked sites now totals over 2,600 – although a large number of these are variables of the same site – for example, ‘nomini.com’, ‘nomini2.com’, ‘nomini3.com’ etc. However, despite this, H2 was able to register on nomini14.com through a VPN using a Riga-based IP address, with a Latvian address/phone number and was offered a large number of online wallet deposit options.
7. While H2 was able to track web traffic for what it believes to be c.30 of the most active sites in Latvia, there is an inherent margin for error when estimating traffic across ‘proxy’ web addresses and through using VPNs so that the traffic looks like it is coming from other countries. However, to aid our analysis, we also conducted research on key search terms related to these sites to see how they had changed over time. Finally, H2 sense checked its data by comparing the implied channelling rate to what may be expected given the web blocking, but also the current tax situation and advertising restrictions.
8. Based on the above, H2 estimates that the Latvian offshore online betting and gaming market generated €33m of gross win in 2021, having declined at a 3-year CAGR (2018-21) of -2%. Within this, the split between betting and gaming is fairly even, unlike the onshore market where gaming product accounts for the lion’s share of gross win.
9. We note that the temporary closure of the onshore market in 2020 led to a boost to the offshore market – although this was more on the gaming side, as the betting market offshore was still impacted by sporting cancellations. However, this reversed in 2021, as those onshore players that did play with offshore sites during the closure largely reverted back to onshore sites when they reopened.

Fig 3: Latvia Offshore Market Gross Win 2018-21 (€m)

GGR (€m)	2018	2019	2020	2021	2018–2021 VII	2020–2021 Growth
Offshore Betting	19,7	20,2	16,4	17,2	-5 %	5 %
Offshore Gaming	16,8	14,7	19,2	16,1	3 %	-16 %
Total Offshore	36,6	34,9	35,6	33,3	-2 %	-7 %

Source: H2 Gambling Capital, 2022

10. Looking ahead, H2 forecasts a decline in the offshore online market in Latvia over the next few years. Overall, H2 forecasts a 2021-26e CAGR decline of -1%, leading to 2026 gross win of €31.6m.

Fig 4: Latvia Offshore Market Gross Win 2021-26e (€m)

GGR (€m)	2021	2022e	2023e	2024e	2025e	2026e	2021–26e CAGR
Offshore Betting	17,2	16,7	16,4	16,1	15,8	15,5	-2 %
Offshore Gaming	16,1	16,1	16,1	16,1	16,1	16,1	0 %
Total Offshore	33,3	32,8	32,5	32,2	31,9	31,6	-1 %

Avots: H2 Gambling Capital, 2022. gads

Total Market Size / Channelling

11. Taking into account the reported onshore betting gross win and the offshore estimates, H2 estimates that the total Latvian betting market generated €37m of gross win in 2021 – with only 53% of this through regulated onshore operators. However, H2 forecasts that the onshore betting market is going to grow at a low double-digit CAGR between 2021 and 2026 to reach €36m, while the offshore market is going to decline by a low single-digit CAGR over the same period. Therefore we project that 70% of the total betting market will be onshore by 2026.

Fig 5: Latvia Betting Market Gross Win 2018-26e (€m)

GGR (€m)	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2021-26e CAGR
Onshore Betting	13,3	14,9	13,2	19,4	24,5	26,3	30,2	32,0	36,1	13 %
Offshore Betting	19,7	20,2	16,4	17,2	16,7	16,4	16,1	15,8	15,5	-2 %
Total Betting	33	35,2	29,6	36,6	41,2	42,7	46,3	47,8	51,6	7 %
% Onshore	40 %	42 %	45 %	53 %	59 %	62 %	65 %	67 %	70 %	

Source: H2 Gambling Capital, 2022

12. Latvijas In terms of the Latvian gaming market, this is substantially larger than the betting market at €106m in 2021 compared to betting at only €37m. Furthermore, there is a much higher onshore channelling rate, with an estimated 85% of gaming gross win generated through licensed onshore sites in 2021. This increases to 89% onshore by 2026, with onshore gaming forecast to grow at a high single digit CAGR, and offshore gaming forecast to remain flat.

Fig 6: Latvia Gaming Market Gross Win 2018-26e (€m)

GGR (€m)	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2021-26e CAGR
Onshore Gaming	27,9	39,8	43,7	89,6	109,8	120,8	128	133	136,2	9 %
Offshore Gaming	16,8	14,7	19,2	16,1	16,1	16,1	16,1	16,1	16,1	0 %
Total Gaming	44,7	54,4	62,9	105,7	125,9	136,9	144,1	149,1	152,3	8 %
% Onshore	62 %	73 %	69 %	85 %	87 %	88 %	89 %	89 %	89 %	

Source: H2 Gambling Capital, 2022

13. The total Latvian betting and gaming market is estimated to have generated €142m of gross win in 2021 and is forecast to grow at a 7% 2021-26 CAGR to reach €204m by 2026. Within this, the onshore market is forecast to grow at a 10% CAGR, while the offshore market is forecast to decline at a -1% CAGR. H2 estimates that the onshore channelling has increased from 53% in 2018 to 77% in 2021 and is forecast to reach 85% by 2026.

Fig 7: Latvia Total Betting & Gaming Market Gross Win 2018-26e (€m)

GGR (€m)	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e	2021-26e CAGR
Onshore Total	41,2	54,7	56,8	109,1	134,2	147,1	158,2	165	172,3	10 %
Offshore Total	36,6	34,9	35,6	33,3	32,8	32,5	32,2	31,9	31,6	-1 %
Total Market	77,7	89,6	92,5	142,4	167	179,6	190,4	196,9	203,9	7 %
% Onshore	53 %	61 %	61 %	77 %	80 %	82 %	83 %	84 %	85 %	

Source: H2 Gambling Capital, 2022

Estimated Lost Tax Revenue

14. Based on a tax rate of 10% of GGR, this implies that the Latvian Government is missing out on over €3m of gaming tax revenue per year – or a total of €30m between 2018 and 2026.

Fig 8: Latvia Offshore Betting & Gaming Market – Loss of Tax Gaming Tax Revenue (2018-26e)

GGR (€m)	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Offshore GGR	36,6	34,9	35,6	33,3	32,8	32,5	32,2	31,9	31,6
Gaming Tax Rate	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %
Gaming Tax Foregone	3,66	3,49	3,56	3,33	3,28	3,25	3,22	3,19	3,16

Source: H2 Gambling Capital, 2022

15. However, onshore operators generate other taxes on top of the gaming taxes. The most notable of these are value-added tax, payroll taxes and income tax. Analysis of licensed operators suggests that these other taxes amount to a further c.10% of revenues, taking the total amount of tax forgone to c.€6-7m per year, or over €60m between 2018 and 2026.

Fig 9: Latvia Offshore Betting & Gaming Market – Loss of Total Tax Revenue (2018-26e)

GGR (€m)	2018	2019	2020	2021	2022e	2023e	2024e	2025e	2026e
Offshore GGR	36,6	34,9	35,6	33,3	32,8	32,5	32,2	31,9	31,6
Gaming Tax Rate	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %
Gaming Tax Foregone	3,66	3,49	3,56	3,33	3,28	3,25	3,22	3,19	3,16
Other Tax as % GGR	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %	10 %
Other Tax Foregone	3,66	3,49	3,56	3,33	3,28	3,25	3,22	3,19	3,16
Total Tax Foregone	7,31	6,98	7,13	6,66	6,56	6,50	6,43	6,37	6,31

Source: H2 Gambling Capital, 2022

16. We do however note that if this gambling activity were brought onshore, the amount of activity may be reduced, given the punitive income tax on customers' funds. However, the foregone tax revenue shouldn't be the primary driver for reducing the offshore market – rather it is the lower levels of customer protection – particularly for the most vulnerable customers.

Section 2 Offshore Operator Profiling, Implied GGR and % Market Share

Our search found 27 offshore sites currently pointing at the Latvian market in the Latvian language. However, there are a further 239 sites which accept play from Latvian players with a Russian language option. On top of this, there are over 800 sites that have English language which allow play from Latvia.

The main success factors for the leading offshore operators are a well established and/or known brand operating in multiple markets; wide product offer; enticing bousing/sign up promotional offers; available mobile app option; varied payment options with the ability to use credit cards, crypto currency, and/or a range of other third-party payment methods alongside local currency.

In terms of market share, a top 4 operators represent just over 40% of the offshore market, while the top 12 account for almost 80%.

H2 estimates that there are a total of c.11,000 customers currently using offshore betting or gaming sites

Offshore Operator Profiling

17. We undertook an audit of all the offshore operators/sites proactively targeting Latvian players in the Latvian language and accepting Euros. Our search found **27 offshore sites** currently pointing at the Latvian market in the Latvian language.
18. However, there are a further 239 sites which accept play from Latvian players with a Russian language option, which could also be targeting a segment of the Latvian market. On top of this, there are over 800 sites that have English language which allow play from Latvia, although it's unlikely that many of these are actively targeting the market, but instead reactively accepting wagers if received.
19. We have profiled a Top 12 operators currently believed to be the most active in the Latvian market to offer further insight into their respective operations. The operators selected have been identified based on player volumes/site traffic and also those most commonly referenced through **affiliate sites** on SEO search. Some of the most common affiliate sites active in the market include:

<https://latvijaskazino.com/>
<https://casino-latvia.com/>
<https://www.akazino.com/>
<https://kazinokaralis.com/>
20. Within these, kazinokaralis.com appears to be by far the largest affiliate site, based on web traffic analysis.

21. There are limited mobile app variations of note within the Latvian licensed onshore market therefore our profiling and product mix comparison is based largely on current web site benchmarking. The main differences in operator approach are summarised below.

Fig 9: Latvia Offshore Operator Benchmarking Analysis

Operator/Site	Main Licence(s) Quoted	Global Reach/Other Target Languages Offered	Product Mix	Marketing Differentials - Sign Up Offer/ Bonusing	Main Deposit & Withdrawal Payment Options
1. bet365.com	Malta	Bulgarian, Chinese, Czech, Danish, Dutch, English, Estonian, German, Greek, Hungarian, Italian, Norwegian, Polish, Portuguese, Romanian, Simplified Chinese, Slovak, Spanish, Swedish.	Sportsbook Esports Live/in-play betting Racebook Virtual sports Baccarat Blackjack Live dealer Roulette Scratch cards Slots Video poker	Live streaming/commentary, Bet Builder and Cash Out Early options, Player alerts. Bet365 Partners affiliate programme. Up to €100 in BetCredits. Mobile app.	Bank Wire Transfer Check/Cheque Direct/Local/Fast Bank Transfers ecoPayz EntroPay iDebit Klarna Maestro NETELLER PayPal Skrill Visa
2. 1xbet	Curacao		Sportsbook Esports Live/in-play betting Racebook Fantasy sports Virtual sports	Higher than average odds, wider variety of bet options than most, strong gaming cross-sell. 1xBet Partners affiliate programme. Register and receive 200% bonus on first deposit.	Bank Wire Transfer Bitcoin Direct/Local/Fast Bank Transfers ecoPayz EntroPay Ethereum Jeton Wallet Maestro MasterCard MTS Bank NETELLER Paysafecard Rapid Transfer Skrill Trustly Visa Wallet One WebMoney
3. stake.com	Curacao	English, French, Japanese, Korean, Polish, Portuguese, Russian, Spanish, Turkish, Vietnamese	Baccarat Blackjack Esports Live/in-play betting Roulette Sportsbook Video poker	UFC official betting partner. Up to 50% extra on top of your winnings when you place a minimum 3-fold accumulator.	Visa Mastercard

4. pinnacle.com	Curacao Malta	Chinese, Czech, English, Finnish, French, German, Hebrew, Italian, Japanese, Korean, Norwegian, Polish, Portuguese, Russian, Simplified Chinese, Spanish, Swedish.	Sportsbook Live/in-play betting Virtual sports	Esports Championship Series main sponsor. €25 welcome offer.	Bank Wire Transfer Bitcoin Direct/Local/Fast Bank Transfers eCheck ecoPayz EntroPay iDebit InstaDebit, MasterCard MuchBetter NETELLER Paysafecard Qwi Wallet Skrill Trustly Visa WebMoney
5. 888	Malta Gibraltar UK	English, Finnish, French, Japanese, Portuguese, Portuguese (Brazilian), Russian, Simplified Chinese, Spanish, Thai.	Sportsbook Esports Live/in-play betting Racebook Virtual sports Baccarat Blackjack Live dealer Roulette Scratch cards Slots Video poker	88 € No Deposit Bonus plus 200% up to €300 Bonus. Mobile app.	Bank Wire Transfer Debit Card ecoPayz iDebit Interac Maestro MasterCard MuchBetter NETELLER PayPal Qwi Wallet Rapid Transfer Skrill Trustly Visa WebMoney
6. vulkan vegas	Curacao	Russian	Baccarat Blackjack Live dealer Roulette Scratch/Skill games Slots Video poker	Welcome Bonus for the first 2 deposits €1,000 + 125 Free Spins. Mobile app..	Bank Wire Transfer
7. fonbet.ru	Russia	English, Kazakh, Russian	Sportsbook Esports Live/in-play betting	€25 Free Bet on sign up.	Beeline MasterCard MegaFon Mobile Mir MTS Bank Qwi Wallet TELE2 Visa Yandex
8. parimatch.com	Curacao	Bengali, English, French, German, Hindi, Indonesian, Italian, Japanese, Malay,	Sportsbook Live/in-play betting Racebook Baccarat	Bet €5 & get €30 in bonuses. Mobile app	Advanced Cash Bitcoin EntroPay Lifecell MasterCard MegaFon

		Portuguese, Russian, Sinhalese, Spanish, Swahili, Tamil, Thai, Turkish, Vietnamese.	Blackjack Roulette Scratch cards Video poker Virtual sports		Mobile MTS Bank NETELLER Qivi Wallet Skrill TELE2 Visa WebMoney Yandex
9. winline.ru	Russia	Russian	Sportsbook Esports Live/in-play betting	€25 Free Bet on sign up.	CUPIS Maestro MasterCard Moneta.RU Qivi Wallet Visa Yandex
10. PokerStars	Isle of Man Malta	Bulgarian, Chinese, Croatian, Czech, Danish, Dutch, English, Estonian, Finnish, French, German, Greek, Hungarian, Icelandic, Italian, Japanese, Lithuanian, Norwegian, Polish, Portuguese, Romanian, Russian, Simplified Chinese, Slovenian, Spanish, Swedish, Ukrainian.	Baccarat Live dealer Roulette Scratch cards Slots Video poker	Live world and regional events including EPT stops, Players No Limit Hold'em Championship. Mobile app..	ecoPayz EntroPay InstaDebit Instant Echecks MuchBetter NETELLER PayPal PokerStars Pay+ Card Qivi Wallet Skrill Visa WebMoney Yandex
11. betway.com	Malta UK	Czech, Danish, English, Finnish, French, German, Italian, Norwegian, Polish, Portuguese, Russian, Spanish, Swedish.	Sportsbook Esports Live/in-play betting Racebook Virtual sports Baccarat Blackjack Live dealer Roulette Scratch cards Video poker	Up to €30 Free Bet. Mobile app	Direct/Local/Fast Bank Transfers eCheck ecoPayz EntroPay iDebit InstaDebit MasterCard NETELLER Skrill Visa
12. 1xstavka.ru	Russia	Azerbaijani, English, French, German, Portuguese, Romanian, Russian, Spanish, Turkish, Ukrainian, Uzbek.	Sportsbook Esports Live/in-play betting	N/A	Bank Transfer MasterCard Qivi Wallet Visa WebMoney Yandex

Source: H2 Gambling Capital, 2022

22. From the above profiling analysis, we can see the main success factors for the leading offshore operators can be characterised as:
- Well established and/or known brand operating in multiple markets.
 - Varied sportsbook with live in-play betting and accompanying live action streaming/commentary – also Esports option.
 - Strong available cross-sell into online casino gaming and availability of the live dealer option.
 - Enticing bousing/sign up promotional offers.
 - Available mobile app option.
 - Varied payment options with the ability to use credit cards, crypto currency, and/or a range of other third-party payment methods alongside local currency.
 - Strong presence on affiliate marketing sites and also use of social media.
23. A further point should be made in reference to where each of these ‘grey’ market operators are licensed as there are variations with licensing hubs such as Curacao, Malta and Russia all under scrutiny over the last 12 months.

Offshore Customer Numbers

24. From the above we have then used data on average spend and our own web traffic analysis to estimate the average player numbers on offshore sites for both betting and gaming.
25. H2 estimates that there are c.8,200 Latvian customers wagering with offshore betting operators, and c.5,500 customers wagering with offshore gaming operators. As some of these customers use both betting and gaming sites, H2 estimates that there are a total of c.11,000 customers using offshore betting or gaming sites.

Fig 11: Latvia Offshore Users (2021)

2021	Betting	Gaming	Total
GGR (€m)	17,3	16,1	33,3
GGR per User	2095	2911	3087
Offshore Users ('000s)	8,2	5,5	10,8

Source: H2 Gambling Capital, 2022

Section 3 Offshore Market Regulation Benchmarking

The prevalence and availability of offshore betting and gaming sites generally is wholly dependent on the level of law enforcement and/or education of consumers undertaken by the incumbent government/regulator – and it is a truism that in most markets today, recreational consumers remain largely unaware who is and isn't an onshore licensed operator.

As well as a lack of awareness, many consumers are also drawn to offshore sites either through direct marketing or through accessing third party affiliate marketing sites.

The most sophisticated offshore operators stay ahead of an onshore market via adopting a range of tactics - such as targeting markets, attractive promotional offers and offering a wide variety of payment options.

Online gambling works best if the focus is on establishing 'optimum market equilibrium' – where the regulator has player security and taxation; the operators have market protection, advertising freedom, shared liquidity and profit; and the consumer enjoys choice, low taxation, value for money and player protection.

Those markets that have most limited offshore activity such as the UK, Czech Republic, Italy and Denmark – evidenced by having the highest channelling rates - are the ones that have generally liberalised and opened out their onshore product availability so that provision is better (at least comparable) to that available offshore.

Optimum regulated gambling markets operate an open licensing system, set a prudent taxation rate, have wide product availability and penalise unlicensed operators - resulting in a 90%+ channelling rate that doesn't encourage players to gamble offshore.

In Latvia, a 90%+ channelling rate will likely only be achieved if the licensed onshore operators are allowed to advertise more freely and the currently prohibitive personal income tax (PIT) is abolished.

Offshore Market Gambling - Operating Analysis

26. As a final piece of analysis, we have run an added value assessment on offshore market regulation generally based on learnings from a range of other gambling jurisdictions. No two markets are the same but the commentary below may provide some useful added context to help LiAB, LGSi and the Latvian Government in its fight against illegal market operations.
27. We have drawn particular learnings from markets similar to Latvia in terms of gambling traditions and regulatory approach, as well as others categorised under three common legislative framework models as follows:

- Monopoly-led model: **Finland, Hungary, Norway**
- Limited open market model: **Czech Republic, Denmark, Estonia, Lithuania**
- Open market model: **Italy, Sweden, UK**

28. From a player/operating perspective, it is apparent that the prevalence and availability of offshore betting and gaming sites in a market is wholly dependent on both (a) the **level of law enforcement** and (b) the **education of consumers** undertaken by the incumbent government/regulator. The education of consumers in particular is often under-estimated and it remains an unfortunate truism that in most markets today, recreational consumers remain **largely unaware** who is and who isn't an onshore licensed operator.
29. Although HVPs (high value players) in particular are experienced gamblers who will more often than not actively seek out alternatives to onshore licensed provision, most recreational consumers are drawn to offshore sites either through **direct online search** or **local regional TV advertising** within their market. Third-party **affiliate marketing sites** are themselves also increasingly incentivised to push a variety of recommended offshore sites to the most liberal markets via SEO/web search.

Targeting Markets

30. Our analysis has found that the most sophisticated offshore operators tend to stay ahead of an onshore market via adopting a range of common operating tactics, including:
- **Promoting VPNs/Proxy servers:** Operators normalise individuals using VPNs (virtual private networks)/proxy servers to circumvent restrictions imposed by geo-location software and having their location disclosed;
 - **Products offered:** Offering a full range of sportsbetting and gaming products and markets including e.g. live in-play betting, live dealer casino as well as mobile wagering on downloadable applications;
 - **Downplaying regulation:** Virtually all offer players a liberal (even false) interpretation of online betting and gaming laws within the market targeted, often stating that it is legal to wager online with an offshore site that is licensed in another jurisdiction, and telling players to find out for themselves if legislation applies within their jurisdiction;
 - **Mirror sites/URL codes via incumbent market operators:** Players get sent usually numerical URLs that are an exact replica to the main site from which they are prohibited. Some unlicensed operators have also been known to work through illicit incumbent grey market operators issuing URL codes and acting as a referral gateway to their sites – with all customer payments directed through the incumbent operator;
 - **New developments:** Utilising advanced technology expertise to remain one step removed of regulation - including secure phone lines, cryptocurrency payment options, dark web marketing activity, remote servers located in international waters.

Customer Acquisition and Retention

31. In terms of customer acquisition and retention, marketing and advertising strategies are similar to leading regulated operators, but with minimal restrictions on promotional offers. Most common tactics employed are:
- **Promotions:** Bonuses (free bets/spins), welcome bonuses and reload bonuses, refer-a-friend bonuses, cash-back promotions (returning all or a proportion of losses), frequent player points;
 - **Push notifications:** Direct messaging sent to engage players, texts/notifications reminding players of upcoming races or sporting events and encouraging them to bet/wager, based on a player's gambling history;
 - **Personalisation/In-game CRM systems:** Monitoring player statistics (average amount wagered/bet, which games/markets, wins and losses, how far in advance the player bets on events), used to predict frequency and desired rewards, manage promotions and create personalised offers;
 - **Purchasing databases/Social media followers:** Offshore operators commonly purchase unverified databases of e-mail addresses from a country that they wish to target and also pursue customers via social media channels by acquiring followers via illicit third party marketing companies;
 - **Affiliate marketing:** Affiliate sites earn a commission from using links, banners, or other types of content on their website (including PPC advertising, SEO, community affiliates, and bonus sites).
32. The key distinction between the offshore strategy and the onshore one however, is the lack of player protection obligations resulting in much higher initial deposit and rollover bonus schemes to entice players.

Payment Options

33. Although banks and financial institutions are often obligated to block transactions made on offshore sites, in practice such transactions are difficult to identify and can be masked by operators to avoid detection.
34. A number of other payment methods are also currently used to bypass any controls on payment restrictions and reduce their effectiveness:
- **Credit card:** Virtually all offshore sites accept Visa and MasterCard, and credit card deposits are the most widely used deposit methods for players;
 - **Third-party payment methods:** To avoid source recognition of funds transfers, players can use cash at a money transfer service branch to deposit funds simply by providing the correct routing details (company name, city, country, postal code).

- **e-Wallet and e-Checks:** Wide use of neon-traditional and new payment processors such as NETELLER, Skrill, ecoPayz, EntroPay etc.
- **Bank wires:** Players can contact some offshore operators directly to obtain their banking details and a player's betting account is then credited upon receipt of a wire transfer – costs for sending bank wires are frequently imposed.
- **Inter-account transfer:** Players transfer funds between offshore accounts thereby moving funds around without having to withdraw and then deposit – generally processed by customer service, via phone, e-mail, or live chat.
- **Cryptocurrency:** Increasingly popular among offshore sites, cryptocurrencies such as Bitcoin and Ethereum converted to the currency of the customer's choosing upon deposit. Once a payout is requested, funds are converted back into cryptocurrency, and then paid out to players – transfers are generally free.

Optimum Market Modelling

35. In terms of channelling (the percentage of online activity that is onshore), we have found that a high channelling rate target KPI of **90%+** is generally effective in characterising a regulatory framework that doesn't encourage players to gamble offshore on unlicensed sites. Our analysis in fact shows there is a **direct correlation** between those jurisdiction models that currently offer open licensing and effective regulatory measures, leading to high consumer channelling to onshore operators.
36. Globally, the overall trend is one of moving away from offshore markets to onshore - from a global channelling rate of 47.1% a decade ago in 2011 to now 74.4% of all online gambling taking place on licensed onshore markets in 2021.
37. Latvia's current 77% channelling rate for 2021 compares well to this global figure, but less so when compared with the other territories reviewed – the most successful being the liberally open markets of the **UK (97.6%), Czech Republic (94.9%), Italy (94.0%) and Denmark (90.4%)**..
38. That said, those markets with a more monopoly-based structure all recorded lower channelling rates indicating the presence of a still sizeable offshore market in 2021 – including **Hungary (64.0%), Finland (58.6%) and Norway (46.5%)**.
39. What is particularly apparent is that **once established, an offshore gambling market is extremely difficult to eliminate**. Implementing a broad and fair licensing system that favours onshore operators as opposed to blanket prohibitions aimed at combating offshore operators has historically been more effective, as well as enabling licensed operators to service customers' existing (as well as future) demands for the latest products, technologies and services. Indeed, it is clear from the more established onshore-led markets that, providing the product is competitive and the value on offer is similar, consumers in general prefer to transact within an onshore-regulated scheme due to the additional protection that this ensures them.

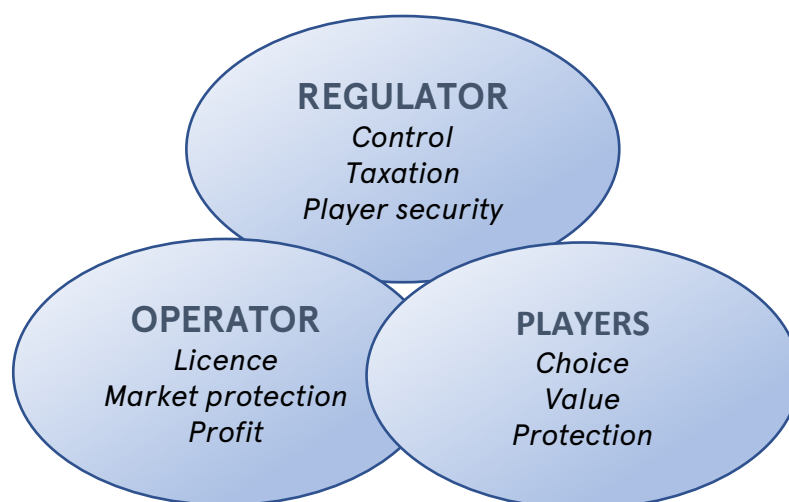
40. Other particular learnings of interest include:

Learning	Why Important
1. Wide Range Of Product Verticals	The more variety and depth of product 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 betting offers and vice-versa). The ability to offer 'live' products onshore (e.g. casino dealer in gaming or in-play odds in betting) and also new product (e.g. Esports, virtual sports) would have the most impact as these have been the main area of innovation and competitive advantage offshore in recent years.
2. Advertising Ban On Unlicensed Operators/ Affiliates Plus Greater Consumer Education	Advertising is essential for licensed operators to develop and gain market traction. Blocking unlicensed operators from advertising and is one of the most effective means to contain an offshore market, although it may be difficult to limit it effectively online particularly with the growth of affiliates and also some operators use of illicit indirect marketing via e.g. the dark web, pornography site referrals. At the same time, the most successful markets invest in their licensed operators by making it easy for consumers to recognise who and who isn't licensed – as well as limit the restrictions that are placed on them to market and advertise their products widely.
3. Penalties For Unlicensed Operators	Punitive measures including fines may deter some offshore operators, but regulation needs to be prioritised and also enforceable in the relevant offshore jurisdiction to make this policy successful.
4. Responsible Gambling/ Player Protection Promotion	Fundamental – a legal and protected environment will draw in certain players whilst protecting minors and vulnerable persons. The stronger the operating framework onshore, the more likely it is the bulk of players will prefer to gamble on the licensed market.
5. Prohibiting Offshore Gambling	Not just making it a criminal offence for citizens to play on offshore sites, but also the law enforcement to follow up on repeat offenders. This is especially the case for high value players (HVPs), and also problem gamblers, who may switch between multiple accounts in order to maintain a steady flow of play and gambling choice.
6. Optimum Taxation Levels	Online gaming is much more sensitive to tax rates than other product verticals. Players - particularly high value players (HVPs) - will switch between operators depending on the competitiveness of the product offer and this largely depends upon the level of

taxation in place. The abolition of the current personal income tax (PIT) in Latvia has been proposed previously and it is apparent this is still a major contributor to forcing HVPs offshore. We heard from LiAB member operators that feedback from their customers is one of anger when they realised they needed to pay PIT once the amount of their withdrawals for a year had topped €3,000, even though overall they had recorded net losses during the period. The general claim is that these withdrawals are not the same as winnings and should not be subject to tax. As result, it is difficult to see how these customers will continue playing on Latvian sites.

41. Whichever model adopted, it is clear that online gambling works best if the focus is on establishing an **optimum market equilibrium** – where fair regulation and government tax take is balanced with new industry developments and opportunity, and reflects dynamic market conditions where technology advancements and the pace of change - particularly online - benefit all parties and attract new players, without pushing core consumer groups offshore.

Fig 12: ‘Perfect Balance’ - Online Gambling’s Optimum Market Equilibrium



Source: H2 Gambling Capital, 2020

42. In conclusion, the following summarise the main lessons to be learnt:

1. Open Licensing Model

Open markets with **unlimited licensing** generally drive up quality, player choice and overall market size. **Two-way engagement** between regulators and operators helps make for the strongest possible operating framework. A supportive **commercial environment** via - e.g. open market dynamics, cross-sector partnering opportunities, advanced technology - is also of benefit.

2. Taxation

A prudent taxation rate is crucial if operators are to receive a sufficient return on their investment while at the same time governments are able to generate sufficient tax revenue. Consumers will switch between operators depending on the competitiveness of the product offer and this largely depends upon the level of taxation in place.

3. Product Availability

The prohibition of **live betting and gaming products** and other restrictions on **types of wagers** allowed - i.e. fixed odds, pool/pari-mutuel, exchange, spread - as well as **which events/markets** offered are key drivers for consumer migration to offshore operators. A diverse market means that players are more likely to play via licensed operators drawing players away from the offshore market.

4. Offshore Market Enforcement

A regulatory framework that **promotes responsible advertising & marketing** by licensed operators, as well as **bans and fines** for offshore operators, is best. Any prevention of advertising & marketing onshore has a number of significant drawbacks. Most importantly it prevents players from knowing which sites are legal and safe. In addition, restrictions on onshore advertising give unlicensed operators an unfair advantage because they already regularly advertise online via affiliate website.

5. Channelling Rate

Finally, a high channelling rate target KPI of **90%+** is most effective in ensuring a regulatory framework that doesn't encourage players to gamble offshore on unlicensed sites. The analysis shows there is a **direct correlation** between those jurisdiction models that currently offer unlimited licences and effective regulatory measures, leading to high consumer channelling to onshore operators. In Latvia, a 90%+ channelling rate will likely only be achieved if the licensed onshore operators are allowed to advertise more freely and the currently prohibitive personal income tax (PIT) is abolished).

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