Risky business

The Big Four are reluctant to take on the operational and reputational risks that could come from association with the online gambling market. Alex Blyth

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Even though it looks set to be significantly watered down by the time it gets through parliament, the Gambling Bill will change the gambling and betting industry almost beyond recognition. A 2004 report by KPMG concluded that the sector would grow from £7.7bn to over £10bn by 2009. What is particularly interesting is that the Big Four are unlikely to be interested in all of this new work, providing some rich pickings for mid-tier firms.

Established firms a good bet for Big Four

The Big Four already offer a fair amount of audit and tax advice to established betting firms. Following the acquisition of Andersen, Deloitte is thought to have the largest share of this market, but Ernst & Young is not far behind, providing audit and tax services to Ladbrokes, Coral and The Tote, three of the five largest betting firms. As a growing number of gambling firms become publicly listed, so the amount of this work looks set to grow and each of the Big Four firms is keen to pick up market share in this area.

However, according to the KMPG report, the real driver behind the sector's growth will be casinos. It argues that the Gambling Bill will pave the way for the introduction of many new regional casinos and the sub-sector will be worth £2.5bn, a growth of 217%. The Big Four are already working with many overseas casinos operators, advising them on their planned launches in the UK.

Nick Pattie, director at KPMG, says: 'So far we've worked with six overseas casino operators, providing them with market studies, tax assessments, property advice, financial modelling and so on.' The firm is also working with regional development agencies and the Responsibility in Gambling Trust, advising on the changes that the Gambling Bill will introduce.

Avoiding net gains?

The Big Four, though, are much less enthusiastic about online gambling. While recognising that it is a potentially lucrative area, they are being very cautious about which clients they take on. As Iain Wilkie, a partner at Ernst & Young, explains: 'There are serious risks involved in systems assurance of internet gambling. We rely on strong regulation and in many areas this is not present, for instance around firms operating from the Caribbean to the US. We've no interest in becoming regulators for the online gambling industry and so are tending to stay away from this market.'

Rich pickings for the mid-tier

Mid-tier firms such as BDO Stoy Hayward, Baker Tilly, and Smith & Williamson are filling the gap. Philip Quigley, director at Smith & Williamson, openly admits that there are real challenges in this area. 'Allowing punters to lay bets on a horse losing a race opens up the possibility of insider trading. With so many trading exchanges operating across such a variety of media including the internet, mobile phones and interactive television, it can be difficult to spot patterns that would reveal the existence of money laundering. Finally, there are real risks associated with the technology in such a new and fast-moving area. I know of at least one online gambling firm where the technology just isn't up to the job.'


Quigley: Risks and opportunities

Sounding board for FDs

However, he sees these challenging circumstances as an opportunity for his firm to provide an invaluable sounding board for finance directors at online gambling companies. The Big Four are not turning their backs on the area – KMPG advises the much-maligned Betfair – but they are showing a marked reluctance to take on risks that could come from association with the online gambling market. Given that global online gambling revenues are expected to double to £8bn by 2009, this sub-sector could provide mid-tier firms with a valuable revenue stream over the next few years.