

Beating the Odds

The Imperative of ESG for the Future of Gambling

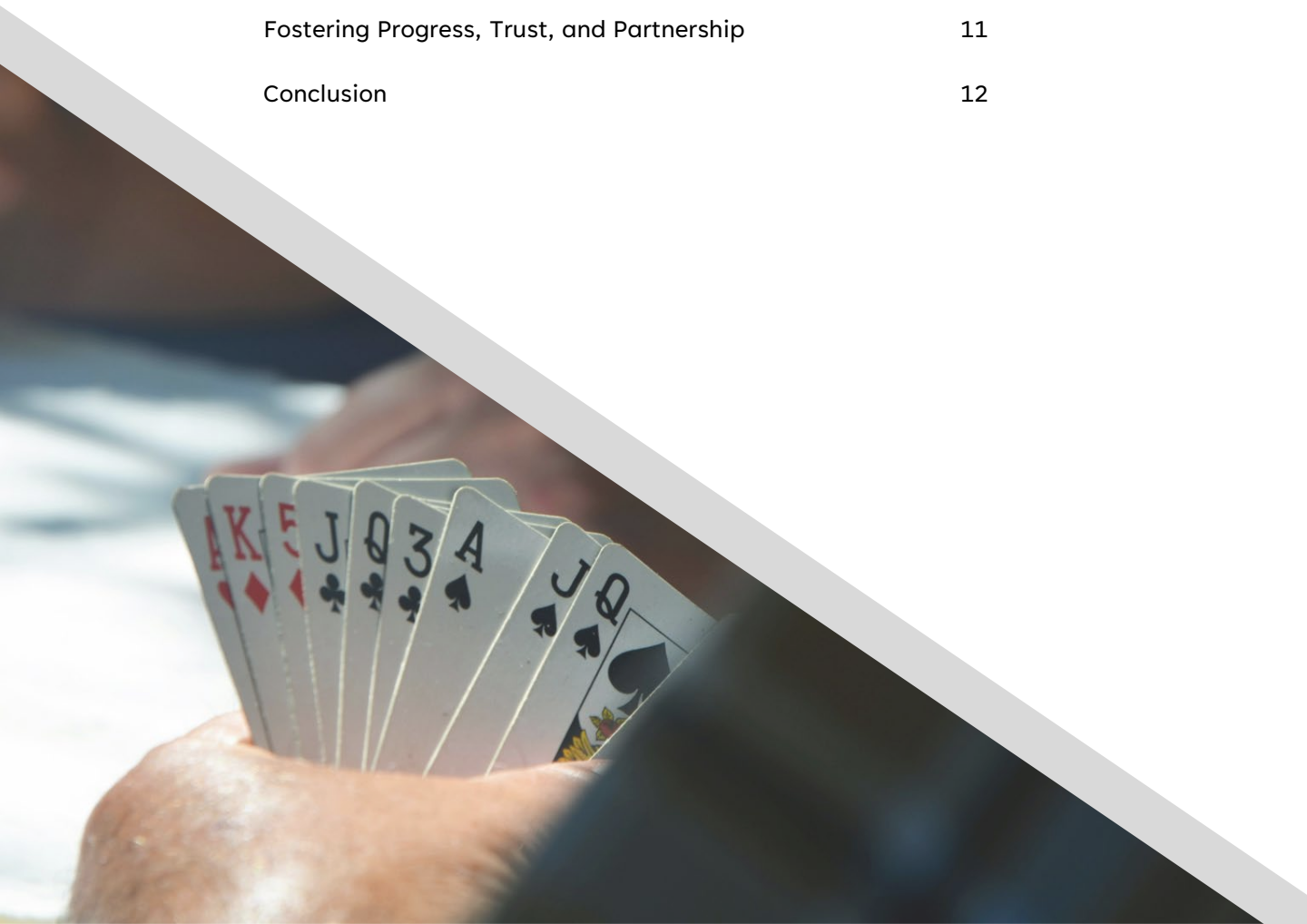


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Table of Contents

Foreword	3
Understanding Industry Challenges	4
Driving Impact Through ESG	5
Understanding ESG	6
Focusing on Core Gambling Initiatives	7
Prioritizing ESG Initiatives	8
Empowering Leadership to Drive ESG	9
Fostering Progress, Trust, and Partnership	11
Conclusion	12



Foreword

Deloitte and the Responsible Gambling Council (RGC) partnered on this thought piece with the goal of shedding light on Environmental, Social, and Governance (ESG) as a crucial consideration for future of the gambling industry, specifically within the North American gambling landscape. This thought piece was a collaborative effort that included research, expert ESG interviews, industry stakeholder interviews, and many thoughtful discussions. We are optimistic about the future of the industry and hope you find insights and value in the pages to follow.

The gambling industry is experiencing rapid growth and transformation, fueled by advancements in technology, changing player preferences, and increased market legalization. However, it also faces challenges such as increased regulatory scrutiny, concerns about problem gambling, and the need to adapt to evolving societal expectations.

In today's evolving gambling industry, the significance of ESG cannot be overlooked. ESG as a concept, represents the evolution of Responsible Gambling and Social Responsibility, encompassing a broader scope of environmental, social, and governance factors.

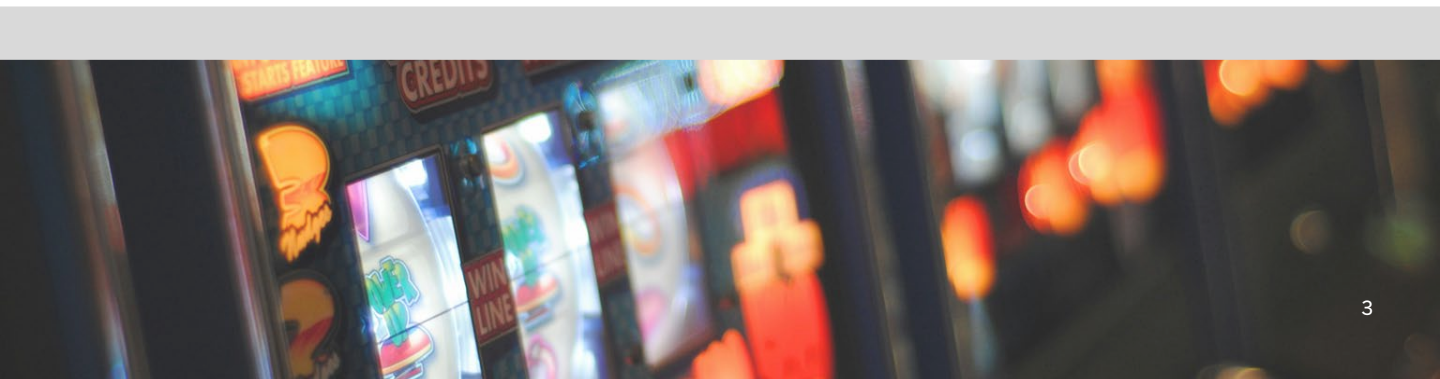
Our goal is to encourage the gambling industry, specifically North American stakeholders, to view ESG not as a mere compliance exercise, but as a strategic imperative that can drive long-term value creation. By embracing ESG principles, the gambling industry can position itself as a responsible and sustainable sector, attracting investors, players, and talent.

ESG cannot be achieved in isolation; it requires a collective effort from all stakeholders involved. Together, industry stakeholders can leverage their combined expertise, resources, and influence to drive meaningful change.

Through ESG, the gambling industry can bring about financial, brand, and social value, while mitigating risks. Significant progress can be made by adopting ESG principles, focusing on core initiatives and consistently reporting and evaluating improvement. There is a tremendous opportunity for inspired leaders to push the industry forward.

“The gambling industry has a responsibility to address its impacts on society and the environment, as a good corporate citizen and ethical business. A commitment to ESG principles and reporting as a strategic imperative will demonstrate the industry’s commitment to society, safer gambling, and good governance.”

- Shelley White, RGC



Understanding Industry Challenges

At face value, ESG and Gambling appear to be at odds with each other. The gambling industry has struggled to keep up with society's growing expectations around social responsibility and sustainability. There are several industry-specific challenges that have made it difficult to meet these baseline ESG expectations. These challenges become more critical when you look at the North American gambling industry, which has lagged Europe.

“The gaming industry has a negative perception about only caring about the bottom line. What the industry doesn't realize is that the more that we don't focus on ESG, the more that it perpetuates that negative perception.”

- VP, Global Responsible Gaming (North American Gambling Operator)



Lack of Clarity on Value

The value ESG can deliver to long-term financial, brand, and reputational performance is often unclear which has resulted in inconsistent ESG maturity & performance in the industry.

Siloed ESG Operations

Due to the lack of clarity on the role of ESG leadership and governance, stakeholders and ESG operations are often not integrated into the strategic planning or decision-making frameworks.

Held to a Higher Standard

Due to the inherent risks of gambling, the industry must address common stigmas and has a duty to demonstrate sustainable and responsible business practices.

Varying ESG Enforcement

Each jurisdiction, Canada, USA, EU, etc., approach ESG differently and have different expectations and requirements for delivering ESG initiatives. This is also impacted by region-specific political climates.

These challenges have resulted in

Reduced Investments

The industry's poor ESG performance has resulted in higher costs of capital and diminished investments.¹

Increasing Compliance Fines

The industry, especially North America, has seen a significant increase in fines stemming from advertising, AML violations, and self-exclusion violation.²

Diminished Reputation

Player surveys have revealed sentiments that the gambling industry is not trustworthy.³

Driving Impact Through ESG

Inspired action is required for the gambling industry to become leaders in this space and establish a strong reputation as a proactive, ethical contributor on performance.

Focusing on ESG can help companies



Build brand and social value

Elevate brand and social reputation by delivering on priority initiatives and demonstrating commitment to communities.

Improve workplace attraction for employees, who are increasingly focused on employer value alignment.

Mitigate risks

Demonstrate commitment to responsible governance and proactive risk management in an ethical and sustainable manner.

Reduce harm to players and communities by implementing prevention and support services.

Deliver financial value

Improve financial performance because of risk mitigation and improved brand and social value.

Attract ESG-friendly investments and business partners while mitigating risks that discourage investors.

“When you demonstrate your commitment to sustainability practices, you help build trust, enhance brand reputation and can improve the bottom line”
 - VP, Client Services (Gaming Industry Testing and Certification Organization)

Despite the challenges that the industry faces, some companies have embraced ESG and its strategic value and have been recognized by ESG ranking organizations.⁵

Tabcorp, Australian gambling organization, is growing their ESG leadership and delivering ESG value.⁶ This has been accomplished through a clear strategy and targets:⁷

- Revenue reduction from accounts closed for potential harmful gambling
- Balanced and diverse leadership team of 40:40:20 by 2030
- 45% reduction of carbon emissions by 2030 (from 2019)

Playtech, gambling technology company, is establishing itself as a leader in the sustainability space with clear targets for their ESG strategy.⁸

- Achieving 35% female representation in leadership positions by 2025
- Initiating a net zero by 2040 plan and a near-term science-based emissions target
- Supporting a wide range of charitable and volunteering activities

Understanding ESG

Through our research and interviews, it has become clear that the current definition of ESG is broad and generic and fails to provide clear guidance to the gambling industry. Moreover, less mature markets, such as North America, are struggling to define ESG.

Fundamentally, ESG is a framework to measure a company’s environmental, social, and governance practices with the intention of capturing all the non-financial risks and opportunities stemming from a company’s operational activities.

From our interviews and research, we have heard various other concepts and terms to refer generally to ESG (figure 1). But at the heart of these terms is the notion that businesses need to address the non-financial material risks of their business.

As such, we have defined an ESG initiative framework to capture the non-financial risks and material opportunities for the gambling industry, including some sample initiatives (figure 2). Within the framework, initiatives are categorized into ‘Table Stake’ and ‘Core Gambling’ initiatives across Environment, Social and Governance categories.



Figure 1

“ESG is not always intuitive...more education is required for what ESG is and why it is important.”

- VP, Client Services
(Gaming Industry Testing and Certification)

ESG Initiative Framework

	Table Stake Initiatives Risks and issues that any business must address	Core Gambling Initiatives Inherent risks and issues to the gambling industry
Environment <i>Emphasizing sustainability, conservation, and mitigation of environmental impact.</i>	Biodiversity Waste Management	Data Centre Energy Usage Carbon Emissions
Social <i>Promoting fair labor practices, human rights, diversity, and community.</i>	Community Investment Labour Rights	Responsible Gambling Human Trafficking
Governance <i>Ensuring ethical conduct, transparency, and accountability in operations.</i>	Risk Management Executive Compensation	Anti-Money Laundering Cybersecurity

Figure 2

Focusing on Core Gambling Initiatives

While table stakes initiatives are important components of a strong ESG strategy, this paper will focus on core ESG gambling initiatives. Core gambling initiatives require dedicated attention to support the industry’s commitment to ethical and responsible operations.



Core Gambling Initiatives

Overview	Value
<p>Responsible Gambling</p> <p>Promoting safe and ethical play for players and promoting long-term player protection</p>	<p>Offering resources for gambling harm prevention and addiction supports. These measures not only protect players but also contribute to the industry's overall reputation and sustainability.</p>
<p>Human Trafficking</p> <p>Combating and preventing the exploitation of individuals</p>	<p>Partnering with companies that raise awareness about human trafficking and implementing employee training programs, helps protect vulnerable individuals. By actively addressing this issue, the gambling industry can demonstrate its commitment to social responsibility and ethical practices.</p>
<p>Anti-Money Laundering</p> <p>Implementing measures to prevent the illegal transfer of funds or concealment of illicit activities</p>	<p>Through due diligence, operators can identify and verify the source of funds, helping to prevent the illegal transfer of money or concealment of illicit activities. This helps the industry protect itself from legal and reputational damage and contribute to the overall fight against financial crime.</p>
<p>Data Privacy & Security</p> <p>Safeguarding personal information and ensuring the secure handling of data</p>	<p>Implementing encryption protocols and conducting regular security audits allows for the protection of sensitive player data from unauthorized access. Through this, the industry can build trust with players and comply with relevant regulations, such as the General Data Protection Regulation (GDPR).</p>
<p>Diversity, Equity, and Inclusion</p> <p>Promoting a diverse and inclusive work environment that values and respects all individuals</p>	<p>Implementing diversity hiring initiatives and offering unconscious bias training helps attract and retain talent and create a more equitable workplace. Promoting diversity, equity, and inclusion also helps to address the historical gender imbalance in the industry and enhances its overall reputation.</p>

Prioritizing ESG Initiatives

There are numerous ESG initiatives that the gambling industry can focus on to drive value. Therefore, it is critical to select the most impactful initiative for the individual company.

To prioritize the most impactful initiatives, companies should begin with a materiality assessment.

Specifically, a double materiality assessment will show how potential initiatives impact the environment and society, as well as how sustainability risks and opportunities affect the company financially.⁵

By conducting a material assessment and prioritizing ESG initiatives, the gambling industry can effectively drive value, improve their sustainability performance, and meet stakeholder expectations. It is a comprehensive approach that integrates ESG considerations into the core business operations, ensuring long-term success and positive impact.

“The first step in this process [of analyzing the most impactful risks and opportunities] is conducting a materiality assessment, that’s inclusive of all stakeholders, the board, players, etc. as well as examining the environmental and social context”

- Program Manager, Social Responsibility & Sustainability (Canadian University)

Materiality Assessment Approach



Empowering Leadership to Drive ESG

Successful ESG programs are supported by dedicated leaders that are accountable for its ESG outcomes.

For many gambling companies ESG is highly fragmented and often managed as a siloed function focused on compliance. As a result, ESG in gambling has had limited ability to influence strategic business decisions and make meaningful progress against its objectives and performance.

Leaders, C-Suite and board members, have a significant role to play in standing up and supporting ESG. The most successful organizations are those that have senior champions to embed ESG principles into strategic discussions and decision making. These leaders are key in adopting, developing, and promoting ESG strategy and driving impact.

“Our ESG success, in part, started at the top with our Executive Chair leading the focus on responding to customer expectations and our CFO, who is also one of our biggest ESG champions.”

- SVP, Marketing, Communications, Sustainability
(Gambling Supplier)



How business can empower leaders

Organizations need to establish an ESG governance structure to enable leaders to influence business decision.

Appoint an ESG Executive to drive the development and execution of the ESG mandate.

Establish an ESG committee at the board level to support and influence decision making.

Develop ESG metrics for leaders to tie ESG performance to their performance review and compensation decisions.

Integrate ESG into decision making to ensure that strategic decisions are reviewed with an ESG lens.

Appointing an ESG executive

Business Level Governance

CEO, President to provide overall direction to ESG strategy and oversee performance

Environment

Chief Sustainability Office that is held responsible for the delivery of sustainability and climate-focused initiatives

Social

CFO, HR Leader, and Corporate Affairs leader to oversee and direct social-focused initiatives

Governance

General counsel, CFO, and Procurement Lead provide governance direction and ensuring the application of policies

Executive ESG governance can help

- Develop and commit to a coherent ESG strategy
- Enable the ESG mandate to permeate across the company and embed within decision making
- Provide direction to the team and an understanding of how the business handles ESG
- Demonstrate the commitment, internally and externally to ESG mandate
- Provide a direct line of communication to leaders to support the ESG mandate

The success of ESG initiatives within the gambling industry relies heavily on the commitment and support of leaders at the C-Suite and board level. By recognizing ESG as a strategic priority and incorporating it into decision-making processes, businesses can make meaningful progress towards their ESG objectives.

Ultimately, it is through proactive leadership and a comprehensive approach that businesses can truly make a difference in their ESG performance.



Fostering Progress, Trust, and Partnership

A robust feedback and communication approach with a diverse group of stakeholder is essential to drive progress, trust and partnership in ESG.

All stakeholders within the gambling industry have a role to play to drive progress in ESG. It is important that organizations recognize these roles and consistently connect with (sometimes competing) stakeholders to demonstrate accountability, inform ESG strategy, and measure impact. Tracking performance against a defined strategy and subsequently reporting and communicating results are strong demonstrations of accountability and transparency. Further, ESG as a framework, continues to evolve as societal values change and it is important for the industry to adapt as a result. ESG is not a static concept and requires dedicated and consistent monitoring, evaluation and communication to create impact.



Staying up to date

To remain active with ESG, organizations need to monitor industry trends, regulatory changes, stakeholder expectations, and emerging best practices. By staying informed, businesses can anticipate shifts and proactively adapt strategies.

Example: Regularly survey and monitor players tool use to inform Responsible Gambling needs, requirements, and upcoming trends

Influence the discourse

Businesses can inform the ESG discourse by sharing their own experiences, best practices, and lessons learned with industry partners, while elevating the collective knowledge and promoting the adoption of sustainable practices.

Example: Incorporate ESG criteria into the supplier selection process, and set high standards for their suppliers, they can influence the ESG practices of their industry partners.

“We are partners to the industry, and as partners, we owe it to our customers to help them achieve their ESG goals.”

- SVP, Marketing, Communications, Sustainability (Gambling Supplier)

Reporting and evaluating progress

It is essential that organizations routinely and transparently, report and evaluate ESG progress. Standardization of ESG evaluation and reporting can provide a platform to showcase accomplishments, highlight improvement areas, reinforce the business's ESG commitment, and ultimately, build trust and confidence stakeholders.

Example: Engage with investors through dedicated ESG investor presentations or ESG reporting to provide updates on their strategy and demonstrate their commitment.

Conclusion

Now is the time for the gambling industry, and North American gambling stakeholders, to move beyond historic perceptions and drive meaningful change through ESG.

Together, Deloitte and RGC have aimed to demonstrate the importance of ESG to the gambling industry and how businesses can elevate their thinking and approach. By embracing ESG principles and engaging all stakeholders, the gambling industry can position itself as a responsible and forward-thinking sector, driving meaningful change and shaping a future built on sustainability and positive impact.

Prioritizing ESG initiatives

An ESG strategy based on the key risks of the gambling industry will create meaningful change. By addressing 'table stake' issues and delivering on 'core issues' the industry can build credibility and address inherent gambling challenges head-on.

Empowering leadership

Leaders play a significant role in the success of an ESG program, including setting the strategy, demonstrating accountability, and creating supportive governance structures and processes. As such, businesses need to empower leaders at the C-suite and board level to champion ESG in discussions and decision making.

Fostering progress, trust and partnership

ESG issues are complex, wide-ranging and constantly changing and meaningful change requires a systematic approach to communication and collaboration with a diverse range of potentially competing stakeholders. It is crucial for businesses to recognize the role of stakeholders, connect with them, and actively involve them in shaping their ESG strategy, reporting progress, and managing setbacks.

ESG is essential for the industry to

- **Enhance brand reputation** and customer loyalty by demonstrating a commitment to ethical practices and social responsibility
- **Attract and retain talent** as employees are increasingly drawn to businesses that prioritize ESG
- **Mitigate risks** inherent to gambling operations and provide mitigation approaches to minimize potential risks
- **Support long-term financial health** through improved reputation and risk mitigation, as well as **attract investors** who increasingly consider ESG factors when making investment decisions

There is a tremendous opportunity for inspired leaders to push the gambling industry forward.

Progress on ESG issues in gambling is achievable and, the resulting benefits can be realized by the entire industry and its stakeholders. Specifically, the North American industry can make significant progress by adopting these ESG principles, driving material initiatives and consistently reporting and evaluating progress. Being a leader in ESG is the result of a purposeful strategy, clear accountabilities and meaningful, measurable impact.

“Social responsibility is the foundational blocks of ESG for the gaming sector, the need to create an evaluation framework of reporting and standardization will transform the industry”

- Yasmine Roulleau, Deloitte

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