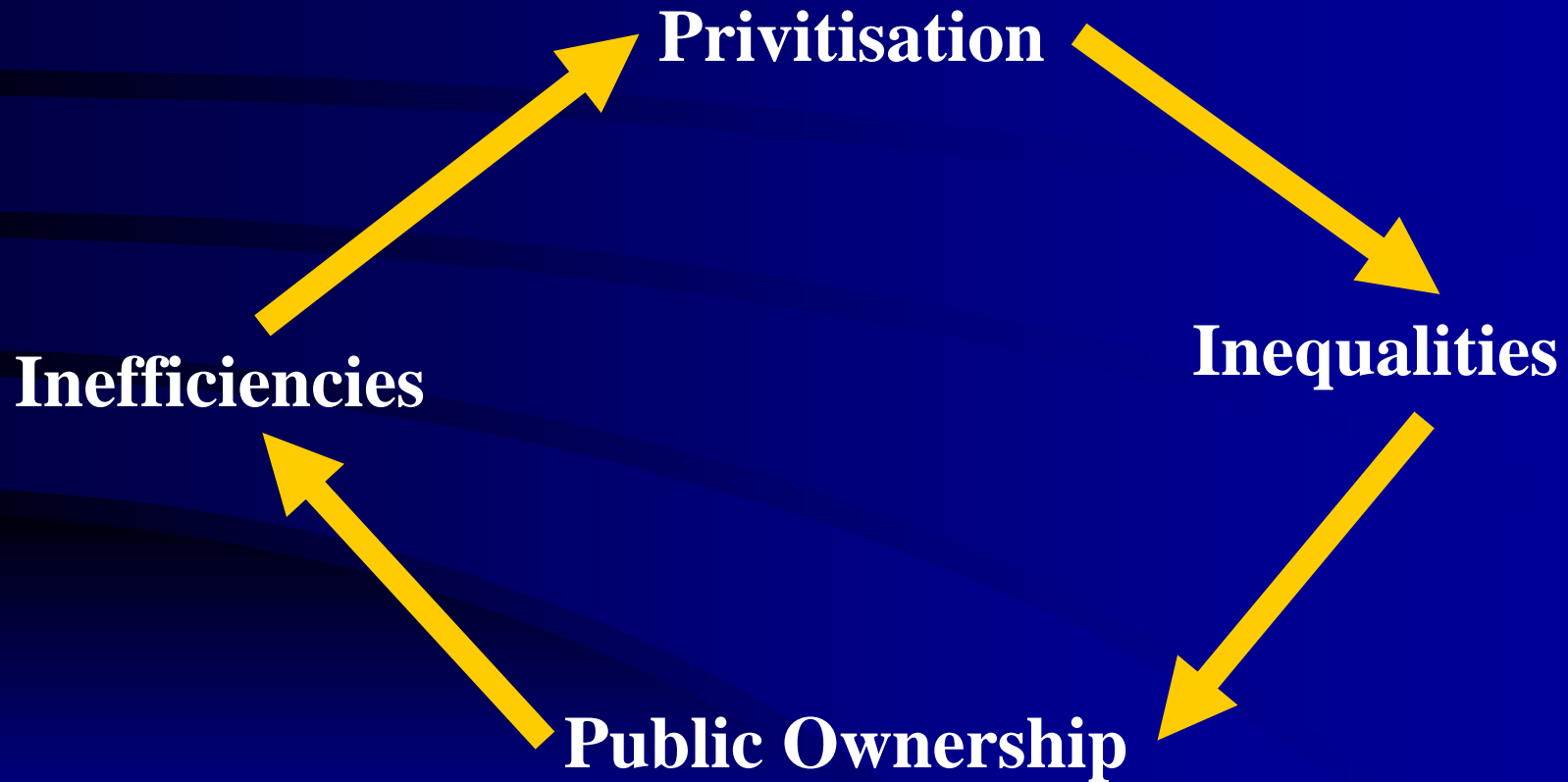


What Impact does the Presence of a Regulatory Authority have on Risk Management Strategies

Sue Slipman: Director External Relations and Compliance, Camelot

SHORT HISTORY OF 20TH CENTURY



FAULT LINES

- Victory of Market Forces
- Impact on Values
- Impact on trust
 - Brands
- Business environment: goldfish bowl
 - Public/Stakeholder expectations
 - Protest
- Role of media

DRIVERS

- Sustainable and successful business
- Re-build trust
- Government Expectations
- Public Expectations
- Build civilised debate

Learning to get it right

- Vision, values, behaviours
- Understand stakeholder issues
- Align: processes, people, structure
- Company-wide risk management
- Corporate reputation

Getting it Wrong

- Business internal focus
- Business process driven
- Lack of creativity/motivation
- Failure to build trust with stakeholders
- Failure to develop new business opportunities

Regulation

- Risk analysis
- Replace 'blame' with learning culture
- Regulate for 'at risk'
- Meaningful stakeholder consultation
- Best practice framework to protect 'vulnerable'
- Public purchasing power
- Minimum standards with self-regulation
- Open disclosure
- Stakeholder accountability
- Targeted information
- Social reporting

Regulators

- Government policy: clear policy guidelines
 - duties of economic regulators on social and environmental issues
 - Camelot: Excessive play
 - won't define
 - regulation from abstract principle- not risk managed
- How many regulators involved in decisions?
 - E.g. Energy industries: safety and environment

NLC

- Inappropriate regulatory structure
 - stakeholder model
- Risk averse
 - understanding of duties
 - limited returns to good causes
- Behaved unfairly in managing bid

Purpose and structure of Regulation

- NLC:
 - Integrity of National Lottery and operator
 - Protect players
 - Maximise money to good causes
- Structure of regulator
 - ‘stakeholder council’ not board : risk averse/not shared risk
 - rotating chairman
 - Affects focus
- Micro regulation
 - 1400 audit reports: none captured Gtech problem

Impact: Risk Averse

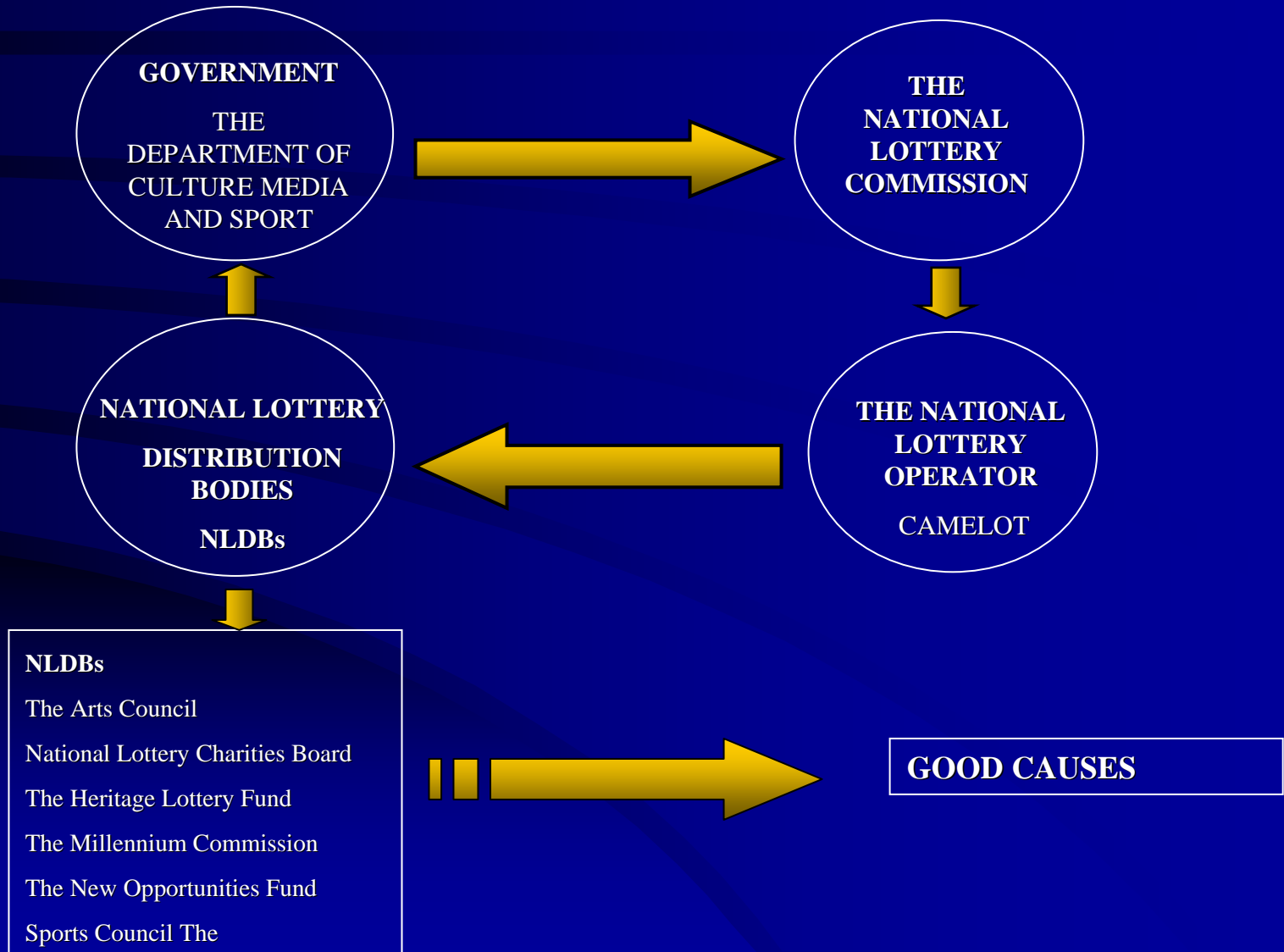
- What emphasis on duties?
 - NLC: primacy of protection and integrity over maximising funds for good causes.
 - Lack of clarity
 - who wants to be a millionaire?
- Regulator's knowledge of market
 - lottery=international: what permitted abroad
 - no relationship to gambling market in UK
 - bad decision making impact on long term sales
 - mid-week draw
 - timing of instants introduction

Impact: Risk Averse

- Framework determines the risk environment
 - investment (economic regulators: RPI-X Water)
 - 7 year licence with sudden death
 - incompetent decision making
 - low regulatory investment in business: high in bid
 - preparation to close down
 - lame-duck operator
 - relationships with good causes
 - relationship with government

National Lottery partners

The National Lottery is a partnership between Government, the Lottery Commission, the National Lottery Operator and the Distribution Bodies to raise money for the good causes in local communities.



Regulator as Partner

- Not equal partner
- Champion of TNL
- Weigh up regulatory duties to include:
 - promote TNL
 - support TNL against competition
 - develop relationships in ‘partnership’

Key Relationships

- Define stakeholders
 - empower
 - engage
- Define partners
 - recognise supply chain ‘vulnerability’
 - proportionate responsibility
- Focus
- Define parameters of decision-making

Stakeholder Dialogue

- Learn about concerns: early warning
- Grow stakeholder understanding
- Challenge false assumptions
- Maturity of relationships
- Manage tensions between stakeholders
- Develop new strategies
- Build trust

PRINCIPLES

- Complete
- Comparable
- Inclusive
- Regular life cycle of business
- Embedded
- Disclosed
- External verified
- Continuous Improvement

Camelot as Example

- Private/Public
- World's Best Lottery- but
 - profits and pay
- National Lottery Fault lines
- Should State Pay?
- Would it create
 - nation addicted to gambling
 - nation of dreaming idlers
 - tax on the poor

STAKEHOLDER GROUPS

- Public (players & winners)
- Employees
- Pressure Groups
- Retailers
- Suppliers
- Community
- Shareholders

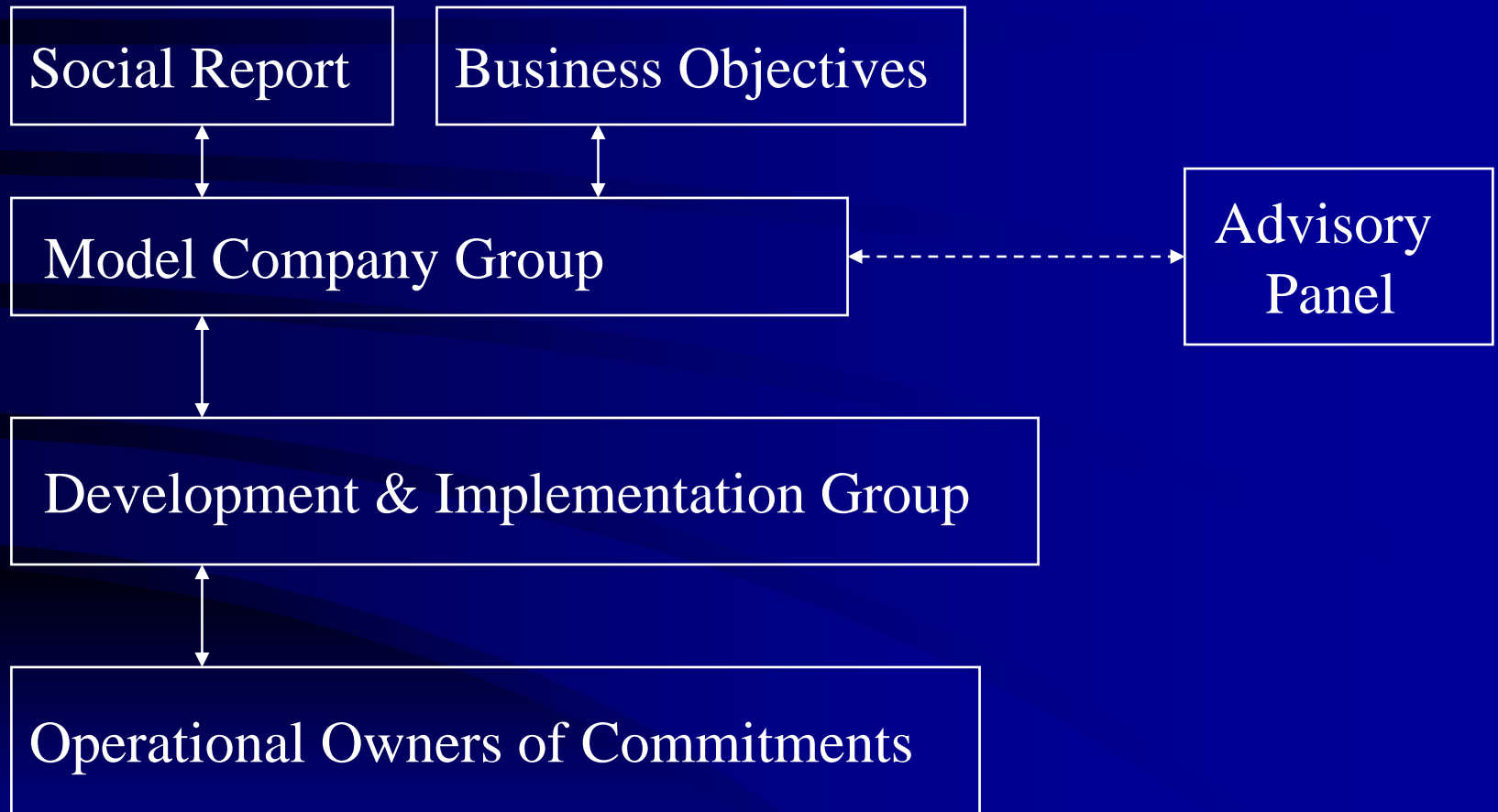
HOW WE APPROACHED THE TASK

- Company policies
- Existing research
- Filled in any gaps defined by company
- Took these to active dialogue with key stakeholders
 - talk with them-not at them
- Defined indicators
- Developed company wide strategies for continuous improvement
- Measured performance

CHANGES

- 90 Business changes
- Profits and pay
- Public information
- Player protection
- Employee consultation
- Retailer engagement
- Supplier management
- Partner relationships
- Explicit shareholder support

How are we Embedding ?



Culture Change

- Behaviours
 - Passionate
 - Empowering
 - Creative
 - Partnering
 - Responsible
- Winning Ways: 360 feed-back
- Winning Start: all staff

Managing Risk

- Government cannot regulate everything
- Interest in ‘stakeholder’ regulation
 - Horse designed by committee?
- Importance of Political leadership
 - beef on bone/mad dogs/paedophiles
- Is self-regulation other side of partnership?
- Will Social and ethical audit become tool in licence to operate?