

Victor Kopylov: "We can provide position hedging services for bookmakers"

A man from Novosibirsk launches a Betfair competitor.

History of creation

"Human activity is empty and insignificant when not animated by an idea" –

Chernyshevsky N.G.

The history of the company begins with an idea

Working in the gambling market since 2005, our team constantly faced difficulties and, having learned all the "charms" of the betting industry and the obvious injustice towards players, it was decided to create our own product in the sports betting market. Product from players to players.



Viktor Kopylov
Si14 Betting CEO

The General Director of Si14 Victor Kopylov and his partners are preparing to enter the market a betting exchange where they want to allow bettors to work in peace without cuts and blockages. How this exchange will differ from the same Betfair, what conditions are provided and what kind of offer the company has for bookmakers - this and much more in Victor's interview for Legalbet.

Why the betting market is inefficient

- Please tell us a little bit about yourself. How did you start your career?

- I originally studied in Novosibirsk: I got my first degree in Economics and Management at the PR Technology Department. Then I studied neurolinguistic programming and psychology - that was my second higher education. Then I went up the career ladder and found myself in BSGV bank (now it is "Rosbank"), where I eventually became the head of the corporate sector.

Then I got a job as a financial analyst at Brokercreditservice, a fairly serious company in Novosibirsk. I trained and worked for more than three years in this field. Then I decided to develop my career in New York and went to the US to train as a hedge fund manager. Having

received CFA status, he set up his investment fund in Novosibirsk, which was already called Si14. Silicon - the most reliable element on the table :)

- What did you do when you returned to Novosibirsk?

- In Novosibirsk, we provided asset management and worked with forex brokers. The main direction was the trading systems, the search of the arbitrage situations, work with the big-data. Si14 was searching for the key triggers between efficient and inefficient markets.

Let me explain the difference: 7-8 years ago we were looking for mistakes of brokerage companies, time-lags, analyzed big data, and the work of arbitrage situations on low-liquid markets. The latter were found quite a lot. But over time the currency market has become more effective, and arbitrage situations have disappeared. Then my partners and I began to study inefficient markets. At first, it was binary options. Having ascertained that this market was unregulated, we hastily left it. The next step of the study was the sports betting market. Here we found just what we were looking for - an inefficient market that was very promising for robotized trading systems, etc. For the next five years, we worked very effectively in an inefficient market.

- Why is this market inefficient?

- It is no secret that BOOKMAKERS work with BetRadar and similar companies. These companies supply lines, odds, and the bookmaker only needs to lay down his margin. Every bookmaker has different margins, and that makes the market inefficient - it creates distortions. I voice the pain of the industry, of course, but no one can eliminate this distortion, because each betting company has its policy.

Hence the emergence of areas of earnings such as arbitrage, after-goalers, and so on. Separately we can consider bonus-hunting - the pain of the bookmakers themselves. This is probably worthy of a separate interview for several hours.

- You say that when you were in finance you looked for arbitrage situations on exchanges. Did you deal with the things for which bookmakers block clients?

- Essentially, yes. Bookmakers are supposed to weigh the lines competently and not suffer from it. But because of too much competition in the market, these lines are very skewed. The bookmaker races to set high odds for users and be at a competitive advantage. If this user wins his bet at inflated odds, a lockout follows, because by winning, the customer is taking money away from the BOOKMAKER.

At the moment I do not see how bookmakers can solve this problem. The high competition in the market causes distortions in the formation of odds.

- And how did you get a feel for betting after you were in finance? Were you betting on your own?

- Yes, I started analyzing historical data first (IBER), then we connected WyScout, InStat Scout, Opta Scouting - these are the metrics of sports teams. Si14 was searching for and modeling possible arbitrage situations on historical data, and then we worked with our partners to find arbitrage situations between the exchange Betfair and Pinnacle, Betfair and BK Olimp, and

other bookmakers. And it has been successful to this day. The pain of the industry is such that it has become simply impossible to work due to the constant blocking and cutting off accounts.

We were earning very good money and started to diversify it into our product because as players we know the problems of the industry. We are now developing the kind of betting exchange that we think it should be. We have put 1% into the commission - it's not that big. I can openly say that the cost of maintenance, licenses, and server software (including BetRadar, Betgenius, RTSmunity, etc.) takes us 0.5%. Accordingly, we give half of the commission to the service, and the company is left with only 0.5%. But this is the biggest advantage for bettors and arbitrageurs - a large group of people who are professional sports betting market participants.

- So the money earned on arbitrage situations, on exchanges, and bookmakers became your launching pad?

- Yes, that's exactly how it was. The starting point of the company was directly from my funds. We co-financed the project ourselves.

- Slowly we move on to the product. But before that, a little clarification: how did the move to Europe come about?

- As you know, such developments require a lot of money. I have had experience with IPOs, and I am well acquainted with the investment climate in Europe. After some discussions with the key partners of Si14, it was decided to open a joint-stock company with a further IPO. It is much easier to seek funds from institutional investors when your company is, let's say, transparent. And when a transparent company from Switzerland - this is another plus in the investment piggy bank. Si14 is just at the stage of issuing securities. We have several key investors who are interested in the product. They are in the industry and understand perfectly well what kind of product we are developing. That's why the idea of Switzerland came up.

- Aren't you afraid of the high taxes?

- It depends on what the tax base is. If you take the canton of Zug, for example, then it is not so high. Plus we have a group of companies: there are companies in New Zealand, Montenegro, Curacao, and Malta, in Germany. The parent company is in Switzerland. We approached the organizational structure very carefully, working with auditors like KPMG, Ernst & Young. We have very serious consultants who allowed us to form a structure that will optimize the tax bases of Si14.

Offer the bookmaker to catch arbitrage

- Let's move on to your betting exchange. What kind of product do you want to present to the market?

- Let's start with the fact that it is a classic betting exchange - like the stock market, where there is supply and demand. Between that supply and demand, in our case, there will only be a 1% commission on a winning bet. This is one of our UTPU unique trade offerings. .

Our market is not only B2C, but also B2B. We can provide position hedging services for bookmakers when they cannot weigh lines, becoming a liquidity provider for Bookmakers.

This is a very big idea because no one in the world has implemented it yet. Today we have a partnership with Macau, which is a very serious financial center for gambling. Our company is now in negotiations to provide liquidity for the Si14 platform by the Macau-based Dragon casino chain.

- Let's say I'm the CEO of a betting company and you come and explain to me the essence of your B2B product. What can I get with it?

- Look, the user makes a bet for some event, and you can redeem this "for" on our exchange at more favorable odds. That is hedge positions and gain access to the arbitrage situation as a bookmaker himself.

Let us consider, for example, Betfair and Pinnacle. On the Betfair exchange, for the most part, if you do not take a high commission, there is always arbitrage. This is a paradox. People play there, not line-weighting robots like Sportradar. That's our target market. Would you as a bookmaker be interested in hedging your position and getting guaranteed money?

- In that case, is the bookmaker forced to act as an individual? A user?

- Yes, in this case, we have a program just for bookmakers, we are now at the stage of its legal regulation. The commissions for betting companies will be even lower than for users.

- Why such low commissions? Because a bookmaker's margin can be eight or ten percent.

- I'll explain. The exchange earns not on the percentage but the volume of closed transactions. Low interest allows the trade to have a larger volume. The lower the percentage, the more professional participants will come to us. Another reason why we will be interested in the professional participants is that the Si14 market does not close during the events.

Take a standard user who decides there is a dangerous attack going on during a match. He decides to place a bet. What kind of pain awaits him? He clicks on "Place a bet" and then there are three options: a) he waits 5-8 seconds, b) he might get the odds of 1.00, c) the bet might not get placed. Accordingly, if it is an arbitrator or a forked player, then the other shoulder falls off.

In our case, we simply do not close the market. We get data from WyScout, Sportradar, other scouts, and we have a semblance of a stock market. That is, there are supply and demand that we don't close. Imagine if MICEX had closed the market on Gazprom shares simply against the background of some news events - fundamental or technical. What would the regulator do?

- Do I correctly understand that you propose to equalize bookmakers and gamblers on your platform?

- Yes, the ultimate goal is exactly that. When bookmakers, may they forgive me, argue that a bet is canceled or refunded because the regulator has requested data on an individual, this is not valid.

We work with the Maltese regulator, Curacao, and we know how the regulators request information about this or that person. This only happens when the user has a turnover of at least \$500,000 and there is a suspicion of real match-fixing events on low-liquid matches.

- So you're saying that if you're smart and you're good at it, you'll make money on your site?

- Yes. There are a huge number of strategies that work. There are a lot of talented analyst guys. I've met with a group of analysts who calculate variability and probability theory of events in their favor. Again, they run into problems: they just get blocked because they win often. Professionals are undesirable to the market. And this is at least unfair.

- It's not so much the knowledge of sports that are important to a stock exchange participant, but financial knowledge?

- Exactly. Risk management is also an important factor that must be taken into account and observed.

- And how do you plan to gain the very shaft, your base?

- There are a lot of arbitrageurs on the market. If we consider the entire capacity of the market, we see that the clients are all migratory: one user is registered with almost all more or less decent bookmakers. The client is looking for a haven and decent conditions. Many leave because of account cuts, blocking, and similar things.

Imagine that you as a user are not blocked for winning all the time, do not re-verify. Even if you start losing, how likely are you to stay?

- What is the potential volume of your client base?

- We have a very clear calculation - with signed memorandums in various countries. I just can't say whose bases we have and which clients we plan to have. But as of today, we have over 300,000 pre-registrations. And we're still in the beta testing phase of the product.

Si14's closest competitor is the company Betfair. Its commissions are too high and it has left many of the target markets that we have.

- How are you going to beat such a big competitor?

- We have several ATPs. These include mechanized trading systems, which means that the user can create his robot on "if-then" conditions. For example, if there is a goal, then withdraw money. This is our personal development with an intuitive interface.

The second comfort level is that we are implementing all the sports events in MetaTrader together with MetaQuotes. All users who work on Forex, CFD, and other financial markets will be with us. This is to the question of liquidity.

Of course, this requires large financial injections. That's why we opened a company in Switzerland, conduct investment rounds, and sell shares in the company when there is a need for additional financing, to complete iterations to create exactly the product we want.

- How much money does that take?

- 19 million dollars to date. We've already raised more than half of it. Some of it, of course, was from personal funds, but still, we have key investors.

- You're talking about creating a robot - it's not a thing for a lazy user. And now most of the players in the BOOKMAKER prefer to make a bet by clicking a button in the app.

- The user you're talking about isn't going to bring in a lot of money. There are a lot of professional market players who are interested in the betting near-business. Even including capital migrations.

- What do you think the minimum or average betting amounts should be for such clients?

- We have a clear calculation of how much it costs per user. At the stage of stagnation, which will be, one user will cost us \$128 in the future. The payback period is six months to a year. Our marketing plan includes these costs, including the volume of users necessary for the existence of the exchange.

- I saw that when you buy tokens (your internal currency) the commission is reduced. Why did you choose the internal currency instead of, for example, reducing the percentage when betting from some amount?

- This creates a scarcity instrument. The more popular our platform is, the higher the value of the token will be. There are two components to our company: users and investors. In this case, we take care of the latter.

First, all of our investors have tokens as a guarantor, according to the volume of their investment. Second, we invest from token sales in Eurobonds. The coupon yield from these bonds contains our company and supports its liquidity when we go public. Tokens are more profitable for us than rollovers on the exchange or bonuses. We can't have bonuses a priori. Sure, mathematically they can be... if we put in a hundred rollovers, we can get back 5% of the bank, but why would we do that? That's cheating, and we don't want to go the way of cheating, we have a small commission, a fair market, and we don't want to block anyone.

In Russia it would be reasonable to introduce a tax on margin

- What locations are you focusing on?

- We have markets in Africa, Latin America, and developing countries. Also, there is a representative office in Israel. I'm talking about those places where we have signed memoranda on representation. That means that our official partners will be there after the platform is launched. We also signed an agreement in the U.S., but we will not enter this market in the next two years because it costs too much money to secure a license. Here everything depends on the target investor that will come to us. This is a matter of large financial injections, and this is the way forward.

There is also China. Russia is also a target market for us, but due to the high turbulence in legislation, we are still thinking about it. We have a legal entity in Russia prepared for a

gambling license, although we don't have to go through a gambling license because we have an exchange and we are a service.

- How do you avoid problems with licensing, because there is a certain gambling component?

- And there is no regulatory basis. No matter how many times we tried to check with lawyers and officials, there was no answer. We proposed on the sidelines of the State Duma to create regulated sports betting exchange, but alas! To this day there is no answer.

In Russia, it does not happen that if there is no law, you can work - the Russian market is structured differently. In any case, we will either work by sublicense or get our own, but only when the legislative storm calms down. Because what's happening in the legislative field right now is deliberately laying the bookmaker's tax bases on the shoulders of users. This is followed by blocking, lowering odds, etc.

I believe that it would make more sense to implement a margin tax. This is transparent and understandable. If you look at the inner workings of any bookmaker, margins are more than transparent. Unless, of course, someone uses bonuses and other things that, unfortunately, bring down the bookmaker's balance sheet.

- There is no such thing as a "betting exchange" in Russian law. There is a totalizator, a bookmaker's office.

- Exactly. That's why we took a little pause because we don't know how to enter the market correctly. And Betfair left it just because of this turbulence, and the niche is free and interesting for us.

- So you can hardly expect a B2C or B2B product to come out in Russia in 2021?

- I'm not ready to say, because we are currently discussing the possibility of sublicensing with major operators.

- You were talking about China. Gambling is completely banned there.

- In China it is. And they are allowed in Macao. As I said, we are working with the Dragon Phoenix casino chain, we have a sub-license from them, and we plan to take liquidity from this casino chain for the B2B market. It's our collaboration.

- And how are the Macau casinos, are they compliant?

- They are compliant but cunning :) There are many pitfalls, you have to be very careful when working in the Asian region. You have to take into account the local mentality, as well as the legal framework.

- Are they more complicated than in Russia?

- Yes, much more. In Asia, they are very fond of multi-track moves which lead to unbearable conditions for their opponents.

- Do you prioritize the European market, Africa and Latin America because it is easier there?

- Yes, they are smaller in terms of our margins, but easier.

We plan to install terminals in the world's largest stadiums

- When do you plan to launch your product?

- Right now we are beta-testing the platform. All users can go to the demo account, use demo tools, and see how it all works. We are planning the official release in 2-3 months depending on the occurrence of errors and processing banks. This is a serious moment that requires a lot of attention. Bank processors responsible for accepting funds from Africa, Latin America and China are fundamentally different things and require an individual approach to programming the payment acceptance gateways.

We have many interactions with banks and payment systems. This is basically what takes up a lot of time. We are also writing software now, and we have our terminals which we plan to install in over 40 stadiums. It is something like an ATM, which will be present in the largest stadiums in the world.

- Does it require a license?

- No, it's simpler than that. In this case, we have a partnership program, under which we will be represented by a partner. We won't have to get anything separately.

- For this, you need a lot of good connections throughout Europe and beyond. Do you have them?

- I have enough connections all over the world. I have a hobby, which is writing books. Thanks to this hobby, I have a large number of friends and partners around the world.

- What other business areas do your group of companies have?

- There are several key directions: sports betting exchange (Montenegro, Switzerland), the creation of a brokerage company Si14 (New Zealand), a laboratory for the development of engines in the field of green energy (Germany).

We also have a unique analytical soccer product. Our analysis system was created to help stock exchange members evaluate the abilities of teams and players but unexpectedly turned out to be in demand by professional clubs. Our portfolio already includes experience with European and Russian clubs, such as FC Zurich (Switzerland), FC Bournemouth (England), FC Rubin, FC Khimki, CSKA, etc.

- What do you give to the clubs?

- We provide the traditional analytical reports such as analysis of the future opponent's game, identifying weaknesses in the game of your team, analysis of the actions and abilities of individual players, but we are especially proud of our scouting platform. Our database contains more than 200 thousand professional players from almost all leagues of the world. We can give

a comparative analysis of them in just a few minutes. Our latest contract with Rubin and personally with Leonid Slutsky, whom we consider the most advanced and erudite Russian specialist right now, can be considered a definite sign of the quality of our analytics.

- Did you get to know him thanks to his books?

- No :) Our head of analytics Alexei Tryputen is a former professional soccer player (he won the Russian Cup with CSKA). He knows the pains of the modern soccer industry. We met in Montenegro - he coaches my son :) And now he works with the Si14 team.

- A traditional last question for us: how should you treat betting?

- Gently :) If it's for pleasure, it's ok. But professionals bet for the sake of earnings, so they have to be careful.

