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## THIS WEEK

- **Malta's gambling sector adds \$1bn to the economy**
- **Italy approves ban on gambling advertising**
- **Hard Rock Atlantic City starts taking online bets**

### GUEST COLUMNISTS

- **Eddie Glenn, iovation, and Jay Chaffin, RHR International**

# WEEK 27

## FRIDAY 06 JUL 2018

### MACAU: WORLD'S BIGGEST GAMBLING HUB FEELS THE HEAT



Macau is under pressure from all sides – gambling stocks tumbled this week, the World Cup is luring punters away, China is mulling plans for cashless casinos on the resort island of Hainan, and investors are getting jittery.

Ironically, Macau's monthly gross gaming revenue was up 12.5% to \$2.78bn on a year-over-year basis for the month of June. So what's the problem? Analysts had predicted an 18-20% rise, deflating investor confidence.

Melco International, which is almost entirely dependent on Macau for its revenue, was the biggest loser on the Hong Kong exchange this week. Wynn Resorts, Las Vegas Sands Corp and MGM Resorts – who all have a stake in Macau's future – were the most heavily-affected US-based operators.

"Macau's cooling gaming growth is having a chilling effect on Las Vegas stocks," the *Las Vegas Review Journal's* Todd Prince wrote this week.

Analysts aren't giving up on the island just yet, however. Macau's gaming market is four times the size of Las Vegas and one bad week doesn't make a trend.

The growth is "impressive when one considers June is one of the toughest comparative months of the year", Union Gaming analyst Grant Govertsen said. ▶



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# THIS WEEK IN NUMBERS

## \$1.28bn



Total revenue the gambling industry contributed to the Maltese economy in 2017, according to the Malta Gaming Authority

## 5%

The amount of tax reduced on Spanish online gambling and betting services

## 3.6m

The number of people who visited Las Vegas in May, according to the Las Vegas Convention and Visitors Authority

## \$58,000

The amount of money companies may be fined if they breach an Italian law banning gambling ads, although higher fines can reach up to \$583,000

Nomura, the Japanese brokerage, said in a note on Monday that the bank believes the weakness in Macau stocks was largely related to high investor and analyst expectations caused by inflated consultant estimates.

None-the-less, investors are having their confidence in the Chinese special administration region tested.

VIP player spending was softer given the mid-month start of the World Cup, said Stifel Nicolaus & Co analyst Steven Wieczynski.

The level of volatility in Macau's gaming stocks was also exacerbated by the removal of UnionPay's point-of-sale terminals from a number of Cotai integrated resorts at the beginning of June.

The point-of-sales terminals had allowed users to avoid the 20,000 yuan (\$3,000) per day withdrawal limit, and they were often located in the integrated resorts' pawn shops.

The decision to remove the machines raised concerns that China and Macau's authorities could tighten their grip on the gambling industry.

The fear of another anti-money laundering crackdown, reminiscent to the one which caused Macau to see its gambling revenues plunge by nearly 50% several years ago, has without a doubt caused investors concerns, with gambling operator's shares taking a similar dip after the news emerged at the start of June.

There are also other growing concerns surrounding competition in the region from the nearby island of Hainan.

Chinese President Xi Jinping has said he wants to see horse racing develop and is looking to "explore the development" of expanding lottery ticket sales on Hainan, increasing the threat of competition for Macau, as the president looks to turn the province into a free trade port.

*Bloomberg* reports that as many as five Chinese-owned resorts in Hainan are considering so-called "entertainment bars" where punters would be able to place bets with real money, although they would receive their winnings in credit which can only be spent in the island's bars, restaurants, shops, and hotels.

There are also reports that several hotel and resort owners have already approached baccarat table games suppliers with plans of turning large ballrooms into gaming areas.

This is not the first time Macau has seen its shares dip and it certainly won't disrupt or deter gambling operators from continuing to invest in the region. But, as the threat from Hainan grows, along with analysts' expectations, it makes the already volatile Macau market even more uncertain and vulnerable to issues such as the UnionPay machines crackdown.

Jefferies gaming analyst David Katz is confident that Macau's gaming revenue growth will swing upward by the end of 2018 when the Hong Kong-Zhuhai-Macau bridge opens.

"We believe business remains fundamentally sound" on Macau, Katz said in a note on Monday.

## ITALY APPROVES BAN ON GAMBLING ADVERTISING

Italy has approved a blanket ban on gambling advertising to start 1 January 2019, a worrying development for sports teams including Italy's Serie A soccer league.

The ban will be enforced on gambling products and services advertised on TV, the internet and radio. It will also stop Italian sports clubs from agreeing to advertising deals with gambling sponsors.

The Serie A League said the new rules would create disparity with other European countries and bring a "competitive disadvantage to Italian (soccer) clubs" who will lose advertising revenue to competing EU teams.

Italy's state-run national lottery and its products are exempt from the ban.

Companies with existing advertising agreements have been given more time to comply with their contracts.

LOGICO, the Italian trade body that represents online operators, said it was "perplexed" by the law.

"LOGICO does not believe that this ban can produce positive effects in terms of player protection or reduce, and certainly not eliminate, the risks deriving from an uncontrolled practice of the game itself," the trade body said in a statement posted in Italian on its website and translated by *Gambling Insider*.

The UK and Belgium have also been urged to curtail gambling advertising, particularly when it could affect children.

# \$36.4bn

The total profit bookmakers estimate to make from bets on the 2018 World Cup



The number of goals England's Harry Kane has scored in the World Cup, matching Gary Lineker's record for a single tournament

## MALTA'S GAMBLING INDUSTRY ADDS €1.1 BN TO THE ECONOMY

Malta's gambling industry directly contributed €1.1bn (\$1.28bn) to the economy in 2017 with about 9,800 people employed in the sector, the Malta Gaming Authority (MGA) said in its annual report published this week.

The country collected €66.3m (\$77.1m) in revenue from licence fees, gaming tax, and other fees and fines, a sizable amount for an island with a population of 436,000. Gambling accounts for about 11% of Malta's economy.

"The gaming industry thus consolidated its position as the third-largest economic sector, contributing to the generation of activity in other sectors," the MGA report said.

The MGA outlook for the gaming industry's future is positive, with surveys indicating that gross gaming revenue should grow by an average of about 15% and employment should rise by 10%.

Existing operators are projected to increase their expenditure in Malta in a range of between 8% to 13% per year over the next two years.

Malta's new Gaming Act is expected to come into force on 1 August 2018, a month later than planned.

Silvana Zammit, a gaming law specialist at Malta's Chetcuti Cauchi Advocates, told *Gambling Insider* that the Act will change the structure of the law, simplify licensing procedures and improve player protection.

The bill, as it now stands, also opens up the possibility of introducing virtual currency and distribution ledger technology regulations in the near future.

Malta postponed the introduction of its new Gaming Act so it can review recommendations from the European Commission and comments from an EU member state about the new regulatory framework.

The new gambling law is expected to strengthen the Malta Gaming Authority's supervisory role, specifically the compliance and enforcement functions, in line with developments relating to anti-money laundering and combating the funding of terrorism.



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## THE WEEK IN QUOTES

*"Most of them (casinos) are saying we would rather just close."*

**Chairman of Association of Gaming Operators Kenya on the gaming industry's battle with authorities and gaming taxes**

*"When I heard that Camelot was seeking a new Chairman, I actively sought the role,"*

**Sir Hugh Robertson on being appointed the first independent chairman of Camelot since 2010**

*"We also want gambling businesses to collaborate and to invest the same amount of resources into data, technology and research into building better protections for consumers, as they do to creating new products, or advertising and marketing campaigns."*

**UK Gambling Commission's Chief Executive, Neil McArthur, on making gambling fairer and safer**

## THIS WEEK'S WINNERS AND LOSERS

### WINNERS

US tribal casinos' annual revenue rose to \$32.4bn for fiscal 2017, marking a seventh consecutive year of growth. It is expected to keep rising due to the support of Native American tribes

Nevada's gaming wins amount to more than \$1bn in May, an 9.4% increase from the previous month and 5.3% higher than in May 2017

Australia banned websites from accepting bets on the outcome of lotteries, a win for Tabcorp but a loss for companies like Lottoland who take bets without requiring customers to buy lottery tickets

Playtech's shares dropped almost 27% on the London Stock Exchange on Monday, the tech company's lowest level in four years. The company blames the competitive market in Asia

### LOSERS

## LOOT BOXES: HARMLESS GAMING OR hardcore GAMBLING?

France's gaming commission ARJEL has held off from classifying loot boxes as a form of gambling – at least for now.

A change in classification would require the approval of several French authorities and it would have a widespread impact, Baker & McKenzie lawyer Sebastian Schwidlessen said.

"France is a key market, an adverse decision on loot boxes would have a much greater impact than the decisions taken by the Belgian and Dutch gambling regulators had," Schwidlessen said in an analysis published on his LinkedIn account this week.

The French investigation is still ongoing, however.

Loot boxes are a purchasable random reward system in video games; they can be purchased with in-game currencies (coins, gold, keys etc.) and in most cases with real world money.

Belgian and Dutch gambling authorities have indicated that their actions are being coordinated with other authorities, Schwidlessen added.

In April, Belgium concluded that Overwatch, FIFA 18, and CS: GO's are

a game of chance subject to Belgian gambling law. Publishers could face fines or prison terms under gaming legislation. Dutch authorities have followed Belgium by taking a hard stance against loot boxes.

The debate over loot boxes is not just confined to Europe, however. Australia's Senate passed a motion last week to investigate loot box systems in video games after a study found that loot boxes in 10 of the 22 games tested could be considered psychologically similar to gambling.

The motion, which was supplied to video game news site *Kotaku*, outlines two particular points of concern. The first is whether the purchase of chance-based items, combined with the ability to monetise these items on third-party platforms, constitutes a form of gambling.

The second point of concern involves the adequacy of consumer protection and the regulatory framework for in-game micro transactions for chance-based items, including international comparisons, age requirements and disclosure of odds.

Australia's findings are due in September.

## ATLANTIC CITY HARD ROCK CASINO LAUNCHES ONLINE BETTING

Atlantic City's new Hard Rock casino resort has started taking bets online just days after opening its doors on the boardwalk.

The casino went live with its internet gambling operation this week, only five days after opening.

Division of Gaming Enforcement Director David Rebeck said all of the casino's devices passed the commission's technical standards and equipment requirements.

"We're excited to extend the Hard Rock brand beyond the boardwalk and let casino players (play) across the garden state," said Matt Harkness, president of Hard Rock Atlantic City.

Six casino licensees run internet gambling in New Jersey: Borgata, Golden Nugget, Hard Rock, Resorts and Tropicana, and Caesars Interactive-NJ, which includes Caesars and Harrah's.

New Jersey Gov. Phil Murphy signed sports betting into law in June after PASPA was repealed by the Supreme Court.

Can the two new casinos and online sports betting revive the seaside gambling den?

The boardwalk was packed with holidaying tourists and Hollywood glamour over the weekend.

The Ocean Resort lured in crowds with celebrity guests including actor Mark Wahlberg, who placed the first wager.

The actor bet \$100 on the Philadelphia Eagles to win the Super Bowl in 2019 and went on to place another two bets on the New England Patriots and Cleveland Browns.

"I usually always bet with the heart," Wahlberg told the crowd, while acknowledging the foolishness of such a strategy.

Model Heidi Klum was also in Atlantic City for the opening celebrations. She was spotted dancing in bright yellow trousers and a striped bikini top at the opening of the hotel's HQ2 Beachclub.

Ocean Resort is also testing online gambling and hopes to take bets soon.

# PREVIEW: OKLAHOMA INDIAN GAMING ASSOCIATION CONFERENCE AND TRADE SHOW



The 2018 OIGA Conference and Trade Show, also known as ‘the biggest little show in Indian gaming’, is fast approaching. The event is being held in Oklahoma City from 23-25 July at the Cox Convention Center. About 3,000 people will be attending the conference, which sees guest speakers, vendors and visitors all coming together to celebrate the achievements of Indian gaming. OIGA will also be offering the Certification for Responsible Gambling Training: Casino Employee Orientation at the event, a “must have” for any casino employee.

The trade show will kick off this year with the return of the annual golf tournament, which benefits the John Markey Scholarship Foundation non-profit, on Monday, 23 July before the conference and trade show open. Not only will it make for a relaxing start to the event, but it will be a fantastic opportunity to network and forge new connections with people in the industry. It is also a great chance to catch up with old friends and strengthen those ties. Golf tournament registration begins at 8am at the Lincoln Park Golf Course, with the tournament beginning at 10am.

Conference registration will take

place between 12pm and 4pm in the convention centre lobby. Once registered, delegates can head on over to ballroom C and check out the film festival hosted by OIGA.

Don’t forget about the OIGA annual poker tournament, which runs from 7pm to 9 pm at Fassler Hall. There is also the OIGA Kickoff Party, which starts at 8pm. Shuttles will be provided from OIGA host hotels from 6:30pm to midnight, so there’s no reason to miss the poker tournament or the party, which are both great opportunities to network and catch up with friends in the industry.

On Tuesday, an hour-long welcome session will begin at 8:30 am in Ballroom C, followed by the Certification for Responsible Gambling Training from 9am -12:30pm. The Certification for Responsible Gambling Training: Casino Employee Orientation will inform casino employees about Problem Gambling and customer services, where participants will learn about the intricacies of gambling disorder, problem gambling as a component of customer service, how to help customers with self exclusion, and referring them to other forms of help. Successful completion of this will

certify delegates as a Certified Problem Gambling Trainer for Casino Employees, something that will benefit every casino employee.

The OIGA Awards luncheon starts afterward in Ballroom C, and all are invited to celebrate the success of peers and co-workers. The luncheon will run from 12:30pm to 1:30pm and will be followed by the opening of the trade show and ribbon cutting.

On Wednesday, 25 July delegates are invited to a second day of certification training from 9am -12:30pm. At noon, the trade show floor will open. There will be a variety of different vendors and businesses at the trade show, from gaming machines to food service suppliers and Limo services. There is sure to be something for everyone here. Not only is it a chance to engage with different businesses and get yourself up to speed on what is available, but it is also a networking opportunity.

The trade show will finish at 3pm leaving delegates with a free afternoon to unwind before heading back to work. The convention center is situated in the middle of Oklahoma City, so there is plenty to do. For those not ready to head back just yet, the Myriad botanical gardens are only a five-minute walk from the convention centre and many restaurants are located in the area.

There are four host hotels for attendees to stay at: the Renaissance Hotel Oklahoma City Convention Center, Hotel & Spa, the Courtyard Oklahoma City, the Skirvin Oklahoma City and the Sheraton Downtown Oklahoma City. All hotels are within walking distance of the convention center so make sure to book reservations ASAP. The Cox Convention Center is directly across the road from the Santa-Fe train station, providing attendees with plenty of transport links to the rest of the city.

If you have never been to any of OIGA’s previous conference and trade show events, then what are you waiting for?

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## NV, STRIP RISE AGAIN

Gaming revenues for Nevada and the Las Vegas Strip were both up year-over-year for the fourth consecutive month in May.

Additionally, the state exceeded \$1 billion in revenue for the fourth month out of the last five.

Results at North Lake Tahoe in Washoe County, which grew 25.10 percent, should benefit smaller casino operators like Full House Resorts, which operates the casino at the Hyatt Lake Tahoe Resort.

Baccarat, which grew revenues 21.51 percent, made up for blackjack's 10.01 percent slide.

Despite blackjack's slip, volume was up 18.21 percent, an indicator of healthy domestic trends.

REGION	REVENUE (\$)	CHANGE (%)
Nevada	1.044bn	+5.29
Las Vegas Strip	581.466m	+6.34
Clark County	904.582m	+5.10
Downtown LV	53.309	-3.48
North LV	27.238	+1.72
Laughlin	44.028	+1.66
Boulder Strip	79.825	-0.20
Mesquite	11.329	+5.87
Balance of County	107.386	+9.68
Las Vegas locals market	214.449m	+4.78
Washoe County	73.103m	+7.11
Reno	53.538	+4.61

REGION	REVENUE (\$)	CHANGE (%)
Sparks	11.594	+11.41
North Lake Tahoe	1.894	+25.10
Balance of County	6.077	+18.04
South Lake Tahoe	18.022m	+1.14
Elko County	24.430m	+7.58
Wendover	16.339	+10.15
Balance of County	8.090	+2.75
Carson Valley Area	9.931m	+15.58
Other areas	14.012m	+3.58

## COMPONENTS OF STRIP PERFORMANCE

Major strip segments:

REGION	REVENUE (\$)	CHANGE (%)	WIN PERCENTAGE	
			2017	2018
Blackjack	79.147m	-10.01	15.71	11.96
Baccarat	120.922	+21.51	14.07	16.51
Total Games	299.594	+7.10	14.4	14.62
Slots	281.872m	+5.55	8.02	8.26

## TABLE DROP

REGION	2017	2018	PERCENT CHANGE
Blackjack	\$559.835m	\$661.764m	+18.21
Baccarat	\$707.278	\$732.417	+3.55
Total Games	\$1.943bn	\$2.049bn	+5.49

## GUEST COLUMNIST



**JAY CHAFFIN,**  
PARTNER, RHR INTERNATIONAL

### *Investing in Leadership in a Changing Gaming Industry*

We are at one of those moments in the gaming industry where leaders and insiders are experiencing as much excitement as their consumers.

Casinos now exist, or will soon pop up, in the majority of states. Las Vegas is no longer a destination with a peculiar product, but rather a trendsetter for far-flung regional markets. Projected steady US growth continues, despite a hodgepodge of local regulations and turbulent cycles of expansion and consolidation. At the same time, the nascent rapid growth of Asian and European markets is going to provide headlines for expansion and innovation through the next decade. Last, but not least, new legal gaming opportunities for consumers are coming (or coming back).

The recent SCOTUS ruling in *Murphy v. NCAA* paves the way for widespread sports betting. With online daily fantasy sports (DFS) sites as well as legitimate sportsbooks jockeying for a stake in sports wagering, it's only a matter of time before internet gaming is revisited as a once and future frontier for the industry.

All of these expansions and innovations require savvy leadership to shepherd growth, create new products, and protect the integrity of the games and their players. In short, talented leadership is going to be at a premium in the gaming industry. Of course, economic growth and ever-decreasing unemployment numbers are rising tides that lift demand for talented leaders in most industries. However, there are specific trends in gaming that require special attention as the next generation of leaders are recruited and developed.

**1.** Managing the tension inherent in consolidation and geographical expansion. MGM Resorts and Caesars Entertainment Corp alone account for about a quarter of US gaming revenue, and they reach domestically from Las Vegas to the Atlantic. Among the next-tier companies, there is significant M&A activity, for example Penn National buying Pinnacle, which itself absorbed Ameristar. These transactions can create a great deal of turbulence, but they also provide the opportunity to revisit guiding principles and strategies and shape corporate culture.

While these defining characteristics of a company are overseen by the C-suite and board, it's the next levels of senior leadership who make sure they are spread throughout the company. It is important to place in these positions (usually general managers of properties or functional experts) people who can

pivot between "managing up and down". They should be able to communicate the "corporate message" to the rank and file while advocating to and informing the chief officers. Beyond business savvy and knowledge, they must show interpersonal flexibility and courage to sometimes toe the corporate line and lead local experimentation.

**2.** "Building" versus "buying" next-generation leaders is becoming more prevalent. As more people live within commuting distance of some kind of casino or racino, gaming companies need to be prepared to compete for talent in all markets. Whereas 20 years ago, middle management and experts in smaller domestic markets may have cut their teeth in Atlantic City or Las Vegas, they are now as likely to have been "bought" from another field altogether. On the other hand, companies have to be prepared to invest in and "build" high-potential junior leaders. They can grow engagement and loyalty by offering these people opportunities to grow their responsibilities and have mobility to larger markets and corporate leadership.

**3.** Developing leaders who can work cross-culturally has never been so important. While Las Vegas has long been an international destination, now any casino near a multinational company is a prime option for business entertainment. Additionally, gaming companies have to keep in mind that land-based casinos in the US are a mature industry, and the most explosive growth will come from having a presence in Macau, Singapore, and nascent Eastern/Central European markets. Leaders who can translate their knowledge and "people skills" across language and cultural boundaries will have many options for upward (and outward) mobility.

**4.** Untapped online potential is the biggest opportunity for the gaming industry. "Black Friday" largely shut down US consumers' options for online wagering, leading to large segments playing (with various degrees of legality) through offshore casinos. However, there are sundry exceptions to a total online ban, for example pari-mutuel wagering, games of skill, and extensions of land-based casinos. This suggests that more opportunities will arise as demand (and potential for government revenue) grows. Companies should be investing now in people who have the capabilities to not just develop these potential verticals, but to work through and influence the regulatory morass that surrounds them.

Investing the time and headspace into a talent strategy that addresses these unique issues should not just be the job of human resources. Top-level executives and market general managers should make finding, keeping, and growing their best people a top priority. Developing the next generation of leaders can be a big house edge for years to come.

## GUEST COLUMNIST



### EDDIE GLENN

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#### *Key Trends in Online Gambling for 2018 and Beyond*

Dramatic changes are in store for the online gambling industry which will no doubt impact their fraud management teams. New operators are cropping up even as existing operators consolidate. This, along with strong market growth and new operating geographies, significantly increases the competitive pressure on gambling operators.

Players' habits are also significantly shifting. As players move from playing on a desktop computer to a mobile device, there is less tolerance for friction caused by security and fraud prevention measures.

Techniques employed by fraudsters are also evolving and growing increasingly complex. Fraud activities are no longer limited to using stolen credit cards or other kinds of payment fraud. Advanced computer tools and techniques are being utilised by fraudsters worldwide.

Finally, changes to online data privacy regulations in the UK and EU are the largest in a generation and potentially could impact security and fraud prevention activities by limiting the type of data collected about your players.

What is the impact of these trends? They are creating an environment where the fraud management team can no longer work in isolation while focused on fraud-only activities like reducing chargebacks.

Gambling on the go from mobile devices is on the rise. According to Online Gambling Quarterly, 61% of gambling operators' revenue comes via mobile devices and 72% of betting stakes are from mobile devices. There are several important implications here.

First, mobile players demand ease of use. Having to login each time by typing a username/password is often unacceptable. Even with password managers, the extra seconds needed to lookup/copy/paste a username and password is often enough of a hindrance that a player will switch to a different game.

Second, mobile players are also using devices such as their tablet. Having a consistent user experience across different platforms is vital.

Why does this matter? Fraud prevention technologies must not only support multiple playing platforms, but track fraud committed across all platforms. This is difficult without proper device-fingerprinting fraud prevention technology, however.

Even though criminals continue to utilise payment fraud resulting in expensive chargebacks and credit card processing expenses, they also utilise other fraud practices.

Fraudsters perpetrate a wide range of fraud and in-game social abuses including account takeover. Despite gambling sites' efforts to detect suspicious players, internet-savvy criminals have learned how to mask their identity by changing account information.

As fraudsters routinely change identities, many online gambling sites are being abused by the same person without knowing it. Unfortunately, for online casinos that lack the ability to identify fraudulent computers, there's nothing to prevent fraudsters from creating a new account under another identity.

As fraudsters hide behind the Internet's built-in anonymity, identity and financially-based fraud management systems alone are not sufficient in catching sophisticated fraud and abuse. The inability to identify fraudsters sitting alongside legitimate players at a virtual poker table underscores the need for online casinos to deploy more effective solutions.

In order to effectively combat identity theft, online gambling sites must move beyond relying almost solely on personal information for fraud analysis. A different technique is needed, one that looks at information independent of what is provided by the user.

A device fingerprinting fraud prevention solution focuses on the device, not the person, to identify and re-identify a user. This device-centric solution provides online sites with unique insight into account creation and relationships and exposes fraud that is invisible to other tools. It also has an advantage in that it minimises the need for storing and processing personal information.

From a user experience perspective, it is important to get players into the game and playing as quickly as possible without jeopardising security. Furthermore, as these players move from one device platform to another, they have an expectation that ease of login on one platform should be available on all.

A device fingerprinting solution can help improve this aspect of user experience. When a specific device is paired with a user account, and then is reliably and accurately recognised as the same device in the future, traditional username/password login procedures can be safely skipped as long as there are no device risk indicators (information that a fraud prevention tool can provide) present.

Further enhancements to the user experience can occur by incorporating flexible and configurable multifactor authentication technology.

One of the best ways to differentiate user experience from the competition is to offer rewards, incentives, and promotions. However, fraudsters are aware of this and often abuse these types of programs. Device fingerprinting coupled with sophisticated machine learning capabilities allows one to predict the trustworthiness or risk for any online transaction just by comparing device characteristics to billions of other past transactions that have similar characteristics.

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