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WEEK 49

FRIDAY 06 DEC 2019

VIPS: BETTING AND GAMING COUNCIL'S MOUNT EVEREST

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THIS WEEK

- Wynn Resorts reaches settlement with Steve Wynn
- IGT CFO leaves supplier
- William Hill sends warning to affiliates
- Revenue falls in both Macau and Great Britain

GUEST COLUMNIST:

- Frank Brown, Managing Consultant, Bovill

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VIIPS: BETTING AND GAMING COUNCIL'S MOUNT EVEREST



The Betting and Gaming Council is creating a code of conduct for VIP programmes in the gaming industry. As we at *Gambling Insider* have written before, some of the sector's practices are indefensible and this look into VIP practices is well overdue.

By and large, much of the anti-gambling rhetoric bandied about in the UK is either politically motivated or backed by emotion rather than numbers. With VIP programmes however, the evidence is indisputable.

The Daily Mail recently investigated a questionable Paddy Power VIP scheme and countless examples have been dug up of bad practice in the past.

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THIS WEEK IN NUMBERS

20,000



The number of signatures on a petition to block an IR site in Hokkaido, Japan

2019/20

Marathonbet secured a partnership with Real Madrid for the 2019/20 football season



1,300



The number of New Hampshire Lottery retailers that will offer sports betting through Intralot

The increase in Spain's gross gaming revenue year-on-year, to €191.7m (\$211.5m) for Q3 2019



Profiting off vulnerable gamblers is neither responsible nor sustainable and should not in any way, shape or form comprise part of a corporation's marketing strategy. But that doesn't stop it from happening.

At the same time though, there always has to be a balance. The overall concept of VIP betting is not what should be questioned.

VIP income can sometimes provide 50% of an operator's revenue; sometimes 80%. A betting business can't suddenly be expected to forego that much of its turnover and liquidity, just like Apple couldn't reasonably be expected to stop selling iPhones overnight.

Where does the line fall, meanwhile, between a problem gambler whose health is being damaged by what they are doing and a genuine high roller who can afford to gamble away £30,000 as a one off?

In September, former England footballer Michael Owen said losing exactly that figure was a way of "relieving boredom." In his autobiography, released this year, he wrote: "While thirty grand is undoubtedly a lot of money – and a figure I don't take for granted at all – in the context of what I was getting paid at the time it really wasn't that significant."

He's absolutely right: it's his money and what difference does it make whether he lost it all betting on horses, online slots or buying an expensive new watch?

But you can see there are a few intricate points at play here. It's how this delicate issue is handled that could well define where gaming, at least in the UK, goes next in terms of business practice, public opinion and regulatory scrutiny.

The Betting and Gaming Council should be applauded for looking at this issue but it's important to note it has also exposed itself to immediate criticism.

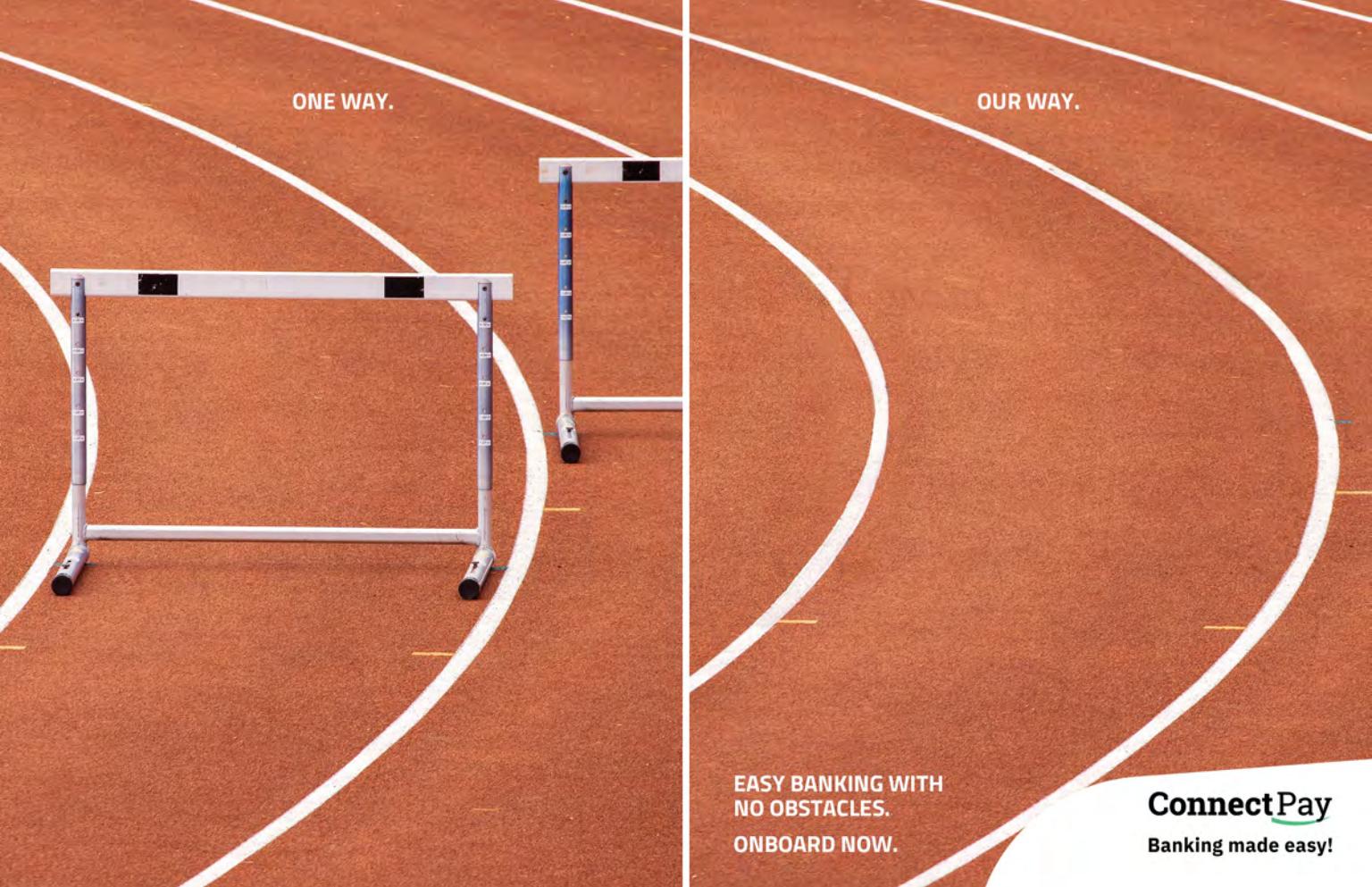
Anti-gambling campaigners will ask why it has taken this long to tackle the subject and suggest, like they did with the Council's recent in-shop cooling-off measures, creating guidelines which won't necessarily be adhered to is simply paying lip service to the topic.

The salient facts are these: someone earning, say, £1,000,000 a year can lose £5,000 on a single wager and that revenue is a hypothetical win-win for all involved. The operator has profited from a player that can afford to lose the money and, if that player is part of a VIP programme, has likely enjoyed a lavish experience placing that bet. Perhaps they even enjoyed losing it at an exciting race, sporting event, casino or just experienced an unmatchable thrill or buzz playing an online game.

What is equally true however, is an online slot player, sports bettor or casino-goer being deemed a "VIP" because they've shown an inability to control their gambling is a clear example of complete malpractice. Affordability checks and VIP guidelines can help distinguish between the two but, like so much in gaming, this is far from a black-and-white issue – whichever side of the fence you find yourself on.

It's an issue that may well become the Betting and Gaming Council's Mount Everest. Make genuine progress and it would be like standing on the summit, a sign of change which could well sway the public narrative, at the very least providing the industry with a stronger footing when challenging detractors.

But suggest too much, pushing operators away, or suggest too little, failing to properly address the situation, and the Council might be left stuck at base camp.



3,500

The number of slots Veikkaus has vowed to remove from retailers in 2020



40%

The planned increase in gaming tax for Danish operators in 2021



\$103m

The amount Stars Group will pay to gain full control of BetEasy



WYNN RESORTS SHAREHOLDERS AWARDED \$41M SETTLEMENT

Wynn Resorts shareholders will receive \$41m in a lawsuit settlement regarding allegations against the operator's former CEO Steve Wynn.

Shareholders began filing lawsuits against the company and its board of directors in 2018, when allegations of Wynn's sexual misconduct were first reported publicly in the Wall Street Journal.

Earlier this year, a lawsuit was filed against Wynn Resorts and Wynn on behalf of a massage therapist who said executives at the company "mentally abuse" victims by calling them prostitutes.

More recently, a hairstylist formerly employed by Wynn Resorts also filed a lawsuit against the casino operator, accusing Wynn Resorts executives of sending an undercover spy to his new salon.

The eight combined lawsuits filed by Wynn Resorts shareholders accused board members of "disregarding a sustained pattern of sexual harassment and egregious misconduct" by Wynn.

Through the settlement, Wynn Resorts will receive \$21m from insurance carriers and \$20m from Wynn himself.

The settlement also credits Wynn Resorts with \$49m as a result of corporate governance enhancements undertaken after the filing of the lawsuit.

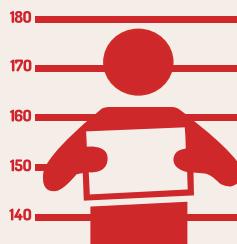
As part of the settlement, the operator agreed to amend its bylaws to separate the role of Chairman and CEO, in addition to requiring a majority shareholder vote for the election or re-election of directors.

A statement released by Wynn Resorts said: "Neither the company nor its current or former directors and officers were found to have committed any wrongdoing in connection with the settlement."

Wynn Resorts has already paid \$55m in fines related to the allegations against the former CEO, including a \$20m fine from the Nevada Gaming Commission earlier this year.

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**20**

The number of arrests made in relation to an illegal gambling operation in Taiwan

THE WEEK IN QUOTES

"It is incomprehensible that this may continue. I can't think of any other industry where it's okay to use competing companies' products as drawbacks for their own business. The shadow gaming companies cannibalise well-known lotteries without owning the brands they market and sell."

Patrick Hofbauer, CEO of Svenska Spel, on Swedish operators offering lottery betting on other companies' products

IGT ANNOUNCES DEPARTURE OF CFO

IGT has announced the departure of its EVP and CFO Alberto Fornaro.

Fornaro will maintain his position until the end of January 2020, when he will be replaced by current SVP and Chief Accounting Officer, Timothy Rishton, on an interim basis.

IGT's board unanimously approved Rishton to replace Fornaro as interim CFO while the operator searches for a permanent replacement.

Fornaro said: "It has been a great honour to serve as IGT CFO and to participate in the company's success during the last eight years.

"With the recent completion of important refinancing activity and a strong finance organisation in place, it is the right time for me to move on to a new challenge."

Marco Sala, IGT CEO, said: "I would like to thank Alberto, both personally and on behalf of the IGT Board of Directors, for his leadership and outstanding contribution during the last eight years as CFO of first GTech and later IGT.

"Alberto played a significant role in improving our financial and operational performance, including helping to secure large, strategically important contracts for the next several years."

IGT generated revenue of \$1.15bn for Q3 2019, a 3% rise year-on-year at constant currency.

Operating income fell 19% to \$154m, while adjusted EBITDA dropped 5% to \$407m.

The supplier's net debt decreased 3% to \$7.35bn.

IGT attributed its revenue growth, which was flat when not measured at constant currency, to an increase in global gaming product sales.

North America gaming and interactive revenue was \$253m, an increase of 10%, while lottery revenue in the country was \$38m, a rise of 1% from 2018.

Total Italian revenue fell 1% to \$402m, with the sharpest drop in gaming, down 7% at \$154m. The supplier attributed this mainly to the impact of higher machine gaming taxes in the country.

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"Land-based casinos have a key advantage and a key disadvantage compared to online properties. The key advantage is face-time with customers, but of course the big disadvantage is a less rich set of data about those same players."

Speaking with Gambling Insider
Paul Sculpher, a consultant in the UK land-based casino industry, compares customer protection between online and land-based operators in the UK

"Setting the right minimum/maximum bet ratio, the ideal speed for a game round, boosting the profit margin with side bets and – perhaps most importantly – having an engaging atmosphere on the table are all details that casinos need to get high volumes."

NetEnt Live Director Andres Rengifo speaks to Gambling Insider about creating an "engaging atmosphere" with live casino

WILLIAM HILL WARNING HIGHLIGHTS AFFILIATE RISK IN NEW MARKETS

William Hill sent out a message to its affiliate partners, warning them against promoting unlicensed US operators alongside its own marketing materials. In its message, the operator told affiliates to remove all William Hill promotions from any website that also displays links or advertisements for illegal brands. Failure to do so may result in immediate account closure.

The operator is by no means eager to close the accounts of its affiliates. If it wanted to shut down its affiliate arm it could do so overnight and with no warning at all. It takes time to establish these relationships and for the most part, they are mutually beneficial. However, it is obviously far more lucrative for the company to continue operating in the US; it can find different marketing streams just around the corner.

This development highlights the risk affiliates face in newly regulated markets. It has been less than two years since sports betting was approved after PASPA was overturned in the US. In the short window since, we have seen revenue

rise across the country and everyone wants their share of the pot.

Nevada has obviously been betting on sports for decades, but now individual states are allowed to permit the vertical where they see fit, we might see further changes drafted into already established legislation should the law be broken continually. This is a danger for all affiliates, not just those that promote illegal operators.

There is a possibility that, with William Hill's email, many affiliates will see it is a threat without consequence. While nobody can question the clarity of the words, to send out the same message to all its partners, void of any personal touch, will not help relationships.

Years down the line, this might be seen as a pivotal moment, and it appears neither side of the partnership went out of their way to help the other. As with any new venture or market, there are risks and rewards.

Now that the US sports betting market has found its feet, the affiliate dangers are making themselves ever clearer.

THIS WEEK'S WINNERS AND LOSERS

WINNERS

White Hat Gaming - Secured a long-term platform partnership with Penn National, with the incorporated project expected to launch in Q3 2020

Ocean Casino Resort - Hired Terry Glebocki as its CEO, making her the only female CEO among the city's nine casino operators

IGT - Announced the departure of its EVP and CFO Alberto Fornaro, who will step down at the end of January 2020

Josh Shaw - The NFL player for the Arizona Cardinals will be suspended through the 2020 season after wagering on games involving his team

LOSERS

MACAU NOVEMBER GGR DROPS 9%; GREAT BRITAIN'S FULL-YEAR TOTAL FALLS 0.3%

Gross gaming revenue in Macau fell 9% year-on-year to MOP22.9bn (\$2.9bn) for November, as the US-China trade war and Hong Kong protests continue to negatively affect results.

The figures provided by the Gaming Inspection and Coordination Bureau show seven months of revenue decline out of 11 for Macau this year and the second consecutive month without growth.

November's fall was the second-largest of the year so far, after August's results fell from MOP26.6bn to MOP24.3bn.

The performance however, was not as bad as analysts feared. Predictions made on the island's financial results for November predicted a 10%-13% drop.

Accumulated gross revenue currently sits at MOP269bn, representing a drop of 2%. Unless Macau has an exceptional December, it will not match or improve upon last year's annual revenue total of MOP302.8bn.

Elsewhere, gross gambling yield (GGY) in Great Britain fell 0.3% year-on-year for the period between April 2018 and March

2019, totalling £14.4bn (\$18.6bn). Statistics from the Gambling Commission's annual report show the slight decrease was replicated in the remote sector, where GGY fell 0.6% to £5.3bn.

This fall was heavier in land-based casinos within Great Britain, which generated £1.1bn in revenue, a 10% drop.

But there were increases for the online slots category, which generated £2.1bn in GGY for the period (6% up).

Gaming machines also made £2.8bn in the final trading period before the implementation of the £2 stake limit on fixed-odds betting terminals (FOBT); the limit was previously £100.

This represented a 0.5% increase, although it was generated primarily by B3 gaming machines, which made £1.1bn – a 91% growth. Category B2 machines, which include FOBTs, generated £1.2bn, a 31% fall.

There was a 3% drop in the total number of gaming premises in Great Britain (to 10,761) as well as a 6% decrease in the total number of industry employees (102,782).

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NJ RISES

New Jersey gaming revenue leapt 22.9% year-on-year for October, due to strong sports betting and online gaming results.

Outside sports betting and online gaming, which made up more than a third of total revenue, land-based casinos grew just 0.8%.

Land-based casinos were led by Ocean, which continues to ramp up after undergoing a management change in July.

Online gaming hit yet another record month with \$45.215m in revenue, with 77%+ growth at the majority of properties.

Golden Nugget's \$16.625m in online gaming revenue surpassed its land-based revenue of \$14.752m.

Online poker's decline halted a four-month streak of growth.

Sports betting eclipsed online gaming for the first time, generating a record \$46.394m on \$487.925m in handle.

The Meadowlands accounted for more than half the state's sports betting revenue.

Online handle was more than four times that of retail handle.

PROPERTY/MARKET	REVENUE MILLION	% CHANGE
TOTAL		
Meadowlands	\$24.795	+599.89
Monmouth Park	\$2.842	+133.79
Ocean	\$21.303	+46.87
Resorts	\$22.717	+30.98
Golden Nugget	\$31.913	+21.89
Hard Rock	\$28.246	+16.40
Borgata (MGM)	\$61.105	+10.53
Caesars (CZR)	\$26.047	+8.02
Harrah's (CZR)	\$24.178	+1.18
Bally's AC (CZR)	\$13.858	-6.15
Tropicana (ERI)	\$26.304	-8.92
NJ Gaming Total	\$293.866	+22.91
Same Store	\$204.033	+21.74

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LAND-BASED CASINOS

INTERACTIVE	REVENUE	PERCENTAGE CHANGE	SHARE PERCENTAGE	PARTNER
LAND-BASED CASINOS				
Resorts Digital	\$10.335	+196.22	22.9	SGMS, TSG
Hard Rock	\$1.811	+78.14	4.0	Gaming
Borgata (MGM)	\$7.757	+77.73	17.2	GVC, Pala
Golden Nugget	\$16.625	+71.84	36.8	FLTR, GAN, SGMS
Caesars (CZR)	\$4.260	+9.01	9.4	888, SGMS
Tropicana (ERI)	\$3.883	+4.79	8.6	GYS
Ocean	\$0.543	-8.78	1.2	GAN
iGaming Total	\$45.215	+69.00	-	-
Casino	\$43.574	+73.60	-	-
Poker	\$1.640	-0.81	-	-

SPORTS BETTING

INTERACTIVE	REVENUE	PARTNERS CHANGE	PARTNER
SPORTS BETTING			
Borgata	\$1.846	+886.14	GVC
Meadowlands	\$24.795	+599.89	FLTR, PBH
Ocean	\$2.333	+183.04	WMH
Resorts	\$0.265	+172.65	DraftKings
Golden Nugget	\$0.536	+171.37	SBTech/ CHDN
Monmouth Park	\$2.842	+133.79	WMH/Rush St
Resorts Digital	\$10.558	+107.42	TSG/Draft-Kings/Kambi
Bally's	\$0.770	+87.16	SGMS/888
Harrah's	\$0.092	-11.49	SGMS
Hard Rock	\$1.965	N/A	Gaming Innovation
Tropicana	\$0.390	N/A	WMH
Sports Betting Total	\$46.394	+297.00	-

GUEST COLUMNIST

FRANK BROWN

MANAGING CONSULTANT,
BOVILL

Brown discusses taking a holistic view towards vulnerable customers

A firm's approach to vulnerable customers should not be seen in isolation from its other responsibilities. Processes dealing with vulnerable customers should instead form part of a wider framework of controls, ensuring sufficient customer insights to enable the right decisions to be made. This should be the case across both financial crime controls and social responsibility requirements. It is certainly true the Gambling Commission takes this holistic view and has fined firms for a failure to control, failure to investigate and failure to prevent in a range of recent cases.

Recent examples include: 7,000 customers who had chosen to self-exclude, yet were still able to access their accounts; one customer was allowed to deposit £654,000 (\$844,000) over nine months without source of funds checks being carried out; a licensee did not query one 'VIP' customer's spending rising from £200 a month to £10,000 a month.

Based on our regulatory compliance work with companies, Bovill points to five key areas firms should focus on to ensure effective controls are in place – and avoid fines from the Gambling Commission.

GOVERNANCE AND CULTURE

There should be a clear allocation of roles and responsibilities within the organisation to show who will address customer vulnerability issues. Personal management license (PML) holders and senior management should be able to evidence they are undertaking appropriate oversight, and taking action where required.

On the culture side, there's a clear message from the Gambling Commission that firms should move the focus away from 'problem gamblers' to a broader view of 'problem gambling' – a proactive consideration of why vulnerabilities may occur, rather than simply a reactive process to address them.

PROCESS AND CONTROL

Firms must put in place clear and effective policies and procedures to identify and address customer vulnerability issues.

Policies should be kept up to date and made widely available throughout the organisation. Controls put in place should also be appropriate to the risks and the environment, reflecting the different challenges of remote and non-remote operations.

TRAINING AND COMPETENCE

All staff involved with providing a service to clients (or providing oversight) should be trained to identify possible vulnerabilities. This should not only include the identification of potential vulnerabilities but also how to empathise with clients, and what steps are available and appropriate to support clients who are vulnerable for different reasons.

Training should not be a one-off 'sheep dip' exercise. Rather, there should be an ongoing programme of refresher training and measures to check staff have taken in what they have been taught.

It's also important to support staff through this process. They may deal with very difficult situations and support to staff is vital. In addition, it is important to have clarity over who staff should turn to if they require assistance with a situation.

IDENTIFICATION AND ACTION

There is a requirement for operators to "use all relevant sources of information to ensure effective decision making".

For remote gambling, the recent GambleAware report highlighted the expectation that firms will use behavioural analytics and mine the risk streams of data they hold to identify problematic behaviour.

In fast-moving environments, players can move into problematic 'hot state' gambling very quickly. Firms should have appropriate measures in place to identify issues – in a 24/7 gaming operation, that means 24/7 monitoring, too.

Where customers wish to self-exclude, the process should be clear and simple to execute. Where requests are made, they should be actioned promptly and effectively, across all areas of the business (e.g. exclusion from gaming, closure of accounts, removal from marketing lists).

RECORD KEEPING

Firms need to ensure they maintain accurate records of why action was taken and, perhaps more importantly, why it wasn't taken. Any assessment of a client as vulnerable must be worded sensitively, particularly as it may be 'special category' data under GDPR.

Remember, clients have a right to request records of information a firm holds on them.

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