



# Global Market Advisors

## Proxy Betting in Southeast Asia: Insights and Evaluation of the Product's Potential

A White Paper

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## INTRODUCTION

Proxy betting is booming throughout Southeast Asia. In early 2016, industry analysts estimated that proxy betting's contribution to overall Macau VIP betting volume had grown about 15 percent in 2015 from the prior year. Proxy gambling, in its simplest form, allows a person to wager on a table game from a remote location, using a proxy to place his/her bets at a live table game in a casino, and communicating via telephone.

On May 6, 2016, the Gaming Inspection and Coordination Bureau (DICJ), Macau's gaming regulatory authority, announced that the use of telephones by those sitting at VIP gambling tables would be prohibited, effective May 9, 2016. This came as disappointment to Macau casino operators, who enjoyed this incremental gaming revenue and its low operating costs. As a result of the DICJ's decision, opportunities to offer proxy betting have now opened up for gaming operators in other jurisdictions, particularly in countries like Cambodia, Vietnam and the Philippines where regulations regarding proxy betting are less rigorous and more open to operators' interpretation.

Why is proxy betting so popular, and why do players enjoy this style of play, particularly when they are not physically present to enjoy the thrill of the game? The number one reason is player anonymity. China's continued high profile anti-corruption drive has meant that players are now reluctant to travel or be seen playing at casinos. Also, players for whom, for one reason or another, cannot leave their home country, either through inconvenience or visa restrictions, proxy betting allows them to overcome these hurdles and enjoy casino gambling.



## DEFINITIONS OF PROXY BETTING AND ONLINE GAMBLING

Proxy betting is often confused with online gambling and other forms of remote wagering. This portion of the white paper defines what proxy gambling is and how it differs from online wagering.

### PROXY BETTING

Proxy betting is a form of wagering where a person designates a trusted individual as his/her proxy. The proxy communicates with his/her colleague via a mobile phone and, following their instructions, makes bets at a gaming table in a casino. In a more typical proxy betting scenario, a casino provides a live video feed of a table game. A person, using a computer or mobile device, can observe that table game from a remote location, whether in another city or another country. Instructions are communicated to the proxy via a mobile phone. The proxy physically makes each bet. Each game's outcome is observed on the spectator's video display, and winnings are paid to the proxy player. More important, the wagering activity, the actual exchange of money and each game's outcome takes place in the casino, and not in the country where the spectator is located. The spectator is simply observing the game, providing wagering instructions to his/her proxy via telephone, and watching each game's outcome. The proxy can be a trusted friend or even an appointed agent of the casino.

### STANDARD ONLINE/RNG

An Online/RNG platform is a standard online casino, played with a computer or mobile devices, where a Random Number Generator (RNG) seeds the game result for each hand or spin through the software's RNG program. They also do not like playing against a computer. Players of an RNG/Online casino must first open an account and through that account deposit funds and place bets through a graphics game interface. Once a player has finished playing, and provided there is a positive balance in his/her account, payments back to the player can be made through various e-commerce solutions.

### LIVE DEALER/ONLINE

Live Dealer Online is a hybrid form of the standard RNG platform, developed primarily for the Asian markets in direct response to trust issues coming from that particular market segment. Asian gamers do not trust Online/RNG games, believing that the result can be easily rigged in favor of the online casino operator. To overcome this, casinos



developed a solution in which live dealer dealt games are broadcast using live video streaming technology, either from a purpose built studio or from tables located within a section of the casino floor. As with the standard Online/RNG platform, before players can place a wager, they must first open an account through which to fund their betting sessions. Once a player has finished playing, and provided there is a positive balance in his/her account, payments back to the player can be made through various e-commerce solutions. The primary difference from the Online/RNG game platform is that the game is a live game, dealt by a real dealer and whose result is generated in real time using the normal tools of the casino and which the player is able to view.

A key difference between proxy betting and RNG/Online and Live Dealer/Online is that the latter two versions may be a violation of a particular country's laws. A person making a bet using an RNG/Online or Live Dealer/Online may be residing in a country that prohibits gambling. While gambling may be legal where the casino is located, a person placing a wager via a registered account may be violating his nation's restrictions on gambling. In proxy betting, it is the proxy who is making the wager with the transaction taking place in the country where the casino is located – not where the spectator resides.

Another important element that defines both RNG/Online and Live Dealer/Online is that both of these options require a player to have a registered account through which to fund and place wagers through a table game graphic interface.

Not to be confused with RNG/Online games or the Live Dealer/Online offering, a proxy betting solution does not require a player to first set up a player account nor does the platform require a complex software platform that includes graphics depicting table games, e-funding protocols and merchant bank accounts. All the action takes place on the table located in the casino, where all chip purchases have already been completed by the player's proxy. Instructions are given to the proxy via telephone to place a bet by the person not located in the casino. That person is simply a spectator, perhaps looking at the action live through a PC or mobile device.



## WHAT COUNTRIES OFFER PROXY BETTING

Proxy betting is available in many casinos throughout Southeast Asia, most notably in Cambodia, Vietnam and the Philippines where regulations do not specifically prohibit this kind of gaming activity. Those casinos that do not currently offer this service are now looking very closely at including it as an additional gaming option to their players and agents.

How significant is proxy betting? In some casino operations, proxy betting accounts for up to 90 percent of a property's gaming revenues. Before proxy betting was shut down in Macau earlier this year, industry analysts estimated that proxy betting's contribution to overall Macau VIP betting volume had grown about 15 percent year-on-year in 2015.

## BENEFITS OF OFFERING PROXY BETTING

Asia is clearly destined to become the key world growth market for the rest of this century. No other region has the capacity for such growth in terms of population, economic and geographic size and continental proximity to each other.

Asia is defined as the largest of the continents, bordering on the Arctic Ocean to the north, the Pacific Ocean to the west, the Indian Ocean to the south, and the Mediterranean and Red Seas in the west. It includes the island of Sri Lanka, Asia Minor, India, Arabia, and Indochina and the island groups of Japan, Indonesia and the Philippines.

Most importantly, it includes the world's first and second most populated countries, China and India, and in addition to their size, their current and future economic power are set to drive the region's growth. Geographically, these two economic powerhouses form the outer boundaries or 'goal posts' of the massive changes and growth that will occur within the Asian developmental and economic 'game' in the coming decades.

The countries that comprise the Association of Southeast Asian Nations ("ASEAN") lay in between these boundary markers. While in general, the ASEAN countries may be considered to be much smaller, and generally less economically developed, the region has nonetheless seen consistent, strong growth over the last decade. Again, while in the past the region has been politically less stable and offered varying levels of business



infrastructure, probity, security and legal systems, the emergence of such countries as Cambodia, Myanmar and Laos show that swift and major change is coming.

In today's competitive market, astute casino operators know they need to look at all options that will give them an edge over their competition. The Live Dealer/Online option is expensive and very difficult to manage, so having a simple and effective service that allows players to bet via a proxy and view the game outcome on their computer, flat screen or mobile device is one such option.

Offering a proxy betting service is relatively straightforward to install. It opens up a casino operator's latent revenue creation capabilities, and at the same time, keeps normal associated player incremental costs low. A proxy betting solution means the casino operator can always be in touch with the property's player database, allowing the player, through a proxy, to wager in real time without having to leave the comfort of home, office or country. This is particularly appealing for players residing in countries where gambling is prohibited.

Third party agents also like proxy wagering because it opens up more opportunities to get their players into action and by so doing, generates more commission revenues.

On the following page is an example of gaming revenues that could be generated from a casino offering proxy betting on eight tables. In short, the example projects a realistic scenario that after a 12 month period (that allows for a 9 month stabilization period), a small operation offering eight proxy betting tables, could generate an incremental \$25 million in rolling volume. Given average tax rates in the region, and considering other expense factors as detailed in the table on the following page, the operation could benefit from an incremental US \$897,316 in the first year. Once stabilized (figures illustrated in months 9-12), second year Net Win could be expected to increase by nearly 70%.



ProForma Income Statement Example from an 8 Table Proxy Betting Operation ('000s)

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12	1st 12 Months
<b>Rolling Volume</b>	<b>\$ 3,000</b>	<b>\$ 5,000</b>	<b>\$ 7,000</b>	<b>\$10,000</b>	<b>\$15,000</b>	<b>\$18,000</b>	<b>\$20,000</b>	<b>\$22,500</b>	<b>\$25,000</b>	<b>\$25,000</b>	<b>\$25,000</b>	<b>\$25,000</b>	<b>\$ 200,500</b>
<b>Win Based on Theo</b>	<b>85.5</b>	<b>142.5</b>	<b>199.5</b>	<b>285.0</b>	<b>427.5</b>	<b>513.0</b>	<b>570.0</b>	<b>641.3</b>	<b>712.5</b>	<b>712.5</b>	<b>712.5</b>	<b>712.5</b>	<b>5,714.3</b>
Less Commissions	-59.1	-98.5	-137.9	-197.0	-295.5	-354.6	-394.0	-443.3	-492.5	-492.5	-492.5	-492.5	-3,949.9
<b>Net Win</b>	<b>26.4</b>	<b>44.0</b>	<b>61.6</b>	<b>88.0</b>	<b>132.0</b>	<b>158.4</b>	<b>176.0</b>	<b>198.0</b>	<b>220.0</b>	<b>220.0</b>	<b>220.0</b>	<b>220.0</b>	<b>1,764.4</b>
Taxes	-7.9	-13.2	-18.5	-26.5	-39.7	-47.7	-53.0	-59.6	-66.2	-66.2	-66.2	-66.2	-531.1
<b>Net Win After Taxes</b>	<b>18.5</b>	<b>30.8</b>	<b>43.1</b>	<b>61.5</b>	<b>92.3</b>	<b>110.7</b>	<b>123.0</b>	<b>138.4</b>	<b>153.8</b>	<b>153.8</b>	<b>153.8</b>	<b>153.8</b>	<b>1,233.3</b>
<b>EXPENSES</b>													
Dealer/Pit Costs	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-15.0	-180.0
Surveillance Costs	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-5.0	-60.0
Leased Lines	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-6.0	-72.0
Other	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-2.0	-24.0
<b>Net Variable Costs</b>	<b>-28.0</b>	<b>-336.0</b>											
<b>Net Win</b>	<b>-9.5</b>	<b>2.8</b>	<b>15.1</b>	<b>33.5</b>	<b>64.3</b>	<b>82.7</b>	<b>95.0</b>	<b>110.4</b>	<b>125.8</b>	<b>125.8</b>	<b>125.8</b>	<b>125.8</b>	<b>897.3</b>
<b>Cumulative Net Win</b>	<b>-9.5</b>	<b>-6.8</b>	<b>8.3</b>	<b>41.8</b>	<b>106.0</b>	<b>188.8</b>	<b>283.8</b>	<b>394.2</b>	<b>520.0</b>	<b>645.8</b>	<b>771.5</b>	<b>897.3</b>	

Source: GMA



## PROS AND CONS OF PROXY BETTING

### PROS

Casino managers need to continually look at solutions that will drive revenue. Proxy betting is a solution that provides the casino an opportunity for a portion of its player database to gamble even though the player is not physically present at the property. Proxy betting can also be used with agents and sub agents who wish to promote the casino to their player database. Commissions can still be offered through normal casino marketing programs, as can player rewards and other incentives but at a lower cost to the casino, in so far that airfare costs, lodging and meal comps do not come into the equation. In a market where players are reluctant to travel or are fearful of being recognized by government agents while playing high stakes games, the anonymity that proxy betting is very appealing.

The proxy betting software platform is also far less complicated than setting up a Live Dealer/Online offering. No studio is needed, no complicated and overly expensive software agreements are necessary, and there are no e-commerce issues to deal with. Proxy betting in a country where casinos are legal generally does not violate another country's prohibition on its citizens gambling in their country. Proxy betting is also a relatively inexpensive operation to set up. A good turnkey proxy betting solution normally costs USD \$65,000 – \$80,000 to set up, depending on the quality of hardware used.

### CONS

Know Your Customer (KYC) and Anti Money Laundering (AML) reporting are the obvious hurdles that casinos in vigorously regulated jurisdictions will have to face if they want to offer a proxy betting service. There is a distinct lack of specific legislation in place that deals directly with proxy betting in gaming jurisdictions throughout Southeast Asia.

Until recently, proxy betting was allowed in Macau although there it was termed remote betting, and no software or real time viewing was permitted. Bets were simply placed by the proxy taking instructions over the telephone. However in May of 2016, the DICJ legislated that telephone betting would no longer be allowed.

Casinos operating in less regulated markets will always run the risk of future government intervention should they offer proxy betting to their customers. However,



given its low set-up costs, proxy betting can quickly pay for itself and provide a steady revenue stream.

Another disadvantage is that proxy betting makes it easier for side betting to occur. Side betting refers to agents taking bets “off the table,” and away from inclusion in casino concessionaires’ gross gaming revenue. For example, the agent and the player may agree that while play against the house is denominated and recorded in Hong Kong dollars, they will side bet as if that play had been in U.S. dollars. The agent assumes the operational risk or expense of the house in case the player wins, and collects the money in case he or she loses. The casino gets nothing.

## SETTING UP A PROXY BETTING SOLUTION

Setting up a proxy betting solution is relatively simple and requires few parts. A proxy solution requires a software platform that can deliver either a manual or an automated tracking solution which correlates to the tables’ scoreboard software. If using a manual set up, each game result can be input into the system by the dealer at the conclusion of each hand. This method is not without risk as a dealer can input an incorrect game result that often leads to a dispute. If using a fully automated solution, the software managing the overall process is directly linked through the shoe software that automatically records the result. Once the hand is finished, the result is automatically posted to the scoreboard for players to see.

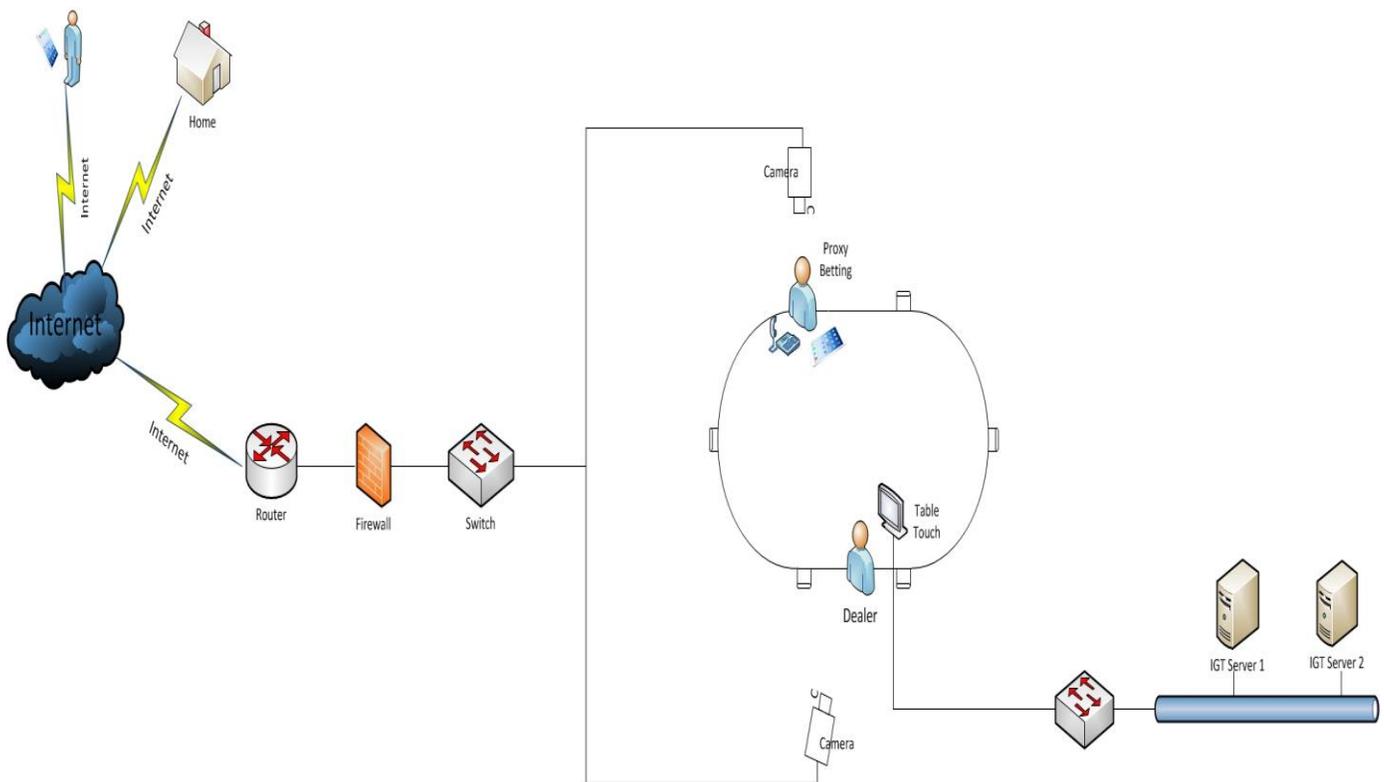
The minimum hardware required for each table (such as baccarat) would be as follows:

- Cameras: One mounted overhead and one squeeze camera mounted in each tables surround.
- Streaming server: Minimum specs of 64GB and quad core.
- Dedicated leased line: Minimum of one dedicated 20MB leased line for effective streaming. Two leased lines with different providers preferable with a load balancing device for redundancy in case one leased line drops out.
- Video streaming license.

On the following page is a graphic illustrating a basic proxy network :



### Basic Proxy Network:



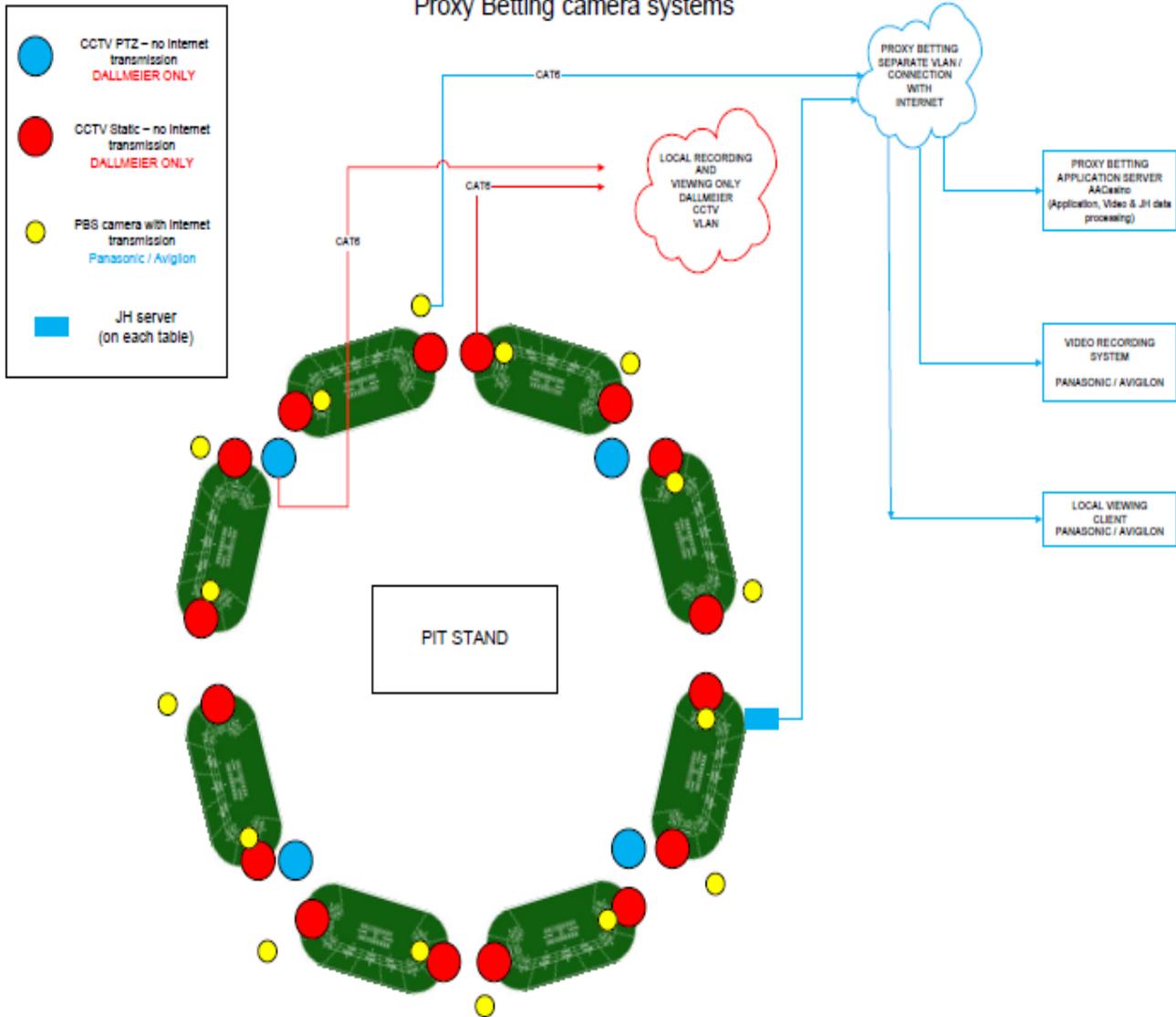
To deliver the best solution that is clear to the player viewing the live feed, and with less than a two second delay, the quality of the hardware is important, and sufficient bandwidth must be available. Using cheap cameras with limited bandwidth will simply mean a poor player experience. To get the best results, it is highly recommended that the casino should use the services of a company that has experience in designing and installing a proxy solution.

A website interface will be required that allows the user to log in through a casino property's registered domain, and then choose which table he wants to play through his proxy.

The casino's surveillance department will also want to ensure the systems have full crossover capabilities. A graphic of this is provided on the top of the following page:



## Provisional Assumption of equipment for CCTV & Proxy Betting camera systems



## THE FUTURE OF PROXY BETTING

### GAMING IN VIETNAM – AN EXAMPLE WHERE PROXY BETTING IS APPLIED

Currently, there are eight full-service casino resorts operating in Vietnam as well as a number of gaming lounges that offer a limited number of electronic gaming devices. Gaming activities in Vietnam are limited to foreigners and residents who possess foreign passports. A full-service casino will target wealthy players from China and other countries and enter into relationships with junket operators.

The Vietnamese government has a formula that determines how big a casino can be and that formula is predicated based on the size of a project's investment and number of hotel rooms. A proxy betting solution is therefore an excellent option for the casino to have in its limited gaming offering. Vietnam is a jurisdiction with limited regulation regarding proxy betting, therefore, casino operators offering proxy betting will always be at risk from future government intervention.

For proxy betting to reach its full potential and have a solid footing on the casino floor, there is a definitive need for robust regulations to be put in place. When international operators see sound regulations, they are more comfortable investing and operating in those emerging markets. International gaming operators do not want to put their licenses in Nevada, Atlantic City or any other jurisdiction in jeopardy.

To obtain appropriate regulation requires a proactive approach from casino operators. Astute casino operators will be the ones that plan ahead for when regulations covering proxy betting will be created and enforced. By being proactive, and through active lobbying and using consulting firms who specialize in working with government, casino operators can ensure that proxy betting will be understood, accepted and regulated by governing authorities.



## COMPANY DESCRIPTION

GMA provides clients with market feasibility studies, primary research, economic impact studies, due diligence, payroll control, operations analysis, business and marketing plan development, and player reward program design for the gaming, hospitality and tourism industries. The principals and associates of GMA have hands-on experience in nearly all aspects of the gaming industry including domestic and international operations, project development, marketing expertise, and detailed market analysis.

GMA is a (Nevada) Limited Liability Corporation with offices in Las Vegas, NV, Denver, CO, Taipei, Taiwan and Bangkok, Thailand. Below is the contact information for the company's partners.

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### SHAUN MCCAMLEY

Shaun McCamley brings over 37 years' experience in the land based and digital gaming industries. Shaun's areas of expertise include interactive gaming consultancy, international marketing, player development, casino operations, casino resort pre-opening, manpower management and development, and team development. Recently, Shaun was recognized by Global Gaming Business Magazine as one of the top 25 industry people to watch in 2015.

Prior to joining Global Market Advisors Shaun was President of the Ho Tram Resort & Casino in Ho Tram, Vietnam. Reporting to the Chairman and Board of Directors, he was responsible for driving overall revenues and P&L objectives of this USD \$4 billion development. He worked closely with the Board, evaluating opportunities to improve the financial performance of the property, and was responsible for the overall management of all facilities including, but not limited to the hotel, casino, food & beverage outlets, spa and the Bluffs, a Greg Norman designed golf course. The property employed 1,700 management and staff.



Previously Shaun worked as CEO and General Manager of major far east-based consultancies. During that time he was commissioned to establish international casino resort destinations in Perth, Australia; Subic Bay, Philippines; Tinian, NMI; and the former Republic of Yugoslavia.

As a pioneer and early operator in digital gaming, he formed Saturn Gaming and BingoWorkz, which developed and operated the internet's first networked gaming solution. Subsequently, he formed Euro-Pacific-Asia Management Consulting, a Macau based firm that provided casino management services and turn-key solutions to the land based and digital gaming industries.

Over the past decade Shaun was invited to serve as a keynote speaker and panelist at major gaming conferences around the world and continues to consult to the industries' major land based and digital gaming operators.

Shaun is a holder of key management gaming licenses issued by the United States and Australia.

