



White Paper: Proxy Gambling in Southeast Asia

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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 a 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, for players who, 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.



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What is 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.

Standard Online/RNG

An Online/RNG platform is a standard online casino, played with a computer or mobile device, where a Random Number Generator (RNG) seeds the game result for each hand or spin through the software's RNG program. 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. 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.

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.

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.

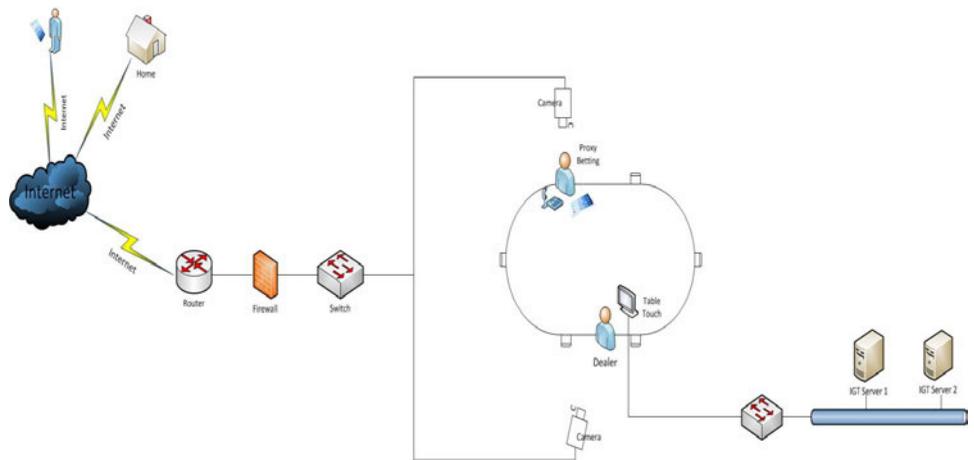
Benefits of Offering Proxy Betting

Asia is clearly destined to become the key world growth market for the rest of this century. 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.

The countries that comprise the Association of Southeast Asian Nations ("ASEAN") lie 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. 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. 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, the operation could benefit from an incremental \$897,316 in the first year. Once stabilized, second year net win could be expected to increase by nearly 70 percent.

Pros

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. 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 provides is very appealing.

The proxy betting software platform is also far less complicated than setting up a Live WWDealer/Online offering. 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.

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.

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. 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.

The Future of Proxy-Betting

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.

*About the author

Shaun McCamley, formerly the president of Grand Ho Tram Strip in Vietnam, has recently joined Global Market Advisors as head of their Asia office. McCamley has over 34 years experience in the gaming industry holding key management gaming licenses issued by the UK, USA, and Australia. He is also a specialist in the preparation of marketing and business plans for casino operators looking to expand into SE Asia.