



Euro Pacific Asia Consulting Ltd

Proxy Betting SE Asia:
An Insight and Evaluation of the Market's
Potential

A White Paper

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1. INTRODUCTION

Proxy betting is booming throughout SE Asia, in early 2016, industry analysts estimated that proxy betting's contribution to overall Macau VIP betting volume had grown about 15% year-on-year in 2015. A key difference between the proxy betting that was offered in Macau and the services available in casinos outside of Macau, is that they offer live streaming of the tables to players, whereas in Macau, proxy players were simply connected by phone only. The key properties in Macau all had internal operating procedures covering the use of telephone betting, and revenues from this service were significant.

On May 6, 2016, the Macau government interestingly and at the disappointment of the casino operators, announced that the use of telephones by those sitting at VIP gambling tables would be banned with effect from May 9.

As a result of the Macau Governments direction, opportunities to offer proxy betting have now opened up for gaming operators within the region, particularly in countries like Cambodia, Vietnam and the Philippines where restrictions are more relaxed and open to interpretation. Proxy betting is very popular with players and agents alike, so if they cannot now use a service in Macau, albeit a very basic model using phones only, they are now actively looking for alternate destinations within the region that offer the service.

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, the continued drive of China's high profile anti-corruption stance 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.

DEFINITIONS OF PROXY BETTING RNG ONLINE & LIVE DEALER

PROXY BETTING

Modern day proxy, or remote betting, has developed into a digital solution that provides real time viewing, through live feed transmissions, of a table game where an anonymous player from elsewhere directs physical bets on the table via a designated proxy, usually by telephone. The proxy is normally a trusted friend or an appointed agent of the casino.

STANDARD ONLINE RNG

An online RNG platform is the standard everyday online casino where a Random Number Generator seeds the game result for each hand or spin through the software's RNG program. Players of an RNG online casino must first register 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 account, payments back to the player can be made through various e-commerce solutions.

LIVE DEALER ONLINE

Live Dealer Online, is a hybrid of the standard RNG platform, developed primarily for the Asian markets in direct response to trust issues coming from that particularly market segment. The Asian market does not trust RNG games believing that the result can be easily rigged in favour of the casino. Live Dealer games are broadcast using live streaming technology from either a purpose built studio, or from tables located within a section of the casino floor. As with the standard RNG platform, before a player can place a wager, they must first register an account through which to fund and bet through a graphics game interface. Once a player has finished playing, and provided there is a positive balance in his account, payments back to the player can be made through various e-commerce solutions. The only difference to the RNG games is that the game result is generated in real time by a dealer using the normal tools of the casino and which the player is able to view.

The important part that defines both RNG games and Live Dealer as online gaming, is where both 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 games or the Live Dealer offering, a proxy solution does not require a player to first set up a player account, or does the platform require a complex

software platform that includes table depicting graphics, 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. Directions are given to the proxy to place a bet by the person not located in the casino who is simply looking at the action live through a PC or mobile device.

WHAT COUNTRIES OFFER PROXY BETTING

Proxy betting is available in most casinos throughout SE Asia, particularly in countries like Cambodia, Vietnam and The Philippines where restrictions are more relaxed and open to interpretation. Casinos that do not currently offer this service are now looking very closely at including it as an offering to their players and agents.

Proxy betting in some casino operations, accounts for up to 90% of the properties gaming revenues. Before proxy betting was shut down in Macau, industry analysts estimated that proxy betting's contribution to overall Macau VIP betting volume had grown about 15% year-on-year in 2015.

BENEFITS OF OFFERING PROXY BETTING

Asia is clearly destined to become the key world growth factor for the rest of this century; no other region has the capacity for such growth by way 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 large peninsulas 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, and 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 ASEAN countries 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 none the less seen consistent, strong growth over the last decade. Again while in the past the region has been less stable politically, and offered varying levels of business infrastructure, probity, security and legal systems, the emergence of such countries as Myanmar and Laos show that swift and major change is coming.

In today's competitive market, shrewd casino operators know they need to look at all options that will give them an edge over their competition. Live dealer through an online provider, is expensive and very difficult to manage, so having a simple and effective service that allows players to bet from anywhere, at any time, using a mobile device or PC, makes a lot of sense.

Offering a proxy betting service is relatively straight forward to install, opens up a casino operators latent revenue creation capabilities, and at the same time, keeps normal associated player incremental costs low. A proxy solution means the casino operator can always be in touch with the properties player data base 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 so where gaming jurisdictions such as Vietnam, do not allow locals to gamble.

Agents like proxy because it opens up more opportunities to get their players into action and by so doing gets them generating more commission revenues.

Below is as example of gaming revenues that could be generated from a casino offering proxy betting on 8 tables:

	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6	Month 7	Month 8	Month 9	Month 10	Month 11	Month 12
Rolling Volume	\$3,000,000	\$5,000,000	\$7,000,000	\$10,000,000	\$15,000,000	\$18,000,000	\$20,000,000	\$22,500,000	\$25,000,000	\$25,000,000	\$25,000,000	\$25,000,000
Win Based on Theo	\$85,500	\$142,500	\$199,500	\$285,000	\$427,500	\$513,000	\$570,000	\$641,250	\$712,500	\$712,500	\$712,500	\$712,500
Less Commissions	(\$59,100)	(\$98,500)	(\$137,900)	(\$197,000)	(\$295,500)	(\$354,600)	(\$394,000)	(\$443,250)	(\$492,500)	(\$492,500)	(\$492,500)	(\$492,500)
Net Win	\$26,400	\$44,000	\$61,600	\$88,000	\$132,000	\$158,400	\$176,000	\$198,000	\$220,000	\$220,000	\$220,000	\$220,000
Taxes	(\$7,946)	(\$13,244)	(\$18,542)	(\$26,488)	(\$39,732)	(\$47,678)	(\$52,976)	(\$59,598)	(\$66,220)	(\$66,220)	(\$66,220)	(\$66,220)
Net win After Taxes	\$18,454	\$30,756	\$43,058	\$61,512	\$92,268	\$110,722	\$123,024	\$138,402	\$153,780	\$153,780	\$153,780	\$153,780
Dealer / Pit costs	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)	(\$15,000)
Surveillance Costs	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)	(\$5,000)
Leased Lines	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)	(\$6,000)
Other	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)	(\$2,000)
Net Variable Costs	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)	(\$28,000)
Net Win	(\$9,546)	\$2,756	\$15,058	\$33,512	\$64,268	\$82,722	\$95,024	\$110,402	\$125,780	\$125,780	\$125,780	\$125,780
Cumulative Net Win	(\$9,546)	(\$6,790)	\$8,268	\$41,780	\$106,048	\$188,770	\$283,794	\$394,196	\$519,976	\$645,756	\$771,536	\$897,316

PROS AND CONS

PROS

In today's competitive and difficult environment, senior management needs to continually look at solutions that will drive revenue to the bottom line. Proxy is a solution that provides the casino access to its player data base to play, even though the player is not physically present on property. Proxy can also be used with agents and sub agents, who wish to promote the casino to their player data base. Commissions can still be offered through the normal casino programs, as can player rewards and other incentives at cheaper costs to the casino, in so far that airfare reimbursements do not come into the equation. In a market where players are reluctant to travel, or are fearful of being recognized playing high stakes games, the anonymity that proxy betting provides is very acceptable.

The proxy betting software platform is less complicated than setting up a Live Dealer offering. No studio is needed, no complicated and overly expensive software agreements and no e-commerce issues to deal with. A good turnkey proxy solution budget should be around US\$65K – US\$80K depending on the quality of hardware used.

CONS

KYC (Know Your Customer) and AML (Anti Money Laundering) reporting are the obvious hurdles that casinos in properly 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 throughout SE 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 phone. However in May of this year, the DICJ legislated that phone betting was not allowed.

Casinos operating in grey markets will always run the risk of government intervention should they offer proxy betting to their agents and players, however most will say it's worth the risk. Better to ask for forgiveness than approval is the stance most take.

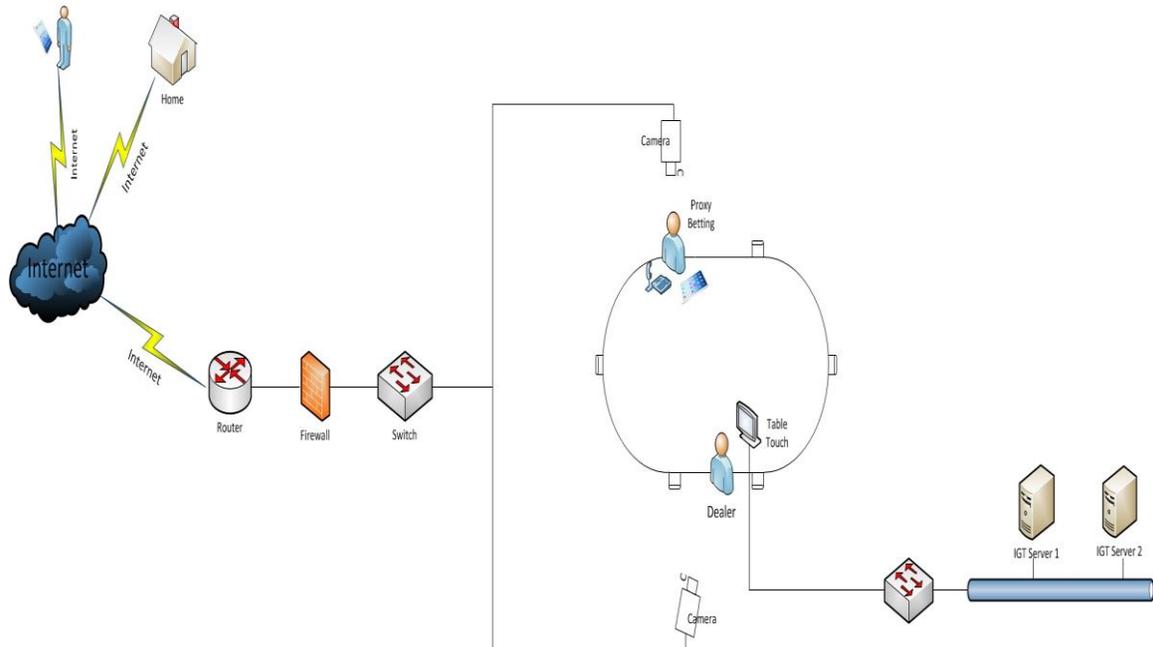
Proxy betting makes it easier for side betting to occur because agents may want to earn more. Side betting means agents taking bets "off the table", and away from inclusion in casino concessionaires' gross gaming revenue. For example, the agent and the player may

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.

SETTING UP A PROXY BETTING SOLUTION

There are not too many pieces to a standard proxy set up. A proxy solution requires a software platform that can deliver either a manual or automated tracking solution, which correlates to the tables score board 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 the player to see.

A basic network would look something like this:

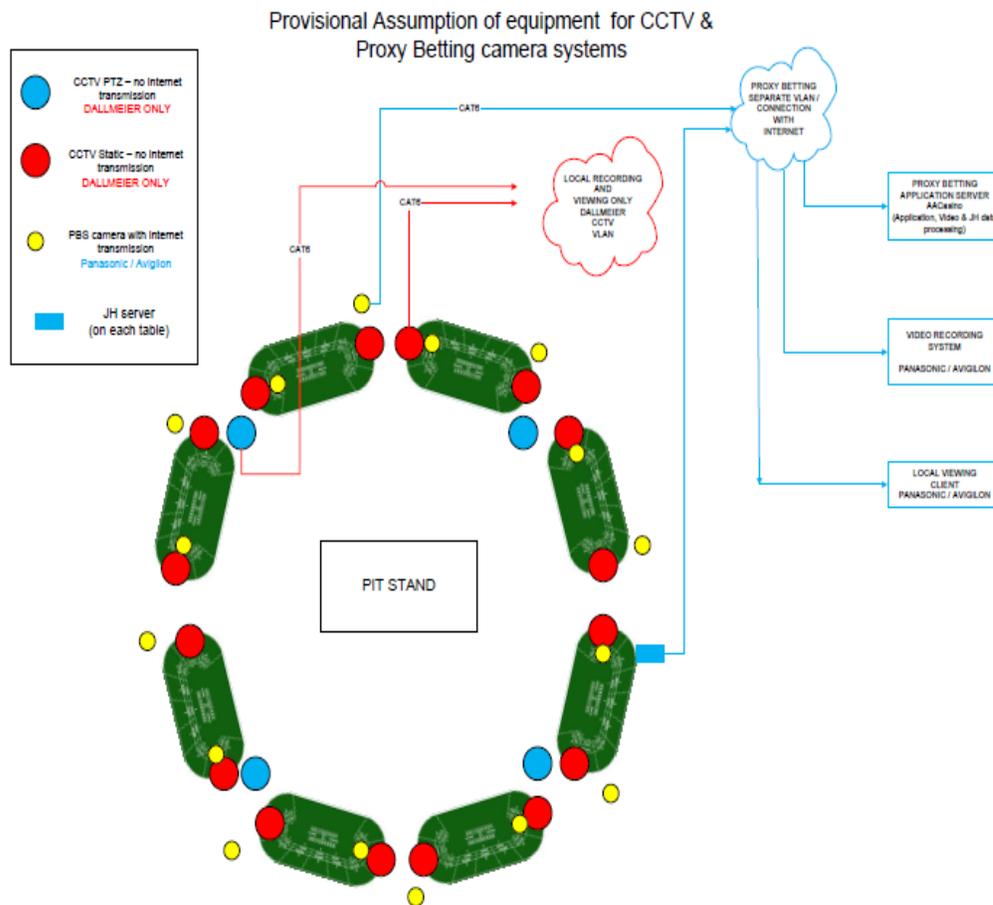


The minimum hardware required for each table (baccarat) would be as follows:

- Cameras, 1 mounted overhead and 1 squeeze camera mounted in each tables surround
- Streaming server - minimum specs of 64GB and quad core
- Dedicated leased line - minimum of 1 dedicated 20MB leased line for effective streaming. 2 leased lines with different providers preferable with a load balancing device for redundancy in case 1 leased line drops out.
- Video streaming license

To deliver the best solution that is clear to the player viewing the live feed, and with less than a 2 second delay, the quality of the hardware is important, sufficient band width must be available. Using cheap cameras with limited bandwidth will simply mean a poor solution. 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.

The Surveillance department will also want to ensure the systems have full cross over capabilities such as the set up below:



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

THE FUTURE OF PROXY BETTING

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

Gaming activities in Vietnam are restricted to foreigners and residents who possess foreign passports. A full-service casino will allow the property to target wealthy visitors from China and other countries as well enter into relationships with junket operators. 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.

The Vietnamese government has a formula that determines how big a casino can be and that formula is predicated on the size of the 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 arsenal offering. Vietnam is a grey market jurisdiction without proper legislation, therefore casino operators offering proxy betting will always be at risk from government noncompliance intervention.

For proxy betting to reach its full potential and have a solid footing on the casino floor, there is a definite need for proper regulations to be written and put in place. When international investors and operators see solid regulations they are comfortable investing and operating in grey markets. International gaming operators do not want to put their licenses in Nevada, Atlantic City or any first world location in jeopardy. To get proper regulation requires a proactive approach from the casino operators. Savvy casino operators will be the ones that plan ahead for when regulations covering proxy betting will be enforced. By getting on the front foot, and through active lobbying, using firms who specialize in working with Government, casino operators can ensure that proxy betting is understood and accepted by regulators. By so doing operators ensure that they can offer a regulated and very profitable service to players and agents alike.