

THE GAMING MARKET IN 2019

Exploring the latest trends in a fast-evolving market

To coincide with ICE London 2019, this brief overview of the gaming industry – home to many Acuris Risk Intelligence clients – examines the sector’s rapid growth and recent dynamics.

Gaming has expanded massively in the past decade. The online business is now worth USD 50bn globally and expected to increase to over USD 60bn by 2020, and drives 11% of total internet traffic. Statistics from Casino.org illustrate the rapid growth of the industry from 2011-2017:

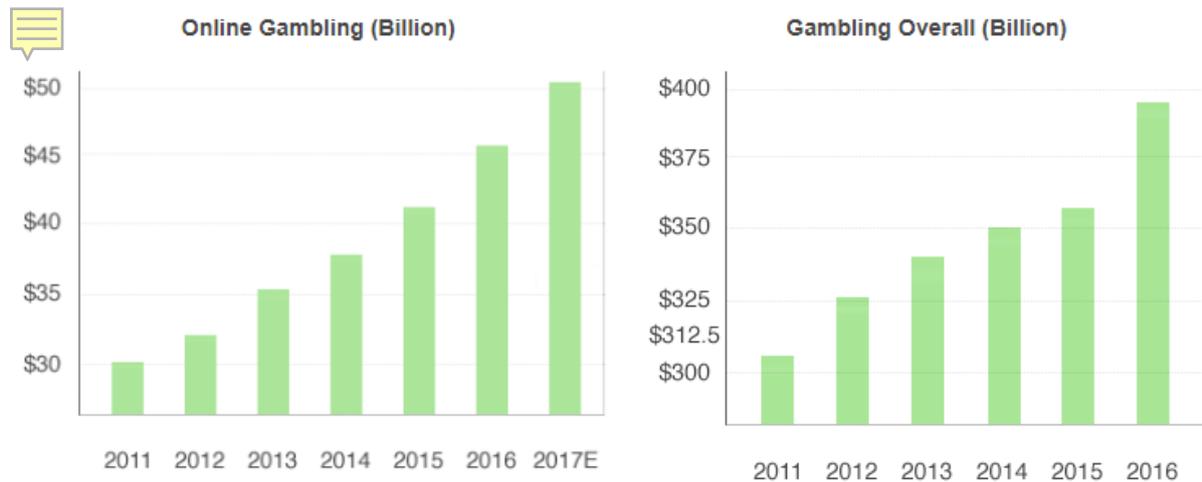


Figure 1 Global Gambling Industry: State Of Play In 2018 - Casino.org

In the UK, gaming has grown by approximately 300% since legislation changed in 2014, reaching a total gross gambling yield of GBP 14.4bn by 2018 and with over 2,800 operator licenses allocated by the UK Gambling Commission (UKGC).

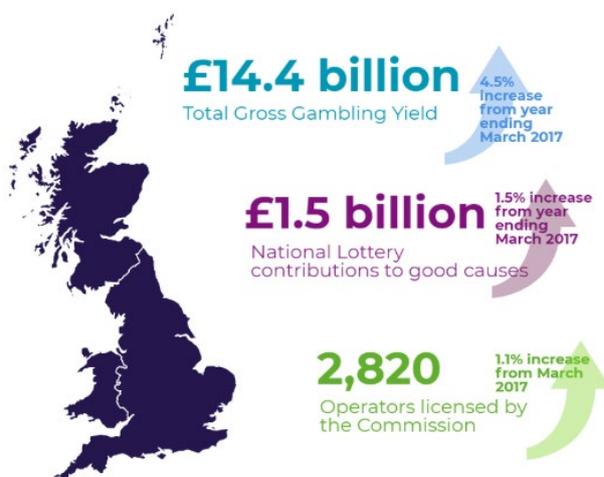


Figure 2 Industry Statistics, UK Gambling Commission

What’s driving this growth? First and most importantly, gaming has become easier and more accessible.

TECHNOLOGICAL TRENDS

Virtual reality

Technological improvements, especially around connectivity and accessibility, have enhanced the online gaming experience. We are seeing the first operators using virtual reality to create more realistic remote gaming, a trend we expect to see develop alongside mobile casino games that allow players to bet from anywhere in the world. We also expect more live casinos to add to the “realness” of the online environment. Most online casinos are likely to use machine learning to personalise each players experience. The industry is also using technological advances to include more players.

Mobile access

Mobile gaming is broadening access to gaming. According to the UKGC, women now account for approximately 40% of all gambling activity in the UK and are moving on from bingo to other games, especially slots. New forms of gambling also make it more accessible to older and younger populations.

Gamification

Operators are increasingly gamifying the experience they provide, with point-collecting systems and ‘levelling up’, while adding content from pop culture that attracts fans who want more of their favourite characters and universes.

The growing gaming industry is attracting more than just additional players. Countries and US states looking for new revenue streams are also interested in its potential, and we expect to see pressure to relax prohibitions.

GEOGRAPHICAL EXPANSION AND LEGALISATION

We expect to see further legalisation of gaming driving growth in the industry, both within the US and around the world. Currently, gaming revolves around Europe; UK in particular; China the US, with Australia closely following. However, we are expecting to see growth in Singapore, Japan, Russia and some European countries. A wave of legalisation is expected in the US after the Supreme Court’s ruling that the Professional and Amateur Sports Protection Act is unconstitutional, and paved the way for more states to legalise sports gambling. New Jersey and Pennsylvania have already passed legislation to legalise betting, and a study from Eilers & Krejci suggests 32 states will legalise sports betting within 2-5 years.



The next gaming markets

With its technological exposure and large populations, Asia holds huge promise for the future of gaming. Industry experts also expect Latin America to emerge as a new gaming powerhouse, because of its strong sports culture and recent moves by regulator Coljuegos in Colombia to licence remote online gambling. The country will now follow the Philippines in even accepting European games as long as they have an approval and certificate of transfer. Countries such as Peru, Brazil and Argentina, are expected to follow, albeit slowly.

Another rumoured rising market is Africa, where we already see more gaming events and conferences being scheduled. If enough countries develop regulations – for example Botswana, Kenya, Nigeria, the Democratic Republic of Congo, Tanzania and Ghana – this will drive interest from both operators and suppliers to establish operations. For markets like these, tailored solutions will be very important, as operators will need to take account of many factors in players' behaviour. Pop-cultural references will differ along with beliefs and interests, so work will be needed to integrate with local audiences. The same is likely to be true in the US where experts see certain states copying Nevada's approach rather than considering their own realities.

However, with fast-growing markets comes risk, with financial crime being one of the most serious threats.

REGULATORY TRENDS

The volumes of money and transactions passing through the hands of gaming operators make the sector a prime target for financial crime, particularly fraud, money laundering and the potential for terrorist financing. Protecting businesses and customers depends on two things: good internal programs for AML and compliance and effective regulation.

While regulations in emerging gaming jurisdictions are likely to follow those in areas where gaming is already established, laws are already starting to change in mature markets. As regulators generally expand their reach and evolve their approach – and as legislation becomes more effective – we expect gaming regulation to follow suit.

An interesting trend in the UK is the UKGC fining operators for breaching the 'Responsible Gaming Act' which seeks to ensure that customers can actually afford to gamble and that they are not improperly targeted, particularly for those customers who have self-identified as being 'problem gamblers'. This is a welcome approach which is likely to be adopted by other regulators around the world in an effort to curb gambling addiction.

Regulating the online sector

The biggest developments are likely to be in online gambling, a sector that currently lacks good regulation, mostly because technologies evolve faster than political expediency. It is also difficult to regulate in a way that does not damage the gaming experience or drive gaming underground.

Politicians are nonetheless making the effort, especially in countries where online gaming has been recently legalised. In New York, the NYS Gaming Commission unveiled its framework for sports betting, opening a new chapter in the US. Meanwhile in Europe, the trend to make it easier for foreign operators to apply for a local licence is expected to continue. Old legislation will either be re-examined or lifted. Examples include Belarus, which recently legalised online gambling and has passed its first regulations, which include mandatory identity checks. Slovakia and the Czech Republic are also making changes, with the Czechs allowing foreign operators and Slovakia changing or removing many of its restrictions on online gambling.

Tightening control

On the other hand, countries that have had problems with criminality due to unregulated gambling will aim to tighten control of the sector, and we expect to see new laws passed in the coming few years. Sweden has moved this way, splitting the market into non-profit, central government and competitive sectors. It brings significant gains for the government, which will tax operations at 18% (outside the non-profit sector). Data from Lotteriinspektionen (The Swedish Gambling Authority) suggests that unregulated operators servicing Swedish players generated almost GBP 500 million in 2017.

Restrictions on gambling

Some countries will also see restrictions on gambling. The UK recently reduced the maximum stake for fixed-odds betting terminals to £2 last year – and with concerns over rising gambling addiction, it is expected that certain games will be banned or strictly regulated in the near future. The problem of addiction will be addressed with advertising campaigns.

Switzerland is dealing with its gambling problem by restricting the licencing of foreign operators as of 2019. In Albania, the parliament passed a law banning sports betting and other forms of gambling from the beginning of 2019. This will lead to the closure of slot machine parlours, betting shops and all other forms of sports wagering, including via online sites. Ongoing concessions will continue to operate. Public figures including politicians openly stood against operators, claiming they were involved in organised crime as well as causing gambling addiction. Albania's sport betting industry has an annual turnover estimated at EUR 700 million. We anticipate similar actions in countries in response to organised crime, which sees casinos and online betting as the easiest ways to launder money.

CRYPTOCURRENCY TRENDS

Related to regulation, we expect to see a worldwide increase in the use of cryptocurrency as a payment method for gaming as operations are digitised and consumers look for easier ways to pay and play. As well as being fashionable online, cryptocurrency also offers the anonymity that many gamblers prefer. Bitcoin is gaining fans as more and more players make deposits and withdrawals using the cryptocurrency.

New laws for crypto

However, we anticipate that this will also lead to new regulations as gaming commissions, general regulators and AML organisations all over the world turn their attention to the uncontrolled world of cryptocurrencies. One of the first to act was the Maltese government, which passed the Virtual Financial Assets (VFA) Act of 2018 to increase consumer protection while making the island's economy more attractive to prospective investors. We expect to see other jurisdictions follow their lead and will follow up on cryptocurrency developments in our upcoming publications.