

## White Paper

### The Converging of the Gaming and Gambling Ecosystems

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Millennials have begun to enter the workforce, requiring the gambling industry to rethink their strategy for attracting this younger group of players. A 2016 study noted that millennials gambled at significantly lower rates than members of other generations. Only 8.5 percent of millennials' budget is spent on gambling, compared to non-millennials who spent 23.5 percent of their budget (Bokunewicz, 2016). The research is showing that most of the casino gamblers are older people and the gaming industry is struggling to attract a younger population (Povish, 2015). Young people do not frequently play traditional slot machines; however, the gambling industry is learning that millennials put more value and money into a gaming experience (Bokunewicz, 2016). Millennials are also spending their money on quality food, drinks, hotels, and nightclubs at gaming resorts. They prefer games they can play on their smartphone, PC, and tablet, where there is some skill involved, with the option to compete against other players. This trend indicates that slot machines will begin to be replaced over the next ten years. The slot machines of tomorrow will resemble video games, creating what some industry leaders refer to as the modern day arcade for adults. Casinos are discovering that gambling and non-gambling elements in the same area of a casino is worth the investment (Horridge, 2017).

With this in mind, Nevada has passed a bill allowing Las Vegas slot machines to include skill-based, video game-like mechanics (Wawro, 2016). Not only will traditional slot machines be replaced, but partnerships and acquisitions between the gambling and gaming ecosystems are emerging in order to attract more players and to explore new markets (Wallace, 2017). The convergence of these two markets can be further explored because in 2018 the Supreme Court struck down the 1992 federal law that banned sports betting. Now it is up to each state if they want to legalize sports gambling (Seiner, 2018). How is this relevant to gaming? Each state can explore making sports wagers on not just traditional sports like football, baseball, basketball, and hockey, but also the emerging gaming world. Take this even another step further; each state can explore online gambling and online payment systems when establishing their sports betting platforms (Takahashi, 2018).

The gaming markets that are currently being converged with gambling markets include, but are not limited to, video games, sports betting, fantasy sports, online practice casino games, social casino games, and social games. These two genres of gaming markets are skill-based games and social games. This will be one of the largest expansions of gambling in the history of the world. Any major betting operator, online or brick and mortar is strategizing on how to capitalize on this growth (Blum, 2018). The start of this growth began with the emergence of eSports.

The concept of including video game play in the gambling world is a significant shift (Alex, 2016). However, playing video games is becoming a big business. Video game players can play against one another in this new genre labeled "eSports" because it combines a skill-based video game play and competition among other players. The primary demographic for eSports is 18 to 34; however, it is beginning to skew older as well (Takahashi, 2018). eSports are believed to be

the future of gambling by industry leaders. This can be done on gambling websites and land-based locations (Meola, 2018).

eSports has grown to such extreme popularity that winners of tournaments can win millions from commercial sponsors. The latest prizes for the League of Legends tournament was over \$4 million, the Call of Duty World League Championship was \$1.5 million, and the international Data 2 broke the record for the largest prize with close to \$25 million (Meola, 2018). These tournaments are broadcasted online through a platform called Twitch (acquired by Amazon in 2017) or YouTube. eSports tournaments can also fill up stadiums or convention centers with fans, indicating that the virtual sports gaming world is quickly becoming a big part of our culture (Elder, 2017; Rovell, 2016).

Interestingly, approximately 300 million people worldwide tune into eSports and is expected to grow to 500 million by 2020 (Elder, 2017). Colleges are providing scholarships for eSports players to join college varsity eSports teams (Koetsier, 2018) and the International Olympic Committee is considering adding it as a sport while currently debating over the violence in some of the games (Gilmer, 2018). Financial institutions are also taking notice. Goldman Sachs valued eSports at \$500 million in 2016 and expects it to be more than a billion dollar opportunity (Elder, 2017).

Not only are these tournaments attracting large corporate sponsors, but it is an exciting way for gamblers to place wagers and win great sums of money. Currently, eSports is not being considered in pending sports betting legislation with states because many are not aware of this new emerging trend. ESPN has reported that there is illegal betting on eSports currently and a recent report suggested that \$5.5 billion of the \$150 billion in illegal sports betting that occurs each year is designated to eSports (Dubin, 2018). However, major betting operators are starting to think about ways to increase the growth of eSports betting (Blum, 2018). Countries that have had legalized sports betting for some time have also established an eSports platform called Unikrn, which has a wagering license and is a regulated operator (Meola, 2018). This platform allows for amateur players to wager money for crypto currency in their own games as well as competitive leagues and commercially sponsored games and tournaments. Crypto is available in 42 states while real money betting is available in 20 countries across three continents (Russo, 2018). Crypto currency is a digital currency that is independent of a bank.

How are major betting operators capitalizing on the eSports growth? Many casinos in Las Vegas are starting to build facilities to accommodate large numbers of people for eSports and poker events. This shift also includes the development of eSports games that have more gambling elements. Casinos like the Downtown Grand in Las Vegas have become a year-round destination for eSports players. MGM invested in a company called Foundry IV and in 2017 Foundry announced a new eSports game being developed, which will include gambling elements (Igelman, 2018). Another interesting partnership is between Complexity Gaming, an eSports club owned by Dallas Cowboys owner Jerry Jones, and WinStar World Casino Resort. Also, the Dallas Cowboys announced WinStar as the official casino of the Dallas Cowboys (Takahashi, 2018).

Some of the betting can also be done within video games and what is also being labeled “social games” and “social casino games.” In 2016, CSGO and DOTA 2 launched a way for players to use real money to buy “skins.” Skins or colorful or interesting designs are added to a player’s gun, knife, or outfit. These enhancements do nothing to improve the skill level of the player. Skins can also be traded or sold. The next turn was the creation of several websites where players could gamble with their skins for the opportunity to win more valuable skins (Meola, 2018).

Interestingly, the skins became available around the same time that eSports began to grow in popularity (Melbourne, 2015). In addition to skins, loot boxes emerged within video games and gave players the option to pay for the chance to win digital goods without knowing what they were actually purchasing. A loot box is an actual closed box that is presented to players during the video game. Again, players are not aware of what is inside of the box until they purchase the item. The concerns are that the psychological principles and enticing mechanics closely mirror casinos and games of chance. Loot boxes have become almost a \$30 billion industry (Pu, 2018).

Social casino games and social games are similar to skins and loot boxes because they accept real currency, but have no loss or gain monetarily. There are two business models utilized in the social gaming industry called the freemium model and the free-to-play commercial model. The freemium games present players with opportunities to make micro-transactions or purchases during the games while the commercial model depends on advertising dollars (Digital Journal, 2018). An interesting observation by the industry is women dominate both spaces. Adolescents also play both types of games (Preston, 2018).

Gambling and gaming industry business leaders describe social casino games as “a phenomenal tool” that extends “the house” to an online platform and creates a deeper relationship with customers. It can also increase and drive visitation to the casino floor. A study by Game Account Network that took place over nearly eight years across six major United States casinos showed an average of 28 percent increase in traffic to their properties from visitors who also engage with the social casino gaming platforms (Preston, 2018). These games are associated with social gaming because it gives players the ability to meet new people while playing a game online. Social games are easily accessible on smartphones, tablets, and computers.

The concerns regarding online social gaming are the ethics behind how businesses are making money through in-game purchases and how engrossing the games can be for the players. Also, there are concerns that some games can be a gateway to gambling and can also be a trigger to those already in problem gambling recovery (Anthony, 2015). The constant rewards and the repetitive systems built into these games can create addiction. These rewards and repetitive systems are also in video games and slot machines. For parents, it is important that they not give children access to passwords, pay attention to apps that are being downloaded, set parental controls on cell phones and iPads, unlink debit cards and credit cards to accounts, and talk to the children about in-game purchases (Anthony, 2015).

Fantasy eSports have also emerged to complement the fantasy sports online world. Participants form leagues, draft teams of eSports players, and earn points based on how those players perform during games. (Meola, 2018). Interestingly, Disney launched a daily fantasy league for ABC’s

“Bachelorette” in 2017 and was played by more than 700,000 users, 75 percent of whom were women. In the U.S., Daily Fantasy Sports are active in 41 states with only 19 legalizing it. Many states have blocked any fantasy sports surrounding college athletics (Leestock, 2018). Fantasy sports are played by thirty-three million Americans, and it is a billion industry. About 85 percent play fantasy football and 40 percent play fantasy baseball. According to the industry, the typical player is a white male between the ages of 18 and 49 (Woods, 2016).

Fantasy sports leaders like FanDuel and Draftkinds are now looking for partnerships to expand their reach as each state decides to legalize sports gambling. In 2017, the two platforms accounted for about 90 percent of the \$320 million in revenue generated by Fantasy Sports (Lestock, 2018). They already have geo-fencing set up and have a large footprint with probable sports bettors. The common argument with Fantasy Sports has been whether they are games of skill or games of chance. The Unlawful Internet Gambling Act of 2006 classified fantasy sports as games of skill (Ramey, 2018). However, many believe that these games are gambling and now that PAPSA has been struck down, fantasy sports industry leaders are very interested in creating partnerships to expand even further into the sports gambling world. Recently, Draftkings partnered with Del Lago Casino and Resort, and a British company Paddy Power Betfair partnered with FanDuel. This is Draftkings’s second partnership. The first is with Resorts Casino Hotel in New Jersey (Cazentre, 2018).

Partnerships are also occurring within the national sports leagues as well. The Oakland Raiders are relocating to Las Vegas, and the NFL announced their partnership with Caesars Entertainment in January of 2019. The deal does not include Fantasy Football or sports betting, but it does include entertainment platforms to give NFL fans unique experiences and a loyalty program (Purdum, 2019). The NHL, NBA, and MLB have all embraced sports betting and have created partnerships with MGM Resorts International with sports betting as a component (Purdum, 2019). How far will these partnerships go? What decisions will these leagues make in the coming months and years?

Industry leaders believe eSports betting and sports gambling will eventually converge and even further, the entire gaming and gambling industries (Takahashi, 2018). This is the rise and continued convergence of the gaming and gambling ecosystems. This category will include gaming as skill, social, eSports, console gaming, downloadable content and gambling as lottery, casino, sports betting, advance deposit wagering, and charitable gaming. Another advancement includes ensuring that all of the transactions for these experiences can move to an online experience. This also means promoting mandatory regulations and licensing protocol for what is currently largely unregulated. The question that is constantly on the minds of industry leaders is how to drive back revenues to lotteries and land-based casinos (Takahashi, 2018).

The issues problem gambling professionals need to be aware of with the rise of games and the involvement of the gambling industry are threats to competitive integrity (competitive without seeking methods that lack morals and ethics), problem gambling, and underage betting (Blum, 2018). Research indicates that playing video games have been associated with potentially problematic behaviors, such as gambling. Also, research has shown a deficit in legal and

regulatory issues with eSports and online social games. This is problematic because youth can access offshore sites (Gainsbury et al., 2017).

There is concern about the vulnerability of these gamblers because of their young age and high potential engagement in Internet and game use. Prevalence rates for problem gambling are higher for teenagers and college-age students than adults. Gambling experiences at a young age have also shown to contribute to problem gambling behaviors later in life. Also, the social games could have inflated payout rates giving players an unrealistic view of gambling products (UK Gambling Commission, 2018). For some, video games can become the only important thing in a player's life. Couple this with gambling and it could be cause for even a deeper issue that could become financially devastating.

In an Australian study of 501 sports bettors, researchers found that eSports bettors participated in significantly more forms of gambling and each more often. eSports bettors had significantly higher problem gambling severity scores. They are also significantly younger than the sports bettor. These results are consistent with previous findings that Internet gamblers have a high overall gambling involvement. This study also suggests that Australian gamblers have adopted eSports betting in addition to other gambling activities (Gainsbury et al., 2017). With the gambling and gaming industry moving their business models and payment systems online, there should be a concern as to whether this will engage people in more gambling, which for some, can become problematic.

Additional research targeted treatment, and education is needed on what is to surely become the next phase of gambling across the globe. Not only do we need to pay attention to the threats to children, but also women because they are dominating several of the online social gaming markets. Without a doubt, there is little to no awareness of gambling techniques and systems embedded within skilled games and the converging of the gaming and gambling ecosystems. Land-based gaming operators are becoming entrenched in these games by creating partnerships or outright purchasing companies in the online and land-based sports, video game, and social gaming worlds. Gambling expansion is happening right now, and problem gambling professionals must be ready to educate and treat an uptick of problem gamblers or those in recovery that have been triggered by having access to these platforms without understanding that they are gambling.

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