

Let's face it, the gaming industry was born and continues to live with and within risks. Some of these risks have been estimated and attached to specific games based on house and games rules. We could say that, within certain constraints, many gaming risks are calculated ones and the great majority of management in the industry knows and handles the associated variables. At the same time, being a highly regulated industry like the financial institutions, the gaming industry comes with an associated list of risk management tools and procedures like **MICS, Operating Standards, Games Rules, Licensing and Regulatory Boards, Taxing Authorities and Financial Regulations like those from FINCEN**. Issues like social stigma and

connotations seem to be permanently attached to gaming and create considerable risks. In addition, as a result of a variety of reasons, assumed statistical and probability parameters do not always apply. So much for our house advantage calculations!!



We all have an idea of what risk is. Some of us develop a lesser or higher risk aversion or, to the opposite, risk appetite which we apply in every phase of our lives. **But what is Risk Management and how does it apply to the Gaming Industry?** How can it be extended to areas which have been increasingly taken importance to stakeholders like **Business Continuity, Sustainability and Recovery?** How about

## Crisis Management?

Some large corporations have Risk Management Committees following regulatory compliance and best practices. Many use well developed software while others rely on the Comptroller or CFO to take care of these issues along with CIOs, Internal and External Auditors. In the Gaming industry it is also customary to rely extensively in Surveillance and Security to 'manage risks', at least the traditional types. For the extensive and sometimes uncontrollable risks, we basically rely on the insurance policy, communications, health safety hazards controls, employee screening, etc. Does that sound familiar to you?

Most casinos have some sort of approach to risk, either consciously or not and even if they do not name it as such. Yet, a significant amount of companies in the active gaming industry do not perform proper **Enterprise Risk Management assessment and practices**. Sooner than later, these companies fall prey of one or more categories of risk which originally seemed as non-important or erroneously evaluated as of insignificant impact or low probability of occurrence. Lack of constant revision of internal and external conditions, lack of risk control policies and/or lack or a proper reporting are generally the cause. But, what about when we just do not know or acknowledge Risk Management?

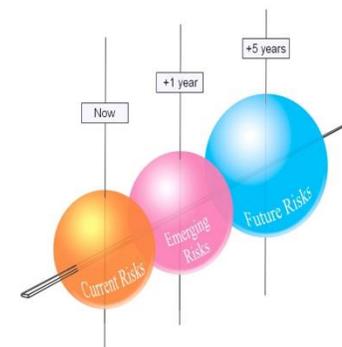
Each industry faces a wide variety of risk with a wide range of occurrences and associates risk/opportunity factors. Some of them controllable or transferable.



Here are eight basic categories of risks which significantly affect the gaming industry today:

- ✓ **Financial risk:** How can my game and slot mix be set up so that, based on forecasted volume, my associated risk does not surpass or hinders my ability to pay back winners? What is the effect of high limits in a volatile and low house advantage game?
- ✓ **Regulatory risk:** What happens if a jurisdiction prohibits smoking? Increase taxes? Or permits certain forms of gaming outside existing venues?
- ✓ **Legal risk:** AML and Company Relationships could trigger legal expenses and/or penalties. Customers or employee-groups and unions could file class actions suits. Is my operation subject to Foreign Corruption practices?
- ✓ **Information technology (IT) risk:** Hacking? Igaming risks? Technological advances like Google Glass, mini-camcorders. Slot machines technological maneuvering from inside/outside. What about Player's Dbase stealing?
- ✓ **Political/Country risk:** Countries could forbid some gaming activities or nationalize gaming or a State legislation could expand gaming beyond market capability affecting your current share. Or macro economic factors could lead to devaluation of currency, country credit problems affecting your investment.
- ✓ **Reputational risk:** Prostitution, gambling addiction issues, under-age playing allowed, alcohol levels or detection of money laundering in your casinos.
- ✓ **Security risk:** Fraud, fraud, theft, embezzlement, misappropriation of assets by employees, management, players,... Vandalism and scams in some jurisdictions..
- ✓ **Property risk:** Intentional or Acts of God are risks which we are always exposed to: earthquake, fire, flood, war, terrorism,...

Overall, recent surveys among CFOs, COOs and other stakeholders within the gaming industry cite the following list of risks as the ones mostly concerned with: *i) Gaming Expansion, including IGaming, ii) Political Decisions including taxing, regulatory and expansion/limit decisions; iii) Cheating, scams and technological advances both from internal and external clients; iv) Attrition due to generational changes as well as additional activities disputing the discretionary income; v) Social and Political stigmas with consequences on negative social impact and the increase of organized opposition from political, religious and customers groups, vi) Staffing and vii) illegal gaming in some jurisdictions.*



Financial risks are not part of the top-seven priority risks concerns among those consulted and it seems to be rather well controlled. But, lesser concern and attention to financial risks have not always resulted well as many gaming operations have fallen prey to financial problems as a result of poor management observance of economic health. Meanwhile, other types of risks like Environmental, Currency (foreign exchange) and Credit Risk are reported to be under control by the same observers.

Remember risks are always present and the proactive way here should be to identify them and confront them by either **accepting, avoiding, mitigating(treatment) or transferring** them. You **risk tolerance** defines the strategy to follow: What is acceptable and non-acceptable will

depend on each specific operation and decision making variables, factors, costs, opportunities and expected results. They all should be clearly defined. Including short, mid and long term risks.

But even if your current operation does not have a clear and conscious **ERM system**, there are significant steps you can take. Here are five initial ones: *i) Define the **risk appetite** (or aversion) of your company at its different levels of operations; ii) create a **Risk Awareness culture** within your operation; iii) Define the roles and **responsible entities of Risk Management**; iv) Develop and constantly update a **Risk Map** or simple list of areas and activities subject to significant risk, and v) Make sure **Risk Management** is part of your meetings and reporting structure.*

For some of you it is that time of year for budget, why not insert a Risk Management Program into next year Budget and Strategic Planning? If it is, why not a thorough review and update?

After all, *"Denial is a common tactic that substitutes deliberate ignorance for thoughtful planning."*

*AGL360CG, SRL is a consulting firm dedicated to provide advanced techniques and tools to the gaming and leisure industry so that Management uses their time to provide customer service and warrant a positive total experience to their visitors instead of spending time to produce data which, most of the time, does not get even looked at. Our core services concentrate on business analytics and intelligence, operational and financial audits, design of dashboards and providing market analysis and research. Useful and applicable to your individual operations but with a clear view of the total gaming and leisure market in which you operate in.*

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