

# Understanding the Controls, Harnessing Power of Sports Wagering

Complimentary Webinar

**GEOCOMPLY.**



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# Location, Location, Location: Geolocation Best Practices for Online Sports Betting

Lindsay Slader, Operations Manager  
[lindsay@geocomply.com](mailto:lindsay@geocomply.com)

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# GEOCOMPLY

## LEADING GEOLOCATION COMPLIANCE

With ten million transactions a day worldwide, GeoComply has expanded their elite portfolio of geolocation services to myriad industries including iGaming, DFS, iLottery, sport, ADW as well as indoor.



One Solution covering Mobile & PC, Native & Browser based.



Rapid & seamless deployment to new territories & products without any code change.



Enhanced borders to allow for safe play right up to the borders' edge.

## GeoComply

launched with ten iGaming brands in New Jersey

## Vantiv/Sightline

GeoComply, Vantiv now Worldpay and Sightline partner to drive iGaming forward

## Pooled Liquidity

Nevada and Delaware launch pooled liquidity with GeoComply

## DFS

Solus no download browser solution launched for DFS

## ADW

TVG/Betfair launch with GeoComply's Solus for compliance with NJ regulations

## Indoor Geolocation

Bring your own device mobile solution launches; utilizes iBeacons for accuracy under 3 feet

## iLottery

GeoComply launches iLottery solution in Georgia

## Sportsbook

MGM leads sportsbook fraud detection by launching app protected by GeoComply

## GeoComply

launches with MGM as 16th brand in New Jersey

10M

transactions processed per day

42 US States

now supported by GeoComply

250M

unique devices with GeoComply installed

● New Devices ● Geolocation Queries per Day

2013

2014

2015

2016

2017

## Importance of Intrastate Cannot be Overstated

Geolocation technology may seem like a very small piece of the puzzle when considering the future of sports betting online, but in reality its role and impact is significant.

It is a legal enabler and safety net for ensuring:

- Compliance with PASPA for current NV sportsbooks
- Compliance with the Wire Act, UIGEA, IGRA and *any* state legislation
- Compliance with technical requirements of state regulatory bodies
- Compliance with banks/payment processors, even banks outside the US
  - Payment providers NEED confirmation that geolocation checks are adequate to process deposits



## The Wire Act & Principle of Intrastate Sovereignty

### Is online wagering legal under the Wire Act?

- Wagering systems must be contained within state lines
- If either the end-user or the servers supporting wagering knowingly cross state lines, or if a transaction is somehow materially routed out of state (e.g. via a hub with a known point out of state) then it could be considered a breach of the Wire Act.
- Ultimate interpretation & enforcement up to discretion of US attorney general (who could be requested to opine on specific state scenarios)

### That being said...

*..the Wire Act SHOULDN'T be applicable to states that have legalized intrastate sports betting, because, according to its legislative history, the Wire Act was intended to ASSIST the states in enforcing state laws – it was not intended to THWART the states. Thus, regulators and law enforcement are unlikely to bring Wire Act cases against intrastate sports wagering operators who are operating lawfully under state law...as the Nevada Operators have been doing for several years*



## How to Define an Intrastate Transaction?

### COMPLIES WITH UIGEA

- The wager is exclusively within a single state.
- The wager is expressly authorized by laws of that single state.
- **State laws or regulations to include: age and location verification requirements “reasonably designed” to block access to minors and persons located out of said state.**

### COMPLIES WITH DOJ WIRE ACT OPINION - Dec 24, 2011

Allowed for online **“sales restricted by geolocation technology”** for “transactions initiated and received or otherwise made exclusively within the State.”

- Therefore servers likely need to be in the same state as the player, or in a partner state if Interstate compact is in place

### COMPLIES WITH STATE-SPECIFIC REQUIREMENTS

- Individual state legislation
  - In cases where wagering is limited to retail facilities (e.g. Mississippi), interactive betting would need to be restricted to on-property, within the physical confines of a licensed facility.
- Technical standards from state gaming regulatory bodies

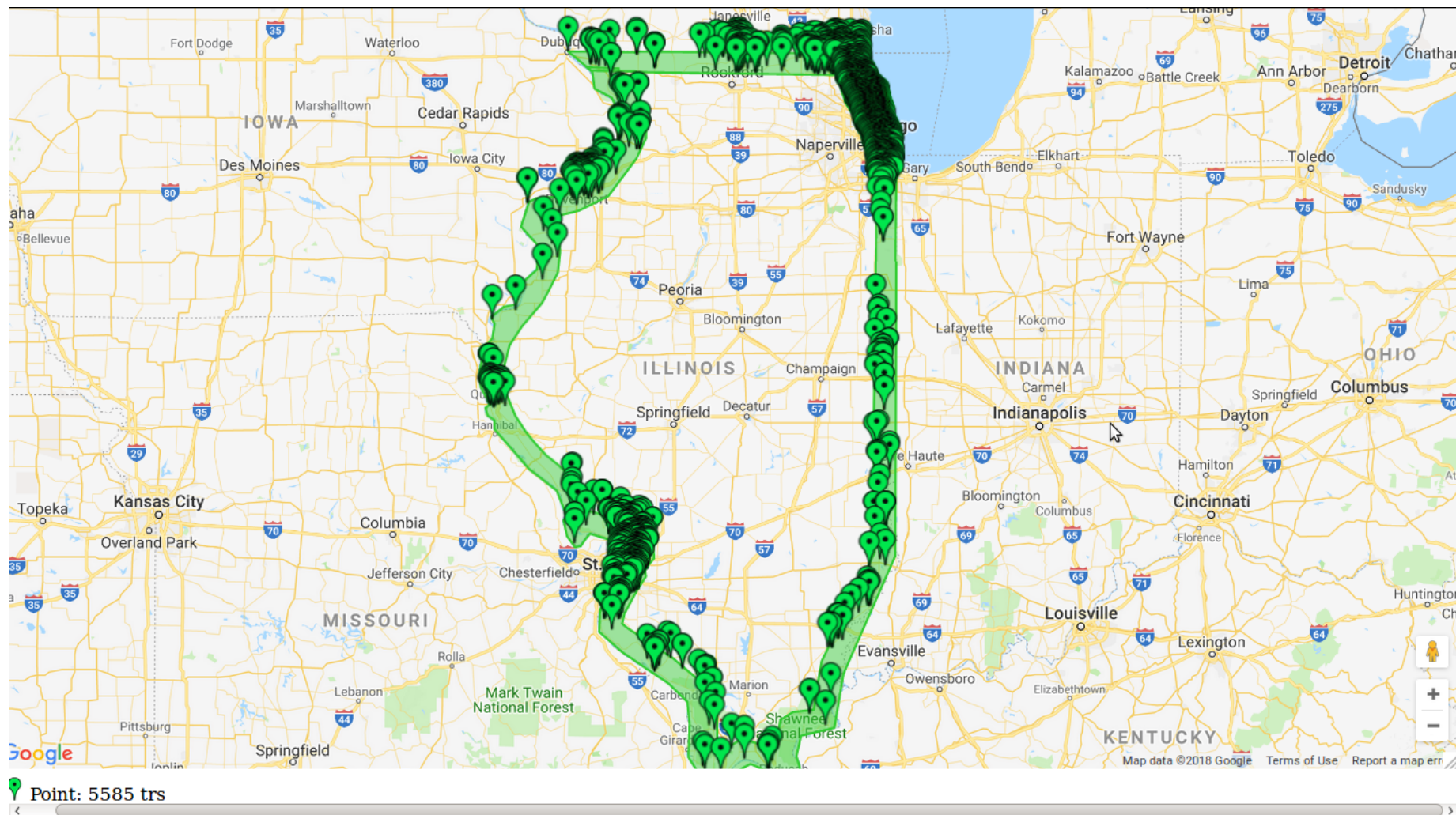


## How to guarantee this compliance from a technical perspective?

Federal & state requirements all point to the fact that  
**Robust geolocation tools are essential.**

- To truly qualify under UIGEA, the Wire Act, etc, you must rule out any possibility of illegal, out-of-state transactions with proper geolocation technology
- ***Gone are the days of the IP check.*** NJ, NV, DE iGaming regs require extensive and stringent location fraud checks to block and identify commonly available location spoofing methods beyond “reasonably designed”
- GeoComply performs **over 350 unique checks** to satisfy current iGaming requirements; the same would go for sports betting
- 30% of the US population live within 10 miles of a state border, making accurate and effective geolocation tools vital to the success of an intrastate model





Average accuracy of a  
(spoofable) IP  
address:  
**27 miles**

Average accuracy of  
verified WiFi/GPS  
data: **60 meters**

47% of Illinois DFS traffic is within 10 miles of the border



## What Capabilities are Essential?

- Real-time locating of users by a system that responds dynamically to a user's proximity to border & risk profile
- Real-time Location Spoofing Detection against:
  - Proxies, VPN, Remote Desktop , Virtual Machines
  - Fake Location Apps, Developer Tools
  - Rooted devices, Code manipulation, and so on
- Pinpoint Accurate Geolocation Data
- Payment Fraud & Chargeback Reporting
- Real-time Analytics & Fraud Monitoring
- Fraudulent User and Device Blocking



A light gray world map serves as the background. A blue location pin is placed on the state of California in North America. A dark blue rectangular box is centered over the Atlantic Ocean, containing the text 'REAL-TIME GEOLOCATION' in white.

# REAL-TIME GEOLOCATION

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# Sportradar Integrity Services

sportradar

Understanding the Controls, Harnessing  
Power of Sports Wagering



## TACKLING MATCH-FIXING AND SPORTS CORRUPTION HEAD ON



**Monitoring & Detection**



**Intelligence & Investigation**



**Education & Prevention**



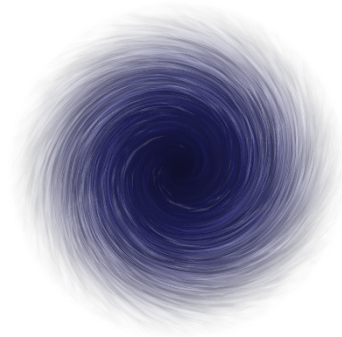
**Consultancy & Regulation**

- ▶ Over 70 sporting and 30 law enforcement/governmental partners globally - here in the US - NBA, NHL, MLS
- ▶ Over 3,500 matches reported to our partners as suspicious leading to over 230 criminal and sporting sanctions
- ▶ Evidence examined at Court of Arbitration for Sport (CAS) on 4 occasions, systems independently audited
- ▶ Over 11,000 sporting participants educated on the key messages around betting and match-fixing

# REGULATED SPORTS WAGERING - PROTECTING THE INTEGRITY OF SPORT

## 1) Regulatory framework should capture as much of unregulated betting as possible

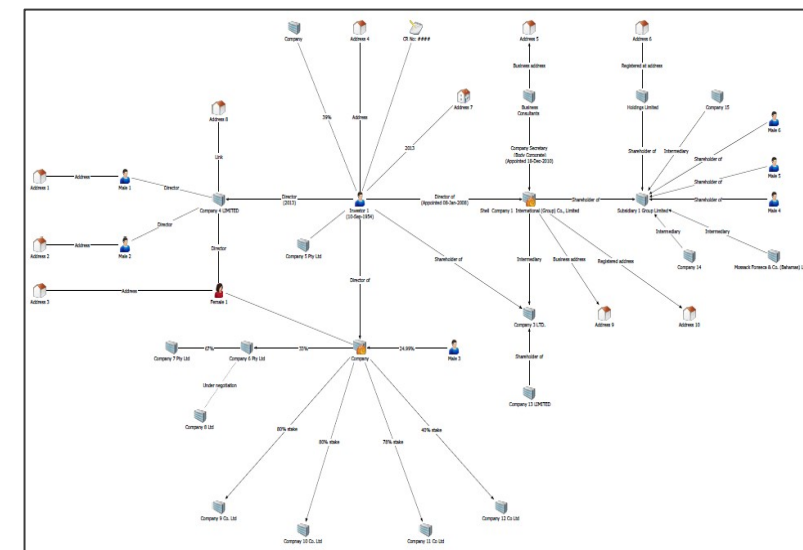
- ▶ Think carefully about any restrictions on the market
- ▶ So consider channelling (mobile), tax rates, license fees, in-play betting
- ▶ Allow regulated operators to compete with illegal market including offering same competitions and bet types
- ▶ Maximize the amount of betting under strong integrity controls of regulated market



# REGULATED SPORTS WAGERING – PROTECTING THE INTEGRITY OF SPORT

## 2) Reporting of suspect wagering info to investigating bodies

- ▶ Mechanism for suspect wagering information to get from operators to investigating bodies (regulators, leagues and law enforcement) to allow for an effective investigation
- ▶ Suspect wagering reports should include suspected match-fixing and spot-fixing, misuse of inside information and athletes/coaches/referees breaching betting rules
- ▶ Operators record relevant info and it can be legally shared for investigatory purposes:
  - ❑ financial transactions (deposits and withdrawals, time stamped)
  - ❑ registration details – e.g. email addresses, phone numbers
  - ❑ wagering history
  - ❑ phone calls
  - ❑ computer/mobile login information, IPs



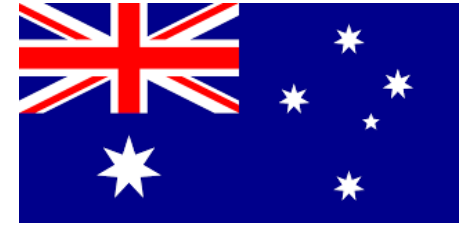


## REGULATED SPORTS WAGERING - PROTECTING THE INTEGRITY OF SPORT

### 3) Examples of integrity reporting and collaboration frameworks from around the world:

#### ► Australia

- ☐ Operators report suspect betting direct to leagues/federations under integrity agreements
- ☐ Agreements dictate integrity reporting, allow audits for athletes wagering and leagues have say on bet types
- ☐ Most states in Australia have a criminal offence of match-fixing for law enforcement to get involved
- ☐ Network between sports, law enforcement and government sharing best practice
- ☐ National Policy on Match-fixing set by government outlining roles of all stakeholders
- ☐ Leagues work with bet monitoring providers for monitoring of global betting markets



## REGULATED SPORTS WAGERING - PROTECTING THE INTEGRITY OF SPORT

### 3) Examples of integrity reporting and collaboration frameworks from around the world:

#### ► UK:

- ☐ Operators report suspect betting to the regulator and sports
- ☐ Regulator has an intelligence unit collating reports across sports and operators
- ☐ Regulator and sports liaise on who should investigate then involve law enforcement when required
- ☐ Regulator also receives reports on suspect wagering on international sporting events
- ☐ Integrity forum where regulator, sports, law enforcement, operators and government meet regularly and Sports Betting Integrity Action Plan outlining roles of all stakeholders
- ☐ Leagues work with bet monitoring providers for monitoring of global betting markets



## REGULATED SPORTS WAGERING - PROTECTING THE INTEGRITY OF SPORT

### 4) Bet monitoring:

- ▶ Both models in Australia and UK lack centralized system collating wagers (anonymised) in real-time with monitoring technology to detect and report suspect wagering (France and Italy have different variations of this)
- ▶ UK and Aus rely on bookmakers flagging concerns which works to some extent but does not catch everything
- ▶ Central monitoring hub/system has following benefits:
  - ❑ regulatory compliance perspective
  - ❑ overarching view across all wagers, operators, sports, possibly individuals - spot patterns and trends otherwise wouldn't
  - ❑ operators new to sports wagering might not have the know how to detect and report suspect betting
  - ❑ central hub could also cross reference data with global betting patterns on events
  - ❑ can still have reporting from operators directly as well





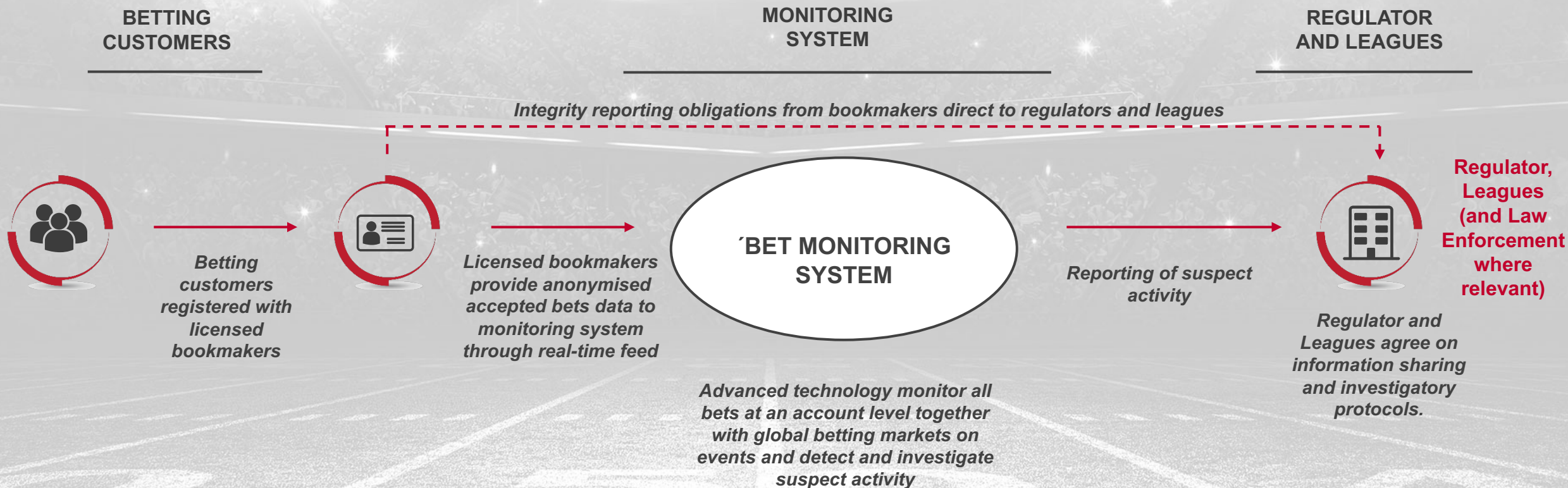
## REGULATED SPORTS WAGERING - PROTECTING THE INTEGRITY OF SPORT

### 4) Bet monitoring (continued):

- ▶ Who should/could a central hub sit with - regulator, leagues, law enforcement? All need suspect betting info potentially.
- ▶ Some form of federal governmental body? Ideally federal level central hub collating all wagers across the US for ultimate overarching view and integrity protection
- ▶ Can states and legislators agree to have a provision for this in legislation and regulation (Wire Act an issue?)

## BET MONITORING SOLUTION FOR REGULATED SPORTS BETTING

All bets placed with licensed bookmakers in the regulated market are monitored in real-time by advanced technology and analysts and cross referenced with global betting patterns



## SUMMARY

- ▶ The legislative and regulatory sports wagering framework must capture as much of the unregulated market as possible and allow regulated operators to compete with illegal market
- ▶ Regulators, leagues and law enforcement must be able to access the right level of information to carry out an effective investigation
- ▶ Integrity stakeholders (operators, regulators, leagues, law enforcement) should collaborate regularly and effectively
- ▶ Gold standard integrity reporting and monitoring would include a centralized hub monitoring anonymised account level betting patterns in real-time ideally collated at a federal level



# THANK YOU

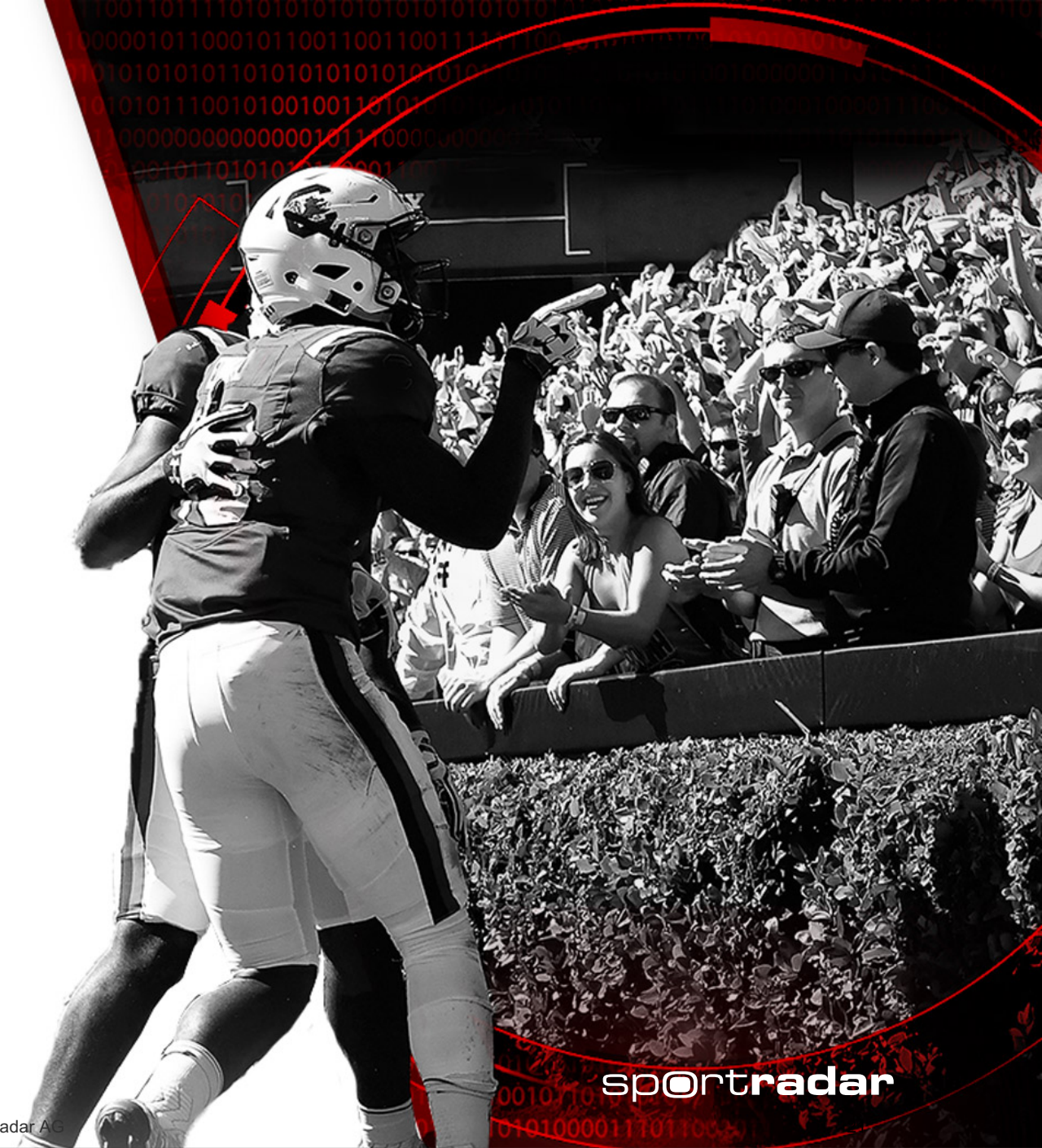
**Andy Cunningham**

*Director Integrity Services*

[a.cunningham@sportradar.com](mailto:a.cunningham@sportradar.com)

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# Introduction



Adam Steinberg, CFA

917-270-4926

[asteinberg@spectrumgaming.com](mailto:asteinberg@spectrumgaming.com)

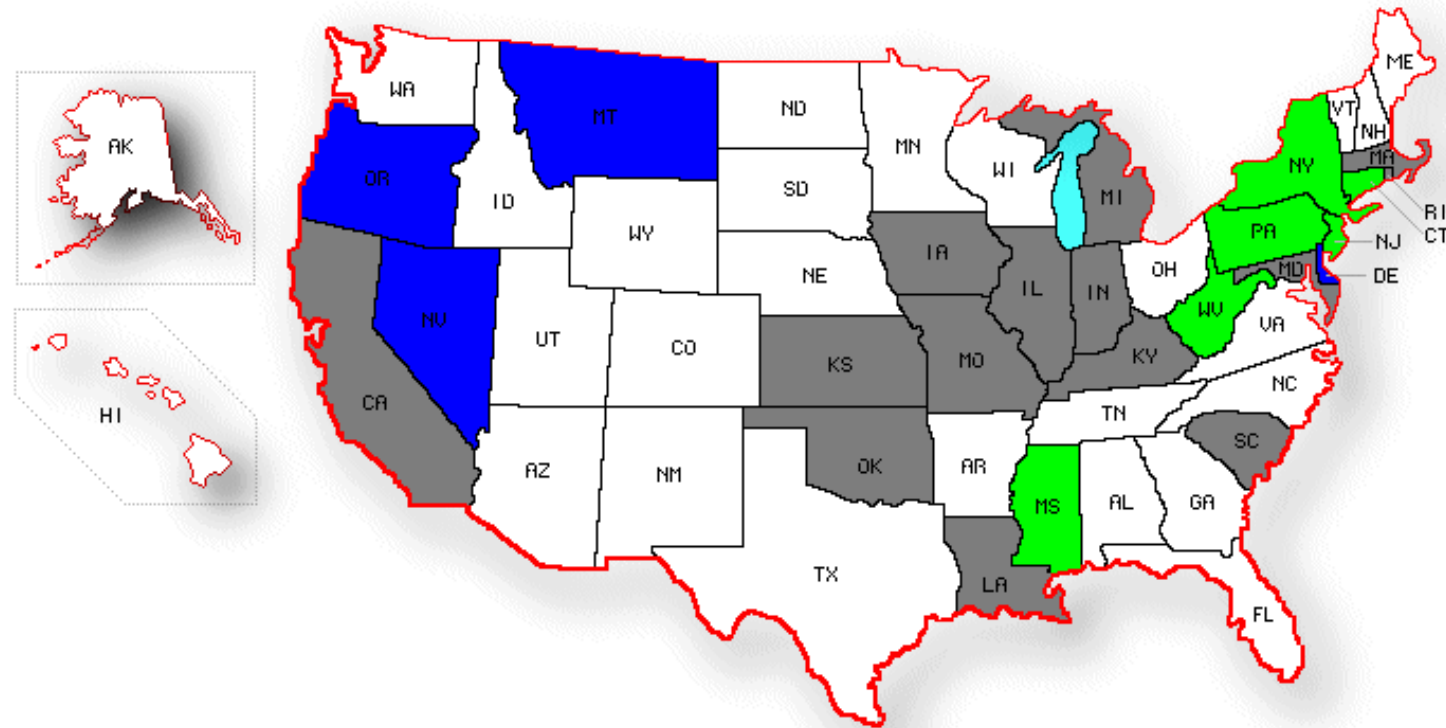
- Spectrum Gaming Group is an independent consulting group specializing in the gaming industry
- National and international having worked in 36 states and 47 countries
- Executive Vice President at Spectrum Gaming Group
- More than 20 years experience as an investment analyst at firms like Bear, Stearns, CIBC World Markets, Morgan Joseph and FBR Capital Markets
- Prior experience as Director of Business Evaluation at GTECH
- Bachelors degree in accounting from Florida State University and MBA from Cornell University
- CFA charterholder



# Legislation is Moving Quickly Ahead of a Potential SCOTUS decision

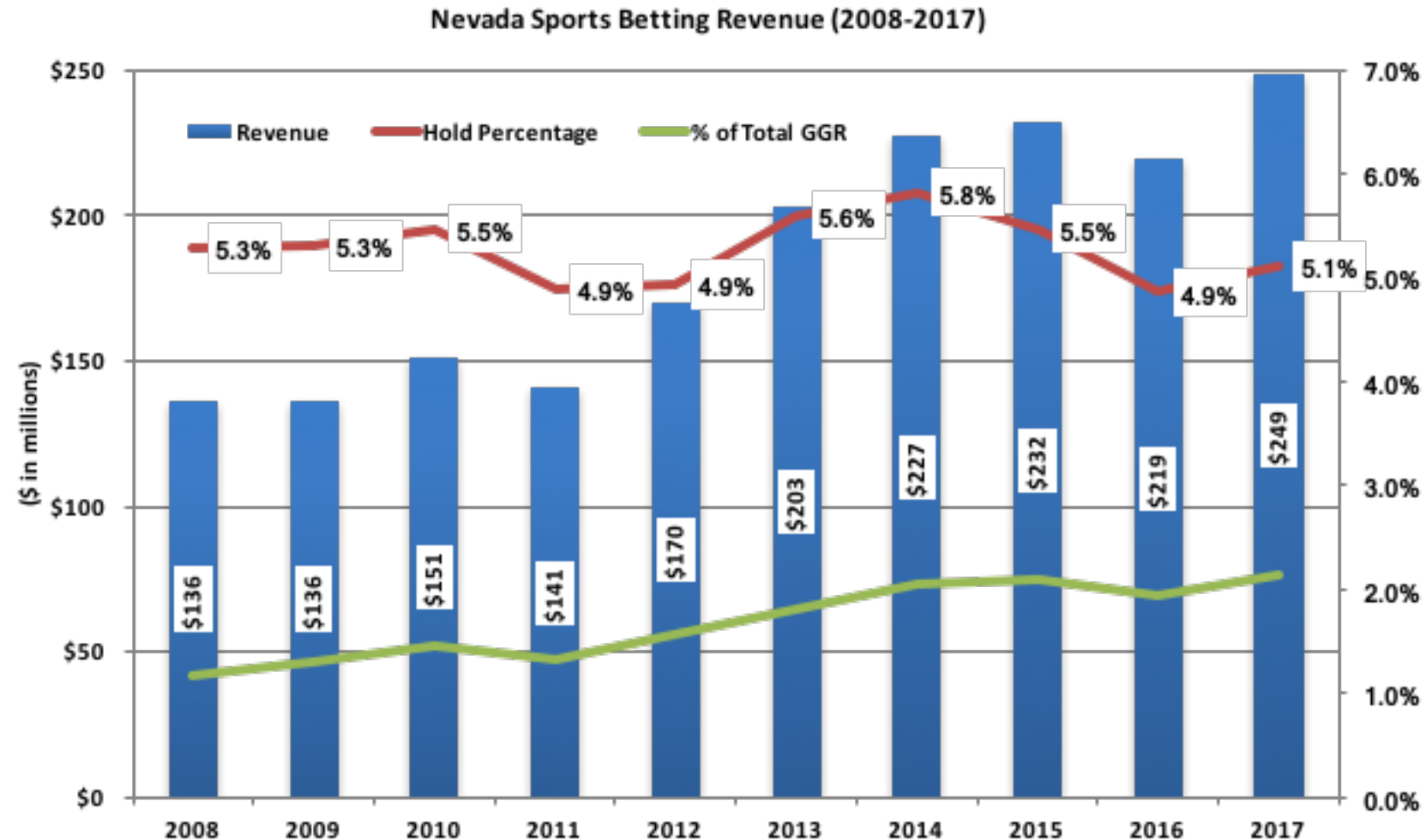
## Sports Wagering Tracker

- - PASPA Exempt
- - Legislation Passed
- - Legislation Pending



Source: Spectrum Gaming Group

# Setting Realistic Expectations



Source: Nevada Gaming Control Board

# The Success of Sports Betting in the States Depends on Legislation and Regulation

- Key questions that need to be addressed:
  - Distribution model?
    - Land-based only, online/mobile, retail?
  - Types of bets allowed?
    - In-play wagering?
    - Amateur sports?
    - Non-sporting events
  - Regulator - Gaming Commission, Lottery Commission or Other?
  - Licensing, especially for bad actors?
  - Taxation?
  - “Integrity” Fee?

***The legal sports books will compete against illegal online sports books and will need the tools to compete effectively***

# Some Key Lessons from Nevada

- Nevada legalized sports betting in 1949
- Only state where bettors can wager on single games
- In 2001, wagering became available on colleges in Nevada - UNLV and UNR
- Began accepting wagers on Olympic events in 2015
- The first mobile wagers were accepted in 2010
  - Many operators claim mobile or online wagers are approximately 50% of total sports betting wagers
- In-game wagering is a little over 20% of betting handle



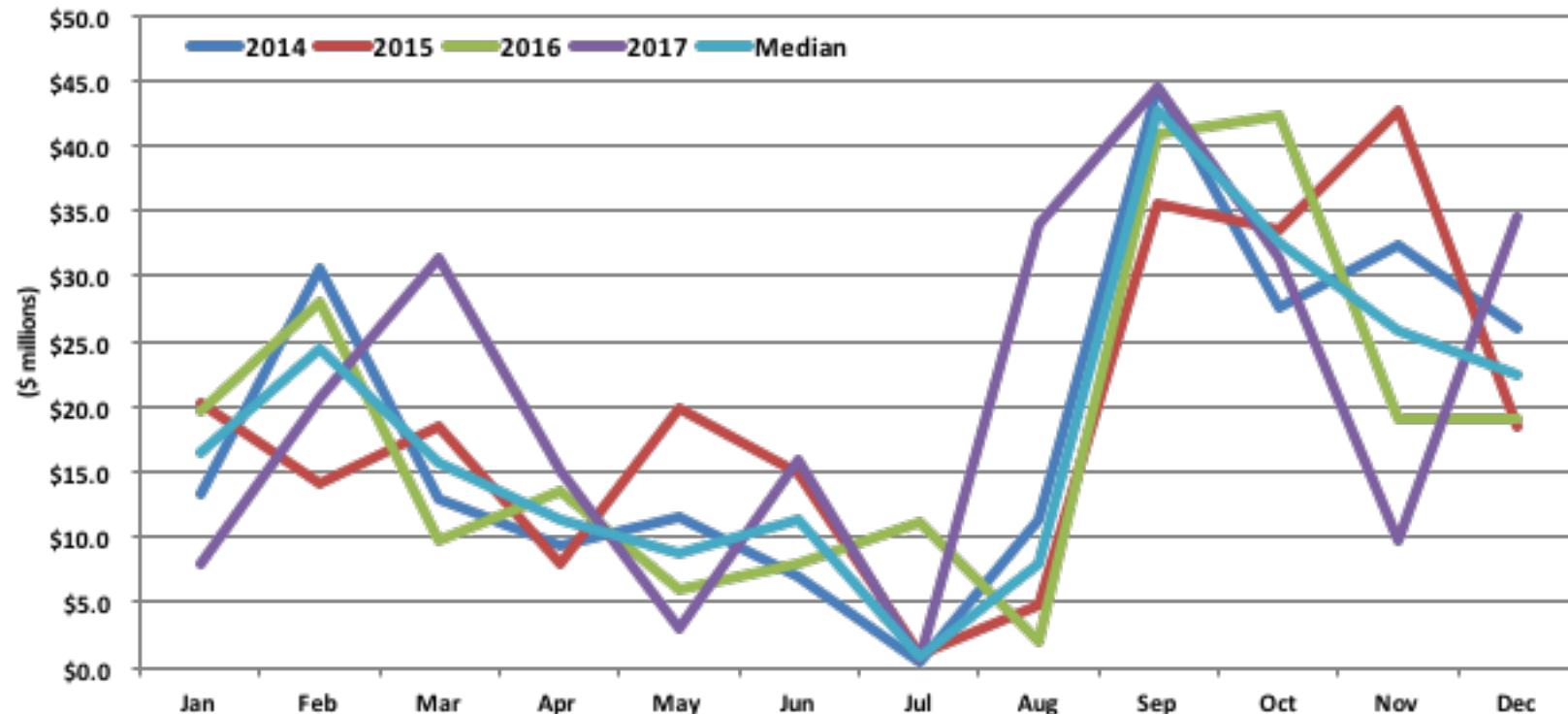
# The Economics of Operating a Sports Book

- The economics of operating a sports book are different than for table games and slot machines
- More labor intensive
- Hold percentage is lower than for other casino games
  - Typically around 5% of betting
- Sports wagering is more seasonal, more volatile
- Because sports betting is only legal in four states, there will be a learning curve for regional and Native American operators

# Casinos Will Learn to Use Seasonality to Their Advantage

*More than half of sports betting revenue is generated from September through December*

**Sports Betting Revenue by Month (2014-2017)**



Source: Nevada Gaming Control Board

# The Operating Costs Before Taxation are 65% to 70% of Revenue

Examples of some of the operating costs

- Federal excise tax of 0.25% of wagers
  - Data feed
  - Transaction processing
  - Compliance, including anti-money laundering provisions
- Payroll
  - Marketing
  - Platform providers
  - Geolocation
  - Know Your Customer

*After taking into account the cost of operations, Spectrum estimates there is approximately 30%-35% of revenue available for taxation, return to the operators and a potential integrity fee*



# Casinos' Investment Decision is Dependent Upon the Return Potential

- Profit-driven casino companies evaluate potential capital improvement projects based on a minimum required rate of return (“RRR”)
- The RRR varies depending on several factors, including risk
  - Generally, the higher the risk, the higher the RRR and vice versa
- In our experience, the minimum return potential for a casino project to proceed is 20%
  - Because sports betting is a new business unit and has a lower hold percentage, we believe most operators will have a higher return threshold

***The maximum tax available to the states is between 10% to 13%***

# Key Question 1: Will an Integrity Fee Ensure Success of the Industry?

- The NBA and MLB drafted a Model Sports Wagering Act
- Includes an integrity fee equal to 1% of the amount wagered
- The integrity fee, before consideration of a state gaming tax, would lead to a return below the investment threshold
- The Leagues would earn more money than the operators or the states

# Key Question 2: Is There Precedent for an Integrity Fee?

- Unprecedented in the U.S.
  - Of the four states exempt from PASPA, none pay an integrity fee to the leagues
- Integrity or Rights fees are rare internationally
  - To the best of our knowledge, only sports book operators in France and Australia pay an integrity or rights fee
  - A European Commission Study found the sports betting right fee in France is not an effective mechanism for financial distribution or as an integrity argument against match fixing
  - The fee in Australia is approximately 5% of revenue, or 0.25% of wagers



# Summary

- Without a minimum 20% return potential, casino operators will not develop the sports betting industry
- Operating costs are equal to approximately 65% to 70% of revenue
- The maximum tax a state can impose on sports betting is between 10% to 13%
- An integrity fee to the leagues equal to 1% of the amount wagered is uneconomic and will stifle the industry

## Q&A

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## **SAVE THE DATE**

Summer Meeting 2018  
July 13-15, Cleveland

