

BRIEFING NOTE - CORONA VIRUS (COVID-19) AND ITS POTENTIAL IMPACT ON THE SOUTH AFRICAN GAMBLING INDUSTRY- APRIL 2020

1. Background

The recent global spread of the Corona Virus (COVID-19) has stirred up stringent measures in various countries from country lockdowns, closure of schools and businesses, cancellation of sports events, as well institution of travel bans to and from countries of high risk. South Africa has not been left out of this following the upsurge in the number of COVID-19 cases confirmed daily since the first case reported on 5 March 2020. As a result, the President declared a state of National Disaster on 15 March 2020 and announced a number of measures to combat the further spreading of the virus in South Africa. Due to the fast growing number of confirmed cases which have now spread over to more provinces, the President announced an escalation of measures to combat the COVID-19 pandemic and a national lockdown for 21 days with effect from midnight on Thursday 26 March 2020 under the National Disaster Management Act. Below is a summary of the regulations to deal with this outbreak:

1.1. President's Restrictions

The President declared a state of National Disaster in terms of the Government Notice No. R. 313 of 15 March 2015 issued under the National Disaster Management Act, 2002 (No. 57 of 2002) and announced a number of measures to combat the further spreading of the virus in South Africa. These measures included two specific ones that have a huge effect on the gambling industry namely the prohibition of gatherings of more than 100 people and the imposition of a travel ban on foreign nationals from high-risk countries such as Italy, Iran, South Korea, Spain, Germany, the United States, the United Kingdom and China as of 18 March 2020.

1.2. Regulations issued in terms of section 27(2) of the National Disaster Management Act, 2002

Further to the measures announced to combat the COVID-19 epidemic in South Africa, regulations were issued in terms of section 27(2) of the National Disaster Management Act, 2002 and were published on 18 March 2020. The Regulations cover the following areas:

- Release of resources;
- Prevention and prohibition of gatherings;
- Refusal of medical examination, prophylaxis, treatment, isolation and quarantine;
- Places of quarantine and isolation
- Closure of schools and partial care facilities;

- Suspension of visits;
- Limitation on the sale, dispensing or transportation of liquor;
- Emergency procurement procedures;
- Authority to issue directions (by the Minister of Health);
- Offenses and penalties;

Two key sections of the Regulations have an effect on the gambling industry, i.e.

“Section 3 Prevention and prohibition of gatherings – (3) The assembly of more than 50 persons at premises where liquor is sold and consumed is prohibited;

Section 8 Limitation on the sale, dispensing or transportation of liquor.”

Additional regulations will be issued to give effect to the restrictions attached to the national lockdown which commences 26 March 2020. These are likely to impact further on the gambling industry.

Overall, the COVID-19 has an economic impact on the global economy and South Africa as the country introduces extraordinary measures which will lead to a drop in consumer spending including spending on recreational activities such as gambling. In addition, its negative impact on business investment and companies could see possible retrenchments leading increased unemployment rates (McKinsey & Company, 2020).

This brief seeks to determine the potential impact of the COVID-19 on the gambling industry in order to understand to what extent we can expect gambling revenues to decline following the extraordinary measures imposed on the country.

2. Effect of restrictions put in place following Covid-19 outbreak on the gambling industry

The current gambling model of South Africa is predominantly land based meaning that people gamble only at licensed brick and mortar establishments across the four legal modes of gambling, i.e. casinos, horse racing and sports betting sites, Limited Payout Machine (LPM) sites, and Bingo sites. Currently online gambling is prohibited with the exception of betting on sport. The casino gambling model in South Africa is such that casinos need to be attached to a hotel which means that the gambling industry also benefits from visitors staying in those hotels as they can easily access gambling facilities due to their close proximity. Gambling revenues in South Africa therefore rely heavily on the land based gambling establishments as well as tourist visitors to casinos and given so are likely to be impacted negatively following the travel ban imposed as well as restriction on the number of gatherings due to the outbreak of COVID-19. Furthermore, the implementation of the national lockdown which will result in closing down of gambling operations and therefore no revenue generation for the licensed operators, with the exception of the bookmakers in the betting sector that would take bets online and generate some gambling revenue.

3. Potential market impacts on the South African gambling industry

This scenario illustrates the potential impact of restrictions as introduced by the regulations introduced on 18 March 2018 under the National Disaster Management Act, 2004.

3.1. Casino sector

The restriction on the number of gatherings of more than 100 people implies that gambling establishments such as large casinos that usually attract large numbers of punters will be affected as gambling participation will go down which will then cause a decline in gambling revenues. Macau, is one of the top gambling jurisdictions in the world and a pioneer of the gaming industry in Asia (Wu & Chen, 2015) experienced a sharp decline in gaming revenues by 87.8% in February 2020 following measures that were put in place to contain the spread of corona virus to keep visitors away. These revenues have been predicted to remain low following strict entry regulations on tourists. In addition, casinos were ordered to shut down for some days and many regular casino gamblers switched to similar online services (McKinsey & Company, 2020). In similar fashion, the extraordinary measures that have been put in place by the South African government to combat the COVID-19 are likely to affect casino gambling participation as well as channel regular punters towards online gambling which is currently prohibited in South Africa.

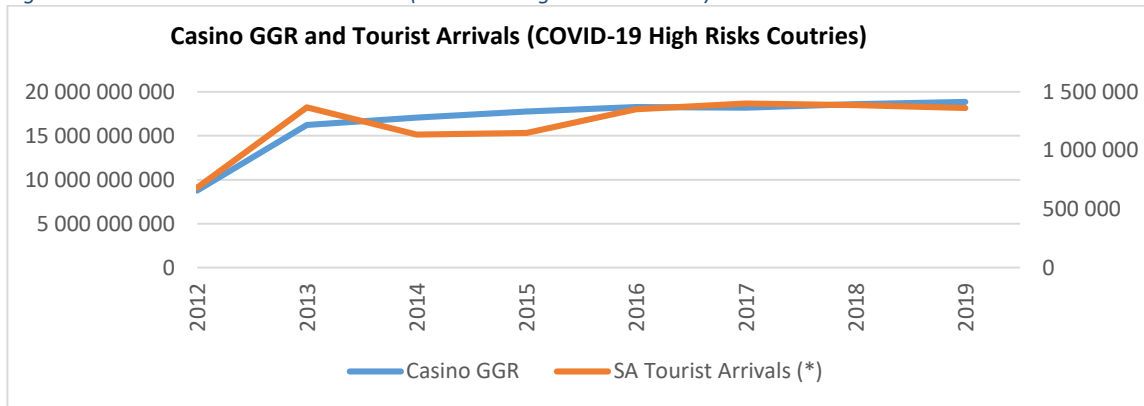
In order to assess the potential impact on the casino sector in South Africa, an economic modelling approach examines the impact of the number of tourist arrivals from the countries on which a travel ban to South Africa has been instituted on casino gambling revenue. Following the outbreak of the COVID-19 virus, the number of tourist arrivals from Italy, Iran, South Korea, Spain, Germany, the United States, the United Kingdom and China has dropped and will therefore have a negative impact on casino GGR, which would be an indication of the effect of the COVID-19 virus on the gambling industry.

Gross Gambling Revenue (GGR) in South Africa was R30.8 billion in FY2018/19. This generated tax revenue worth R3.1 billion for the government. Of the total GGR, casino gambling generates the biggest proportion which was 60.5% in FY2018/19. As such when casino GGR goes down it weighs down on total GGR from all modes of gambling. Therefore, an examination of the performance of casino GGR in the context of tourism developments in South Africa is important following the effect of the COVID-19 virus on tourist travel.

Direct market effects

Figure 1 shows the trend in casino GGR and tourist arrivals from the 8 high risk countries on which a travel ban was instituted as a response to COVID-19 virus in South Africa. In the period under review, both indicators have maintained a somewhat similar trend, with tourist arrivals experiencing a slight decline between 2013 and 2015. The casino market has proven to be very effective at encouraging foreign tourists to spend more money and extend their periods of stay in the domestic market. Research by Bulatovic *et al.*, (2017) in Montenegro, Europe was undertaken on the casino sector in the context of tourism development with the purpose of predicting the future of casino revenue using the number of tourist arrivals.

Figure 1: Casino GGR and Tourist Arrivals (COVID-19 High Risk Countries)



* - COVID-19 high risks countries of China, UK, USA, Germany, Italy, Spain, South Korea and Iran

Research shows that a positive linear relationship between number of tourist arrivals and casino gross gambling revenue exists. This means that when the number of tourist arrivals from the 8 countries on which a travel ban was imposed due to the COVID-19 virus increases, casino gambling revenue is expected to increase. Likewise, if the number of tourist arrivals declines, then casino gambling revenues would also decline.

3.2. Horseracing and Sports Betting sector

Direct market effects:

Potential gambling revenue decline

In an effort to curb the spread of the COVID-19 virus extraordinary measures have been introduced in various countries around the world including the cancellation of sports events which have a direct bearing on the horseracing and sports betting sector. The sector is currently the second largest contributor, after the casino sector, accounting for 23.5% (or R7.2 billion) in gross gambling revenue in FY2018/19. The cancellation and suspension of sports events (locally and internationally) likely to have a negative impact on ability of the sector to offer bets, resulting in potential decline in gross gambling revenues.

Limited visitation to betting sites and race meetings

The prohibition of gatherings will affect this sector. The restriction which limits the number of persons in a public gathering to not more than 100 will negatively impact on the number of punters visiting betting establishments and racecourses for race meetings. For the betting establishments, the impact could be minimal as the nature of the betting activity may result in a punter entering a betting establishment numerous times in the day in order to check the outcome of the contingency on which the punter placed a bet on, thus enabling the operator to keep the number of punters on site to the required limits while betting continues.

Furthermore, online betting is available to punters in this gambling sector and they can participate from the comfort of their own homes, which will minimise the impact of the restriction on this sector. However, the cancellation and suspension of most sport events locally and internationally will impact the availability of sports events/games to place bets on. For example, in South Africa the Premier Soccer League (PSL) has suspended all league soccer matches until further notice. For the punters, this effectively means no bets

can be placed as no local soccer matches are taking place. For the gambling operators this will result in revenue losses. However, punters still have access to betting on contingencies and it will be of importance to note which particular contingencies result in the most revenues for bookmakers. There will be an anticipated rise in betting on virtual sports which is currently illegal in South Africa.

For the racecourse operations, industry stakeholders are complying with the restrictions and have introduced restrictions on the individuals who may access racecourses to attend race meetings. For instance, only people indispensable to holding a race meeting will be allowed access to racecourses on race days. These measures are in order to ensure that the industry complies with the guidelines and restrictions regarding public gatherings announced by President (Gaming for Africa Infoline). In this regard, the sector is offering their services while taking the necessary precautions during these challenging times of the COVID-19 outbreak.

Limited participation of foreign travellers at horserace meetings

Imposition of a travel ban on foreign nationals from high-risk countries (i.e. Italy, Iran, South Korea, Spain, Germany, the United States, the United Kingdom and China) as from 18 March 2020 is expected to have an impact on the sector especially horse racing where race meetings may involve international participants such as riders/jockeys or racehorse owners. If they reside in the 8 high risk countries, they will not have the opportunity to participate at race meetings. This could result in low player participation rate at these local races and consequently affect revenue generation

Secondary market effects:

Punters general fear of visiting the off-course betting outlets to protect themselves from contracting the COVID-19 virus will negatively impact punter participation, thereby resulting potential revenue loss.

3.3.LPM sector

Direct market effects:

Limited visitation at sites

The LPM sector generated gross gambling revenue of R3.4 billion in FY2018/19, representing 10.9% of the total gross gambling revenue generated by all modes. In terms section 27 of the National Gambling Act, 2004 read with Regulation 14 of the National Gambling Regulations, the NGB is obliged to supply, install, commission, operate, manage and maintain a National Central Electronic Monitoring System (NCEMS) which is capable of detecting and monitoring significant events, associated with any Limited Payout Machine (LPM) that is made available for play in the Republic of South Africa and analysing and reporting data according to the requirements of sections 21 to 26 of the NGA. The NCEMS is essentially a system to track each LPM operated by a Route Operator (RO) or Independent Site Operator (ISO) in terms of location and status; record and validate every transaction on the LPM in real time; and periodically reports collected data.

The weekly Gross Gambling Revenue (GGR) generated in the Limited Payout Machine (LPM) sector in the first two weeks of March 2020 was analysed in comparison with previous years (2017 – 2019) with the aim of identifying any unusual trends in the sector due to the effects of the COVID-19 virus. The table below illustrates the amount of LPM GGR generated in the first two weeks of March in 2017, 2018, 2019 and 2020. Although the year on year changes have recorded increases in GGR, the changes in the first two weeks of March 2020 (numbered week 11 and 12) show a decline of 15% in GGR generated. This coincides with the time where increasing number of confirmed cases were being reported in the country, which could have resulted in reduced visits to LPM sites by punters. However, a similar decline was recorded during the same period in 2019, hence at this stage the further 1% decline may be as a result of other factors other than the effect of COVID-19. The NGB will however continue to monitor the gross gambling revenue trends in the period ahead to detect any signs linked to the impact of COVID-19.

Table 1: LPM Sector Weekly GGR comparison

	Weekly GGR - LPM				Y-o-Y Change		
	2017	2018	2019	2020*	2017-2018	2018-2019	2019-2020
Week 11 - March	51 667	59 992	69 836	80 756	16,1%	16,4%	15,6%
	435	508	276	551			
Week 12 - March	49 417	55 707	60 235	68 692	12,7%	8,1%	14,0%
	151	416	224	150			
Week 1 & 2 combined	101 084	115 699	130 071	149 448	14,5%	12,4%	14,9%
	586	924	500	701			
Weekly change	-4%	-7%	-14%	-15%			

* - First Corona Virus case confirmed in South Africa, followed by increases in number of confirmed Corona Virus cases (possibly reduced visits to LPM sites)

Limited visitation at sites

Similar to the horseracing and sport betting sites, the LPM sector is likely to be impacted by measures imposed to curb the spread of COVID-19. LPM sites are offered as a secondary business attached to a primary business establishment such as bars, restaurants, betting sites, etc. As a result, the limitation on the sale, dispensing or transportation of liquor (as per section 8 of the Regulation), as well as the restriction which prohibits the assembly of more than 50 persons at premises where liquor is sold or consumed, will negatively impact on the number of punters visiting these establishments, hence a limited access to the LPMs on site.

3.4. Bingo sector

Direct market effects:

Potential gambling revenue decline

Despite being the smallest contributor of gross gambling revenue, accounting for only 5.1% (or R1.6 billion) in FY2018/19, the Bingo sector, which offers traditional bingo and Electronic Bingo Terminals (EBTs), is an important offering to the gambling products and services available to punters in the country. The evolution of Electronic Bingo Terminal (EBTs) is likely to drive growth in this sector. Given that traditional bingo is a game where punters get together and socialise and is dependent on players gathering around one table to play, bingo outlets are public facilities to which the restrictions on gatherings, should be complied with. Current gambling trends show that traditional bingo is on a downward trajectory, with the number of operational seats declining. Should the effects of COVID-19 persist and restrictions remain in place, the industry could see a complete phase-out of traditional bingo in the South African gambling industry. Furthermore, the nature of bingo itself whether EBT or traditional is dependent on two players and as such the national lockdown would mean that no gambling revenue would be realised from this mode, and consequently no tax revenues would be generated from this sector during that period

4. Potential market impacts on the South African gambling industry – scenario 2

This second scenario illustrates the potential impact of the extraordinary measures announced by the President of the Republic on 23 March 2020, i.e. the national lockdown coming into effect on 26 March 2020. The expected consequences on all legal modes of gambling include:

4.1. Zero visitor numbers at gambling facilities due to close down of operations

The national lockdown effectively means no persons will be allowed to leave their homes to access a gambling facility, and on the other hand gambling operators are obliged to close down operations for the duration of the 21-day lockdown period.

4.2. Decline in revenue generated

The halt in operations will result in no gambling activity and therefore no revenues will be generated during the period of the national lockdown in sectors such as Casino, LPM, and Bingo with the exception of the horseracing and sport betting sector where its bookmakers would still be able to offer bets online.

4.3. Reduction in potential tax revenues

The inability of the gambling sector to generate revenue means a decline in potential tax revenues for government.

4.4. Inability to fulfil employee remuneration obligations

During the national lockdown employers are expected to pay remuneration to employees while staying at home. Given that gambling in South Africa is a service mainly offered at a land based facility, and the employees cannot offer this service from their own homes, which will render this lockdown period leave with pay for gambling employees. This will have an effect on the gambling industry, especially smaller sectors such as LPM and Bingo, as these sectors are likely to struggle to fulfilling their employee remuneration obligations due to revenue losses.

4.5. Importation of gambling machines and devices affected

The South African licensed gambling operators are solely dependent on the importation of gambling machines and devices from international manufacturers and suppliers, for example gambling hardware and software in order for operators to run their operations and maintain up to date systems. Recent developments confirm that more and more countries around the world are implementing national lockdowns to curb the spread of COVID-19. This means global value chains will be impacted over the duration of the lockdown as no business or industrial operations will be operating if non-essential, which will negatively impact the ability local gambling operators to import gambling hardware and software during the lockdown period. Although this presents an opportunity for local manufacturing of gambling machines and devices, COVID-19 is going to negatively impact each sector of the economy, and will therefore reduce any prospects of immediate investment in the manufacturing of these machines and devices locally.

4.6. Gambling revenue data integrity compromised – thus compromising the accurate calculation of taxes/levies due

National and provincial government are dependent on the financial data collected from the systems which provide assurance that tax and/or levies due to be collected are accurate and there is integrity of data relied upon to determine tax and/or levies. A national lockdown effectively means local gambling operators are facing a risk of lack of support services from their international providers and as a result system faults or service interruptions will remain unresolved leading to data integrity challenges for Return to Player (RTP), meter runs, etc.

4.7. Businesses unsustainable during national lockdown

The extraordinary measures introduced also include possible relief to local businesses to help minimise the negative economic impact of COVID-19 on South African industries. However, pending the additional National Disaster Regulations following the 23 March 2020 announcements, it is unclear at this stage whether gambling businesses will be eligible for such relief.

5. Short term conclusions

The COVID-19 virus has led to the imposition measures to combat the virus from travel bans to more stringent measures such as lockdowns and shutdowns in countries worldwide, with short-term immediate effects on various industries including the gambling industry. As the number of confirmed cases of COVID-19 virus unravels and the imposition of extraordinary

measures (i.e. national lockdown) to combat the virus, the gambling industry of South Africa is expected to lose revenues further. The road ahead presents challenges not only from an economic perspective but from a social perspective. The more people are required to stay home, the more they will be drawn to participating in illegal online gambling with no control of the overstimulation and latent need to gamble online. As this pandemic unravels, it's important for NGB to monitor the developments over the next weeks and months ahead to assess longer-term effects of the Corona virus on the gambling industry.

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