

Articles

Casino Credit without Risk

by Steve Karoul

Casinos around the world issue billions of dollars in credit every year. Foxwoods Resort Casino, being the largest casino resort in North America, is one of the larger issuers of casino credit. As much as casinos like to declare that this is with minimum risk there is risk. There is always risk when one issues casino credit. There is the risk of the player not paying for numerous reasons such as his financial situation changed quickly, he is no longer liquid, he owes too many other casinos money and may decide to pay them first especially if he plays there more regularly than at your casino, etc., etc. We have all heard these types of excuses over the years. The other issue is fraud which is more prevalent in international casino credit transactions where decisions are not as structured as we would like and oftentimes are based purely upon a player's past record of "play and pay" at other casinos. Unfortunately, I have been on many collection trips where the player's home address turned out to be a cemetery, an empty lot or where the player threatened physical bodily harm to me. Casino Collections can be dangerous in some countries especially in ones where casino debts are not recognized legally and therefore, are also not legally enforceable for collection proceedings.

What can casinos do to better protect themselves from credit risks? Depending upon your gaming jurisdictions and regulations there may be some new creative options worth consideration. We hear a lot about 'reverse mortgages' today as an option for individuals above a certain age to remain in their own homes during rough financial times where they basically borrow against the equity that they have built up in their homes but in actuality, they pledge their home to the lender as collateral. The lender thereby allows the customer to live in their own home until their demise knowing that they will eventually take ownership of the home. It is an innovative new concept.

This concept enabled me to start to think outside of the box and take a closer look at casino credit from all angles trying to determine what are the 'benefits' to all parties. One perspective was to think like a consumer rather than as a casino operator and then try to develop a new innovative concept that made sense to all parties and that provided benefit to all parties. I also studied private banking to get a better understanding of how they developed relationships with their best customers.

After meeting with well over a dozen of the top Private Banks during my last job in Singapore I decided to work with a major international private bank at that time that I will refer to as Bank X. Bank X is one of the market leaders in Asia especially in Private Banking and also seemed to be fairly aggressive marketing wise. Our initial meetings focused on educating Bank X about casino credit. They were intrigued and quickly grasped the concept that casinos lend billions of dollars annually to customers in the form of casino credit for purposes of gaming. They wanted in and we then began to focus on the benefits to the customer as opposed to the benefits to the casino or to Bank X. Those benefits were reviewed independently of casino customer benefits.

The first task was to educate Bank X as to why customers prefer to use casino credit as opposed to bringing cash to gamble or bank transferring funds in advance of their gaming trip. We all know that it is both dangerous and difficult to carry large amounts of cash around the world with today's strict reporting requirements. Carrying large amounts of cash is not illegal if declared properly at each Customs location within each country. However, there is always the danger of theft. To digress for a moment, I remember a trip to Moscow several years back where an Asian gentleman on my flight was seen declaring about US \$35,000 in cash at Customs in Moscow airport which was a fairly open and visible procedure. I later noticed that same gentleman checking into my hotel about the same time as me. About an hour later, I became concerned when I saw that the hotel lobby was full of police. I asked what happened and the hotel staff told me that an Asian guest had been robbed and killed in his room. It was the same person that I saw at the airport and in the hotel lobby. My guess is that someone "fingered" him at the airport as someone with a large amount of cash and that he was followed back to the hotel by the thief / murderer. Cash can be dangerous.

The second reason why players prefer to use casino credit is that they do not have to liquidate assets to wire transfer money in advance of a gaming trip. The fact is that even though many high-rollers are rich, they do not keep large amounts of money in the bank. They invest their money to work for them and therefore must liquidate assets when they need cash. One other point is that if a patron is bank transferring funds from one country or currency to another they will incur hefty bank transfer fees as well as foreign currency conversion fees both on the outbound and return transfers. Many larger casinos often agree to pay these bank fees for the customer especially if he is a big player. These fees can range from 1% to 3% depending upon where the funds are being transferred from. They can add up quickly. For example, $\$100,000 \times 2\% = \$2,000$. Therefore, the fees could potentially amount to $\$2,000 \times 2 = \$4,000$ plus bank transfer fees which could be an additional \$40 to \$100 each way. Using the same example, a million dollar transfer could equal over \$40,000 in bank transfer fees. Therefore, most players prefer to use casino credit to avoid these fees until such time as they lose and need to pay their markers. It is also aggravating and expensive for players to pay the high bank transfer fees if they win in the casino and want to transfer their winnings back to their home country.

While in Singapore I helped to develop a new program with Bank X where our VIP customers, primarily from Asia,

opened personal investment accounts with Bank X that were then invested in various stock funds. Bank X would then allow these select VIP customers to borrow up to 80% of their investment portfolio and issue a Cashier's Check to the casino. The players were allowed reasonable credit time to either top up their investment portfolio amount or the bank would execute a pre-signed authorization form allowing Bank X to enough of their investment portfolio and to send that amount to the casino to pay off their outstanding casino credit. This was not an easy process to get approved and took months of review from both the Compliance and Legal departments at both Bank X and the casino that I worked for as well as the Regulators in Singapore. Both the casino and the bank maintained close control over this to insure that all Know Your Client (KYC) reviews were properly completed as well as all paperwork properly completed. This concept, in effect, was innovative at the time but still limited in scope for a number of reasons. One reason was the volatility of stocks which seemed to a concern to several customers.

Consequently I have now developed an innovative new program with Gold Bullion International ("GBI"; www.bullioninternational.com) that will enable Foxwoods to grant credit to many international players that we would not feel comfortable granting credit to for a variety of different reasons such as the fact that casino credit may not be an enforceable debt in their home country, local currency control laws that do not allow for the free flow of funds out of their home country, prior bad casino credit history of "derogs" (derogatory information on non-payment of past casino credit), current amounts of casino credit that is still outstanding versus their credit worthiness or insufficient financial information on their banks, businesses or address.

GBI is a leading global business service company that provides the wealth management industry with customized products and solutions for physical precious metals investing. Based in New York City, the firm is lead by senior executives totaling over 100 years of financial services and wealth management experience from industry leading firms such as Merrill Lynch, Morgan Stanley and Wells Fargo. The seasoned management team is supported by an Advisory Board that includes retired General Wesley Clark, former House Majority Leader Richard Gephardt, Tocqueville Gold Fund Portfolio Manager John Hathaway and former Securities Exchange Commission (SEC) Chairman Arthur Levitt.

GBI has partnered with the best in class companies to provide a secure service where individual investing in gold actually purchases and owns the metal rather than a certificate of ownership. The actual gold bullion in the form of coins or bars is inventoried and stored in secure vaults around the world in such locations as New York, Utah, London or Zurich. All of the gold is insured by Lloyds's of London both during transportation and within the secured vaults. A Big 4 accounting firm has been contracted to verify storage of the physical gold on a quarterly basis. :

- Bar type
- Brand
- Serial Number
- Weight
- Verification of allocated metal segregation

GBI reconciles to their accounts on a daily basis with the vaulting partners as an additional measure of security. One additional point of interest is that Gold has always been a fairly stable investment medium with minimal market correlation. Also, customers in Asia are very familiar with investing in gold. Many of the Asian banks offer gold denominated savings accounts. Over the past five years gold has appreciated in value and global investment demand for gold bullion is growing despite the current difficulty in buying and storing gold. Foxwoods and GBI have developed an innovative new concept that we believe will be very attractive and marketable especially to international clients. The benefits to the client are:

- Pure ownership – investor retain full title to the underlying gold assets.
- No Counterparty Risk – investors are not exposed to risks related to financial solvency of banks, exchanges and investment trusts.
- Liquidity – GBI's trading partners include broker / dealers, refiners and miners.
- Fully Insured – all stored bullion is 100% insured for full replacement value through Lloyds of London.
- Physical Audits – A big 4 accounting firm, completes a physical verification of every bar stored to ensure physical presence within the vault and appropriate allocation.
- Cost Effective – GBI's fees are more cost effective than alternative investment options in precious metals (mutual funds, closed end funds, ETF's)
- Physical Delivery – investors can elect physical delivery of bullion.
- Collateral – precious metals are universally accepted as collateral for loans through banks / financial institutions.

The last benefit called Collateral is what triggered my idea of using gold as collateral for casino credit. Thinking outside the box again, we came up with what we call the Foxwoods Collateral Process where we allow a player who has opened an investment account with GBI to sign a document pledging up to 80% of his or her gold investment account value as collateral against any casino credit that Foxwoods will advance to that player. The investment account is easy for many international players to establish and it is also appealing to invest in gold and be able to use that investment as collateral against any credit issued by Foxwoods. For Foxwoods it is a great benefit as well to be able to grant casino credit that is collateralized against a secure investment to international players that we might not be willing to risk granting credit to. The casino customer also achieves all of the benefits of casino credit mentioned earlier. In addition, we are also able to offer the player additional benefits by linking the GBI account to their player club membership number which helps protect their identity for future transactions. It is a very clever process with no

risk to anyone but substantial upside benefits to all. The entire process is very transparent and simple to understand for the client. GBI partners with best in class companies to provide unmatched efficiency, security, integrity and transparency which were the reasons Foxwoods selected them as a strategic alliance for this new concept. The entire process consists of three functions:

- GBI Order and Management Process
- Foxwoods Collateral Process
- Foxwoods Gold Bullion Settlement

GBI Order and Management Process:

Order:

- Upon client opening GBI account through Foxwoods, client places gold order in dollars or specific bar sizes including vault location.
- Client or Foxwoods wires cash to Wells Fargo GBI account for processing.

Execution:

- GBI confirms receipt of the order with the client.
- GBI secures the required precious metals from an approved dealer
- GBI confirms the order execution with the client
- GBI wires cash to bullion dealer to pay for secured gold.
- Via Mat and other internationally recognized vaulting partners pick up precious metals from bullion dealer's vault and transport it safely to an insured vault of the client's choice.

Management:

- A Big 4 accounting firm provides quarterly verification of precious metals holdings
- GBI provides monthly statements to clients
- Bullion is audited daily by Via Mat and other internationally recognized vaulting partners.

Foxwoods Gold Bullion Account Process:

- Foxwoods provides client with GBI account opening documentation either web based or by physical document along with all required compliance documents.
- GBI conducts Office of Foreign Asset Control (OFAC) and Know Your Client (KYC) reviews.
- GBI account opening for Foxwoods client is authorized and linked to the customers Dream Rewards account number.
- Foxwoods client completes collateral transfer document / Agreement.
- GBI will accept instructions per agreed format and methods.
- GBI will transfer title to Foxwoods Resort Casino
 - o i.e. Foxwoods Resort Casino Pledged Collateral Account FBO Client.
- Foxwoods determines the loan to value (LTV) amount.
 - o Gold valuations can be provided in real-time to Foxwoods
 - o Historical average daily price % change since 1970 is 0.85%
 - o Largest one day + price % change is +21%
 - o Largest one day – price %change is (13%)
- GBI has the capability to structure limit orders to protect Foxwoods from a downside price movement of the collateralized asset.
- GBI will only accept instruction from authorized Foxwoods agent(s) by the agreed upon format when gold is held in Foxwoods's Collateral Account.

Foxwoods Gold Bullion Settlement:

Win Settlement Options:

- Client can elect to collect casino winnings in cash, check, bank transfer or in the form of gold bullion.
- If bullion, Foxwoods wires cash dollar proceed to clients' GBI account for real time gold bullion purchase.

Loss Settlement Options:

- Client can choose to settle debt directly to Foxwoods or pass funds through their GBI account as payment to be forwarded. Some clients may not want their bankers to know that they are sending money to a casino.
- If debt is not paid within allotted time period Foxwoods can instruct GBI to liquidate debt amount from collateral account as payment.
- Foxwoods can elect to receive proceeds as physical gold in an omnibus account.

As one can see, looking at the benefits, this is a win-win situation for all parties involved. GBI earns fees from buying / selling transactions plus annual storage fees charged monthly which includes secure storage, insurance and bullion

verification. Foxwoods gains the ability to grant secured credit to customers that would not normally qualify for casino credit. And the player also benefits from the availability of casino credit even though it is secured by pledging his gold as collateral against the loan. Once he establishes an account his benefits are identical to normal casino credit where he will not have to liquidate assets to wire transfer funds in advance of a visit to Foxwoods Casino. Foxwoods has developed its own Loan / Collateral Agreement form with GBI to insure that there is no risk to the casino. In addition, due to the strategic alliance between GBI and Foxwoods both companies will participate together in certain international marketing campaigns to gain even greater exposure for both companies. This is definitely a win-win situation for Foxwoods and GBI.

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