



CHILE. 2017



EXECUTIVE SUMMARY

Environment and legal setup

- Gaming in Chile is dominated by a strong land-based Casino industry, which has grown significantly in number of licensees (24) over the past decade after the last process of venue expansion (Law 19.995, 2005). We offer a detailed outlook on the land based industry as reference, including the potential of class B terminals (SB or Casino).
- The current Casino industry is focused in attempting to stop operators under municipal permits (also defined as popular casinos, skill game operators or FIDEN operators), while these operators are attempting to get a friendly regulation passed at the parliament. FIDEN operate over 700 thousand terminals country-wide.
- Online gaming is largely undefined by law and generally considered grey, as well as opposed by the land based industry and regulator in its current form. FIDEN is attempting to enter the online and their regulatory proposal has been included in this report.
- Dot Com companies accept (but not necessarily pursue) Chilean players, by offering different degrees of localisation to Chilean players (i.e. payment solutions or lack thereof, country targeted marketing or lack thereof, etc.) but mostly work through strong pan-regional campaigns and competitive affiliation agreements.
- An international brand willing to spend in strong affiliate deals (over 45% NGR revenue share) and localisation (particularly sports betting and payment solutions) can participate in the market at the cost of taking away Bet365 and SportingBet's market share (the top 2 operators in the market), otherwise it'd be advisable to stay away.

Opportunity

This report outlines the potential of an international brand to enter the Chilean market. While it offers different degrees of involvement, cost of opportunity and projected revenue.

Critical success factors

- Understand the market and local culture.
- Identify the needs of the local industry.
- Use our contacts and expertise in the field to influence key-players.

DEFINITIONS

Throughout this report, some specific terms have been used to describe the local preference, local description of entities, groups of people, or legal terms related to the industry, etc. The following is a list of these terms.

LATAM. Latin America, a region that includes Mexico, Central, South America and the Caribbean.

Casino operators (also land-based casinos). This term will be used to describe licensees under law 19.995. These operators represent the historic gambling industry and are key to understanding the Chilean law, which they have influenced over the years to fit their needs.

SCJ. Acronym that stands for "Superintendencia de Casinos y Juegos de Azar", the self-governing agency that



represents the State in matters related to supervision, control and installation, administration and operation of casinos in Chile, as defined by law 19.995.

FIDEN (also FIDEN A.G. or FIDEN Asociación Gremial). Acronym that stands for the unionized entity of operators, developers and importers of electronic entertainment. For the purposes of this report, FIDEN will be used to describe its board of directors as the single entity representing operators that offer class B games (or skill games, which are defined below).

Skill games (also class B, programmed pay-out or programmed reward terminal). The type of games offered by FIDEN. It may represent different types of games in reality, as currently there's no standardized game, or even a standardized type of game. It's more an expression of desire than of actuality, as FIDEN attempts to regulate the industry and renew the entire market. The key and sole difference from a theoretical perspective is that games that use random number generators (RNG) are defined by the Casino Law (19.995) while others are not. This last point is later reviewed under "FIDEN - Aspect of Dispute".

Act 19.995 (also Casino Law, or Law 19.995). There are three types of Casino entities in Chile as defined legally. The first represent the historic Casinos approved under Pinochet's dictatorship. The second are the expansion (24) casinos approved in the Law N°19.995 with the exception of the third category, authorized by Law N°19.669, for the northern city of Arica, which has an exception and allows an unlimited number of Casinos for aforementioned city. For all purposes of this report, any reference to Casino Law or 19.995, will be used to define the sets of regulations currently stated in the country for games of chance, with the exception of lotteries. There are previous findings in Chilean law to games of chance and other gambling activities as far back as the Civil Code (the source of all law in Chile, published in 1857) but these entries are dated that don't need to be included in this report.

For the official documents, please review files attached to this report ADDENDA 1 for Law 19.995 and ADDENDA 2 for Law 19.669, specifically Article 36.

ENVIRONMENT

The country of Chile with an approximate population of 17.5 million, has one of the most stable economies in Latin America. Its institutional stability has maintained a countercyclical fiscal and monetary policies through governments of different coalitions, and is committed to achieving and maintaining a structural fiscal balance that offsets fluctuations in the prices of copper, its main export. This has been reflected over time in its rating credit:

- Moody's upgraded Chile's credit rating to Aa3 from A1 based on "demonstrated economic and financial resilience (...) including (February 2010's) historic earthquake"ⁱ
- Standard & Poor's upgraded Chile in December 2012 from A+ to AA-, solidifying Chile's position as Latin America's highest rated nation (on par with Japan and Taiwan)ⁱⁱ
- Fitch (2011) upgraded Chile to A+ from A, with stable outlook.ⁱⁱⁱ

According to Global Trade Facilitation Index 2010, produced by WEF (World Economic Forum), Chile provides better facilities for international trade than any other LATAM country.

REGULATORY FRAMEWORK

Chile as defined by its Constitution is a democratic republic. The basis for all private relationships is the Chilean Civil Code, most of which has not been amended since its creation in 1857. The Constitution itself, the Civil Code and the Penal Code represent the main source of law for all purposes, included gaming and gambling.

According to these sources, all games of chance are strictly forbidden and only allowed by law exception, such as the case for:

- Lotteries. Two exceptions, Polla Chilena de Beneficencia S.A. (Law n°18.851) and Lotería de Concepción S.A. (Law N°18.568 and 18.768)^{iv}



- Horseracing. Law allows the existence of horse tracks and a phone betting service (with their own retail vendors) called Teletrack. (Laws n°20.662, 1.528, 4.566, 5.055, 2.437, 18.275, 18.393, 18.689 and 4.566 among other references).
- Casinos. Law 19.995, discussed below.v

Casino Law – N°19.995

In accordance to the established exceptions, Act 19.995 sets forth basic guidelines for the approval, operation and supervision of casino gaming in Chile, as well as the creation of a Superintendence (more information below).

A series of Supreme Decrees complement Act 19.995vi:

- Supreme Decree N° 211, comprises rules to process and award operation permits to casinos
- Supreme Decree N°. 287, comprises Regulation for operation and supervision of casinos
- Supreme Decree N° 329, comprises the bylaws of the Gaming Control Board of the Superintendence of Casinos
- Supreme Decree N°547, comprises gambling Regulation for casinos and a standardization system.

SCJ – Superintendencia de Casinos y Juegos

The Casino Law creates a new entity called Superintendencia de Casinos y Juegos. The SCJ is a self-governing agency that represents the State in matters related to supervision, control and installation, administration and operation of casinos in Chile.

Instructions given by the Superintendence of Casinos are contained in circular letters, official letters and game catalogues. Besides, the Superintendence of Casinos uses internal circular letters to communicate instructions to agency officials.vii

FIDEN AND THE ASPECT OF DISPUTE

The extent to which the Casino Law applies to different types of electronic entertainment has been heavily disputed and is an actual source of controversy.

Currently, the opposition to the Casinos is represented in FIDEN and its Board of Directors. The acronym translates as “Union of Operators, Developers and Importers of Electronic

Entertainment” and represent the employees of the so-called “popular casinos” industry. FIDEN represents roughly 120 thousand people that depend of this industry, which gives them enough leverage to be politically relevant.

To summarize its case, FIDEN and has successfully proved in different legal instances that the law only applies to games of chance and does not have any bearing over other types of electronic entertainment such as skill games or programmed award terminals. They have been able to prove that municipalities (town halls) can offer entertainment licenses to third parties in its jurisdiction, as long as the offered games do not fall under the umbrella of games of chanceviii.

Draft agreement by Chamber of Deputies – Chilean Parliamentix

This official Parliament document highlights the need and desire to regulate the industry. It states that there is no specific law and explains how this legislative void has been filled by several municipal ordinances, which have only added complexity to the subject matter.

It also affirms the number of terminals is over 700 thousand country-wide, as well as commend the work of FIDEN A.G. attempting to regulate the industry and offer technical assistance to local courts and municipalities.

Ruling by General Comptroller of the Republic of Chile

The General Comptroller Office is in charge of controlling the State's Administration, as assigned by the Constitution. It is not subordinate nor overseen by the Executive Branch or Congress. It is charged with protecting the principle of legality.^{xi}

In CGR N°7368N14 of January 30th 2014, states that municipal ordinances of Melipilla and Concepción attempting to shut down operators, have overstepped the boundaries of their power and the Law.

It also questions the role of the SCJ in this in the following paragraph:

(Non-legal translation)

"Similarly, in September 27th, the Comptroller (...) issued Dictamen N°62.277 "On the attribution of the SCJ and their legal action against allegedly illegal exploitation of entertainment terminals" that in its most important articles concludes that "In this regulatory framework (...) (in lights of the available evidence, the SCJ should) have the degree of conviction to establish conducts attributed to certain people or entities, that constitutes games of chance outside of the Law 19.995 or that are criminally typified". (...) "To this effect, dealing with allegations bound to establishments in which entertainment terminals are exploited, it must be considered that the sole installation of gaming halls does not presuppose an irregularity in itself, if these are skill games or games of chance expressly regulated by the Law, as long as the activity in question has been qualified as lawful by the corresponding municipal authority, without which it does not proceed the granting of patents and therefore the (possibility to operate in any degree)".

In short an extremely favourable ruling for FIDEN operators.

FIDEN – REGULATORY PROPOSAL

Please read the summarized and translated version of the draft proposal by FIDEN. For the official draft and more, please request the folder "FIDEN Regulatory Proposal".

Main contents of the proposal

1. Characteristics of the machines.
2. Characteristics of the cabinets.
3. Conditions for the functions of the machines
4. Administrative and monitoring system.
5. Overseeing and regulating authority.
6. Specific tax
7. Requirements for gaming halls and points of sale
8. Procedure for licensing
9. Procedure of type-certification.
10. Control and supervision
11. Others

1. Characteristics of the machines.

Establishes that machines authorized must fulfil a certain amount of requisites such as:

- Be a machine of programmed pay-out (and not full chance, such as those used by Casinos)

- To have a set amount for maximum bet and maximum pay-out
- To have a minimum pay-out of 80% in a cycle of plays
- To have counters that allow for the supervision of the Competent Authority.
- The electronic memory of the machines, which determines the game, should be impossible to manipulate or alter
- Should have security devices that forbids tampering, disconnection or any other mean that would stop counters or the automatic system that substitute them; even in case of power outage
- Information on the rules of the game; description of the prize pay-out combinations, the total amount of pay-out corresponding to each one, and the minimum percentage of pay-out

Similarly, the game programmes would have to be delivered via central server, where the full library of games is available. These game programmes could be downloaded to the machine via any of these two systems:

- Server based gaming
- Gameplay backed up by server

2. Characteristics of the cabinets

The cabinets should be up to the standard of national regulations that guarantee their security; to have enough mechanical resistance to withhold unauthorized access attempts; to be designed in such a way that it can protect internal components of external abuse; not have any sharp edges or protuberances that could represent a hazard for any players; to have sensors that can detect any manipulation from the outside of the cabinet.

The power and data cables in and out of the machine should be hidden, so as not to be accessible by the general public; the machines should not represent any hazard to the human body, protecting it of any electric discharge in any area exposed to contact with the player.

3. Conditions for the functions of the machines

Must be authorized by the Competent Authority.

Must be registered in the Type-Certification Registry, with all technical requirements met, which should be approved by the entities indicated by the authority.

The companies that by trade either develop, import, export, commercialize or distribute, repair or exploit these terminals or exploit halls, should be registered in the corresponding Registry.

4. Administrative and monitoring system

Terminals should be connected in an online monitoring system, which should provide registry, allow search and inform all events that occur in each machine.

5. Overseeing and regulating authority.

Should be capable of:

- Offer licenses to gaming halls and points of sale
- Control the type-certification of terminals and gaming programmes
- Control the registry of operators
- Oversee the operation of points of sales and gaming halls



Due to the nature of these regulations, it is considered to be adequate to offer these faculties and responsibilities to the existing SCJ, for which the Casino Law should be modified.

The model entity for this figure would be the National Commission of Games in Spain or the Nevada Gaming Commission.

6. Specific tax

Terminals must be taxed with a specific tax of 5% of gross revenue. This tax will be incorporated to the respective municipal estate.

Without prejudice to afore mentioned tax, the terminals will be subject to the added value tax (VAT).

7. Requirements for gaming halls and points of sale

7.1 Gaming halls

A maximum of 80 terminals per gaming hall. It should be under the labour code and forbid entry to people under legal age. Working hours and alcohol expenditure should be subject to municipal ordinances.

7.2 Points of Sale:

PoS should not be over 40% of the commercial surface of terminals, with a maximum of 10 terminals per PoS.

8. Procedure for licensing

Companies should be registered in the Public Registry of SCJ. The inscriptions in the Registry should have a validity of 10 years and be renewable for successive periods.

The participation of foreign capital in the registered companies should be under the Chilean laws over foreign investments.

9. Procedure of type-certification.

The practice and exploitation of terminals in gaming halls and PoS, can only be done with the game material previously constituted by machines and other gameplay implements previously certified by the SCJ.

Type-certification constitutes the procedure destined to certify the suitability and quality of terminals and other gameplay implements for the development of games. For this, the SCJ should establish and keep a Certification Registry.

For this purpose the SCJ should have a transparent, permanent and competitive process of accreditation by Certifying Labs.

10. Control and supervision

Control and supervision is a task that should belong to the SCJ, including all activities, operation of the terminals, gaming halls and points of sale.

The employees of the SCJ credited with this task, should be considered ministers of faith in regards to all of the responsibilities in the exercise of their functions, and should be entitled to make statements under oath.

11. Others

11.1 Timelines of application of the new law

A transition period of no less than 18 months should be established, in order to allow current operators to complete the necessary changes, in accordance to the new regulation.

11.2 Restriction to stockholders of Casinos.

In consideration of the fact that current Casino operators have a geographical monopoly within a 70km radius, no natural person or legal entity owner of stock of a Casino operator should have the rights to any partnership or administration of terminals or points of sale.

11.3 Entrepreneurship

The possibility should be considered of including a legal clause that allows the protection of entrepreneurship of small and middle sized national businesses that generate jobs and economic activity, in conformity with current foreign investment and discrimination laws.

11.4 Regulate the promotional activities in the gaming halls

The different promotional and marketing activities oriented to attract new customers, such as ballots, artistic events and others, should be allowed within measure and according to the guidelines created by the SCJ, and requested 10 days prior.

These activities should not:

- Exceed three hours of duration
- Be performed in the street
- Exceed a maximum of two events per week

BUSINESS MODELS

a) Online – Existing. international branded (small market)

Dot com companies have been accepting Chilean players since the business started. That said, their traffic growth generally comes through SEO (888) or residual international marketing or Pan-American advertising cross-sell (Bet365, Sportingbet).

There have been no particular localisation efforts for Chilean players from .com Casinos. They most likely bundle Chilean players as part of any larger Pan-American effort (i.e. Spanish speaking support, small Spanish speaking affiliates, no SEO, very small marketing campaigns on cable TV).

The opportunity for online casino player acquisition in Latin America in general is small, and even smaller if we consider Chile on its own. While there are certain aspects of Chilean culture that would be considered pluses from a business perspective (Number one in LATAM percentage wise in online credit card use, broadband penetration, prevalence of Casino games, etc.) the lack of marketing possibilities doesn't make it worthwhile.

If the Group is interested in participating in .COM advertising through an internationally branded site of their own, here are some things to keep in mind:

a) Local affiliate opportunity is reduced. There are no specific affiliate communities to target, except for Poker (PokerChile.cl). The cost of this type of affiliate is generally high (45%+ NGR) and may not want to cross-sell to Casino

(historically opposed to do so and have requested unreasonably high CPA deals).

b) Online media buy is not a feasible. Most high-traffic media portals are owned by important media groups that have generally shied away from accepting revenue from online gaming companies. Online casinos will certainly face more opposition than games/poker alternatives. SEA/SEO alternatives are potentially cost effective (i.e. 888).

c) Local ATL marketing is impossible. Above-the-line actions have even less opportunity to be accepted by media owners at this time. They have been not only reluctant but directly opposed to doing any TV advertising, as the institution that controls TV spend restricts gambling ads. In any case, the cost of attempting such a campaign is very high as compared to rest of the region, though it is of course of high-impact.

d) Cable TV is a possibility. In the past, cable networks have allowed some companies such as Golden Palace and 888 to advertise. The cost is generally low, but unfortunately so is the impact, as any prime target channels (such as ESPN and FoxSports) do not allow Casino advertising, regardless if it's branded with .NET or .COM. Still, campaigns such as these have run around US\$40k for a month in previous years, with a small/mid-level rotation of ads. It would be fairly easy to obtain a quote for different channel packages if this of interest.

e) Junkets and below the line. There's always the chance of attempting to bring in junkets as a way to acquire players. They generally work by sending high-rollers to international casinos as part of holiday packages. This brings in the following set of considerations:

- a. Junkets will want, with almost full certainty, credit in advance
- b. High-rollers mean high-deposits. Large quantities of cash are hard to move internationally in any country
- c. High-rollers mean high-variance, which junkets will not want to cover

There's always a chance of solving international transfers/variance issues by creating a hybrid model between the A and B described above, where:

- Retail solves the payment solution problem
- Retail offers ways of moving the money abroad legally, though not without problems or high taxes^{xii}
- Junkets have a local partner, which increases their sense of security
- Retail solves the problem of variance

Given the difficulties that may lie on the tax and regulatory framework outlined above, we can only discuss how this model would look theoretically.

b.1) Setup and agent agreement

- An agreement would have to be reached with several local withholding agents (from now on "agents"). The project could start with as little as one agent, as long as the relationship is stable and the agent capable of managing the operation.
- Agreement would be based on a revenue split. Local deals such as this may vary depending on the level of commitment (total amount of players and expected turnover) and exposure (responsibility in covering losses, payment processing, etc.) each agent would have. Current deals may be anywhere from 20% to 50% revenue share.
- These agents in the Chilean market operate mostly as Casino junkets, managing player portfolios to local and international Casinos.
- Players are mostly high-rollers with limited or no experience in online gaming.



b.2) Cashier and payment processing.

Expected cashier split on a dot com operation:

- Credit card 30%. Despite the fact that Chile has an estimated 95% acceptance rate for this type of transactions, only less than 1 in 3 new depositors will use this payment method. Expected average deposit: Set minimum (usually US\$25 – 50)
- Neteller and other e-wallets 5-10%. Players that have e-wallets are experienced and know their game. It means you'll be tapping into the existing community of players (most all coming from the Chilean poker community that have branched to other games in time). Expect to have an average deposit of US\$100 (or twice that of credit cards).
- Agents/Affiliates transactions 60-65%. Most of your deposits will come via agents, who will act as local land based affiliates with cashiers. They will most likely want to have credit and the possibility of direct player transfers. Needless to say, all of the above gives significant leverage to agents in agreement negotiation.

PAYMENT SOLUTIONS

Below there's a list of the most popular payment methods in the country. Bear in mind that the availability of these methods depend largely on the setup of the merchant and the negotiation within the parties. The same goes for setup costs, times and fees which will vary based on volume or other factors:

(In brackets I've mentioned the most popular and convenient company, if available)

a) Retail (PoS).

Under which scenario(s): International online brand, no local entityxiii. Grey solution.

Pros: The most efficient way of attracting new paying customers, is to use existing points of sale. A partnership with local gaming halls, such as Calabaza or other withholding agents, could provide a simple solution to attracting new customers and solving the issue of funding.

Cons: This tool will likely come at a high cost, if accepted by the agent. It also does not deal with the legality and taxation of moving the money abroad, so it would have to be used in conjunction with other providers such as those listed mentioned under letter G.

b) International E-Wallets (such as Neteller)

Under which scenario(s): International online brand, no local entity.

Pros: Access to an existing database of online players in Chile, including some wire-transfer options in some banks, easy to setup and at industry standard cost, and solves the issue of moving money abroad.

Cons: Only popular among existing database of players, which is a small niche.

c) Servipag

Under which scenario(s): Local entity with an online presence.

Pros: The most popular cashier service in Chile, with the largest distribution of PoS. Very cheap and reliable.



Cons: It would require a local entity and it would be a hard negotiation and next to impossible without FIDEN's law project.

d) WebPay

Under which scenario(s): Local entity with an online presence or through Astropay.

Pros: This falls under best case scenario. WebPay, which belongs to Transbank, has most of the market share, if not monopoly, over online transactions in Chile. Any merchant that wants to use debit cards or credit cards as part of their online cashier options, must go through WebPay.

Cons: Next to impossible they will accept gaming funds. Slow setup, must have a local entity and unlikely to be approved without law project. Otherwise Astropay presents a high cost alternative.

e) National gateways (such as DolarDolar, PuntoPagos and DineroMail)

Under which scenario(s): Most likely only if there's a local entity, except for DolarDolar (affiliate).

Pros: Direct wire-transfer and local credit cards, and even e-wallet (DineroMail). Seamless gateway (PuntoPagos).

Cons: DineroMail might work with an international gaming entity, but it's not a given. PuntoPagos might refuse gaming initially and will request a local entity. DolarDolar will offer a competitive version of Astropay plus the affiliate angle.

f) Wire-Transfer

Under which scenario(s): Local entity.

Pros: Popular method of payment in Chile.

Cons: Caters only to people that know the brand and will need a local entity. It will not work for international wire transfers without a third party (such as those listed in point G)

g) International gateways (such as Global Collect & Envoy)

Under which scenario(s): All scenarios.

Pros: An international gateway will process payments from other institutions (local banks, local payment solutions, credit cards, local cashiers, agents in some cases etc) to an international bank account. How they do this will vary wildly from provider to provider, from low risk (GC) to volatile (Envoy).

Cons: Might be expensive depending on the setup and volume.

COMPETITORS

Below you'll find a list of some competitors of the different business models presented in this report.

a) Casino operators. The main source of difficulties for FIDEN operators are the Casino operators. They own a strong lobby group, and have historically run hand-in-hand with the SCJ. They represent the biggest obstacle in Class B Regulation. They have lost some of their power due to internal problems with the new Casino licensees and have lost political power after several rulings against them.

b) Casino brands. Market dominated primarily by Novomatic and Williams.

c) International .COM brands. Such as Bet356, SportingBet, 888, etc. Mostly operate through Pan-American campaigns and cross-sell, as well as SEO.

d) Local agents with obscure brands. 24vivo, CasinoVivo, Ezugi among others, including streaming casinos have local agents to handle black transactions. Their presence in Chile is small (as compared to countries like Argentina) but they do operate.

REFERENCES

i <https://www.moody.com/credit-ratings/Chile-Government-of-credit-rating-171693>

ii <http://www.bloomberg.com/news/2012-12-26/chile-rating-raised-at-s-p-to-fourth-highest-aa-outlook-stable.html>

iii <http://www.reuters.com/article/2013/10/25/idUSL1NoIFrA820131025>

iv See Regulatory Framework available here http://www.pollachilena.cl/index.php?option=com_content&task=view&id=348&Itemid=172

v Please request PDF document of Act 19.995, and file "Supreme decrees" for the actual documents, including supreme decree N°1.536 of the Ministry of Finance, which dictates guidelines for games of chance aboard merchant vessels.

vi ídem

vii FAQ SCJ website <http://www.scj.cl/en/faq/faq>

viii According to numbers on their website, they have over 700 thousand terminals country-wide. Information available in their homepage <http://www.fiden.cl/>

ix Please request official document

x Document also available here http://www.fiden.cl/wp-content/uploads/Comunicado_Fiden_contralor%C3%ADa_11_02_2014.pdf

xi http://www.contraloria.cl/NewPortal2/portal2/appmanager/portalCGR/v3ENG?_nfpb=true&pageLabel=Pr8604040991288028015987#

xii The most problematic tax law when moving money abroad comes in the figure of "presumptive profit tax" which could be up to 35%.

xiii Subsequently, the usage of "local entity" means that the merchant should have local representation and bank account.