

A Win-Win-Win Scenario in The Gaming Industry Amidst the Pandemic: Evidence from The Philippines

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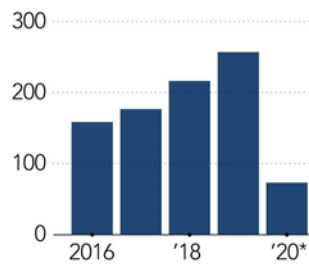
Abstract- *The gaming industry in the Philippines took a hit with the COVID-19 pandemic, maybe even the worst hit industry along with other leisurely and tourism related businesses such as hotels, airlines, and other tourist destinations. When the Philippine government declared the Enhanced Community Quarantine (ECQ), all leisurely activities and businesses were prohibited from operating, and only allowing businesses engaged in essential needs such as hospitals, medicine, food, logistics to continue its operation.*

Illustration 1

Pandemic ends Philippine casinos' winning streak

Gross gaming revenue
(In billions of Philippine pesos)

*As of September
Source: Philippine Amusement
and Gaming Corporation



As shown in the Illustration 1 above, the industry suffered a drastic drop of its total gaming revenue when compared year on year. This resulted and put a stop on the steady growth year on year of the whole industry. Earlier years prior to the pandemic, the gaming industry showed a robust double-digit industry wide growth, outgrowing its neighbor gaming hub Macau, and was even once considered to grow faster than Las Vegas, Macau, and Singapore by an analyst from Morgan Stanley, Praveen Choudhary.

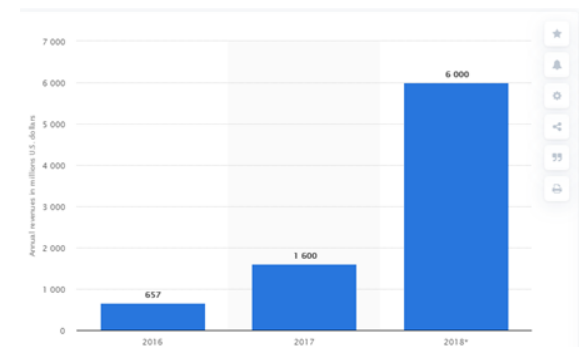
I. INTRODUCTION

While there was robust growth for land-based gaming establishment, the Philippines had virtually zero initiative, much more so growth on the on-line

gaming. Philippine law and gambling regulators continued to prohibit on-line casino for local patrons not until lately when the pandemic shuts off land-based gaming, and also with the sudden arrival of Philippine Offshore Gaming Operation (POGO).

POGO is an online gambling services which caters to markets outside the Philippines. It operates similar to a Business Process Outsourcing (BPO) and its major customers are from China. Technically speaking, these POGOs are illegal both in the Philippines & China in absence of enabling law and government regulating body. The Philippine Amusement and Gaming Corporation (PAGCOR) the Philippine government's gambling regulating body is in an obscure situation as it can only regulate gambling activities within the territorial jurisdiction of the Republic of the Philippines.

This does not stop the Philippine government however, to reap some benefit on the POGO operation. At its peak pre-pandemic, POGO was a bustling sector disrupting the gaming industry. From 2016 to 2018, it grows from \$657 million to \$6 billion annual revenue.

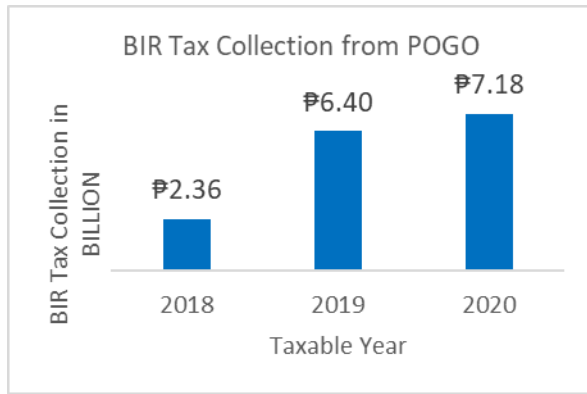


Source:

<https://www.statista.com/statistics/1017254/revenues-philippine-online-gambling-operations-philippines/>

For its part, Bureau of Internal Revenue (BIR) reported a P7.18 billion tax collection for the year of

2020 from the POGO operators. The BIR commissioner further added that they have been slapping 5% franchise tax to POGO operators since 2017. Below are the table of tax collection from this sector:



These collection revenues were earmarked via the Bayanihan Act: “All revenues from POGO will be used to fund the various types of assistance laid out in the Bayanihan 2 for all sectors affected by the pandemic.” – Sen. Franklin Drilon.

II. Statement of the Problem

The Philippine Amusement and Gaming Corporation (PAGCOR) have recently approved resumption of gaming operation of all licensed operators but on a 30% operational capacity only. This will hurt the industry, on top of the prohibition of senior citizens (which belongs to the demographically major patrons for casinos).

On-line gaming license to the two (2) major land-based casino operators, Casino A and Casino B. According to the PAGCOR chair, this is their way of combatting the effect of the pandemic, by allowing select patrons to enjoy gaming via on-line. surprisingly, there was no on-line license yet for the Casino C, despite being the recognized pioneer of integrated gaming, hospitality & leisure in the Philippines.

On top of it, here we have POGOs that are being allowed to operate in the Philippines without regulatory law. We also have on-line sabong which is

a thriving sector as well estimated to have an annual revenue of \$1B.

With all this in mind, there is one clear challenge both to the gambling operators and PAGCOR: how do we adapt to this new normal while maintaining revenue generation?

III. CAUSE OF THE PROBLEM

It will be an understatement to say that the global pandemic caused by COVID-19 disrupted the gaming industry not only in the Philippines but the whole world. The effect on gaming industry is even worse than other industries given the fact that this industry is a leisurely, tourism geared industry and not necessarily an essential one for human kind survival. The 30% capacity only required by PAGCOR will drastically reduce the revenue generation of these operators.

IV. COURSE OF ACTION

This situation requires action from all stakeholders for the industry to thrive and tide away this pandemic. Needless to say, that both the government of the Philippines and the gaming operators have already implemented measures to curve the spread of the virus. Preventive and reactive measures to help safeguard the health of its patron. These measures that are already in place however are not sufficient enough to ensure profitability or even survival of the industry. There are recommended actions however that are outlined as follows:

A. PAGCOR and Philippine Government

The Philippine government is pressured to look for alternative revenue sources after most if not all industries were affected by the pandemic, thereby drastically reducing tax collection for the government. This results to scarce government fund that is badly needed to support its population.

The good news however, is that there are sectors that the government can tap to generate funds through taxation. The same system that the government did to implement 5% tax on POGO operators, can in fact be also implemented to on-line cock fighting or *e-sabong*.

In fact, there's a bill filed already in the house of representative calling for this taxation. Should this be passed into law, this will generate an additional approximately P1.25B tax collection on its first year of implementation. This is according to Cong. Salceda, Chair of Ways & Means Committee. This bill once passed, will not only add funds to the government coffins but will also regulate the sector.

PAGCOR for its part, must immediately implement guidelines on the on-line gaming, and allow or issue on-line licenses to the current pool of land-based gaming operators. By allowing the operators to offer on-line gaming or casino operation, will result to a win-win-win scenario for all stakeholders of the industry. The patrons can enjoy their favorite game at the comfort of their homes, away from the risk of contacting the virus. The gaming operators will continue to have its revenue to survive and support its employees, and the government through PAGCOR will have its share of the revenue to implement government projects.

B. Gaming Operators

For the gaming operators, the casino business is a capital-intensive investment already as it is. Majority of the investment would normally go to physical structures like buildings, hotels, gaming areas, restaurants, and facilities to accommodate its loyal patrons. With the pandemic however, it is but timely for these operators to adapt and realign a portion of its CAPEX budget to build infrastructure to bolster their on-line gaming capability. IT infrastructure, connectivity, software & hardware, and security should be among the capital expenditure for the operators. These should be prioritized over building the hard structures that are currently on-going construction. In fact, this pandemic could even be considered as an opportunity for these operators to cash in on the on-line casino since prior to pandemic, these operators are only allowed to operate land-based casino operation. This pandemic opens the opportunity for the operators to expand its revenue generation to multiple channels.

CONCLUSION

The Philippine government needs fund for its pandemic initiatives and projects. PAGCOR, is one of the government agencies badly affected, as the licensed gaming operators suffered drastically due to stoppage or imposed limit on its operation. Pandemic put a stop on the year-on-year steady growth of the gaming industry in the Philippines and it calls for a quick and effective measure in order for it to survive. It is with PAGCOR and the whole gaming industry however, where the government can find its needed additional fund source. It is in this industry as well, where we can find a win-win-win scenario for all stakeholders, and yes it includes the gaming patrons and the public in general.

RECOMMENDATION

This pandemic made the gambling operators to adapt and innovate based on their respective resources and according to regulatory guidelines. Some of the mandatory requirements for example are the strict health declaration upon entry, temperature, and at times even on the spot swab test of guests prior to entry. Some casinos too installed barriers to gaming tables which has multiple players playing at the same time. This is on top of the reduction of seating capacity of each tables.

It is obvious however, that for this Win-Win-Win scenario to work, all the recommended courses of action from all stakeholders must be implemented with immediate effect.

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