



Association of Gaming Equipment Manufacturers

Marcus PRATER

Executive Director
Association of Equipment Gaming Manufacturers (AGEM)

The Advent of Variable Payout / Skill-Based Games

PGRI Introduction: The Association of Gaming Equipment Manufacturers (AGEM) is a non-profit international trade association representing manufacturers and suppliers of electronic gaming devices, systems, table games, key components and support products, and services for the gaming industry. AGEM works to further the interests of gaming equipment suppliers throughout the world. Through political action, regulatory influence, trade show partnerships, educational alliances, information dissemination, and good corporate citizenship, AGEM works to create benefits for its members. AGEM has assisted regulatory agencies and participated in the legislative process to solve problems and create a business environment in which AGEM members can prosper while providing a strong level of support for education and responsible gaming initiatives.

Marcus Prater was appointed to lead AGEM as executive director in 2008. Over the last eight years, AGEM has carved out an influential role for itself as an advocate for its members and for the progressive development of the gaming industry. Under his leadership, AGEM membership has increased from 32 member companies to the current all-time high of 154.

Paul Jason, PGRI: *What is AGEM's role in the development of the market for skill-based gaming?*

Marcus Prater: It's the responsibility of individual companies to develop the gaming concepts and get the games submitted to the lab in Nevada for approval to bring them to market. Then everyone will see how these games actually perform in the casino environment. It's encouraging that states like Massachusetts and New Jersey have come out with their own skill-based and variable-payback language that mirrors what was adopted in Nevada. We hope the blueprint that we created in Nevada will proliferate to other states, and to other countries as well.

What is meant by "variable payback" as opposed to "skill based?"

M. Prater: In Nevada, it's not just skill-based games that can set the payout to adjust for the performance of the player. There are other identifiers that will allow casinos to offer different paybacks to different players. That's why it's really about variable payback percentages. For example: It's your birthday. You sit down at a machine and you put your player's card in, the monitor displays a graphic that wishes you a "Happy Birthday." This machine is normally a 90% payback game, but because it's your birthday, it is set to give you 98% payback. It has nothing to do with skill, right? It has to do with identifying you as a good customer, connecting you with an event that has nothing to do with skill, and rewarding you with a higher payback, perhaps as an incentive for you to come back at least on your birthday, if not more frequently to see if it might not surprise you with a reward for some other event. That's why the correct term for the whole concept of adjusting the payback to the individual is more accurately called "variable-payback slots" instead of "skill-based." That

variable-payback slots category includes the sub-category of “skilled-based games” that offer variable paybacks based on different performance and skill levels.

How complicated is it from a regulatory point of view? Is there anything in a legal sense that differentiates variable payback not based on skill, variable payback that is based on skill, and the conventional random-based slot machines?

M. Prater: Yes. Regulation 14 will govern this new form of gaming in Nevada. The regulation is accessible on the Nevada Gaming Control Board website (gaming.nv.gov, click on “Statutes & Regulations,” and scroll down the list of regulations). I encourage interested parties to read it. It’s similar language to what Massachusetts and New Jersey have posted in their draft regulations. There are ways that both the suppliers and the casinos will be able to take advantage of this new gaming landscape.

How are the games calibrated to allow for the fact that players are going to have different levels of competency? What’s to stop it from becoming professionalized, which would make it hard to get a high volume of players because novices won’t want to be playing against professionals, will they?

M. Prater: We’re not sure yet. There are companies like Bally that showed Space Invaders at G2E. That was a standard video slot, but when you reached the bonus round there was a skill-based element as though you were playing a game of Space Invaders. I think that type of game is going to be the easiest to get approved. In terms of more radical concepts, Nanotech has a pinball game where they claim the payback percentage can go north of 100-110%. Obviously, if you have 110% at the high end then you need 80% at the low end and therefore you get a blended 90%–92%. The manufacturers will have to certify—and the lab will have to approve—that these games are blended at

92% or whatever the number is. For those types of games, they will require a field trial and that’s when we’ll know if the game is too easy or too difficult to beat. The field trial process will be a learning experience for the lab, for the suppliers, for the players, and for the industry. A casino doesn’t want a game that consistently pays back over 100%. And the players won’t play if the payback is too low. I think suppliers will solve that riddle.

Is there some way to adjust for the variety of skill levels that players will bring to the game?

M. Prater: Players will be clearly notified that these are skill-based games. In many cases, you’ll see games that say it is an 88% base game, but that if you’re particularly good during the bonus round, it may pay up to 100%. For the first time, players will know the payback percentage. There has been no jurisdiction in the world where a player could sit down and know what the payback percentage is on a particular machine. A video poker play table may have been the rare exception.

I’m very excited by the prospect of skill-based gaming. I just try to temper everyone’s expectations to understand that this new form of gaming will take time to make the kind of impact that we want and expect it to have.

So, by providing players with more information, this new game style will be more transparent. I think there will be some basic games where the swing will be a matter of 6 or 8 percentage points. I think other games will run the gamut and the high is whatever the operator wants it to be.

How do you think this new game-playing style might impact the industry going forward?

M. Prater: As exciting as the possibilities are, it is likely to be a very slow process. We won’t know the full impact of this for several years. But I do believe that

the younger folks, who aren’t necessarily attracted to the current types of slots, are now faced every day with an unbelievable amount of gaming entertainment, whether it’s on their phones or their tablets or their X-boxes or whatever it may be. The convergence of all that gaming entertainment with a wagering element will provide a major spark for the casino floor.

How appealing is the highly stimulating environment of a casino floor, for younger adults in particular? Is there any measure of that?

M. Prater: I think one of the reasons the Super Bowl handle was so large in Nevada this year was because the 21- to 30-year-old male loves the idea of sports-betting, and loves the high energy of Las Vegas and the excitement of the Super Bowl or a March Madness in Las Vegas. And they can now wager on sports on their phones while in the casino. They can go to the betting windows as well. Over time, whether you’re wagering on your phone or on a tablet or on a surface table

or on a big screen, those gaming elements will find their way into the casinos.

Do casinos need skill-based games to appeal to the younger players? Do casinos need to plan on investing in this new play-style to succeed at growing the market and brining in new consumer groups?

M. Prater: I think they do. Gaming revenues in Vegas have been flat, but these younger people are spending money in their clubs and out by their pools and at shows and on food and beverages. But at the end of the day, I think we need to do

more to expose these visitors to this new form of gaming. I'm very excited by the prospect. I just try to temper everyone's expectations to understand that this new form of gaming will take time to make the kind of impact that we want and expect it to. I think this new form will have lots of hits and misses, and if a game doesn't work the casinos won't buy it. If it works to a spectacular level, they will be willing to pay a premium price for the super successful games. So the suppliers will have to prove their games work and appeal to the players. When they do, the operators will embrace them.

The operators not only want to see that something works, but also that it's different from what they currently have and that it will deliver a decisively different result. Otherwise, they

won't spend the money to change, will they?

M. Prater: That's right. I've always maintained that these new kinds of games will be accretive to the offerings that currently exist. If you have a young demographic that's not playing any form of gaming beyond maybe sports betting or table games and you're able to interest them in electronic machines, that's accretive. Plus, it doesn't rule out that a 60-year-old woman wouldn't also be interested in some of this. When you think about a game for your phone, like Candy Crush or Words with Friends ... those numbers skew to a 40- to 50-year-old woman. If you can create games that they are used to playing on their tablet, and you add a wagering element to it, it's not a stretch to expect that the older demographic would also be interested.

The younger generation might be more interested in the game playing aspect than the wagering aspect. Will the operator be willing to adjust their thinking to allow for games that do not generate as much profit per hour?

M. Prater: I think that's fair. It depends on the overall performance, but I do think that operators need to be open to the idea that it's okay to let a new player who has shown little interest in the current slot products play a game for a longer period of time. The games do need to generate a profit for the casino operators. But I think suppliers will come up with lots of new and creative concepts that appeal to the whole range of play-styles. It is exciting because it invites a whole new layer of innovation to modernize the face of casino gaming. ■