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## Focus on Asia: What next for the Asian junket industry?

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May 3, 2022

Macau's gaming industry continues to face a great deal of uncertainty. The arrest and subsequent detention of Alvin Chau, the head of Suncity and the gaming industry's largest junket promoter, in November of 2021 cast a pall over the entire casino sector and the role that junkets will play in Macau's economic recovery. Immediately after Mr. Chau's arrest, casino operators across the city announced the closure of junket rooms at their properties. Prior to the pandemic, there were nearly 100 junket promoters operating in Macau's casinos. In January of 2022, only 46 were still in operation. By April, the number of junket promoters was down to 37.

In addition, new legislation entitled "Legal Framework for Operating Games of Chance in Casinos" is making its way through Macau's Legislative Assembly. It will fundamentally alter how junket promoters conduct operations and earn commissions. Junket promoters will no longer be able to conduct operations in dedicated private rooms; they will be prohibited from entering into revenue sharing agreements with their host casinos, and they will no longer be allowed to accept cash and chip deposits from customers. Violation of this new law will be dealt with severely, punishable by arrest and significant time in prison. Clearly, the role of junkets in Macau will be greatly diminished. That does not mean that junkets will cease to exist. They will just migrate to other jurisdictions where gaming regulations are more favorable to their business models.

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Junket promoters are an integral part of the Asian casino industry and play a particularly important role in servicing the needs of gamblers residing in the Peoples' Republic of China (PRC). In its simplest form, a junket promoter provides short-term credit. The ability of a third party to provide credit is indispensable to casino operators, as the collection of gambling debts in the PRC is illegal. Since casino operators cannot sue to collect on markers issued to players residing in the PRC, junket promoters mitigate that risk by providing credit to their customers and assume that potential liability. Also, given the large sums of money that junket customers are willing to wager during their casino excursions, junket promoters are able to provide those funds upon a player's arrival at the casino.

As part of their credit agreements, players are obliged to gamble in gaming rooms overseen by their junket provider. These rooms are located within the confines of a larger casino, and a casino may have several rooms or tables assigned to specific junket promoters. Junket promoters are paid a commission by casino operators predicated on the wagering volume of the promoter's customers. Casinos in most Asian jurisdictions are free to negotiate commission rates with their junket promoters, whereas in Macau those rates are capped by gaming regulation. Casinos in other jurisdictions may also enter into revenue sharing agreements with preferred junket promoters, thus further mitigating risk for both the casino and the junket promoter.

In addition, junket promoters facilitate travel for their customers. A junket promoter arranges air transportation, visas, and accommodations at casinos where they have a business relationship. They can direct customers to a specific property or jurisdiction. Nevertheless, it is their ability to provide credit that is at the heart of their business model.

### **Moving money across borders**

The ability to move large amounts of currency out of the PRC has long been an issue for government authorities. The Chinese are adept at transiting funds across international borders. These informal banking systems have been in existence for centuries, and it was central to Chinese migration across the globe. The PRC has recently taken a more aggressive stance in limiting the extra-judicial movement of currency and to this end has focused its attention on these underground banking networks and the junket promoters that rely on them.

Junkets promoters do not operate exclusively in Macau. They can be found in virtually every jurisdiction in East Asia, including Vietnam, Malaysia, Cambodia, the Philippines, and South Korea. Australia's casinos have also long relied on junket promoters to deliver customers from the PRC to their gaming tables, although Australian regulators are now grappling with past abuses of junket promoters and the casinos that hosted them.

### **The beneficiaries of Macau's largesse**

The importance of junkets to Macau's gaming economy has diminished over the past decade. Whereas in 2010, junkets accounted for 72 percent of Macau's gaming revenue, that share had dropped to less than 25 percent by the time the pandemic struck. As Macau's regulators continue to impose further restrictions on junkets, other jurisdictions have become more appealing to junket promoters and several properties are well positioned to benefit from Macau's unintentional largesse.

#### NAGAWORLD

Cambodia's gaming industry has long relied on junket promoters to deliver customers and their gaming dollars to their casinos, and they have developed facilities and sound marketing programs that cater to them. One company that stands out as a primary beneficiary of Macau's evolving junket policy is NAGACORP, operator of the hugely successful NAGA 1 and NAGA 2 integrated casino resorts in Phnom Penh, collectively known as NAGAWORLD.

It was the completion of NAGA 2, with its five-star caliber hotel, VIP suites, and private gaming lounges, that elevated the company into the highest echelon of junket-oriented casinos. Junket revenue increased substantially after the opening of the new resort. Once pandemic-induced travel restrictions from the PRC are lifted, one can expect NAGAWORLD to see a dramatic increase in junket-driven gaming revenue, along with the newfound ability to seek more favorable terms from junket promoters eager to place their players in a premium gaming property. The opening of NAGA 3 in 2025 will provide additional gaming and lodging capacity and further solidify NAGAWORLD's position as a premiere integrated casino resort.

#### Entertainment City

Prior to the pandemic, the integrated resorts in Entertainment City in Manila had built stunning facilities to meet the needs of junket promoters and their customers in the form of private gaming rooms and hotel suites. They also had the added advantage of offering more favorable commission structures to junket promoters as they were not capped by gaming regulations. As junket promoters seek safer harbors to conduct business, expect Solaire Resort and Casino, Okada Manila, and Resorts World Manila to benefit.

#### Vietnam

Two casinos in Vietnam stand to be primary beneficiaries of Macau's new junket policies. Crown International Casino Hotel in Danang has long relied on junkets. While the property does offer a modest-sized foreigner-only casino with 22 table games and 122 slot machines as part of its 533-key resort, it is their private junket rooms on the casino's upper levels that contribute the lion's share of gaming revenue to the property. The casino has long-established business relationships with a number of well-established junket promoters.

Hoiana, East Asia's newest and arguably the world's most attractive seaside casino resort, opened near the outset of the pandemic. With Suncity as a one-third owner, it was generally assumed that its casino would be reliant on Suncity's junket customers. The role that Suncity will play in the future of the property is now in question and it remains to be seen if other junket promoters will step in and fill the void. Nonetheless, Hoiana's beachside location, golf course, and premium accommodations make it an appealing property for Asia's other junket promoters.

### **Junkets are not going away**

Macau's recent efforts to reduce the casino industry's reliance on junkets, coupled with the PRC's efforts to better monitor currency outflows outside of its banking system, will no doubt further reduce gaming revenues generated by junket promoters. What these policies and regulations will not do is eliminate junkets. Junkets provide a necessary service, and as long as there are customers in need of those services and casinos willing to host them, they will prosper.

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