



# The state of risk in the gaming industry

Everywhere you look—evolving challenges in  
this ever-changing industry

April 2024



# Executive summary

Everywhere you look—evolving challenges in this ever-changing industry

It is an exciting time for the US casino and gaming industry, which continued to enjoy revenue growth in 2023. Commercial gaming revenues were up 10 percent and online sports betting was up 44.5 percent year over year, according to the American Gaming Association's Commercial Gaming Revenue Tracker.<sup>1</sup> Expansion of gaming also continued, with several states legalizing sports betting, the rollout of sports betting in Florida by the Seminole Tribe, and land-based expansion continuing in Virginia and Illinois.

The road ahead, however, could be set up for a variety of challenges:

- Growth rates may be slowing
- Regulators are more active in their oversight
- External threats are increasing

Risk is never far from the minds of leaders in the gaming industry, and in 2024 we believe a laser-focus on the important risks facing the industry could separate companies from their competition.

Our hope is that this year's industry risk report can help gaming companies achieve greater clarity when developing their enterprise risk assessments and risk management strategies. This year's report includes risk registers that zero in on three different subsectors: [land-based operators](#), [online operators](#), and [suppliers](#).

While each subsector and each company will face unique risks, there are some threads running through the entire industry. In our discussions with industry leaders during The Global Gaming Expo in October 2023 and during our ongoing client work, we see recurring themes around customer expectations, responsible gaming, and cybersecurity. These risks must be managed carefully by all participants in the ecosystem.

Enterprise risk management is leveraging automation, AI, and other technology to get deeper insights into particular risks. Understanding regulation is more complex in the online space, so detailed requirements must be incorporated into the risk assessment. And future-proofing a company's risk management capabilities means building and embedding responsible practices into the organization in areas such as responsible gaming, customer data protection, and generative artificial intelligence (GenAI).

As the industry is at an inflection point, firms must manage more—and more impactful—risks while striving to deliver greater enjoyment and value to customers. Those that do this best will build trust and help ensure long-term sustainability of their customers, employees, and investors.

## Risk registers and insights

KPMG LLP (KPMG) conducted a detailed analysis of the risks facing both land-based and online operators, as well as gaming industry suppliers, to identify whether the risks are escalating, diminishing, or remaining constant. We offer key insights for highlighted risks on each register over the following pages.

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Sources

<sup>1</sup> American Gaming Association, Commercial Gaming Revenue Tracker, February 20, 2024










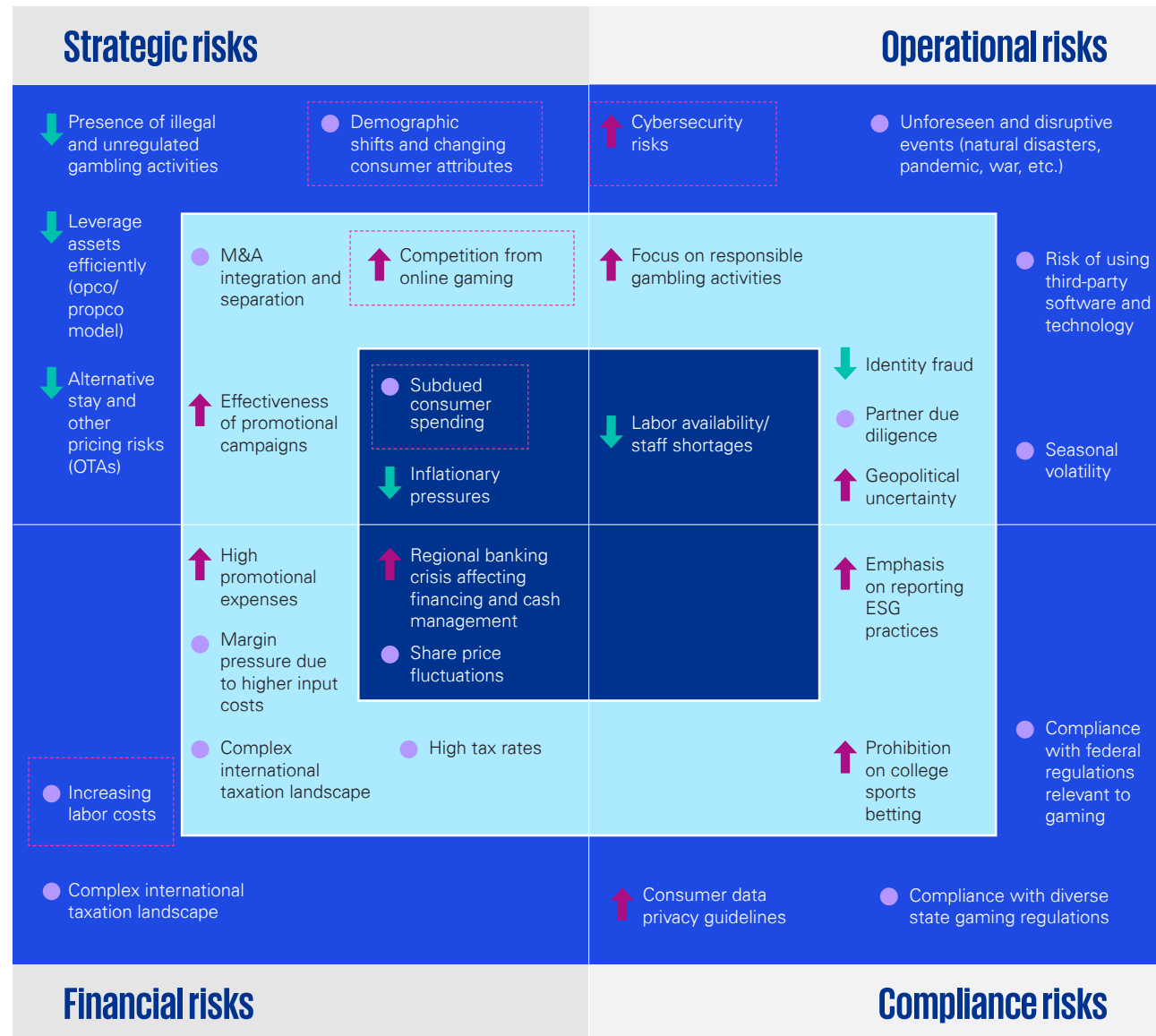


# 01 Land-based operators

# Land-based operators: Risk register

## Legend

-  Increasing risk
-  Reducing risk
-  Short-term risks
-  Long-term risks
-  Medium-term risks
-  Unchanged risk
-  Detailed on subsequent pages



Sources: Company websites; Annual reports; Web articles; Secondary research; all accessed in Dec 2023

# Land-based operators: Key insights



## Strategic risk

### Competition for market share from online gaming

The popularity of wagering from the comfort of home—or anywhere—continues to grow. Online gambling firms are gaining popularity due to their accessibility, pandemic-induced behavioral changes, and legalization in various states. Land-based operations without an online component may struggle to capture newer demographic groups and fall behind in both online gaming as well as other land-based operators that do integrate online activities.

However, moving into online gaming poses risks for land-based operators. Management may not be experienced in online operations or understand the processes and controls that a high-volume digital experience requires. Technology also is a differentiator in online gaming, and land-based operators may be unaccustomed to that line of business. Also, regulations are different and generally nascent; land-based operators may be conservative to protect existing licenses, while digital-native competitors may be more nimble.

### Demographic shifts and changing consumer attributes

The average age of players visiting a casino in the US has declined since the pandemic. Interests are more aligned toward an omnichannel experience (contactless payments and online rewards), digital and mobile gambling options, and sports betting. This has pushed land-based firms to focus on offerings that appeal to younger demographics, building or partnering for digital and/or omnichannel products, and changing their marketing strategies to better compete for a new (and hopefully loyal) customer base.

Sources

<sup>2</sup> <https://kpmg.com/us/en/articles/2024/q4-2023-gdp.html>

<sup>3</sup> MGM Resorts International, FORM 8-K, Date of Report, October 5, 2023

### Subdued consumer spending

At this writing, the US economy seems to be in a good place. Still, consumer confidence is always a fragile factor.

“Consumers were remarkably resilient, and even defiant, in the face of rate hikes, with broad-based gains of 2.8 percent in the fourth quarter,” according to a January 2024, report by Diane Swonk, KPMG Chief Economist. “Even consumer attitudes started to show a glimmer of hope by year-end, but we remain much more skeptical about the world than we were in the past.”<sup>2</sup>

Land-based operators benefited from a variety of factors in the past few years that led to meaningful revenue growth, including federal stimulus, pent-up demand, and high consumer savings rates. Many of those factors are not relevant going forward, and more recent inflation headlines and higher interest rates may make it difficult to generate revenue growth over difficult comparisons. Operators must find ways to balance value and price, as well as find ways to manage costs more closely.



## Operational risks

### Cybersecurity risks

Operators face many cybersecurity challenges requiring controls to build and embed resilience, meet regulatory mandates, and reduce overall risk, not only internally, but also with third-party providers. Given the substantial volumes of customer data that gaming companies collect and process with their loyalty programs, they are not only a bigger target for cybercriminals, but are also increasingly exposed to regulatory scrutiny.

Digitalization and rising menace of cybercriminals have resulted in more vulnerability to cyberattack.

Cybersecurity incidents in 2023 reminded gamblers and nongamblers alike that bad actors see vulnerability in the gaming industry. There were multiple known or believed incidents, with two high profile attacks on Las Vegas-based resort companies, MGM Resorts and Caesars Entertainment. In MGM’s case, the company reported an expected \$100 million impact on its third-quarter results, according to the company’s 8K report at the time.<sup>3</sup>

Additionally, AI recently emerged as a top CISO priority, both as a security enabler and risk concern. As adoption of this emerging technology accelerates, it is prudent to understand the unique threats. Governance and technology controls should be implemented to minimize exposure.

Finally, for publicly traded companies, investors have become increasingly concerned about cyber risk, prompting the SEC to implement comprehensive new rules aimed at ensuring companies adhere to specific guidelines regarding the speed, reliability, and effectiveness of their cyber incident response plan. Private companies would be well advised to follow suit.



## Financial risk

### Increasing labor costs








As labor contracts get renewed periodically, the risk of conflict and potential strikes increases, which may result in increased staffing cost, along with regulatory and operational disruptions. In Las Vegas, for example, many casinos have renewed their culinary labor contracts with significant annual wage increases to reflect inflation and labor market dynamics. In addition, our channel checks indicate labor “equilibrium” (enough staff willing to work in hospitality) is just being reached three years after COVID-19, and it remains fragile.




































# 02 Online operators

# Online operators: Risk register

## Legend

-  Increasing risk
-  Reducing risk
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Strategic risks		Operational risks	
<ul style="list-style-type: none"> <li> Presence of illegal and unregulated gambling activities</li> <li> Anticipated market normalization</li> <li> Demographic shifts and changing consumer attributes</li> </ul>	<ul style="list-style-type: none"> <li> Cybersecurity risks</li> <li> Integration of emerging tech</li> <li> Risk of using third-party software and technology</li> </ul>		
<ul style="list-style-type: none"> <li> Buy vs. develop technology</li> <li> Competition from traditional and emerging peers</li> </ul>	<ul style="list-style-type: none"> <li> M&amp;A integration and separation</li> <li> Effectiveness of promotional campaigns</li> <li> Sports and games integrity issues</li> <li> Intellectual property risks</li> <li> Subdued consumer spending</li> <li> Perception on social media platforms</li> </ul>	<ul style="list-style-type: none"> <li> Focus on responsible gambling activities</li> <li> System stability</li> </ul>	<ul style="list-style-type: none"> <li> Fraudulent chargebacks</li> <li> Identity fraud</li> <li> Geolocation fraud</li> <li> Geopolitical uncertainty</li> <li> Seasonality of sports events</li> </ul>
	<ul style="list-style-type: none"> <li> High promotional expenses</li> <li> Complex international taxation landscape</li> </ul>	<ul style="list-style-type: none"> <li> Restricted credit market/availability of funds</li> <li> Share price fluctuations</li> <li> High tax rates</li> </ul>	<ul style="list-style-type: none"> <li> Sourcing tech talent from other countries</li> <li> Legalization in new states</li> <li> Concerns over college sports betting</li> <li> Compliance with federal regulations relevant to gaming</li> </ul>
<ul style="list-style-type: none"> <li> Foreign currency fluctuations</li> </ul>		<ul style="list-style-type: none"> <li> Consumer data privacy guidelines</li> <li> Compliance with diverse state gaming regulations</li> </ul>	
Financial risks		Compliance risks	

Sources: Company websites; Annual reports; Web articles; Secondary research; all accessed in Dec 2023

# Online operators: Key insights



## Strategic risk

### Sports and games integrity issues

Increasing proliferation of online gambling has also resulted in higher exposure of sports betting-related fraud and corruption. Consequently, scrutiny has increased on athletes, teams, leagues, operators... and ultimately the gaming industry as a whole.

Integrity issues (such as match fixing, fraud, corruption) may also influence customer trust, legal compliance, and the industry's reputation. While there has not been a singularly significant incident that has negatively impacted sentiment towards sports betting legalization, we have seen cases of athletes gambling against team or league policy as well as increased attention on abuse of athletes on social media. The relationship between sports media and online gambling will be an evolving area of focus as there have been recent cases where sports reporting and gambling promotion has blurred.



**So far, the US has largely been able to keep match-fixing out of its sports through regulations, technology, and harsh penalties. Maintaining that status quo in the new online sports betting landscape will be a much greater challenge.”<sup>4</sup>**

— Front Office Sports, April 2023



## Operational risks

### Focus on responsible gambling activities

Growing awareness about gambling addiction and problem gambling, especially among youth, has increased pressure on online gambling firms to adopt responsible gambling practices.

Approximately 33 percent of those aged 18 to 24 in a 2023 Rutgers University study were gambling in some form online, with nearly 19 percent at high risk for problem gambling.<sup>5</sup>

In 2022, a KPMG survey asked gamblers about the most common responsible gaming tools available through gaming operators and found that 65 percent have used at least one of them. However, several of those tools are underutilized and sometimes not familiar to customers.<sup>6</sup>

### Cybersecurity risks

Online enterprises face the same cybersecurity risks as land-based operators (as discussed on page 5)—and more. E-commerce transactions involve the transmission of an enormous amount of sensitive customer information. A digital presence significantly widens the attack surface aperture, and requires vigilance around penetration testing and red team exercises, as well as strong access controls and a robust security architecture. Additionally, while physical security controls can help to mitigate the impact of an impact for land-based operators, additional contingency and resilience planning needs to be done to limit the likelihood and impact of outages from cyberattacks.



**Early interventions and prevention strategies can enable people to continue to gamble in a sustainable way over time, if they choose. This should be at the core of any sustainable business and legislative model for gambling.”<sup>7</sup>**

— Dr. Sally Gainsbury

Gambling Treatment & Research Clinic  
at the University of Sydney

#### Sources

<sup>4</sup> Front Office Sports, Does the US Need to Worry About Match-Fixing, July 26, 2023

<sup>5</sup> Nower, L., Stanmyre, J.F. & Anthony, V. (2023). "The Prevalence of Online and Land-Based Gambling in New Jersey. Report to the New Jersey Division of Gaming Enforcement," New Brunswick, NJ.

<sup>6</sup> <https://kpmg.com/us/en/articles/2022/esg-scores-points-gaming-customers.html>

<sup>7</sup> GGB News, Assisting Customers to Gamble in a Sustainable Way is the Only Win-Win Solution, September 25, 2023





## Compliance risk

### Diverse state gaming regulations

Online sports betting and iGaming companies with operations in multiple states are confronted with a wide variety of regulations for online gambling. Complying with each jurisdiction is an ongoing challenge. Challenges can include:



#### Diverse regulatory frameworks:

Each state has its own set of regulations for online gambling, and the rules can vastly differ. That makes it difficult for operators to standardize their approach across all states. Operational complexity increases with the need to tailor compliance programs for each jurisdiction.



#### Licensing requirements:

Obtaining licenses in multiple states can be a lengthy and expensive process. Each jurisdiction typically has its own licensing criteria, fees, and renewal processes, creating additional administrative burdens for companies.



#### Compliance costs:

Ensuring compliance with different regulations in multiple states can result in high costs for businesses. This includes hiring legal and compliance experts, implementing and updating technology, employee training, and audits.



#### Taxation variances:

Tax rates and structures on online gambling can vary greatly among different states, requiring companies to navigate a complex landscape of reporting and payment obligations.



#### Advertising restrictions:

States may have different rules regarding advertising for online gambling and sports betting, including limits on marketing channels, targeting specific demographics, and messaging content. Compliance with these varying advertising regulations can be challenging and time-consuming.










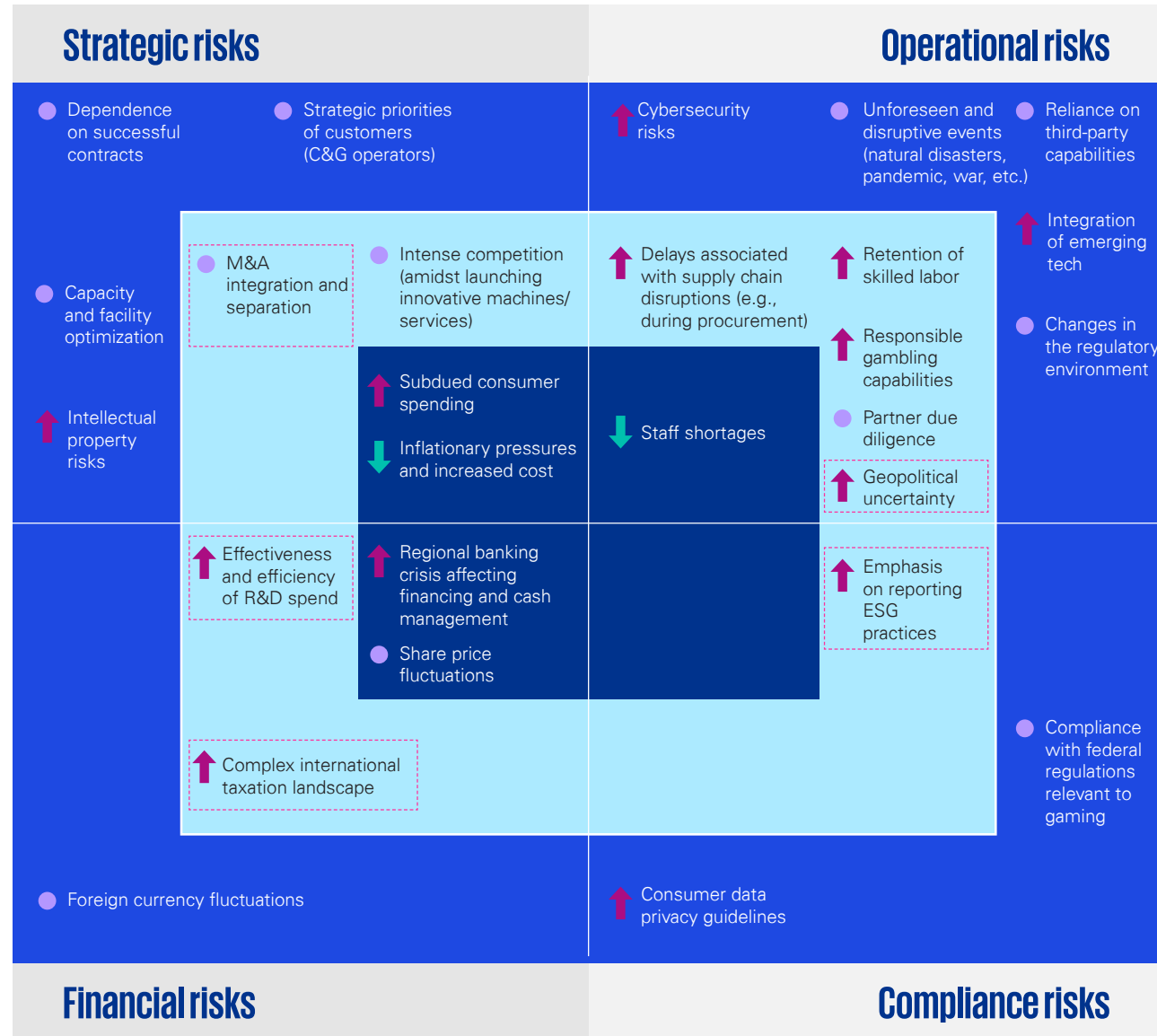


# 03 Suppliers

# Suppliers: Risk register

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# Suppliers: Key insights



## Strategic risk

### M&A integration and separation

The mergers-and-acquisitions (M&A) landscape for suppliers was primarily driven by a post-COVID-19 increase in the demand for sophisticated gaming equipment and solutions, especially by online operators.

Firms witnessed integration and separation issues, resulting from misalignment in strategic, financial, and cultural priorities as well as operational footprint and technological infrastructure. This was exacerbated by uncertainty in the global macroeconomic, regulatory, and geopolitical realms.

Managing M&A integration from a risk perspective means getting compliance and audit teams involved early to quickly assess and address any gaps.



## Financial risk

### Complex international taxation landscape

Changes in the global tax reforms are impacting compliance and risk management costs for multinational casino equipment manufacturers and solution providers. According to the 2023 KPMG Pillar Two Compliance Survey, 69 percent of organizations predict higher external audit costs and 57 percent anticipate their tax liability to increase from \$1 million to as much as \$49 million with the implementation of OECD's Base Erosion Profit Shifting (BEPS) Pillar Two framework 2024 onward.<sup>8</sup>

### Effectiveness and efficiency of R&D spend

Optimizing research and development is crucial for service providers to align offerings with the dynamic requirements of casino and gaming operators. Inefficient R&D spend may impact their financial performance by restricting competitive ability and the engagement pipeline. Suppliers may benefit from emerging technologies like GenAI to build efficiencies into R&D and more effectively deliver games and products that meet consumer demand. However, GenAI and other automation can also generate ethical and other risks that must be managed.



## Operational risks

### Geopolitical uncertainty

Casino and gaming suppliers are witnessing disruptions from the ongoing geopolitical instability and trade disputes. The unrest is likely to impact supply chain and employees in the affected regions. Companies should model various scenarios and develop business continuity plans as appropriate.



## Compliance risk

### Emphasis on reporting ESG practices

Growing emphasis on reporting environmental, social, and governance practices has increased pressure on suppliers to strengthen compliance and audit capabilities. This will help avoid fines, litigation, and reputational damage amid growing and evolving fiscal scrutiny. Operating internationally magnifies the amount and nature of reporting requirements.

About a third of customers, employees, and investors surveyed by KPMG last year are concerned with sustainable development and socioeconomic welfare. And the 2023 KPMG CEO survey found corporate leaders expressing more interest in using ESG as a differentiator, with 55 percent saying they plan to scale up ESG efforts.<sup>9</sup>

Sources

<sup>8</sup> <https://kpmg.com/us/en/articles/2024/chief-tax-officer-insights-october-2023.html>

<sup>9</sup> <https://kpmg.com/us/en/home/insights/2022/11/2022-issue4-article1.html>

# The bottom line

Land-based operators, online gaming companies, and industry suppliers face a myriad of risks in all aspects of their business. Some are unique to each subsector while others are shared risks. Areas of increasing risk and focus include evolving consumer expectations, cybersecurity, and regulatory compliance.

By understanding each challenge—whether related to strategic, operational, financial, or compliance areas of the business—companies have an opportunity to mitigate risks, explore new avenues for growth, and ultimately gain a competitive advantage. Our view is that a balanced approach is required to both increase revenue (generating new customers and increasing revenue from existing customers) and manage risk. To ensure a sustainable industry, gaming companies must ensure a sustainable customer through four key principles: Trust, enjoyment, value and protection. The risks companies face can derail their efforts in any or all of these areas.

The risks facing gaming companies may be scary, but they can be managed; and those that manage them well will create value for their customers, employees, and investors.



**“A ship is safe in harbor, but that’s not what ships are for.”**

**— John A. Shedd**



# About the authors



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**Rick** leads the US Gaming practice at KPMG and is the managing partner of the firm's Las Vegas office. His efforts build on an extensive career in gaming and public accounting, having served some of the world's largest gaming companies and leading various finance and operations teams at a global gaming company. His extensive knowledge includes corporate strategy, M&A, and development projects; industry-specific accounting; finance/ERP systems and related process improvements; and regulatory and compliance processes. Within the broad gaming landscape, his experience includes land-based operations, online gaming, sports betting, and product suppliers. He also has experience in the sports and entertainment industry.



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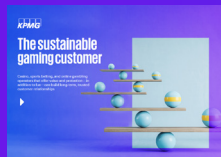
# How KPMG can help

KPMG professionals who serve the gaming industry combine their experience with specialists across the firm to help navigate the issues critical to industry success. In addition to core audit and tax services, we assist gaming companies in a wide array of areas, including customer experience, technology enablement, mergers and acquisitions, process improvement, internal audit, cybersecurity, and risk management and controls. We work across all sub-sectors within gaming: land-based operators, online operators, tribal, suppliers, lotteries, racing, and social gaming.

Looking beyond today, our team works with industry participants to help develop strategies for growth and leverage the data, analytics, automation, and artificial intelligence technologies that can transform companies. KPMG also works with companies around the world to support ESG goals and strategies for a sustainable future, including projects to help develop and implement responsible gaming programs and practices.

Visit [our portal](#) for the latest insights in the gaming space.

## Related insights



### The sustainable gaming customer

Customers represent gaming operators' most valuable assets. Based on our work with various stakeholders in the gaming ecosystem and several years of customer research, we believe operators can cultivate long-term customer relationships that lead to sustained business success by adopting four tenets: trust, enjoyment, value, and protection.



### ESG scores points with gaming customers

Insights from our latest survey can help online gambling platforms, land-based casinos, and others across the gaming ecosystem maximize their ESG strategies.



### G2E 2023 Recap

View our takeaways from the 2023 Global Gaming Expo.

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