

The Nigeria Gaming Industry

Introduction

A lot has changed within the Nigerian gaming landscape since the PwC April 2016 “The gaming industry in Nigeria” publication. The gaming industry has continued to expand, benefitting from; the large and youthful population, improving internet penetration, and the increasing access to internet-enabled devices. Sports betting has slowly emerged as a lucrative segment, leveraging Nigeria’s huge football culture. Some of the big leagues, such as the English Premier league, and the Spanish La Liga, have millions of fans in the country - betting provides Nigerians the opportunity to earn from what they love. Despite the temporary dip in economic activities in 2016, growth prospects are positive even as the economy rebounds, and income stabilizes.

In this publication, we focus on the future of gaming, highlighting the trends that are influencing change in the Nigerian gaming landscape. This is being driven by the dynamics of players, stricter regulations, improvements in internet accessibility, and the growing importance of consumer preferences. These highlight the need to innovate, create content and gaming experiences that will help companies gain competitive advantage.

Trends Driving Industry Change

A broadening customer base

An important aspect that has contributed to the rise in gaming industry has been the broadening of the customer base to include the young middle-class Nigerians, repealing the stereotype that the industry only succeeded in attracting the lower income earners. This trend has been supported by improved mobile penetration- Data from Nigerian Communications Commission (NCC), shows that mobile penetration increased from 36% to ~50% in the last three years, accorded to increased awareness through aggressive expansion and marketing by operators as well as technological improvements in payment platforms. To some extent, the need for additional income in the face of the recent economic recession which has left a number of youths unemployed and underemployed has provided a boost to the base of gaming users – in particular, sports betting and lotteries. As such, gaming has evolved since Nigerians are sport loving people and it has become easy to stake cash on what

they are passionate about. According to a 2015 publication on Football betting in Nigeria, most bets are placed in bet shops while an increasing number of customers are placing bets online. In addition, Business Monitor International (BMI) research forecasts 182 million mobile subscribers in 2021, from the current 153 million. The expectation is that as the number of internet subscribers increase, so will the number of gaming users.

Influx of foreign entrants

The gaming industry has started attracting foreign entrants, in particular, sports betting. According to public sources, gaming content providers like Gameloft, Intralot and Sirplay have partnered with local gaming companies to participate in the growing success of the gaming industry by providing technology services and support. For instance, NaijaBillionaire has partnered with international platform providers like Lightmaker lotto who offer payment solutions and Indus Net Technologies who develop and provide technical

support and digital content.

Winning through partnerships

Partnerships have become important in delivering a successful gaming experience. Telecommunication and payment companies are making gaming more accessible to mobile users. For example: in the lottery segment, the Premier Bet Lotto popularly known as “baba Ijebu”, has partnered with MTN, enabling consumers to access the lottery via short codes. Bet9ja has also recently formed a three year partnership worth NGN200 million with Nigerian National League to enhance the Nigerian League within the sports betting segment. Also, the National Sports lottery (NSL) Plc, the organiser and sponsor of Lotto Nigeria, recently deployed 30,000 i8550 POS terminals for E-payment lottery. The i8550 supports all forms of bank cards, enabling the purchase of lotto tickets through its secure terminals. In addition, betting companies are partnering with mobile payment platforms, to offer attractive bonuses on stakes, thus attracting more customers.

Increased regulation

On the state level, the Lagos State Lotteries Board (LSLB) has issued over 40 licenses to operators (LSLB, 2017). The board has started to implement measures to strengthen the regulatory framework through increased transparency. These measures include providing and updating their data which includes operators whose licenses have been suspended. Other states are also realizing the revenue potential of the gaming industry

and are taking a more aggressive role in regulating gaming activities. For instance the Edo State Internal Revenue Service (EIRS), which regulates the activities of all gaming operators in the state, has instructed all operators to update their licenses and offset any outstanding tax liabilities. The EIRS also plans to list operators with active licenses in the near future (EIRS, 2017), in a move designed to reduce illegal gaming activities in the state. At the Federal level, the National Lottery Regulatory Commission

(NLRC) has also issued licenses to operators in the industry. Currently, the overlap of regulatory functions between the state and the federal level is an issue, as operators are sometimes levied twice. This discourages entrants of new operators and future investments.

Future of the Gaming Industry in Nigeria

Mergers and Acquisitions

Nigeria's gaming industry is quite fragmented with many small players. As user behavior changes and spending needs increase, the industry could be forced to consolidate – a key trend across the global gaming industry. According to Digi-Capital, \$30.3 billion in gaming industry deals happened globally in 2016, including \$28.4 billion of mergers and acquisitions, a 77% increase from the previous year. This industry consolidation has been attributed to the growth in mobile and virtual reality. We expect to see consolidations as there are currently over 100 licenses issued by both the NLRC and LSLB.

Risk Management and Regulation

Gaming companies licensed in the European Union (EU) comply with the EU directives for the prevention of money-laundering using measures which include: preventative and detective controls or technology, confidentiality of customer information, making use of the watch lists containing known or suspected members of terrorist organisations, monitoring the gaming behavior of customers and limiting deposits. Over time, regulations in Nigeria would gradually evolve to become more stringent, incorporating rules to minimize money laundering crimes channeled through the gaming industry. Currently major wins by punters are reported to the Economic and Financial Crimes Commission (EFCC) by the operators.

Trade limit for players

As gaming continues to thrive amongst the youths and other interested parties, a key way operators can ensure addiction is managed is by enforcing age limits and initializing deposit limits for individual accounts. This means that there is a maximum amount of money that could be deposited in a punter's accounts daily, instituting

a sense of control for the punter. As gaming becomes part of the lifestyle of youths, addressing the perception of gaming through deposit limits would build an encouraging relationship between operators and punters'. Various betting platforms have enabled this option for punters' accounts to help control their money. This system is currently utilized by Skybet and Bet365, amongst others in the UK and across Europe.

Integrated Resort Casinos (IRC)

Casino gaming in Nigeria, although still in its infancy, is projected to bring in a total of \$49 million in revenue, and is expected to rise to \$62 million in 2018, due to attempts by the government to improve the ease of doing business in Nigeria, thereby attracting tourists into the country, according to PwC's Gaming report (2015-2019).

Research in the global gaming industry shows that the future of casinos, may be in the form of Integrated Resort Casinos. The millennial generation (born between the 1980s and early 2000s) has not warmed up to playing slots like previous generations. According to a study by the American Gaming Association, millennials consider shopping and hanging out to be a key part of their casino experience (PwC, 2016). This has led to a decline in Gross Gaming Revenue (GGR) that is expected to continue as the Post - Millennials, become a larger percentage of the casino consumer. To meet the needs of these emerging patrons, a more integrated offering is required.

Integrated resort casinos stand out from traditional casinos because they include several gaming operations with leisure or entertainment facilities such as shopping centers, theme parks and hotels. The popularity and interest in IRC's is growing, because they offer a variety of different

attractions, for different tastes, and at different times of the day, and are thus capable of providing "the experience", a recognized trend characterizing millennial and generation Z consumers. (PwC 2011).

Thus there is an opportunity for casinos to be integrated into lucrative tourist destinations and resorts in Nigeria.

Virtual Fantasy Sports Betting

Virtual fantasy sports betting will create a safer betting option for operators and gain more interest from the younger generations. This form of sports betting is as a result of real time data creating outcomes based on a computer algorithm in which consumers can place bets. Operators in Nigeria currently feature virtual games which allow Nigerians place bets both locally and internationally. This has proven effective, as during off-seasons in football leagues, customers could still place bets on virtual matches; which still feature their favorite teams and players. Surebet247, Nairabet and several other operators currently host this form of gaming on their websites, ensuring punters are still engaged through virtual sports betting during seasonal football breaks.

Technical support systems partnering with local operators

Giving the prospects of the Nigeria's gaming industry, there are opportunities for foreign technology companies and service providers to increase local presence through partnerships with Nigerian companies who can deliver different sections of the value chain. These services includes provision of gaming software, sports feeds, odds, virtual games, managed IT services etc. This will help to create more jobs and build more a skilled workforce, leading to sustainable growth of the gaming industry.

Challenges affecting the Nigerian gaming industry

Regulation

The overlap in the regulatory function between the Federal and state levels is a major challenge facing the industry in Nigeria. As such, an overhaul of the regulatory environment is required to enhance oversight and improve inconsistency in enforcement of license generations and payment of levies, development and revenue generation. At the state level, the necessary regulatory framework will need to be set up to properly regulate and govern the gaming industry for effective transparency of betting operations.

Taxation

There are a wide range of approaches taken by regulators and fiscal authorities across the globe to taxing gaming activities of operators. One major area of focus is the determination of what constitutes taxable profit (i.e. the tax base) and the applicable tax rate. In Nigeria, the interpretation of what constitutes net gaming revenue or the tax base remains unclear and largely inconsistent. This inadvertently has a direct impact on the applicability of taxes such as value added tax (VAT) and withholding tax (WHT) (charged by the Federal and State authorities) on winnings, payments made to foreign partners, etc. Global trends has shown that sports betting if clearly regulated, is a major sector for the generation of tax revenue by the government. This has however not been the case in Nigeria as the industry remains largely unregulated despite the existence of several Acts. As such, the issue of multiple taxation and licensing continues to plague local operators.

Cyber - Security

Providing a safe and secure gaming environment to players is vital to the continuous success of the Nigerian gaming industry. Security of online games/plays is a growing concern especially with the increasing use of electronic channels for gaming. Online Lottery and Sports Betting operators' process high volume of players' transactions and it is critical that these operators ensure that they keep players personal data secure and protected from cyberattacks.

Cyber criminals may compromise a platform by installing malicious software (malware) to gather information about players from within their account. This information could include cardholder data, login details, bank account details, betting history and other personal information. Also, a denial of service (DoS) attack could be carried out which could disrupt the performance of the gaming platform or even make it unavailable, leading to customer dissatisfaction, service downtime and loss of gaming revenue.

Foreign exchange issues

The recent foreign exchange crisis resulting in the weakening of the Nigerian naira has placed a severe strain on businesses in Nigeria. The software and hardware solutions for gaming, used by operators are mostly sourced from foreign providers and as such, operators tend to pay more than previously negotiated due to fluctuations in the currency.

Negative impact of gaming

Game of chance in Nigeria generally thrives through word-of mouth advertising and most punters in the country get involved in gaming through information from close relatives, peers and colleagues who have won high returns with little stakes placed on bets.

With the nature of the sport and the passion and energy generated, there is always a sense of addiction associated with this activity, and addiction is the primal force behind the stigma generally associated with gaming in Nigeria. With the thriving opportunity, the expansion in the gaming industry is deterred by strict religious beliefs in the country against the game of chance.

Ineffective management structures and poor corporate governance

Some operators within the gaming industry lack inadequate structures to support the model of the business. A number of the companies that make up the gaming space evolved from the old pool culture, and these businesses were managed with limited financial knowledge depending on the clientele base. Thus, significant losses arise as a result of failure in determining the odds accurately, expansion strategy, tax planning etc. Without good management structures or clearly defined strategies for the business, operators struggle to fulfil obligations, expand and attract foreign direct investment at the right price.

How PwC can support?

PwC is a brand that identifies with our client's requirements and business and seeks ways to provide the applicable business solutions. Being in a fast growth industry can bring its own inherent challenges. This is why any entrant into this sector will need a strong, dependable partner to hold hands with every step of the way. PwC guarantees the best assurance, tax and advisory services to investors in this field. Investors can count on first class consulting through all the stages a fast growth business will encounter.

Our business services can be tailored to meet your specific needs, allowing you to select services appropriate to your situation. Based on an in-depth understanding of the gaming industry across different countries of the world we can offer the following services that will add value to and exceed expectations of our clients;



Audit & Assurance Services

PwC has the knowledge and expertise necessary to help you with complex financial accounting issues related to matters such as valuations, pensions and share plans, listings, IFRS conversions, and corporate treasury and company secretarial functions. Our Risk assurance team is available to assist in developing secure payment platforms, and handling of customers sensitive data.



Advisory Services

PwC helps you attain increased performance by improving the efficiency and effectiveness of your company's key business operations, such as recruitments, mergers & acquisitions, effective management structure, strategy, finance and accounting etc.



Tax Services

PwC offers a range of tax services relevant to all stakeholders in the gaming industry, such as assisting the operators with tax planning, compliance, revenue negotiations and appeals, advising the regulators in appropriate tax schemes, and enforcement, etc. Our staff with accountancy, legal, or revenue training and experience, specialize in corporate and withholding tax, employee and personal tax, indirect tax (VAT and duties), or company secretarial and related corporate services

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