THE HIGH ROLLER POLICY: TO RINGFENCE OR NOT TO RINGFENCE?

In the wake of the decision by Affiliate Guard Dog (AGD) to classify the terms and conditions of PlayShare Partners (PSP) as *predatory*, it has become apparent that a full and transparent explanation of the policy is required. This is needed not only so that clarity on the policy's intricacies may be universally reached but, more importantly, so that the financial implications of each, seemingly minor, variation on the policy can be properly appreciated and understood.

The aim of this document is to highlight the effects a realistic range of scenarios can have on four primary models, particularly when it comes to the operator's bottom line. From this, PSP aims to successfully educate all of our affiliate partners as to exactly why this High Roller Policy has been implemented.

Past demonstrations of the policy, and other variants, have always been based on a single scenario, played out over a very short period of time. It would be fair to say that, based on these limited examples, it is not a difficult decision for an affiliate to adjudge the PSP policy as *unfair*. As already mentioned, this document will show a number of scenarios, extrapolated out over a longer period of time. This will give a far clearer picture of the impact this policy has on the business as a whole.

SCENARIOS
Three different scenarios have been utilized for this analysis, so as to give as complete a picture as possible. These scenarios are:

SCENARIO #1
- High Roller wins $50,000 in Month 1
- High Roller loses $10,000 per month thereafter
- All other players generate a combined $10,000 per month

SCENARIO #2
- High Roller wins $50,000 in Month 1
- High Roller loses $20,000 per month thereafter
- All other players generate a combined $10,000 per month

SCENARIO #3
- High Roller wins $50,000 in Month 1
- High Roller does not play again
- All other players generate a combined $10,000 per month

NOTE: For consistency's sake, the affiliate commission percentage across all examples is 30% of net revenue

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EARNINGS MODELS
Four different earnings models have been utilized in this analysis, so as to accurately compare the impacts they have across the scenarios simulated. The simulations of these earnings models across the scenarios are to be seen in Addendums 1, 2 and 3 at the end of this document.

MODEL #1: NO NEGATIVE CARRYOVER AND NO HIGH ROLLER POLICY
This is the model that was, and still is, the most commonly utilized amongst casino affiliate programs, certainly amongst those promoting Microgaming casinos. It is also clearly the most consistently expensive (and unfair) of all of the models used in this simulation. It may come as a surprise that the affiliate supposed to be earning 30% of the net revenue generated by their players is actually earning quite a lot more than that in each of the three scenarios.

Borne from a need to compete in an aggressive and saturated marketplace, in a time when legislation, both in the US and Europe, was not of great concern or significance, this model quickly became the accepted industry standard. As everyone knows, times have changed since those halcyon days, and maintaining both industry

competitiveness and a high product standard is becoming increasingly difficult. Over the years, many of the costs of running the business, such as transaction fees, marketing fees, and even legal fees, have become more and more expensive.

The truth is that PSP is NOT in financial crisis, but companies that do not assess their business operations on a regular basis are foolhardy. Based on what we see, particularly in the financial and automotive sectors of the global economy, it would be fair to say that companies which ignore the realities of the world around them will eventually succumb, and quite possibly fail altogether. In this vein, PSP and its casino clients have recognized that the (for example) 30% commission they are paying to affiliates is very rarely 30%.

Additionally, these inequalities can have significant knock-on effects that will be felt by operator, affiliate and player. If marketing spend is too high, it means that less can be spent on player retention programs and affiliate promotions. And the less spent on items such as those will result in a poorer product offering which, in turn, will result in a less competitive product. Ultimately, if things like this are not kept in check, online casinos and affiliate programs could find themselves out of business. A simple search on Google, or one of the many casino newsfeed sites, will show that a number of competitor operations have closed their doors recently, highlighting the need for more acute financial awareness.

MODEL #2: NEGATIVE CARRYOVER

In theory, the only earnings model that is perfectly true to the concept of revenue share is the Negative Carryover model, with a consistent 30% commission payout to the affiliate across all three scenarios. As an exercise in partnership in its purest form, this is clearly the best model. So why do we not consider this as a viable option?

Well, there is one primary reason: the precedent of a No Negative Carryover model was set years ago by pioneering affiliate programs as a marketing USP to acquire new affiliates. Affiliate programs entering the marketplace later on were forced to follow this trend so as to attain some level of competitiveness.

Additionally, as the industry has grown, successful affiliate programs with a genuine interest in longevity and mutually-profitable business relationships have also come to understand that affiliates will not consistently market their brands if they have little hope of receiving a paycheck. Money is certainly the strongest motivator!

It is for these reasons that the Negative Carryover model is not more popular than it is, even though it is clearly the best representative of the revenue share model as we know it, the most accurate proponent of the “win-win” concept that affiliates bandy about so much, and the model much of the rest of the affiliate marketing world operate on.

MODEL #3: PSP HIGH ROLLER POLICY

In this high roller model, as you by now already know, the high roller’s negative revenue is combined with the affiliates’ positive revenue from other players to form a reduced negative carryover against the big winner. So when someone wins $50,000 in a single month, and all other players lose a cumulative $10,000 in the same period, only -$40,000 is carried over for the big winner. Note that progressive jackpot wins are NOT contributory, so will not trigger the policy.

In all but one of the scenarios, this policy gives a true 30% revenue share, proving that it is not unfair to both affiliate and operator alike. In the last scenario, the affiliate does earn 150% of the net revenue generated over the sample period. This is on par with the No Negative Carryover model’s payout percentage and, most importantly, less than the “Ringfenced” High Roller Policy’s payout percentage.

MODEL #4: “RINGFENCED” HIGH ROLLER POLICY

This high roller model ringfences, or separates, the high roller’s negative revenue from the positive revenue generated by the affiliate’s other players in the month of the big win. So when a player wins $50,000 in a single month, and all other players lose a cumulative $10,000 in the same period, the affiliate gets paid commission on the $10,000, and the full -$50,000 is carried over for the big winner.

As with the PSP High Roller Policy model, this model also gives a true 30% revenue share in all but one of the scenarios. But, crucially, this policy pays out an inordinately high commission percentage in the situation where that big winner withdraws their winnings and does not play at the casino ever again. Whilst this is certainly not very commonplace, it does happen, and so we need to be cognisant of the effects that an occurrence such as this can have on the business.

SCENARIOS

Three different scenarios have been utilized for this analysis, so as to give as complete a picture as possible. These scenarios are:

SCENARIO #1

- High Roller wins $50,000 in Month 1
- High Roller loses $10,000 per month thereafter
- All other players generate a combined $10,000 per month

SCENARIO #2

- High Roller wins $50,000 in Month 1
- High Roller loses $20,000 per month thereafter
- All other players generate a combined $10,000 per month

SCENARIO #3

- High Roller wins $50,000 in Month 1
- High Roller does not play again
- All other players generate a combined $10,000 per month

NOTE: For consistency's sake, the affiliate commission percentage across all examples is 30% of net revenue

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SUMMARY & ANALYSIS

Below is an overall comparative look at the commissions paid out to the affiliate over this 6-month period, as a percentage of the actual net revenue generated by their players:

	SCENARIO #1	SCENARIO #2	SCENARIO #3
NO NEGATIVE CARRYOVER AND NO HIGH ROLLER POLICY	**50.00%**	**40.91%**	**150.00%**
NEGATIVE CARRYOVER	**30.00%**	**30.00%**	**30.00%**
PSP HIGH ROLLER POLICY	**30.00%**	**30.00%**	**150.00%**
"RINGFENCED" HIGH ROLLER POLICY	**30.00%**	**30.00%**	**180.00%**

As has been highlighted before, the Negative Carryover model is the only true revenue share model, giving a consistent 30% commission to affiliates across all scenarios. On the other hand, the commonly used No Negative Carryover model proves to be the most consistently unfair, paying out more than the agreed upon 30% commission to affiliates in every single one of the scenarios played out in this analysis.

For reasons already outlined, we will not dedicate much attention to these, as it is clear that neither of these is a viable option at this stage. Instead, we need to focus on the two high roller policies presented, in order to adjudicate which is the fairest compromise between affiliate and operator.

PSP HIGH ROLLER POLICY v "RINGFENCED" HIGH ROLLER POLICY

From the simulated scenarios presented, it is clear that the two different high roller policies have, by and large, the same effect. Assuming that the big winner will lose all of their winnings back to the casino over a period of a few months, both policies will result in the affiliate earning a true 30% commission on the total net revenue generated by their players. The obvious difference between the two policies in these situations is, as we are all

well aware, the presence of commission in the month in which the big win takes place, although this is balanced out later along the timescale.

Where the PSP High Roller Policy stands out as the best compromise between operator profitability and affiliate income-generation is highlighted in Scenario #3. The ringfenced policy would theoretically earn the affiliate a whopping 180% of the net revenue generated by their players! Whilst the PSP policy would still pay out an inflated 150% commission, it is clearly a fairer compromise. The affiliate is still earning more than 30% commission, but the operator has, at least, limited its losses through implementation of the policy. With this in mind, I find it very difficult to believe that the ringfenced policy can be deemed to be fairer than the PSP policy.

MITIGATING FACTORS

There are a number of mitigating factors which, I believe, negate the decision by AGD to mark the PSP terms and conditions as *predatory*. The decision appears to have been made by affiliates for affiliates, and with seemingly very little understanding or care for the industry as a whole.

1. Our High Roller Policy was implemented in February 2008. If the policy was so biased and prohibitive, why then has it taken more than a year for the affiliate community to speak up about it? The vast majority of PSP affiliates that have been affected by the High Roller Policy in the past have accepted the policy for what it is, which is a clear indication that it is not unfair.

2. Further to this, AGD was aware of this policy days after its implementation, and posted details of it on the GPWA forum. This thread can be viewed at:

   http://www.gpwa.org/forum/playshare-affiliates-adds-high-roller-clause-terms-174445.html

   Of the handful of people that did contribute to this thread, including AGD themselves, not one deemed the policy to be unfair or unjustified. Below are some of the relevant quotes taken from the thread:

> Interesting. I certainly can't say I like it, but there is a very simple strategy for breaking the house if there is an affiliate involved if they don't have a rule like this, so I can understand it.

> Dont forget that most high rollers tend to win one month and play back the next (after that negative is zeroed). I just worry about abuses... But I'm with you Michael - I dont think this is unfair.

> Naturally we hate to see any changes that aren't in our favor, so that sort of sucks.
>
> At the same time, we have to be fair, and think in terms of fairness for the casinos too.
>
> This change isn't awful, but will no doubt reduce affiliate payouts because that's what it is intended to do.
>
> At the same time, I never thought it was particularly fair to the casinos when a player deposited 100 bucks, and was say,.....100.00 up on the casino on the last day of the month and then won 20k.

And, the most compelling comment of all:

> Regardless, this term is not predatory, but not favorable.

3. There seems to be a lack of clarity surrounding what marks a program's terms and conditions as predatory on AGD. To my knowledge, nothing of this nature has been published, leaving these important factors largely to the imagination. Without a detailed and specific definition it is very difficult to compare apples with apples.

4. Only 13.08% of AGD's active members (as of 10h05 GMT+2 on August 6, 2009) voted the term as unacceptable. The poll results simply are not indicative of the affiliate community as a whole, or even the AGD community for that matter.

5. Our terms have always contained the clause stating that "*PlayShare Partners reserves the right to amend, alter, delete or add to any of the provisions of this Agreement, at any time and at its sole discretion, without advance notice to you*". Although comments about this statement's validity have been made on

various forums recently, we have never received a complaint or query about it. Nevertheless, we will be happy to commit to informing affiliates of any future changes to the terms and conditions via e-mail and the PSP website.

CONCLUSION

PSP fully supports the High Roller Policy it implemented in the first quarter of 2008, and is of the belief that it (a) was a necessary amendment given the current state of the market, and that it is also (b) not unfair towards the affiliate. The policy was implemented to help sustain and grow both our clients' and our affiliates' businesses.

We are also of the conviction that PSP has always operated with a focus on integrity. It is unfortunate, then, that we feel as though we are being punished by the AGD for being honest and transparent.

ADDENDUM 1: STEADY RETURNS (SCENARIO #1)

In this scenario, the High Roller wins big in Month 1, and then plays it back into the casino at a steady rate of $10,000 per month.

No Neg. Carryover

No HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Actual NR	-$40 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Affiliate Commission	$0.00	$6 000.00	$6 000.00	$6 000.00	$6 000.00	$6 000.00

Total Affiliate Commission	**$30 000.00**
Total Actual Net Revenue	**$60 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**50.00%**

Neg. Carryover	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$0.00	$0.00	$20 000.00	$20 000.00	$20 000.00
Actual NR	-$40 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Carryover	-$40 000.00	-$20 000.00	$0.00	$0.00	$0.00	$0.00
Affiliate Commission	$0.00	$0.00	$0.00	$6 000.00	$6 000.00	$6 000.00

Total Affiliate Commission	**$18 000.00**
Total Actual Net Revenue	**$60 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

PSP HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$20 000.00
Actual NR	-$40 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
High Roller Carryover	-$40 000.00	-$30 000.00	-$20 000.00	-$10 000.00	$0.00	$0.00
Affiliate Commission	$0.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$6 000.00

Total Affiliate Commission	**$18 000.00**
Total Actual Net Revenue	**$60 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

Ringfenced HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Actual NR	-$40 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
High Roller Carryover	-$50 000.00	-$40 000.00	-$30 000.00	-$20 000.00	-$10 000.00	$0.00
Affiliate Commission	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00

Total Affiliate Commission	**$18 000.00**
Total Actual Net Revenue	**$60 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

ADDENDUM 2: BIG PUNTER (SCENARIO #2)

In this scenario, the High Roller is a true VIP, playing winnings back quickly and then losing over and above the initial win amount.

No Neg. Carryover

No HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00
Actual NR	-$40 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00
Affiliate Commission	$0.00	$9 000.00	$9 000.00	$9 000.00	$9 000.00	$9 000.00

Total Affiliate Commission	**$45 000.00**
Total Actual Net Revenue	**$110 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**40.91%**

Neg. Carryover	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$0.00	$20 000.00	$30 000.00	$30 000.00	$30 000.00
Actual NR	-$40 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00
Carryover	-$40 000.00	-$10 000.00	$0.00	$0.00	$0.00	$0.00
Affiliate Commission	$0.00	$0.00	$6 000.00	$9 000.00	$9 000.00	$9 000.00

Total Affiliate Commission	**$33 000.00**
Total Actual Net Revenue	**$110 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

PSP HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$10 000.00	$10 000.00	$30 000.00	$30 000.00	$30 000.00
Actual NR	-$40 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00
High Roller Carryover	-$40 000.00	-$20 000.00	$0.00	$0.00	$0.00	$0.00
Affiliate Commission	$0.00	$3 000.00	$3 000.00	$9 000.00	$9 000.00	$9 000.00

Total Affiliate Commission	**$33 000.00**
Total Actual Net Revenue	**$110 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

Ringfenced HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00	$20 000.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$10 000.00	$10 000.00	$10 000.00	$20 000.00	$30 000.00	$30 000.00
Actual NR	-$40 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00	$30 000.00
High Roller Carryover	-$50 000.00	-$30 000.00	-$10 000.00	$0.00	$0.00	$0.00
Affiliate Commission	$3 000.00	$3 000.00	$3 000.00	$6 000.00	$9 000.00	$9 000.00

Total Affiliate Commission	**$33 000.00**
Total Actual Net Revenue	**$110 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

ADDENDUM 3: ONE HIT WONDER (SCENARIO #3)

In this scenario, the High Roller's winnings are immediately cashed out, and the High Roller never returns to the casino again.

No Neg. Carryover

No HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$0.00	$0.00	$0.00	$0.00	$0.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Actual NR	-$40 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Affiliate Commission	$0.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00

Total Affiliate Commission	**$15 000.00**
Total Actual Net Revenue	**$10 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**150.00%**

Neg. Carryover	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$0.00	$0.00	$0.00	$0.00	$0.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$0.00	$0.00	$0.00	$0.00	$10 000.00
Actual NR	-$40 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Carryover	-$40 000.00	-$30 000.00	-$20 000.00	-$10 000.00	$0.00	$0.00
Affiliate Commission	$0.00	$0.00	$0.00	$0.00	$0.00	$3 000.00

Total Affiliate Commission	**$3 000.00**
Total Actual Net Revenue	**$10 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**30.00%**

PSP HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$0.00	$0.00	$0.00	$0.00	$0.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$0.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Actual NR	-$40 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
High Roller Carryover	-$40 000.00	-$40 000.00	-$40 000.00	-$40 000.00	-$40 000.00	-$40 000.00
Affiliate Commission	$0.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00

Total Affiliate Commission	**$15 000.00**
Total Actual Net Revenue	**$10 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**150.00%**

Ringfenced HR Policy	Month 1	Month 2	Month 3	Month 4	Month 5	Month 6
High Roller NR	-$50 000.00	$0.00	$0.00	$0.00	$0.00	$0.00
Rest of Players NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Commissionable NR	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
Actual NR	-$40 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00	$10 000.00
High Roller Carryover	-$50 000.00	-$50 000.00	-$50 000.00	-$50 000.00	-$50 000.00	-$50 000.00
Affiliate Commission	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00	$3 000.00

Total Affiliate Commission	**$18 000.00**
Total Actual Net Revenue	**$10 000.00**
Affiliate Commission as a percentage of Total Actual Net Revenue	**180.00%**