



Crown Melbourne
Agenda Item 4.1: Strategic Risk Update
May 2019

Executive Summary

Since the last report in February 2019, a number of internal and external events have materialised which have impacted the overall risk profile of the organisation, and particularly its material risk exposures.

The key events that have taken place over the period include:

- The disclosure of confidential discussions with Wynn Resorts Limited regarding a potential change of control transaction following approaches by Wynn to Crown which were subsequently terminated by Wynn.
- Local economic conditions continue to be challenging, particularly in WA, with certain indicators continuing to show a downward trend.
- The proposed new Enterprise Agreement (**EA**) to replace the Crown Melbourne Limited (**CML**) Table Games and Cage Area Managers EA 2015 is still being negotiated although the parties have progressed towards settling the terms of the new EA. Although no steps have been taken at this stage to take industrial action, the risk remains heightened that this strategy will be utilised by unions during upcoming negotiations.
- The main CML United Voice EA 2016 and the CML Property Services and Technicians EA 2015 nominally expire on 1/7/19 and 30/6/19 respectively.
- The VCGLR fined Crown \$25,000 for failing to notify the VCGLR, in accordance with Internal Controls, of the registration of a new junket operator.
- The Victorian Commission for Gambling and Liquor Regulation (**VCGLR**) has concluded its investigation into allegations raised by Mr Andrew Wilkie MP in April 2018 regarding plastic picks being used on continuous play machines and multiple loyalty cards issued to patrons with respect of Crown Melbourne. The VCGLR found that there was no case to answer with regard to multiple cards. The VCGLR determined that the picks were unapproved gaming equipment and that their published Rules for Crown permitting the use of a device for the depressing and holding down of a gaming machine button should not be considered approval of Crown's device for the depressing of a gaming machine button. Although they consider Crown to be in breach of the requirement to have gaming equipment approved, they will not be taking disciplinary action. As a result Crown was issued with a Direction prohibiting the use of "button picks or like items (being any item or device designed to hold down or continuously depress an electronic gaming machine button)" at Crown.
- No further update has been received regarding the VCGLR's investigation into an electronic gaming machine which the VCGLR alleges was operating in 'Unrestricted Mode', without Your Play functionality activated.
- As part of its China investigation, the VCGLR made a further request for information which Crown responded to on 5 December 2018. The VCGLR has not yet finalised its report and will provide a copy of the draft report to Crown for comment prior to settling it. The final report will be sent to the Minister for Gaming.



- The Crown Resorts Board has endorsed an adjusted operating model for our VIP operations in Singapore and Malaysia with additional controls incorporated to manage any risk. This new adjusted model will now have staff living in Singapore and Malaysia as opposed to being based out of Hong Kong. Additional overseas jurisdictions are now being considered for an adjusted operating model.
- Provisions for international gaming bad debts remain relatively consistent with the last reporting period.
- Change to the Corporate Risk Profile: as discussed at the last meeting, the 'Responsible business model' risk has been split in two: 'Ineffective responsible service of gaming' and 'Failure in responsible service of alcohol'.
- To capture other elements of 'Responsible business model' (including ABC and human rights), risk '19 – Unsustainable environmental management' has been expanded to include other ethical matters: '19 - Unsustainable environmental management and ethical standards'.
- The wording of Risk 14 – 'Major brand damage' has been adjusted to capture feedback from members of the Crown Resorts Risk Management Committee, and updated to '14 – Major reputational damage'.

Below is a table summarising trends for each material risk.

Please note 'material' risks are those that have either a 'red'/critical rating, or the 'orange'/high risks that are one rating away from being critical. The Risk Map on page 4 shows a representation of where these material risks are situated.

MATERIAL RISKS	CURRENT TREND
1. Material Breaches of Gaming and other Relevant Legislation/ Regulations	<i>Unchanged</i>
2. Legislative / Regulatory Changes	<i>Unchanged</i>
3. Act of Terrorism on Property	<i>Unchanged</i>
4. Volatility of Premium Gaming	<i>Unchanged</i>
5. Poor credit or investment decision	<i>Unchanged</i>
14. Major Reputational Damage	<i>Unchanged</i>
21. Data Misuse	<i>Unchanged</i>
22. Breakdown in relationships with key government, legislative or regulatory bodies	<i>Unchanged</i>

Crown Melbourne Corporate Risk Map –May 2019

		<i>Material Risks</i>				
Likelihood	Almost certain					
	Likely		16- Harm to persons on property		14 - Major reputational damage	
	Possible		9 - Loss of key management 15 - Poor people management practices	6 - External disruption to demand for our services 7 - Physical Business Disruption 8 - IT business disruption 11 - Litigation 12 - Major criminal activities 13 - Ineffective responsible service of gaming (RSG) 18 - Industrial action 23 - Failure in responsible service of alcohol (RSA)	1 - Material breach of gaming and other relevant legislation /regulation 2 - Changes in key legislation or regulatory requirements 5 - Poor credit or investment decision 21 - Data misuse 22- Breakdown in relationship with key government, legislative or regulatory body	3 - Act of terrorism on Crown property 4 - Volatility of gaming revenue
	Unlikely		17 - Breakdown in strategic partnership with third party 19 - Unsustainable environmental management and ethical standards	10 - Reduction in property standards		
	Rare					20 - Aviation accident
		Insignificant	Minor	Moderate	Major	Severe
Consequence						

Legend:

Critical Risk	Oversight by the RMC/Board
High Risk	Managed by CEO and relevant EGMs
Moderate Risk	Managed by BOT members
Low Risk	Managed as part of BAU

1. MATERIAL BREACHES OF GAMING AND OTHER RELEVANT LEGISLATION/REGULATIONS

Systemic and / or material breaches of legislative and other relevant regulatory requirements, adversely impacting Crown Melbourne's reputation and performance via the imposition of financial and non – financial penalties, including potential operating licence implications prosecution and arrest / detention of employees and contractors.

CROWN MELBOURNE

EGM Continuous Play

TREND: **Unchanged** 

The VCGLR served Crown Melbourne with a Notice to answer questions and provide data concerning EGM C8308, which the VCGLR allege was operating in 'Unrestricted Mode', without Your Play functionality activated. There has been no further development since the previous report.

POTENTIAL IMPACT TO CROWN:

It is possible that the VCGLR may take disciplinary action against Crown under s 62AB.

CURRENT ACTION PLAN:

As a result of this issue, a range of audits and reviews of similar machines were undertaken and enhanced checking processes have been implemented.

Junket Operator Notification

TREND: **NEW** 

In 2017 a new Junket Operator (Adelin SUJADI) commenced operation at Crown Melbourne, however, the VCGLR was not notified of the junket prior to gaming activity taking place. Mr Sujadi was approved at Crown Perth, however was mistakenly recorded as approved at both properties and therefore commenced in Melbourne prior to the notification being provided.

POTENTIAL IMPACT TO CROWN:

The VCGLR wrote to Crown on 7 May 2019, notifying that it was taking disciplinary action due to Crown's failure to notify it of a new Junket Operator, in the form of a \$25,000 fine.

CURRENT ACTION PLAN:

Processes and system changes have been put in place to mitigate an opportunity for the same form of human error to recur.

2. CHANGES IN KEY LEGISLATION OR REGULATORY REQUIREMENTS

Changes to legislation, regulation or Government policy covering the conduct of, and access to, gaming in any jurisdiction in which Crown operates, have the potential to adversely impact the performance of Crown's affiliate businesses and the value of licences granted.

CROWN MELBOURNE

Anti-Money Laundering / Counter-Terrorism Financing (AML / CTF) Statutory Review

TREND: **Unchanged** 

No further development since the February 2019 report.

Black Economy Taskforce - \$10,000 cash transaction limit

TREND: **Unchanged** 

No further development since the February 2019 report.

Section 25 Licence and Operator Review

TREND: **Unchanged** 

Crown is working with the VCGLR to address each of the 20 recommendations. A range of recommendations have deadlines on 30 June 2019.

POTENTIAL IMPACT TO CROWN:

Reputational damage and media coverage of any new issues arising from the resolution of the matters.

CURRENT ACTION PLAN:

Crown is working through the recommendations internally and engaging with the VCGLR on the progress of the recommendations.

Environmental Tobacco Smoke (ETS)TREND: **Unchanged** 

In June 2018, Crown Melbourne announced to employees working in smoking areas, plans for the implementation of the new health monitoring program to be introduced during FY19.

The program was successfully launched.

POTENTIAL IMPACT TO CROWN:

Changes to operating procedures, changes in rostering and costs to the business.

CURRENT ACTION PLAN:

Crown to monitor implementation and outcomes.

3. ACT OF TERRORISM ON CROWN PROPERTY

The calculated use of violence (or the threat of violence) against employees and / or customers in order to attain goals of a political, religious or ideological nature.

CROWN MELBOURNETREND: **Unchanged** 

In Melbourne, Victoria Police Executive Command has advised that the PSO proposal for Crown Melbourne has been raised with the Police Minister by the Chief Commissioner of Police as part of a broader proposal for PSO's and currently rests with her for consideration and decision.

There has been no further development since the last report.

4. VOLATILITY OF GAMING REVENUE

Sustained unfavourable variations from theoretical win rates applicable to the gaming business (local and international). Whilst short term fluctuations are expected to occur, due to 'luck', reporting of theoretical over actual has normalised results over time. Sustained deviations, particularly negative, challenges the financial reporting model and the ongoing performance of the business.

AUSTRALIAN BUSINESSES**Premium Gaming Volumes**TREND: **Unchanged** 

Overall turnover is lower than the same period last year. Turnover in other jurisdiction has also been impacted. Macau saw an 8.3% gross gaming revenue drop in April, with three months of decline over the past 4 months. Vegas saw a 3.25% decline in the first quarter of 2019.

Year on year variations in turnover volumes and win rates are recorded as follows:

CROWN MELBOURNE	June 2017	December 2017	June 2018	December 2018	April 2019
YTD International and Interstate Turnover (\$b)	25.2	19.5	43.8	15.4	27.3 (Budget 34.5)
Win Rate (%)	1.59	1.21	1.29	0.99	1.34 (Budget 1.40)

POTENTIAL IMPACT TO CROWN:

Increased deviation between theoretical and actual win rates has the potential to impact overall business performance. Turnover for Melbourne is 21% under budget (or \$7.2b), and win rate is currently 4% below budget, making an overall \$11.7M negative impact YTD.

The win rate for Melbourne has materially improved since the last report, and the overall negative trend has flattened.

CURRENT ACTION PLAN:

An external review of the theoretical calculation model was completed, and confirmed the reasonableness of both the assumptions and the model itself.

Management is to continue to monitor trends, and action as appropriate.

5. POOR CREDIT OR INVESTMENT DECISIONS

Crown is exposed to the risk of default by customers across its affiliate businesses, resulting in financial loss.

CROWN MELBOURNE

TREND: **Unchanged** 

Due to the early adoption of AASB 9 *Financial Instruments* effective 1 July 2016, and current business conditions (including difficulties in banking in certain Asian territories), debt provisioning has increased at both Crown Melbourne and Crown Perth. As a response to these conditions, both Crown Melbourne and Crown Perth have suspended the extension of credit to Chinese domiciled players with credit granted to remaining players on a selected basis only.

The debt positions over the past 24 months for Crown Melbourne and Crown Perth are tabled below:

CROWN MELBOURNE	31 Dec 16 \$m	30 Jun 17 \$m	31 Dec 17 \$m	30 Jun 18 \$m	31 Dec 18 \$m	30 Apr 19 \$m
Gross debtors balance (net of safekeeping)	280.1	293.0	319.9	272.8	264.8	283.1
Provision for doubtful debts	(165.2)	(171.6)	(183.1)	(202.0)	(215.0)	(214.2)
Provision as a % of gaming debtors	59.0%	58.6%	57.2%	74.0%	81.1%	75.7%
Net debtors balance	114.9	121.4	136.8	70.7	49.8	68.9

POTENTIAL IMPACT TO CROWN

Over the past 16 months, the overall gross debtor balance has decreased by 12% and the provision for doubtful debt has increased by 17% (or \$31.1M), reducing the net debtor balance by over 50% (or \$67.9M). It has remained consistent over FY19 to date. Current level of provisioning was reviewed by E&Y at half year.

CURRENT ACTION PLAN

The appetite for credit risk has materially decreased across the Australian Businesses, and measures have been taken to reduce high exposure areas. Challenges with regards to processing of overseas transactions remain an issue.

14. MAJOR REPUTATIONAL DAMAGE

Negative publicity / image of Crown and/or its affiliate businesses which may adversely impact Crown's reputation and/or performance and potentially jeopardise gaming licences, including:

- *inappropriate associations*
- *inappropriate conduct*
- *breach of confidentiality*
- *adverse media attention*

LEGALLY PRIVILEGED - April and May 2018 Allegations by Mr Andrew Wilkie MP

TREND: **Reduced** 

Andrew Wilkie MP raised allegations as to the appropriateness of Crown Melbourne issued plastic picks being provided to patrons to hold EGM buttons down for continuous play and multiple loyalty cards issued to patrons. The matter has been concluded and the VCGLR determined that there is no matter to answer regarding multiple cards. They did however conclude that picks are unapproved gaming equipment. The VCGLR approved definition of Gaming Equipment includes '*Gaming Equipment does not include Equipment ancillary to the conduct of gaming that has no impact on the outcome of a game and does not require Victorian Commission for Gambling and Liquor Regulation approval.*' The VCGLR also published Rules for Crown which approved the use of a device for the holding down of a gaming machine button, however, the VCGLR say that this did not approve them for use at Crown. The VCGLR will not be taking disciplinary action against Crown, but served Crown with a Direction prohibiting the use of "button picks or like items (being any item or device designed to hold down or continuously depress an electronic gaming machine button)" at Crown.

POTENTIAL IMPACT TO CROWN:

Crown is obliged to approach patrons observed using picks (issued by Crown or other casinos) and request that they cease to use them.

CURRENT ACTION PLAN:

Crown Melbourne had ceased issuing picks to patrons some months prior to Mr Wilkie raising the allegations and the VCGLR undertaking its investigation. Crown is fully cooperating with the VCGLR's Direction.

21. DATA MISUSE

Sensitive information may be leaked or sold to external parties adversely impacting Crown's reputation. In the case of sensitive customer information visitation may be affected, adversely impacting Crown's performance.

Loss of confidential customer or commercially sensitive data is a growing risk as the online businesses expand and the use of 3rd parties and data volume increases.

Unauthorised and inappropriate disclosure of sensitive information can result in adverse reputational, financial and regulatory implications.

CROWN MELBOURNE

TREND: *Unchanged* 

On 26 April, a Crown staff member sent confidential information (including personal information of Crown patrons and former employees) to their personal email address. This was detected by Crown's email monitoring software and IT Governance subsequently met with the employee and witnessed the deletion of the information from their personal email account.

This matter was referred to Crown's Privacy Manager pursuant to Crown's Data Breach Response Procedure and the Privacy Manager concluded that no notification of the incident was required under the *Privacy Act*.

POTENTIAL IMPACT TO CROWN

Unauthorised and inappropriate disclosure of sensitive information can result in adverse reputational, financial and regulatory implications.

CURRENT ACTION PLAN

Continue to develop and implement monitoring and Data Loss Prevention program. Continue education and training program and monitor performance.

22. BREAKDOWN IN RELATIONSHIPS WITH KEY GOVERNMENT, LEGISLATIVE OR REGULATORY BODIES

Crown operates in many jurisdictions, and has to engage with a large number of government, legislative and regulatory bodies. A breakdown in these relationships could lead to targeted reviews, investigations, or actions by these bodies that could materially affect Crown's operations and reputation.

CROWN MELBOURNE

TREND: *Unchanged* 

Crown Melbourne's key government, legislative and regulatory bodies include the VCGLR, VRGF, AUSTRAC, ATO, and Law Enforcement agencies.

Crown's workstream with the VCGLR is considerable taking into account the recommendations from the s25 Review and other matters that the VCGLR is formalising which is a shift in how such matters have historically been dealt with which is presenting some challenges internally. Crown continues to focus on engagement with the VCGLR in a positive manner. Crown also remains in close contact with its other key stakeholders to continue to develop and enhance those relationships.

OTHER MATTERS

As discussed at the last meeting, please find below a table providing a current description of all of the 23 risks in the Crown Melbourne Risk profile:

Risk No.	Risk Title	Risk Definition
1	Material Breach of Gaming and Other Relevant Legislation / Regulations	Systemic and / or material breaches of legislative and other relevant regulatory requirements, adversely impacting Crown Melbourne's reputation and performance via the imposition of financial and non – financial penalties, including potential operating licence implications prosecution and arrest / detention of employees and contractors.
2	Changes in key legislative or regulatory requirements	Changes to legislation, regulations or Federal / State Government policy covering Crown Melbourne's operations including the conduct of, and access to, gaming, have the potential to adversely impact performance.
3	Act of Terrorism on Crown property	The calculated use of violence (or the threat of violence) against employees and / or customers in order to attain goals of a political, religious or ideological nature.
4	Volatility of gaming revenue	Sustained unfavourable variations from theoretical win rates applicable to the gaming business (local and international). Whilst short term fluctuations are expected to occur, due to 'luck', reporting of theoretical over actual has normalised results over time. Sustained deviations, particularly negative, challenges the financial reporting model and the ongoing performance of the business.
5	Poor credit or investment decisions	Crown is exposed to the risk of default by customers across its affiliate businesses, resulting in financial loss.
6	External disruption to demand for our services	External factors to Crown impacting business volumes or margins, including: international competition, domestic competition, economic conditions, foreign political polies or global event, acts of terrorism outside Crown property, pandemic.
7	Physical business disruption	Business being disrupted because of physical threat or damage to Crown property, including: loss of utilities, isolated fire, flood or water damage, widespread infectious disease, unauthorised access, security removals, anti-social behaviour, or car park incidents.
8	IT Business disruption	<ul style="list-style-type: none"> · Major performance, financial and / or reputational damage from cyber security incident · Failure of IT hardware / software (e.g. primary computer room, gaming machines short circuit, switchboard failure, loss of CCTV) resulting in significant disruption.
9	Loss of Key Management	The loss of management in business critical roles impacts on the ability for Crown to meet performance objectives.
10	Reduction in Property Standards	<p>The risk that facilities are not available for customers at the required and expected standard, across all areas of the Complex, due to:</p> <ul style="list-style-type: none"> - ageing infrastructure - lack of availability of capital for refurbishments - inadequate cleaning standards - inadequate ancillary areas eg. parking facilities, <p>This may impact on Crown's premium brand, the ability for Crown to effectively compete, and ultimately financial returns.</p>
11	Litigation	<p>The risk that legal action is taken against Crown by employees, customers, regulators and other third parties.</p> <p>This may result in significant financial penalties and reputation damage.</p>

12	Major criminal activities	<p>The risk that a major criminal act or activities occur at Crown, involving either patrons, employees or both, such as:</p> <ul style="list-style-type: none"> - major fraud (employee, patron and/or collusion); - loan sharking; - organised crime; - money laundering; - violet act (active shooter) - not related to terrorism; - gaming scams. <p>These activities could result in injury to people, financial loss and reputation damage. Ultimately, such activities (if widespread) could impact on Crown's probity and suitability to hold casino and liquor licences.</p>
13	Ineffective responsible service of gaming (RSG)	<p>The risk that Crown does not provide its business activities to its customers in a responsible manner, resulting in patron harm and ultimately, potentially impacting the suitability of Crown to continue to hold its casino</p>
14	Major reputational damage	<p>The risk of major reputational damage caused by an incident relating to, for example:</p> <ul style="list-style-type: none"> - Crown's inappropriate conduct (perceived or actual) - Inappropriate conduct on Crown's premises - Crown's association with disreputable third parties - Crown's perceived conflicts of interest in major transactions or supplier arrangements - Publication of Crown's customer or other sensitive business data - Inappropriate social media posts - Social media complaints go viral - Irresponsible or inappropriate marketing activities <p>This could ultimately result in reduced customer visitation (and hence revenue), or increased regulator scrutiny over Crown's suitability to continue to hold gaming/liquor licences.</p>
15	Poor people management practices (capacity and capability)	<p>The risk that Crown is unable to establish and maintain a safe and appropriate staffing base to effectively and efficiently operate, resulting in low morale, high turnover and the inability to achieve business objectives.</p>
16	Negligent harm to persons on property	<p>The risk that employees, contractors, customers and other third parties are harmed (injury or death), whilst on Crown property, as a result of:</p> <ul style="list-style-type: none"> - unsafe work practices - unsafe work environments - unsafe "front of house" environments for customers or other visitors - poor maintenance and cleaning practices throughout the property - poor safety culture - poor food safety and hygiene practices
17	Breakdown in strategic partnership with third parties	<p>The risk that third parties with whom Crown engages, do not fulfil their obligations to the required standard, impacting on the ability for Crown to continue to operate effectively or exposes Crown to integrity issues and reputation damage.</p> <p>This could be the result of poor selection and engagement practices, and poor ongoing management of the third party relationships.</p> <p>Examples include:</p> <ul style="list-style-type: none"> - Vendors supplying goods and services which are not fit for purpose, to a low standard, compromising compliance requirements and customer service - Continuity of supply issues for critical items such as playing cards - inappropriate practices of vendors/consultants/intermediaries representing Crown, such as bribery - Inability to source equipment / new products suitable for Crown's business - Unsuccessful tenancies resulting in loss of valuable tenants - Tenants do not comply with Crown's requirements, resulting in a breach of tenancy agreements and potential exposing Crown to various legal risks

18	Industrial Action	The risk that industrial action is taken by employees, impacting on customer service and/or the ability to continue operations in the short term. It could also result in adverse media. This could be caused by poor relationships between Crown and the various unions; disgruntled employees; or in response to specific incidents.
19	Unsustainable environmental management and ethical standards	The risk that Crown does not appropriately or effectively manage its impact on the environment, resulting in an environmental incident, non compliance with Environmental laws and regulations, and/or reputation damage. (for example, a sewage, diesel or toxic substance spillage.) It also includes consideration for sustainable business practices in the matters of human rights and integrity.
20	Aviation accident	The risk that an accident occurs involving either a Crown owned jet or a Crown chartered jet, resulting in death or significant injury, reputation damage and litigation. Crown currently owns and operates 3 jets and 1 helicopter.
21	Data misuse	Accidental or intentional leak of patron or other business sensitive data to individuals or organisations who should not have access and who may use this information maliciously. This may ultimately result in a breach of the Privacy Act, and/or significant reputation damage.
22	Breakdown in relationships with key government, legislative or regulatory bodies	Crown operates in many jurisdictions, and has to engage with a large number of government, legislative and regulatory bodies. A breakdown in these relationships could lead to targeted reviews, investigations, or actions by these bodies that could materially affect Crown's operations and reputation.
23	Failure in responsible service of alcohol (RSA)	The risk that Crown does not deliver its business activities to its customers in a responsible manner, resulting in patron harm and ultimately, potentially impacting the suitability of Crown to continue to hold its liquor licences.