

Esports Insights

During the first quarter of 2020, the rapid and far-reaching spread of the COVID-19 pandemic has brought unprecedented economic and societal impacts. Governments around the world have imposed social distancing measures, essential to slowing the spread of the disease, that have forced many organizations to close their operations and/ or rethink how they do business.

Among the many hard-hit areas is the world of sport, where cancellations and postponements have taken hold across the board, from football and baseball leagues to the Olympic Games to major tennis and golf tournaments and more. As these traditional sports have stalled, many are turning to esports, for both involvement and enjoyment.

As such, the already fast-growing esports industry is set to expand even further and more rapidly. With expansion, however, comes a significant increase in risk exposures, including some of the same pandemic risks faced in other sectors. Despite esports' unique niche, the industry needs to ensure it adopts and continuously adapts comprehensive risk management strategies.

Esport Growth

On October 19, 1972, Stanford University students gathered at the school's Artificial Intelligence Laboratory to compete in the first-ever Intergalactic Spacewar Olympics. The grand prize, won by a graduate student, was a year's subscription to *Rolling Stone* magazine.

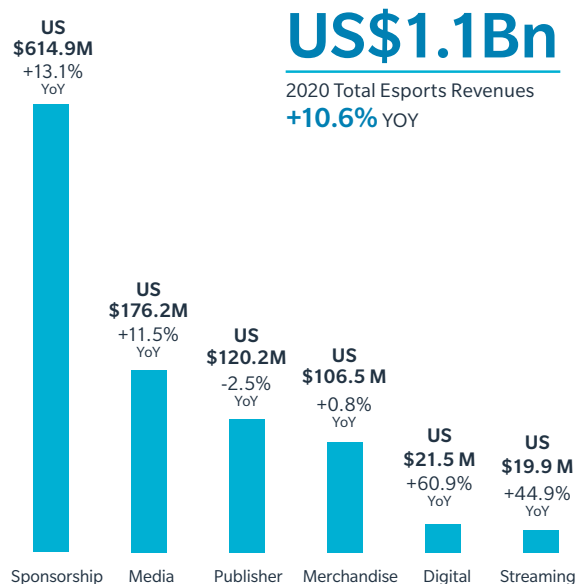
Cut to today: In 2019, a single player earned more than US\$3 million, according to industry media reports.

Esports is projected to top US\$1 billion in revenue in 2020, although COVID-19's ultimate impact remains to be seen. The majority of revenues generally come from sponsorships, followed by media rights, advertising, merchandise and ticket sales, and game publisher fees (see Figure 1).

FIGURE 1
1 Sponsorships top the list of esports revenue streams.

SOURCE: NEWZOO 2020 GLOBAL ESPORTS MARKET REPORT APRIL 2020 UPDATE

2020 Esports Revenue Streams — Global
Including Year-on-Year Growth



Newzoo's esports revenue figures exclude revenues from betting, fantasy leagues, and similar cash-payout concepts, as well as revenues generated within games.

Despite its exponential growth and several initiatives taken to recognize it as a full-fledged sport, esports is sometimes misunderstood, often mistaken with “gaming” or the mere act of playing a video game. However, the ever-expanding esports audience is expected to approach 500 million viewers during 2020 (see Figure 2). Esports enthusiasts — defined as those who watch esports on a regular basis — make up a significant portion of this audience.

Esports Ecosystem

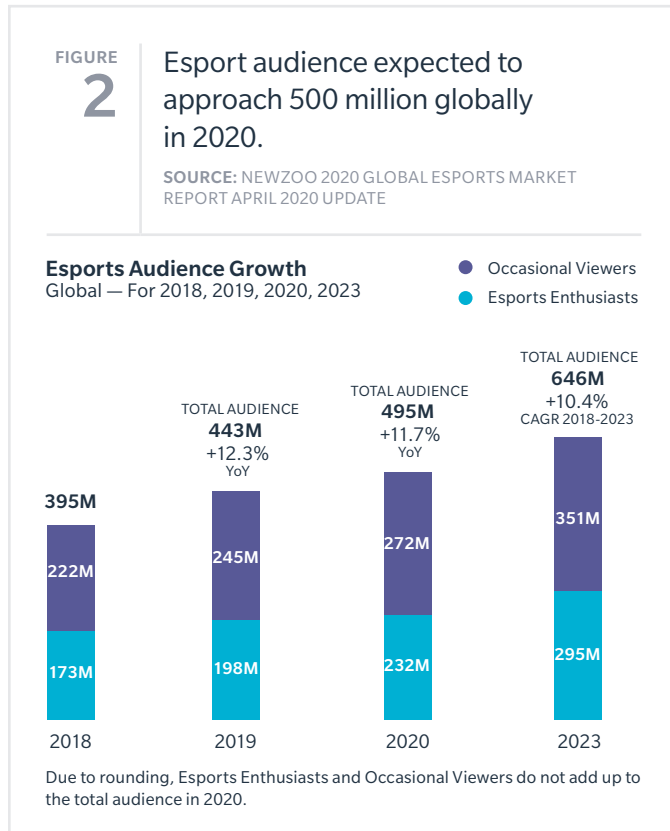
In recent years, esports is widely seen as a strong growth industry, one poised to join the ranks of the major sports and entertainment segments. Esport’s reach is becoming ever more global, with many initiatives implemented to attract players, fans, sponsors, and investors from around the world (see Figure 3).

The major stakeholders in the Esports ecosystem include:

Games Publishers/Developers: These companies own the intellectual property (IP) on the games, master its variables, control competitions, and, often, provide part or all of the prize money. Each publisher can choose the way it handles competitions, either staging them internally or delegating the organization of competitions to an event organizer. Publishers have provided increasingly high prize-money for tournament participants. The combined amount of prize monies reached an estimated US\$373 million in 2019, which is three times the combined prize money of all ATP tournaments in a given year.

Teams/Franchises: Most teams in the professional esports arena have evolved from an amateur status. Teams attract interest from investors thanks to their sport and entertainment business model (all teams comprise active streamers). Teams generate revenue from partnerships, sponsorship deals, licensing, and a portion of tournament prize money.

Investors: As with traditional sports structures, esports teams attract the interest of investors, which has accelerated over the past five years. Teams are thus able to raise substantial capital, create a training infrastructure, and attract premier players.



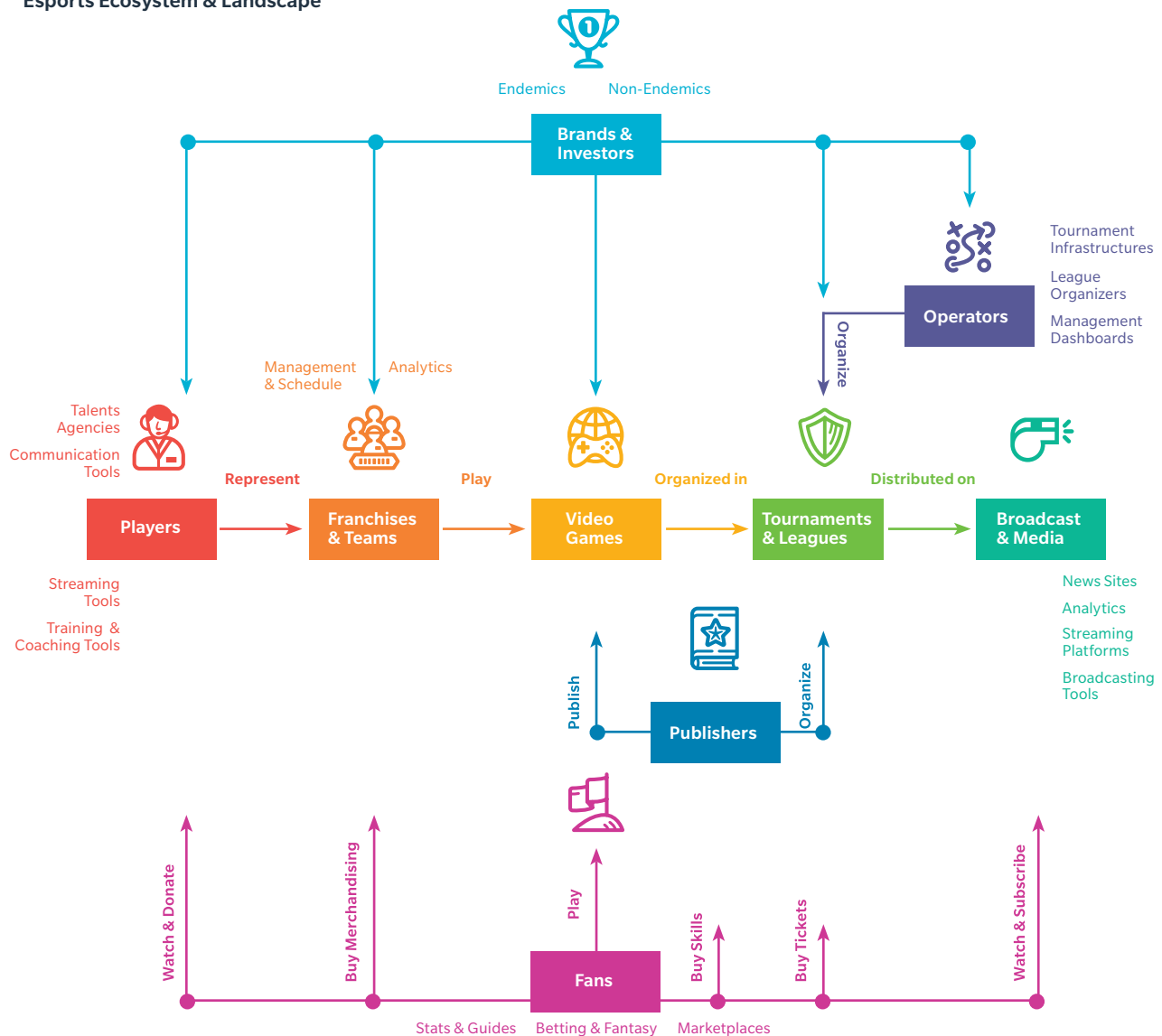
Distributors: These entities have secured distribution rights and offer access to various titles through multi-games distribution platforms. These distributors often team up with streamers, whose influence helps direct their followers to one game over another.

Sponsors: There are two categories of sponsors. Endemic sponsors are those involved in the provision of goods or services linked to esports, for example computer hardware. Non-endemic sponsors include those brands that have no direct involvement in esports.

Tournament/Event Organizers: A few major companies organize the bulk of the most important and prestigious offline (LAN) tournaments. A number of other companies and agencies organize smaller, tournaments.

FIGURE 3 Esports landscape brings together a variety of stakeholders.
SOURCE: NICOLAS BESOMBES - MARCH 2019

Esports Ecosystem & Landscape



Esports Risks

As the popularity of esports increases, so does the potential size and variety of risks faced by those in the industry.

Large events bring greater exposure

As with the staging of any sporting or entertainment event with a sizable audience, esports events are subject to a range of risks, including the risk of bodily injury to spectators, property damage, active shooters, terrorism, and cyber hacking, which could affect both the integrity of the games and the broadcast/streaming signal. Given the ongoing COVID-19 outbreak, the risk of pandemic is a major disruptor to this industry.

It is critical for the organizers of these mega-events to undertake strategic risk assessments as an integral part of their overall planning effort. Such assessments should include the following:

- Evaluation of the geopolitical status of the event location.
- An analysis of the critical infrastructure required to support the event.
- A security assessment inclusive of all relevant stakeholders.
- Monitoring of any impending viral or environmental outbreaks.

- Development of comprehensive business continuity and organizational resiliency plans.
- Crowd modeling and situational awareness training, including tabletop and simulation exercises.
- Review of financial risk transfer instruments including specialty insurance covers.
- A comprehensive cyber risk assessment.

At Marsh, we have the expertise to help organizations assess potential risk exposures, outline resiliency plans and implement strong risk management strategies.



Health risks to esports athletes

With the multi-million dollar prizes up for grabs at the major championships and mega-events, the stakes for esports athletes and their sponsors are high. And like their counterparts in other sports, esports athletes face potential health issues, including:

- Muscular disorder.
- Carpal tunnel syndrome.
- Tendinitis.
- Neck and lower back pain.
- Vision impairment (blue light syndrome).
- Sleep pattern disruption (insomnia).
- Lung collapse.
- Drug use.
- Burnout.

It's critical to develop a safety programs to address these issues. Such programs, training, implementation and monitoring can be designed for the esports industry in a digital manner. Innovative and yet unobtrusive methodologies must be developed to address these issues.

Brand and Reputation Damage

Esports brands develop partnerships and sponsors resulting in increased brand value. Interconnectivity and social media ensure fast and far-reaching publicity for any untoward actions of participating athletes and other stakeholders. Such a scenario may result in the loss of sponsors or loss of tournament license resulting in a potentially significant reduction in brand value. Esports organizations should develop guidelines, standards and a monitoring methodology to minimize this loss exposure.

Esports Governance

For the Esports industry as a whole, it is increasingly important to develop sports governance and best practice standards. As a relatively new industry, external strategic consulting expertise can help empower new governance entities such as global and regional Esports federations to assist in the pursuit of this objective.



MAJOR ESPORTS EVENTS

The League of Legends World Championship operates in a similar fashion to football's FIFA World Cup and takes place in one or sometimes two countries, hosted in different cities at varying stages of competition. This tournament attracts close to 100 million viewers worldwide in addition to a significant live viewing audience.

IEM Katowice is a tournament organized in Katowice, Poland and is regarded by some as the world's premier esports gathering. A recent edition of the event attracted over 170,000 spectators and had a significant positive economic impact on the region's economy. It takes place over an entire week and features tournament competition on three of the top esports titles.

The International was created in 2011 to be the culmination of the "Dota Circuit." This event has been leading in the level of prize money, of which a significant portion is raised through crowdfunding. It holds the record for prize money for a single event, over US\$34 million.





THE ESPORTS LANGUAGE/ DO YOU SPEAK ESPORT?

The competitive gaming arena requires knowledge, including the acronym-heavy language regularly used among gamers. Some of the most common terms include:

- **BR:** Battle Royale is a game genre played simultaneously by tens or hundreds of players blending fighting, survival, and last man standing.
- **(To) Buff:** To increase the power of a character or a weapon/accessory.
- **FPS:** First-person shooter is a game genre where the player experiences the action through the perspective of the protagonist.
- **F2P:** Free to play games are those where downloads and basic playing is free.
- **GG:** Good game.
- **Gamer:** Video game player.
- **GLHF:** “Good luck have fun” is a commonly used greeting among gamers before a competition.
- **IEM:** Intel Extreme Masters are tournaments on various games organised by the Electronic Sports League and sponsored by Intel.
- **LAN (or Offline):** Tournaments played on a local area network, where all participants are physically present.
- **LoL:** League of Legends is one of the longest lasting games.
- **META:** Most efficient tactic available.
- **MOBA:** In a multiplayer online battle arena, each player controls a single character in the game.
- **(To) Nerf:** To reduce a character or weapon’s powers.

Safety policies needed for youth at esports academies

Activities that involve residential or prolonged stays of children/teenagers within facilities — whether related to sports or other activities — have seen many claims of harassment and abuse by adult supervisors. Esports stakeholders that work with children should develop policies and strategies to ensure the safety of youth participants. For example, guidelines from the US Center for SafeSport set a baseline for the prevention of such risks. Training, documentation, reporting, and continued monitoring of policies and procedures must be strictly adhered to protect those who are the most vulnerable.

Conclusion

In the current environment, here in the Spring of 2020, it is likely that the social distancing and stay-at-home orders brought about by COVID-19 will increase interest in esports. But the pandemic may also create or exacerbate numerous risks, from cancellation or postponement of large events to potential decreases in financing as stakeholders re-evaluate their economic situation.

As the esports business grows, the industry would be well served to adopt a strategic approach to risk management, much as the top players strategize their approach to gaming. Whether it is protecting venues from physical damage or ensuring that brand and reputations are protected, esports risk professionals face many of the same challenges as those in other industries. Added to that, they have their own unique concerns, from the damage a cyber-attack could have on their technology heavy platforms to protecting the health of their players.



For further information, please contact your local Marsh office, visit our website at marsh.com or contact our experts below:

THOMAS GUESDE
Global Sports and Events Practice
thomas.guesde@marsh.com

WARREN HARPER
Global Sports and Events Practice Leader
warren.h.harper@marsh.com

Marsh is one of the Marsh & McLennan Companies, together with Guy Carpenter, Mercer, and Oliver Wyman.

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