

The Warehouse

WANTED: Pricing Actuary

Competitive Pay

Located in Las Vegas, NV

In retrospect, Jakob probably should have questioned why a casino would advertise for an actuarial role in such a nondescript fashion. After all, casino games all have fixed odds, and always in the house's favor. Even if they were developing new games in-house, it doesn't take someone with years of exam-writing experience to calculate how often a little ball will end up on red. Nevertheless, he was desperate - quitting a comfortable job in New York and moving to the middle of the desert is the sort of mid-life crisis that actuaries aren't typical to make, and he was feeling the financial hardship such a decision came with.

He met his interviewer, Jerry, in the main lobby, but he wasn't the stereotypical casino executive Jakob had expected. Clashing with his own black suit and tie, Jerry sported ripped jeans, a faded concert tee underneath an oversized blazer, complete with worn-out sneakers. While initially skeptical of his appearance, he felt more reassured when Jerry led him past an *Employee's Only* sign and into an office hidden behind the casino floor. After all, his only experience with casino executives had been in movies - in his first forty-nine years he had only stepped foot in a casino once in his life, and you don't generally talk to upper management when you're feeding five-dollar bills into the penny slots.

As Jakob took his seat in the office, Jerry picked up a pitcher of water on his desk and poured himself a glass. "Ya thirsty? I'd give ya beer but you gotta be sittin' at a table for that."

Jakob laughed politely and reached into his briefcase for one of the resume copies he had brought along. "No thanks, Jerry, though I will have to try out that suggestion before I leave. Never been much of a gambler, but when in Rome, right? I did bring along a copy of my resume, in case you-"

Jerry waved his hand in front of Jakob as he took his own seat. "Nah, nah. I don't need ta see that again. There's only one kinda paper I care about here, and it ain't the one you're holding. Ha!" Jerry laughed heartily at his second joke of the day, forcing Jakob to continue with his own charade of chuckles.

"I understand sir, I guess that's why I'm here, too!" Jakob responded quickly, which he immediately regretted. Stating finances as a motivator for employment is never a recommended interview strategy, no matter how easy-going your interviewer appears.

Jerry eyed him closely and, after a short pause, smiled. "Ain't that the truth. For all of us. Look Jakob, I'm gunna be straight-up withya here 'cause you seem like a straight-up kinda guy. No beatin' around the bush. Y'understand?" His voice was calm but pointed, a stark contrast from the belly-aching laugh Jakob had just witnessed.

Jakob nodded, slowly returning the meticulously crafted resume back into its dark home, the sudden change in attitude catching him off guard. Jerry was far from the most professional individual Jakob had met, and the dim-lit office had a much different feel than the high-rises he was used to. The uneasiness he had felt when he first saw Jerry in the lobby was coming back, now driven by the sudden realization of how secluded the two of them were. There was no secretary typing away outside, no windows in the office overlooking the rest of the strip, and no noticeable security cameras blinking incessantly from the ceiling. Even the usually loud voices of the casino floor were suddenly distant and muddled. He had no reason to feel unsafe, but intuition had always been an asset in his career.

Jerry began to pace around the office, maintaining his quiet but forceful voice.

“My ol’ man was an actuary. Great guy. The kinda guy you wanna bring home to your ma. That’s how I know about ya. Actuaries, I mean. And you got the fancy letters after ya name, so I know you’re legit.”

You probably don’t even know what those “fancy letters” stand for, Jakob wanted to reply, but smartly bit his tongue. A blow to his self-esteem was better than ending the interview, even if Jakob wasn’t sure if he wanted the job anymore.

“And we’re pals, right Jakob? You’d neva repeat what ima ‘bout to say to ya, would ya?”

Jakob’s mind began spinning. *Pals.* Not a choice of words usually associated among colleagues. It became clear that this was not a typical interview, and Jerry was not a typical interviewer. What had he agreed to? What was going on? Was he on some new prank show that was trying to scare the nation’s unemployed?

Jerry moved closer to Jakob’s seat, eyeing him carefully. Jerry the Interviewer in the office with the candlestick, Jakob thought, chuckling to himself a little too loudly.

“Is somethin’ funny to ya?” Jerry replied shortly. Either Jerry was a brilliant actor for the reality show Jakob prayed he was on, or he had to be very careful going forward. He chose to play it safe.

“No sir, I’m sorry. I laugh when I get nervous, and I could really use this job.” Despite the uncomfortable situation he was in, Jakob was always quick on his feet. He was greeted with another long pause from Jerry, as if deciding how to would respond. After what seemed like two minutes, Jerry broke the silence.

“Good. Good, I like a man who wants ta work. So here’s the deal. We need a numbers guy to run some numbers. Seems simple, right? We have some big playas that like a big game, but nothin’ the Gaming Commish needs ta know about. Now if that makes ya uneasy, you can see ya self out, no hard feelin’s.” Jerry paused, never taking his eyes off Jakob. Jakob, who immediately forgot how to walk, didn’t budge.

“Okay then. We run a little operation in the basement. Games that the regs wouldn’t approve of. And I’ll be honest, things have been a bit stale. We need someone ta put a fresh spin on things. Think you up for the task?”

Jakob was suddenly very curious, and he was smart enough to know there's only one way to ensure secrets aren't spread. He also had nothing to lose; no job, no family, and very little savings. If the Society of Actuaries ever found out about his role in illegal gambling, that would probably be the least of his worries. Just like in a poker game where you know you're about to lose but can't avoid calling, he sighed and said: "Count me in."

When Jakob first stepped foot in The Warehouse, he was reminded more of an upscale sports lounge than a casino. Aside from a small handful of roulette wheels and blackjack tables, there were hardly any table games to be seen. Also unlike the casino upstairs, where tourists were instantly overcome with a mirage of blinking lights and sirens erupting from the maze of slot machines, The Warehouse had none. A series of private booths, each with individual flat screen televisions and privacy curtains, lined each wall. In the middle of the room was a large round bar with additional seating taking up most of the remaining floor space. Aside from the bar itself, every seat in the house was hidden from view of any other.

The day he started, Jakob wasn't required to complete any HR training sessions, but Jerry did give him a quick history lesson. The Warehouse was founded in the early 1950's when the U.S. federal government first imposed a 10% tax on sports betting. Management found that the easiest way to keep their high-rolling clientele happy was to bring the betting underground. Even though the tax was reduced in 1974, The Warehouse was here to stay. A smaller tax was, after all, still a tax. Since then, The Warehouse has stayed true to its sports-betting roots. Their typical book had the same odds on the same games as upstairs, but without any tax. To liven things up, sports injury odds were added to the already illegal sportsbook in the 1980s. Given the high volatility of those events, odds were typically placed over the course of a season. Tony Romo sustaining a season-ending injury at the hands of a division rival? 10:1. Nolan Ryan getting added to the Disabled List? 2:1.

With the rise of the internet and the dark net not far behind, in the late 1990s The Warehouse was able to start taking bets from out-of-state and out-of-country clients. It was rumored college football coaches would place bets against their competition, enticing their players with a portion of the payout should they help to realize the injuries. Jerry admitted that The Warehouse helped to protect the identities of their bettors, an expensive but necessary step in running the business. Out of all the underground sportsbooks running in the U.S., The Warehouse was the only one that offered this exclusive service.

Jakob was later introduced to Susan Barr, the only other actuary employed by The Warehouse. She was responsible for ensuring the reserves were sufficient for all open bets, and subsequently closing any odds where the betting behaviour could put significant strain on the reserves. She told Jakob The Warehouse had been self-sustaining since the 1970s, reiterating numerous times it was necessary to keep it that way. Even though the casino upstairs had a hand in running things underground, any cash transfers to cover losses from the main casino to The Warehouse could be audited and may expose the business. There was talk a few years ago about creating a shell company to act as an intermediary on

the books, but the risk of getting caught was deemed too high. "Keep the games small, and we don't go to jail," she instructed him on his first day. He immediately ignored her advice.

"One of the first steps in developing a new product is to understand your target market." This was advice Jakob had first read while preparing for his actuarial exams, and it had served him well throughout his career. He noticed that The Warehouse mainly attracted two different types of customers: high-rolling sports bettors who were quite used to tax evasion practices, and members of various organized crime groups who enjoyed the atmosphere the lounge offered. Over the years The Warehouse was established as a neutral ground for rival gang members, and everyone respectfully kept their differences to the streets. Since the only entrance to The Warehouse was directly through the main casino floor, the risk of patrons carrying illicit weapons or drugs underground was minimal. There were always a few security guards on duty, but in the sixty-plus years of its existence, they were seldom required.

To help brainstorm ideas, Jakob decided to conduct some market research. Early into his first month on the job, he set up shop at the lounge bar to watch the Sunday night football game. About five minutes into the second quarter a heavy-set man sat on the stool next to him, waving down the bartender. "Whiskey, neat. Make it a double." After ordering, he turned his attention to Jakob.

"Are you the new guy? Jerry says he got a new guy."

"Uh, yeah, that's me I guess. New-ish. I'm Jakob, and yourself?" Still mentally in the business world, Jakob reached out his hand, which was promptly ignored by his new guest.

"Rule number one, never use your real name around here. Shouldn't matter, but sometimes it does. You can call me Leth. I'll call you Steve. Nice to meet you, Steve."

The bartender returned with Leth's drink, which he immediately put in front of Jakob.

"Here, this is for you. I'm three years sober, can't stand the stuff. Welcome to the team."

"Thanks, Leth." A little surprised, Jakob grabbed the glass and took a sip. Whiskey wasn't his drink of choice, but Leth didn't ask for his preference. He found himself being introduced to new co-workers everyday, and an impromptu late-night meeting wasn't out of the ordinary in Las Vegas.

"Rule number two. Never trust anyone you meet down here. You see the guy who dropped off that drink? That wasn't the bartender. I met you thirty seconds ago, and you already trust me enough to drink what I put in front of you. That'll get you killed." Taken by surprise, Jakob slowly put the drink back down on the bar. He glanced around frantically for the bartender but saw no one behind the counter. As he started to stand up, Leth forced him back onto his stool.

"The drink's fine, don't worry. And you can trust me, but you shouldn't. Consider this a free lesson, before it matters." Leth pulled out a cigarette, lit it, and took a drag. "You want one, Steve?"

Jakob shook his head.

“Good, you’re learning. These things will kill you, but you probably already know that. Anyway, I need to talk to you – I got an idea. See, I’m from a cartel operating out of San Francisco. I don’t run the place, but I’m not scrubbing the floors, either. A few of us like to come here some weekends to kill some time. Place a few bets, have a few drinks, hang out and relax before heading back for work. We’re not the only ones though, and despite the holy neutral ground we’re on, the last few months some other interested parties have been explicit that they don’t like seeing us around here. We know the rules, they know the rules, but no one’s your friend on the streets. We don’t plan to stop coming here, and we don’t take too kindly to threats.”

Jakob was beginning to realize this was a business meeting, just not the kind he was used to. No slideshow presentations, no stuttering intern asking irrelevant questions in a hopeless bid to impress. It was just two men, a glass of whiskey, and straight to the point. How very old-school Hollywood, he thought. Still, the whole encounter was confusing.

“Why are you telling me this, Leth? Jerry said my job is to set new morally-questionable bets, that’s all. You want odds on if someone will die climbing Mount Everest next year? I might be able to help. I don’t know what you’re getting at.”

Leth took a drag of his cigarette and shook his head. “I’m not telling you how to do your job, just like you wouldn’t tell me how to do mine. I’m just offering a suggestion. These guys, they threaten us, but we know how to defend ourselves. And if we’re going to defend ourselves anyway, might as well make some money on the side too, if you’re catching on.”

“I don’t think I am, Leth.” Jacob replied, still confused. “The Warehouse operates as a sportsbook. A morbid one, sure, but still just a sportsbook. What does this have to do with your gang problems?”

“Cartel.”

“Sorry. *Cartel* problems.”

“Look Steve, you can keep this place full of people betting on broken legs and Tommy John surgery contestants if you want, no one would blame you for that. But if you really want to make a splash, hear me out. If I come back here tomorrow, and you know damn well I’m going to come back here tomorrow, then I have those goons to look forward to once I leave. I’ve seen my fair share of turf wars, and there’s no way I’m going to let them put a bullet in my head just because I like to enjoy a drink or two in this bar.”

Leth paused, waiting for Jakob to connect to dots. When he only stared blankly back, he continued.

“Now if you go and ask them, they’ll spout some crap about being the ‘local boys’ or whatever else they think is relevant, and that they’ll do whatever it takes to defend their territory. They’ll say there’s zero chance I’d survive the night if they wanted me gone. Well, one of us is guaranteed to be wrong, ain’t we?”

Jakob was starting to realize what Leth was leading up to, and it made him sick to think about. While it's true he had become desensitized to conversations about death and mortality over the years, this felt different. The man sitting in front of him had a fairly high chance of dying the following day, and Jakob wanted no part in it.

"I suppose. Leth, if you're getting at what I think you're getting at, I...I'm sorry. I don't think there's any way I can put odds on your life, or anyone's life like that. I can feel distanced from the sports injury stuff. Aside from a few college coaches, most of our odds don't really influence whether the injuries happen or not. But this...? I'm really not one to incite violence, Leth. You got the wrong guy."

Leth took a long final drag on his cigarette before extinguishing it. "You're not inciting violence, Steve. You're just taking advantage of the violence that's already there. Whether or not you put odds on my life, my life is going to be at risk. That's just how it is. And hey, it's fine, I chose this life. Sort of. But it's going to happen, so you might as well let me try to make a quick buck on it. And it's great for the house, too, especially when both me and the goons think it's guaranteed money in our pockets."

Despite feeling morally conflicted, Jakob realized Leth was making a strong point. Inter-gang violence in the United States probably led to thousands of deaths every year, and whether or not there were people betting on it, it was going to happen anyway. Jakob wore the mixture of intrigue and confusion on his face.

"I can tell you're thinking about it," Leth continued, "So before you get scared, you won't have to risk your neck by choosing who to put on the book, either. There's lots of rivals in these streets, and I bet guys will be begging you to put odds on them so they can prove their organization is at the top, or something. It'll give them a thrill. And for everyone else, well, who wouldn't love the thought of taking out a rival and padding the wallet in the process. And if you do go through with this, sign me up as your first hit – just give me the courtesy of a head's up." Leth grabbed the glass of whiskey still on the counter and finished it off in a single gulp.

"I thought you said you were three years sober?" Jakob remarked.

Leth smirked and started heading toward the elevator. "Rule number two, Steve. I'll see you later."

A few months later Jakob launched the Organized Crime League alongside The Warehouse's standard sports lines. Leth served as the inaugural volunteer, and the established mechanics were simple: odds would be released on Thursdays, and the individual in question had to live through the weekend in order for the *Survival* line to pay out. Initially, most patrons were intrigued at the new betting option, but only a small handful participated.

The following Monday, Leth strolled into The Warehouse to thank his new favorite actuary, with a smile on his face and an extra twenty grand in his pocket. Once others saw the huge payday and had a word

with Leth himself, interest in the OCL skyrocketed. For its second and third weeks, there was no shortage of volunteers who wanted a turn to be added to the list. By the end of its first month, the OCL was receiving around twenty volunteers each week, with representation from six of the ten largest organized crime syndicates along the west coast. Two months later, all ten were regular participants in the OCL.

To keep up with the increased demand and the growing list of volunteers, Jakob added a second betting line to the sportsbook. Conversations around The Warehouse shifted from sports to talk of the current week's OCL odds, enticing some of the non-criminal clientele to join in on the betting action. Jerry had been afraid this attention would put The Warehouse at increased risk of exposure since, as he put it, criminals could be better trusted to keep things quiet. This prompted Jakob to add a third line to the sportsbook which, unlike the first two slots which were made entirely of volunteers, was filled randomly from all OCL bettors in the previous week. This helped to keep the OCL as a criminal-only betting line, reducing the risk of exposure back to a manageable level. Every now and then some rich twenty-something would have a few too many drinks and gamble on other's lives, but no one outside of any criminal organization had yet to be added to the betting list.

As more data from the OCL was collected, Jakob was able to refine his odds. Key survival factors included the track record of each organization within the OCL and, more importantly, the criminal tenure of the individual in question. Shortly after inception, a number of organizations began requiring potential recruits to volunteer for the OCL as a test of loyalty. With no financial backing and a lack of experience on the streets, those lines paid out on death with a high frequency.

Within two years, the OCL had increased betting revenue at The Warehouse by sixty percent, with two more betting lines added to keep up with the demand. One year later, close to its third anniversary, the OCL was operating at maximum capacity. Every large and mid-sized organized crime group in the Western United States was consistently represented in both the volunteer list and the betting activity itself. Jakob knew the OCL's success was driven from playing on the emotions of rival gangs, but there were simply no more organizations in existence to add to the fray. With the local market saturated and a constant desire to increase revenue, Jakob explored expanding the OCL to other geographies.

New York was the most logical choice, since for years the New York Mafia had dominated the organized crime scene across the United States. While certainly the most attractive destination financially, both state and federal authorities had constant eyes on the criminal underworld in the city that never sleeps. The risk of exposure was too high – above all else, he needed to avoid any potential interaction with the United States federal government. So, on its third-year anniversary, Jakob launched the Montreal division of the OCL. Since no one north of the border was yet aware of what the OCL was, there were no potential volunteers for the inaugural launch. To help stir up interest, Jakob adding a single name to the new sportsbook: Montreal crime boss Bruno Puzati.

To: Steve

From: Jerry

Subject: Montreal

Fri. 11/02/2012, 8:03am

I saw the odds you set for Puzzati last night. Bold. Stupid.

I like the initiative, but there was probably a better way to introduce the OCL to Canada. Leth has some connections up north, and he heard Puzzati has put a hit out on you – I guess he didn't appreciate you putting odds out on his death without talking to him first. Can't say I blame him.

Instead of putting a bounty on your head, he's mocking your methods and has odds out on your life. 20:1 you make it through the weekend, pretty big pay day if something unfortunate were to happen to ya.

Seems steep to me, but he's probably just trying to make a statement, doesn't want any of his associates being added to a betting list in the future and all that.

Good luck.

Jerry

Two days later, Jerry found Jakob in the washroom at The Warehouse, splashing cold water on his face. "There you are. Hell of a marketing stunt you tried to pull there, Steve. I'm a bit surprised you made it this long, to be honest. Ya wanna tell me how you're still here?"

Jakob took a deep breath. "Luck, I guess. If I make it to midnight tonight, the odds expire. I have to hope he'll leave me alone after that."

"He might, but he's clearly willin' to pay out for ya, just being cheeky with the odds and all instead of just payin' someone to do the job. He even made the bets public – seems like some of your buddies from The Warehouse are bettin' against ya, too."

"Look, Jerry, I'd love to stand around and chat about how great my friends are, but I'm a little busy trying not to die today. I've seen the list, and trust me, I'm avoiding all sorts of people."

Jerry frowned at Jakob, seemingly genuinely disappointed in his employee. "Alright Jakob, no more playin'. Look, Susan gave me a call this morning."

Jakob froze at the mention of Susan's name. Susan had never been a fan of the OCL – her morals apparently stopped at betting on concussions – but nonetheless she monitored the reserves, as was her

job. Jakob hadn't planned for this, wasn't she supposed to be on vacation, he thought? Hadn't he accounted for this?

"I can see you're surprised, since she's down in Mexico this week. She is, enjoying the sun and all, but given what's happened lately I asked her to check in on things while she's gone."

Jakob stammered. "But...why would she need..."

Jerry cut him off. "Ya wouldn't happen to know anything about a twenty million dollar bet that was placed on Friday, would ya Jakob? Given that our cap on individual bets is \$100,000, that's a pretty big error."

Jakob took a step back and leaned against the counter, sweating nervously. Jerry hadn't yet raised his voice, but he didn't need to. He was caught, simple as that. Six hours from midnight, six hours from potential freedom, and Jerry had found him out.

"Look, Jerry, I didn't mean..."

"Twenty million dollars, at 50:1 odds, on your survival this weekend. *Fifty-to-one*. Wow! Now I ain't no actuary, but I believe that would be a one billion-dollar payday should you wake up tomorrow."

Jakob's mind was spinning. His marketing stunt to introduce the OCL to Montreal had backfired significantly, but he never actually thought Puzzati was going to be touched, he just thought adding his name to the sportsbook would get people talking up north. It was a mystery how Puzzati even knew who he was, but his connections likely extended far below the 49th parallel. Once the odds were set against his life, the only thing Jakob could think to do was to counter with better odds for his survival. He knew that anyone helping to keep him alive put themselves at risk of Puzzati coming after them next, so he had to remove the betting cap to entice his much-needed protection. He was hoping to make it through the weekend, and then disappear from Las Vegas before Jerry ever found out about the payout. Clearly, that plan was off the table.

Jerry continued. "One billion dollars. You value your own life at one billion dollars of someone else's money? I s'pose that's my job now to decide, ain't it?"

Jakob was struggling to think of a way to defuse the situation. "Well...I mean...it seems like a lot of money, but I've brought in a ton of revenue to The Warehouse since I came! The OCL has been a huge success, there's just no market left on the West Coast for us. You know that. We have to expand, and with me guiding the expansion I'm sure I can turn a profit of more than the billion we'll lose on this over the next few years!"

Jakob smiled, and almost convinced himself his plan would work. Sure, it was contingent on Puzzati forgetting about him after this weekend, and Montreal was now clearly off the table. Nevertheless, there are other markets out there to target, he thought, and Puzzati won't be around forever – he's already seventy-three, after all.

Jerry still didn't seem pleased. "Tell ya what, I'll give you the benefit of the doubt on those numbers. How's that sound? I believe in ya. Way to go, Jakob, attaboy!" The sarcasm in Jerry's voice was getting to Jakob. Did he think this was funny?

"The second problem with your insurance plan is that The Warehouse will have to pay out one billion dollars tomorrow. Susan also mentioned that, as of this morning, we have six-hundred million in reserves." Jerry patted his pockets, looking concerned. "Now, I don't seem to have a calculator on me, Jakob. Can you tell me if six-hundred million is more or less than one billion?"

Jakob could only stutter. "I...no, that can't be right...I...I checked, I must've..."

Jerry continued. "You're a good man, Jakob. Made me a lot of money, and I thank you for that. I don't want to do this, but you're smart enough to know that my options are limited." Before Jakob could once more plead for his life, Jerry pulled out a gun from his breast pocket. Jerry the Interviewer in the bathroom with the revolver, Jakob thought to himself, as he closed his eyes.