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FINANCIAL CRIME IN ONLINE GAMING IN INDIA: A POLICY GAP

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ABSTRACT

India's digital gaming landscape has grown at an extraordinary pace, yet regulation has failed to keep up resulting in a fragmented legal terrain spanning IT intermediaries, tax provisions, and varied state regulations. This study critically maps the lack of a centralized framework for addressing financial crimes in this sector from regulatory inconsistencies and weak integration into anti-money laundering systems, to under-investigated payment mechanisms, advertising norms, and child-protection protocols.

Employing a comparative legal-methodological approach, the research analyses existing statutes, reporting obligations, and compliance instruments across national and subnational levels. It evaluates how these gaps undermine Suspicious Transaction Reporting, expose laundering channels through digital wallets and in-game value systems, and create compliance instability amid evolving jurisprudence.

Findings demonstrate a clear disconnect between regulatory intent and operational reality, revealing a systemic weakness in detecting and deterring financial misconduct within gaming ecosystems. By proposing a harmonized compliance model that aligns gaming regulation with established financial integrity frameworks, the study offers a strategic path forward to reinforce consumer protection and preserve the integrity of India's rapidly evolving digital economy.

1. INTRODUCTION

In recent years, India has become one of the world's fastest-growing markets for online gaming, with a user base expected to surpass 600 million by 2026. This digital explosion propelled by inexpensive smartphones, widespread internet access, and a vibrant youth demographic has not only created a thriving entertainment industry but also inadvertently paved the way for a new class of sophisticated financial crimes.

Affordable smartphones, cheap data rates, and a young, digitally savvy population contributed towards the explosive growth and according to industry estimates, the online gaming sector in India is expected to exceed USD 8.6 billion by 2027, making it one of the fastest-growing digital entertainment industries globally.

As gaming has evolved from casual pastime to competitive and monetized ecosystems, it has also blurred the lines between entertainment, finance, and gambling. Especially in the realm of Real Money Games (RMGs), players are now engaging in high-stakes gameplay that involves real financial transactions.

This exponential growth, while economically promising, has simultaneously exposed the industry to a dark undercurrent of financial crimes. These crimes include, but are not limited to, fraudulent transactions, unauthorized KYC use, identity theft, money laundering, bonus and referral scams, and the use of gaming wallets for routing illicit funds. The largely virtual and borderless nature of gaming platforms makes them attractive conduits for cybercriminals.

2. EVOLUTION OF ONLINE GAMING

Online gaming has undergone a dramatic transformation from humble, text-driven interactions to expansive digital worlds that captivate players across the globe. Its roots trace back to the late 1970s, when early networked games like Multi-User Dungeons (MUDs) allowed users to collaborate and compete through simple commands. The 1980s introduced the first commercially available multiplayer titles, such as *Islands of Kesmai*, along with visual pioneers like *Air Warrior*. With the arrival of the internet and LAN technology in the 1990s, online multiplayer gaming found new momentum through action-packed titles like *Doom* and *Quake*. The early 2000s then ushered in an era of virtual communities with the rise of MMORPGs, most notably *World of Warcraft*, which redefined the scale and social depth of digital play. This evolution continued with the smartphone revolution casual, connected gaming reached the masses through mobile platforms in the 2010s, making online play a part of daily life for millions worldwide.¹

¹ Barik, S. (2025, March 5). Govt works to bring online gaming firms under PMLA fold. *The Indian Express*. <https://indianexpress.com/article/business/govt-works-to-bring-online-gaming-firms-under-pmla-fold-9930935>

2.1 The Rise of Social and Mobile Online Gaming

With the rapid advancement of computing technology and internet infrastructure, online gaming evolved from a niche activity into a global phenomenon. By the 1990s, gaming consoles started entering the online space alongside personal computers. But it was the launch of Xbox Live in 2002 that truly transformed online multiplayer gaming for console users. Games like *Unreal Championship* and *MechAssault* thrived on this platform, making online interaction a central part of the console gaming experience.

Simultaneously, the emergence of social networking platforms opened the doors for casual gamers. Titles such as *Farmville* and *Words with Friends*, made popular through Facebook, reached audiences who had never previously engaged in gaming. This marked a significant cultural shift online gaming was no longer limited to dedicated gamers but was becoming an everyday pastime for a broader population.

The release of the iPhone in 2009 accelerated this change. Smartphones made it possible for anyone with a mobile device to access thousands of connected games, instantly and on the go. Online gaming became ubiquitous, portable, and highly social, allowing people to engage with others across the world regardless of location or time.²

In today's digital age, online games serve not only as a form of entertainment but also as a vital tool for social connection. This became particularly evident during periods of enforced isolation, such as the COVID-19 pandemic. Even in moments of physical separation, players could interact, collaborate, and maintain friendships through games.

2.1 History and Emergence of Online Gaming in India

Online gaming in India has evolved from a limited, hobbyist activity into a thriving digital industry. This transformation reflects broader technological, economic, and cultural shifts within the country over the last two decades. From the days of cybercafé LAN battles to mobile-based multiplayer games played across rural towns and metropolitan cities alike, India's gaming journey has been both dynamic and distinct.³

² Dyson, J.-P. (2020, August 27). *A brief history of online games*. The Strong National Museum of Play. <https://www.museumofplay.org/blog/a-brief-history-of-online-games/>

³ Wikipedia contributors. (2025a, July 20). *Online gaming in India*. In *Wikipedia*. https://en.wikipedia.org/wiki/Online_gaming_in_India
Wikipedia contributors. (2025b, July 15). *Gambling in India*. In *Wikipedia*.

Phase I: Early Beginnings – Gaming in Cafés and PCs (Late 1990s to Mid-2000s)

India's introduction to online gaming began modestly. During the late 1990s and early 2000s, personal computers became more common in urban homes, and internet cafés started popping up in cities. These cafés became hotspots for young gamers who would come together to play LAN-based games like *Counter-Strike*, *Age of Empires*, and *Quake III Arena*.

Though technically not "online" by today's standards, these local area network (LAN) matches introduced the concept of multiplayer gaming and competition. However, expensive internet access and slow speeds meant that fully online gaming remained largely inaccessible for most people during this period.

Phase II: Expanding Internet and Affordable Devices (2005 to 2015)

As broadband internet became more available and affordable, India saw a slow but steady rise in online PC gaming. MMORPGs (Massively Multiplayer Online Role-Playing Games) like *World of Warcraft* and *Dota* started gaining attention among Indian gamers with access to better computers and internet speeds.

However, the real shift came with the mobile revolution. The widespread use of feature phones and the arrival of early smartphones introduced basic mobile games like *Snake* and later *Candy Crush Saga* and *Temple Run*. These titles were easy to download, simple to play, and required minimal data—perfect for the growing mobile-first Indian audience.

Phase III: The Smartphone Boom and Rise of Mobile Multiplayer (2016 onwards)

The launch of affordable 4G data, especially following Reliance Jio's entry into the market in 2016, changed everything. Millions of Indians suddenly had fast, cheap internet on their phones. This led to a massive spike in mobile gaming.

Battle royale games like *PUBG Mobile*, *Free Fire*, and *Call of Duty: Mobile* became immensely popular, especially among younger users. These games offered competitive multiplayer experiences on mobile devices, allowing friends to team up, compete, and connect from anywhere.

Game streaming and content creation also began to flourish during this period. Platforms like YouTube and Facebook saw a surge in gaming-related content in regional languages, with Indian gamers turning into influencers and professional streamers.

Phase IV: Fantasy Sports, Real-Money Gaming, and Legal Challenges

Another significant development was the rise of real-money and fantasy gaming platforms. Apps like *Dream11*, *My11Circle*, and *Mobile Premier League (MPL)* attracted millions by offering games based on skill where users could win money. These platforms blended traditional Indian games (like rummy) and sports knowledge with modern mobile technology. However, this space quickly became controversial. Several Indian states raised concerns about gambling, addiction, and financial risk. As a result, legal scrutiny increased, and regulatory uncertainty became a key challenge for the industry.

Phase V: Regulation, Innovation, and India's Gaming Future (2021–Present)

Recognizing the explosive growth of the sector, the Indian government started working on policies to regulate online gaming. In 2023, the Ministry of Electronics and Information Technology (MeitY) proposed new rules aimed at protecting users particularly minors and improving transparency. These included licensing requirements, content moderation, and grievance redress mechanisms.

At the same time, India's own game development scene started gaining momentum. Studios began producing locally-themed titles, and events like the India Game Developer Conference (IGDC) became regular industry fixtures. The growing popularity of Indian eSports tournaments and professional teams also showed that gaming was no longer just play it was serious business.

India's online gaming landscape has come a long way with one of the largest youth populations in the world, growing smartphone penetration, and increasing digital literacy, India is on track to be a global leader in online gaming. What began as a niche activity in urban cafés has become a mainstream, billion-dollar industry.

3. POLICY GAP: FINANCIAL CRIME IN INDIA'S ONLINE GAMING SECTOR

The regulatory landscape governing online gaming in India is marked by competing and overlapping definitions. At present, three regimes simultaneously shape compliance: the Information Technology (IT) Rules (which prescribe intermediary obligations), Goods and Services Tax (GST) provisions (which define and tax online money gaming), and state-level gambling statutes. Each framework uses its own terminology “online game,” “online money gaming,” “real money game” resulting in divergent compliance obligations and enforcement

thresholds. For instance, while the IT Rules (2023) establish a licensing pathway for “online gaming intermediaries” and designate permissible real-money games, the Central GST amendments (October 2023) impose a flat 28% tax on the face value of all online money games, regardless of skill or chance. Meanwhile, Indian courts have alternately upheld and struck down state-imposed bans, deepening legal uncertainty. Although this definitional misalignment has been widely noted, its concrete impact on enforcement consistency and regulatory arbitrage remains largely unresearched.⁴

Despite government statements suggesting that real-money gaming operators will soon be brought within the scope of the Prevention of Money Laundering Act (PMLA) as “reporting entities,” the obligation is not yet operationalized uniformly across the sector. Enforcement by the Directorate of Enforcement (ED) often arises through predicate offences such as fraud or organized crime, rather than systematic suspicious transaction reporting (STR) by gaming platforms. Unlike in banking or fintech, there is no public data on STR volumes originating from gaming companies. A significant research opportunity lies in assessing how mandatory PMLA coverage could change FIU-IND’s intelligence yield and the timeliness of enforcement.⁵

International watchdogs have documented multiple money laundering typologies in online gambling such as layering through wallets and chips, abusing promotional bonuses, or using cross-border mule accounts. Yet, India-specific evidence is scarce. There is no rigorous empirical study mapping these methods to Indian payment infrastructures like UPI, prepaid payment instruments (PPIs), or in-game digital assets. This absence of localized typology data represents a key empirical gap.⁶

⁴ Lakshmikumar & Sridharan Attorneys. (2023, April 12). *The IT Intermediary Amendment Rules 2023 notified for online gaming industry*. Lexology. <https://www.lexology.com/library/detail.aspx?g=ace72c5a-6180-4a26-9845-4453be0e43ed>

EY India. (2024, June 17). *Impact of new GST law on skill-based online games*. Ernst & Young. <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/tax/documents/ey-impact-of-new-gst-law-on-skill-based-online-games-v1.pdf>

Press Information Bureau. (2025, March 26). *Government strengthens regulations for online gaming to safeguard users*. Ministry of Electronics & Information Technology. <https://www.pib.gov.in/PressReleaseDetailm.aspx?PRID=2115414>

⁵ Times of India. (2025, July 10). *ED freezes Rs 284 crore assets of online gaming company*. The Times of India. <https://timesofindia.indiatimes.com/city/chandigarh/ed-freezes-rs-284-crore-assets-of-online-gaming-company/articleshow/122349906.cms>

⁶ Financial Intelligence Unit–India. (2023). *Annual report 2022–23*. FIU-IND. <https://fiuindia.gov.in>

Financial Action Task Force. (2022). *Risk assessment on money laundering through online gambling*. FATF–OECD. <https://www.fatf-gafi.org>

INTERPOL. (2021). *Online gambling and money laundering: Global threats report*. INTERPOL.

Although the Reserve Bank of India (RBI) has strengthened payment-aggregator due diligence requirements and imposed content/geo-filtering rules for offshore gaming merchants, little is known about how these controls influence illicit flows into and out of domestic gaming applications. In particular, there is no systematic research on false positives or false negatives in merchant onboarding and transaction monitoring processes.⁷

Guidelines from the Advertising Standards Council of India (ASCI) for real-money game advertising such as mandatory risk disclaimers and prohibitions on targeting minors operate alongside consumer-protection and e-commerce obligations. However, there is no empirical evidence to show whether these measures reduce fraudulent onboarding or instead divert users toward unregulated channels.⁸

The Digital Personal Data Protection (DPDP) Act, 2023 (with draft rules expected in 2025) requires verifiable parental consent for users under 18 and limits the use of children's data for profiling or advertising. Yet, operational standards for age assurance remain unsettled. No research has yet evaluated how these child-protection and privacy duties interact with AML/KYC processes for instance, whether stronger parental consent mechanisms reduce fraud risks or create new vectors for identity manipulation.⁹

The judiciary has played a central role in shaping the sector, with courts repeatedly altering the legal permissibility of real-money gaming. The Karnataka High Court struck down a ban in 2022, while Tamil Nadu continues to experiment with revised regulatory models subject to ongoing litigation. This creates a “moving target” for compliance design, undermining standardization of AML/KYC systems and cross-state consumer redress. No scholarly work has yet mapped the relationship between judicial shifts, corporate compliance rewrites, and fraud incidence.¹⁰

⁷ Reserve Bank of India. (2022, March). *Guidelines on regulation of payment aggregators and payment gateways*. RBI. <https://rbi.org.in>

Reserve Bank of India. (2023, November). *Cross-border payments and compliance framework*. RBI.

⁸ Advertising Standards Council of India. (2022). *Guidelines for advertisements of online real-money gaming*. ASCI. <https://ascionline.in>

Ministry of Consumer Affairs. (2021). *Consumer Protection (E-commerce) Rules, 2021*. Government of India.

⁹ Ministry of Electronics & Information Technology. (2023). *The Digital Personal Data Protection Act, 2023*. Government of India.

Internet and Mobile Association of India. (2024). *Age-gating and responsible gaming practices in India*. IAMAI.

¹⁰ The Economic Times. (2025, June 4). *Madras High Court says yes to Aadhaar checks for online rummy, poker players*. The Economic Times. <https://economictimes.indiatimes.com/news/india/madras-high-court-says-yes-to-aadhaar-checks-for-online-rummy-poker-players/articleshow/121616342.cms>

LiveLaw. (2022, February 14). *Karnataka High Court strikes down law banning online gaming*. LiveLaw. <https://www.livelaw.in>

4. LEGAL FRAMEWORK GOVERNING FINANCIAL CRIMES IN ONLINE GAMING IN INDIA

The Indian online gaming sector is currently regulated through a patchwork of laws rather than a unified national statute. According to the EY *New Frontier: Online Gaming* report, the primary legal instruments impacting financial crime prevention in gaming include the *Information Technology Act, 2000*, state-level gambling laws, and the *Consumer Protection Act, 2019*. However, the absence of a central, technology- adaptive framework has resulted in regulatory ambiguity, particularly concerning cross-border operations and real-money transactions (EY, 2023).

State governments have taken varied approaches some, like Tamil Nadu and Karnataka, have attempted outright bans on real-money gaming, while others like Sikkim and Nagaland have opted for licensing regimes. These inconsistencies create enforcement challenges, particularly in detecting fraud and money laundering across jurisdictions.

The *Prevention of Money Laundering Act, 2002* (PMLA) currently does not explicitly cover online gaming, though the Government of India is considering amendments to bring real-money games under its ambit. This inclusion could empower investigative agencies with enhanced powers of search, seizure, and prosecution, enabling faster action against financial crimes in the sector.

The report notes that the *Reserve Bank of India* (RBI) guidelines on payment aggregators and the *Know Your Customer* (KYC) framework play a vital role in curbing illicit fund flows. Yet, the lack of a unified, gaming- specific financial compliance mandate limits their impact in preventing fraud, phishing scams, and illegal cross-border transfers.

4.1 Centre State Law Ambiguity in Online Gaming Regulation

LexisNexis-sourced legal commentary and statutory analysis highlight a persistent jurisdictional tension between the Union and State governments in regulating online gaming in India. This ambiguity arises from the federal division of legislative powers under the Constitution. Under Entry 34, List II (State List) of the Seventh Schedule, States retain exclusive authority to legislate on matters relating to betting and gambling.¹¹

¹¹ LexisNexis. (2024). *Legal framework and policy challenges in India's online gaming sector*. LexisNexis.

Consequently, several States including Tamil Nadu, Telangana, and Andhra Pradesh have enacted prohibitions or restrictions on specific forms of online gaming, particularly real-money formats. These measures often rely on broad definitions of "gambling," which may encompass even skill-based games. The absence of a uniform, codified national framework has produced fragmented compliance landscapes. Operators frequently face conflicting requirements for example, a game permitted in one State may be prohibited in another, despite meeting central-level IT and payment security standards. This regulatory disparity increases litigation risk, operational uncertainty, and enforcement complexity.¹²

A. Deepfake Celebrity Endorsements and the Erosion of Informed Consent

Recent police reports and media investigations reveal that scammers are now using AI-generated deepfake videos of well-known personalities to promote fraudulent online gaming and investment schemes. In one Bengaluru case, a 79-year-old man lost ₹35 lakh after viewing a fabricated video of Infosys co-founder N. R. Narayana Murthy endorsing an investment opportunity. Similarly, in Hyderabad, a medical professional was deceived into investing ₹20 lakh through a deepfake cryptocurrency advertisement masked as a gaming offer.¹³

B. Fabricated Success Narratives and Fraudulent Misrepresentation

Scam advertising often features false testimonials, such as fabricated accounts of individuals like an auto-rickshaw driver earning ₹2 lakh from playing a mobile game like Chicken Road 2. Evidence from digital forensics and community reporting suggests that these narratives are staged, with stock images and scripted visuals enhancing the illusion of authenticity (Economic Times, 2024)¹⁴.

C. High-Value Gaming Fraud and Organised Criminal Enterprise

Police investigations have documented large-scale fraud facilitated by gaming platforms. For example: In Mohali, police uncovered an ₹18 crore scam, arresting eight suspects, while the main accused remains at large. In Navi Mumbai, a businessman lost ₹2.74 crore through a fraudulent gaming platform over several months.¹⁵

¹² Sharma, P. (2024, March 12). State laws clash with Centre's IT rules on gaming apps. *The Hindu*. LexisNexis.

¹³ The Hindu. (2024). *Bengaluru senior citizen loses ₹35 lakh to deepfake scam*.

Times of India. (2024). *Hyderabad doctor duped of ₹20 lakh via AI-generated video*.

¹⁴ Economic Times. (2024). *Fake gaming ads and the rise of scripted testimonials in India*.

¹⁵ Indian Express. (2024). *Police uncover ₹18 crore gaming fraud in Mohali*.

D. Community Warnings and the Gap in Preventive Regulation

Online communities, such as Reddit forums, have started self-organising warning systems against AI-based gaming scams. Users frequently report patterns where victims receive small payouts to encourage prolonged participation before substantial losses. While these informal warnings reflect growing public awareness, they lack formal integration into state-led public awareness campaigns. Currently, the Intermediary Guidelines and Digital Media Ethics Code, 2021 impose a duty of “due diligence” on platforms to prevent unlawful content. However, no explicit provisions address pre-verification of AI-generated advertisements.¹⁶

4.2 The Emerging Need for a Unified Online Gaming Law in India

India’s online-gaming market has matured rapidly into a large, mobile-first sector that now attracts significant investment and generates complex transactional volumes. This growth has exposed regulatory fault lines: criminal investigations and policy debates reveal that piecemeal rules spread across central cyber law, disparate state gambling statutes, taxation edicts, and platform self-regulation are inadequate to counter the sophisticated financial crimes now emerging in the sector. Recent enforcement activity including Enforcement Directorate (ED) summonses to major tech platforms and high-profile figures shows that investigators are using powerful financial-crime tools but are repeatedly hampered by fragmented legal definitions, opaque payment rails, and cross-jurisdictional complexities.¹⁷ Against this backdrop, a unified statutory framework becomes not merely desirable but functionally necessary.

First, the fragmentation of legal regimes creates both substantive and procedural uncertainty that criminals exploit. States differ widely in whether and how they treat real-money gaming: some have licensing paths, others maintain prohibitions or have adopted restrictive statutes. This divergence produces “regulatory arbitrage” opportunities that allow operators and illicit actor to route activities through permissive jurisdictions while serving users nationwide, thereby complicating the establishment of clear predicate offences and delaying enforcement.¹⁸ The

¹⁶ Mehta, R. (2024). *Due diligence obligations under the Intermediary Guidelines*. *Cyber Law Review*, 12(3), 201–217.

¹⁷ Reuters. (2025, July 19). *India's financial crime-fighting agency summons Google, Meta executives, sources say*. Reuters. <https://www.reuters.com/world/india/indias-financial-crime-fighting-agency-summons-google-meta-executives-sources-2025-07-19/>

Times of India. (2025). *ED invokes PMLA / ED summons celebrities and tech platforms in betting-app probes*. (Multiple reports). <https://timesofindia.indiatimes.com>

¹⁸ Ernst & Young LLP (EY). (2023). *New frontiers: Navigating the evolving landscape for online gaming in India* (Dec. 2023). <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/media-entertainment/documents/ey-new-frontier-online-gaming-report.pdf>

Storyboard18. (2025). *Online gaming industry needs unified law amid regulatory*

example of ongoing GST and Supreme Court hearings about the characterization of gaming (skill vs. chance) demonstrates that unresolved legal classification has immediate enforcement and tax implications that bear on financial-crime detection.¹⁹

Second, the payment and advertising ecosystems that sustain many real-money gaming (RMG) business models are inherently cross-sectoral and cross-border. Investigations show that merchant-ID routing, multiple payment aggregators and programmatic advertising form the principal channels through which illicit proceeds are collected and concealed. ED actions summoning Google and Meta executives, and chargesheets that highlight merchant-ID chains, illustrate that the vector for financial crime is not limited to game mechanics but spans distribution and monetisation infrastructures areas governed by different laws and agencies 2025;²⁰ A single law, crafted to cover the whole value chain operators, payment handlers, ad platforms and app stores would enable coherent, enforceable obligations (e.g., KYC, transaction monitoring, and mandatory reporting) and reduce delays caused by cross-agency fingerprinting.

Third, rapidly evolving technology magnifies both opportunity and harm. Artificial intelligence and programmatic ad delivery accelerate reach including deceptive celebrity endorsements and deepfakes — and can generate vast numbers of micro-transactions almost instantly. Traditional financial-investigation regimes, which rely on establishing discrete predicate offences and tracing proceeds slowly, are ill-suited to this high-velocity environment (EY, 2023)²¹. A unified law could require technical controls (ad-provenance metadata, watermarking for synthetic media, real-time transaction-monitoring thresholds) and bind platforms to proactive measures so regulators can act before harms escalate.

patchwork. Storyboard18. <https://www.storyboard18.com/special-coverage/online-gaming-industry-needs-for-unified-law-amid-regulatory-patchwork-72223.htm>

¹⁹ Moneycontrol. (2025). *Hearing on online gaming taxation, regulation by states enters final week in Supreme Court.* Moneycontrol. <https://www.moneycontrol.com/news/india/hearing-on-online-gaming-taxation-regulation-by-states-enters-final-week-in-supreme-court-13334366.html>

²⁰ Reuters. (2025, July 19). *India's financial crime-fighting agency summons Google, Meta executives, sources say.* Reuters. <https://www.reuters.com/world/india/indias-financial-crime-fighting-agency-summons-google-meta-executives-sources-2025-07-19/>

Times of India. (2025). *ED invokes PMLA / ED summons celebrities and tech platforms in betting-app probes.* (Multiple reports). <https://timesofindia.indiatimes.com>

²¹ Ernst & Young LLP (EY). (2023). *New frontiers: Navigating the evolving landscape for online gaming in India* (Dec. 2023). <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/media-entertainment/documents/ey-new-frontier-online-gaming-report.pdf>

Fourth, the present mosaic of rules undermines both accountability and the timely sharing of evidentiary data. ED and other agencies frequently depend on voluntary cooperation from private intermediaries; yet contractual confidentiality, data-protection constraints and international data-access hurdles slow investigations. A consolidated legal framework could create clear statutory duties for intermediaries to preserve and disclose critical advertiser, merchant-ID and payment routing data under defined, privacy- respecting safeguards, thereby reconciling enforcement needs with rights protections (MeitY, 2023; Law.asia, 2025)²².

Finally, a unified statute need not be purely prohibitory, it can be calibrated to balance innovation with protection. The EY report and industry stakeholders emphasise phased implementation, regulatory sandboxes and differential obligations tied to risk profiles (large RMG platforms vs. purely skill-based gaming) so legitimate businesses are not unfairly constrained while enforcement capacity and Reg-Tech tooling scale up.²³ Embedding proportionality, clear definitional tests (for “real-money gaming”, “skill vs. chance”), and procedural safeguards in a single law would reduce litigation risk and provide better predictability for both regulators and industry.

In sum, the public record and policy literature point to an urgent, practical need for a unified online-gaming law in India. Such a statute should

- a) harmonise definitions and tax/AML reporting obligations;
- b) designate obligated entities across the ecosystem (operators, payment processors, ad platforms);
- c) mandate technical measures for ad-provenance and real-time transaction monitoring;
- d) establish cross-agency data-sharing and rapid-response protocols; and
- e) provide proportional safeguards and innovation-friendly sandboxes. Only by consolidating the legal regime can India close the operational gaps that currently allow financial fraud to proliferate through the online- gaming ecosystem.

3.2 Youth as the Principal Victims of Financial Crimes in India’s Online Gaming Sector

India’s online-gaming market has scaled rapidly into a mobile-dominated industry with dense transactional activity concentrated in a single sub-segment real-money gaming (RMG). This

²² Law.asia. (2025). *Online gaming under PMLA?* Law.asia. <https://law.asia/online-gaming-under-pmla/>

²³ Ernst & Young LLP (EY). (2023). *New frontiers: Navigating the evolving landscape for online gaming in India* (Dec. 2023). <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/media-entertainment/documents/ey-new-frontier-online-gaming-report.pdf>

market structure, combined with aggressive digital marketing and complex payment routing, has created conditions in which young people are disproportionately exposed to financial harm. Multiple empirical and policy signals demonstrate that youth are both highly present in the user base and particularly vulnerable to fraud, debt and addiction-related harms; this pattern reinforces the urgency for a unified statutory response tailored to protect younger cohorts.

3.3 Market structure and demographic exposure (EY, 2023, pp. 1–2, 5–6, 9–14, 28–34)²⁴

- 1. Rapid scale and RMG predominance:** - A recent sector study reports that India’s online-gaming market reached approximately INR 16,428 crore in FY2023 and was expanding at an annualised rate near 28% over a recent three-year period; projections in that report estimated the market could nearly double within five years under a mid-case scenario. Crucially, RMG represented the lion’s share of monetisation in FY2023 about 82–83% of industry receipts meaning transactional volumes and the attendant risk of financial crime are heavily concentrated in a single, high-risk sub-sector (EY, 2023, pp. 1–2, 5–6).
- 2. Mobile-first, youth-driven user base:** - At the same time, gaming in India is overwhelmingly mobile- first (roughly 94% of users play on smartphones) and is dominated by younger age cohorts (an estimated 65–70% of users are under 35), producing both scale and a high frequency of small-value transactions that criminals and launderers can exploit (EY, 2023, pp. 9–11).
- 3. Ad-driven user acquisition and reputational vectors:** - EY documents the sector’s heavy reliance on programmatic advertising, influencer marketing and celebrity endorsements to acquire users. The concentration of ad spends combined with rapid, high-reach campaigns amplifies the potential for misleading promotions (including synthetic or staged content); this increases the speed at which fraud narratives can reach susceptible audiences (EY, 2023, pp. 13–14, 30).
- 4. Payment-rail complexity and merchant-ID risk:** - The report highlights how RMG monetisation depends on diverse payment aggregators and merchant-ID arrangements. EY flags merchant-ID routing and layered payment channels as critical operational features that, if left unregulated, can be leveraged to obscure originators of funds and to fragment transaction trails (EY, 2023, pp. 30–34).
- 5. Technological double-edge: AI and scale.** EY observes that the same technologies enabling growth AI/ML for personalization, cloud infrastructure, and emerging Web3

²⁴ EY. (2023). *The new frontier: Online gaming in India*. EY India. https://www.ey.com/en_in/media-entertainment/the-new-frontier-online-gaming-in-india

experiments—also magnify risk. AI can accelerate fraud (via synthetic media or automated targeting) even while promising improved fraud detection on platforms that invest in proper tooling (EY, 2023, pp. 30–34).

3.4 Mechanisms concentrating risk for youth

Several operational features of the sector increase the likelihood that youth will suffer financial harm. First, micro-transaction models low-value, high-frequency payments lower the threshold for initial participation and therefore expand the pool of potentially harmed users. Early, small wins are commonly used to induce trust and subsequent larger stakes, a dynamic particularly effective on younger players with limited financial experience.

Second, user acquisition strategies rely heavily on programmatic advertising, influencer promotion and celebrity endorsements. Rapid, high-reach campaigns target digitally engaged youth across social platforms; deceptive or fabricated promotional content can therefore reach impressionable audiences within hours, magnifying the speed and scale of harm (EY, 2023, pp. 13–14, 30)²⁵. Recent enforcement reporting confirms that investigators see the ad-acquisition funnel as a primary vector for illicit platforms, with digital ad chains and merchant-ID routing repeatedly appearing in casefiles (Times of India, 2025)²⁶.

Third, the payment ecosystem for RMG is operationally complex. Platforms commonly route funds via payment aggregators and multiple merchant-identifiers; this layering fragments transactional trails and can be weaponised both to launder proceeds and to complicate rapid forensic tracing. Young users, who may rely on parental cards or readily available mobile wallets, can therefore generate many small flows that obfuscate when aggregated across intermediaries.

3.5 Empirical harms documented

Journalistic investigations and case reports document concrete harms experienced by young people. Media accounts recount instances where early perceived winnings escalated into

²⁵ Ernst & Young LLP (EY). (2023). *New frontiers: Navigating the evolving landscape for online gaming in India* (Dec. 2023). <https://www.ey.com/content/dam/ey-unified-site/ey-com/en-in/insights/media-entertainment/documents/ey-new-frontier-online-gaming-report.pdf>

²⁶ India Today. (2025, May 28). *Real-money gambling: Addiction, debt, fraud and a nation trapped*. <https://www.indiatoday.in/india-today-insight/story/real-money-gambling-addiction-debt-fraud-and-a-nation-trapped-2731904-2025-05-28>

substantial losses and debt for students and young adults in multiple high-profile stories victims reported indebtedness running into lakhs of rupees and severe personal consequences, including mental-health crises.²⁷ Such narratives are supported by clinical and epidemiological literature: systematic reviews and regional prevalence studies indicate measurable rates of gaming-related disorder and gambling problems among adolescents and young adults, and public-health commentary has repeatedly urged a comprehensive policy response.²⁸

3.6 Enforcement and regulatory gaps that worsen youth vulnerability

Although central authorities have begun to act for example, the Ministry of Electronics and Information Technology amended intermediary rules to recognise online gaming intermediaries and to impose platform duties such as record-keeping and identity/age verification these measures do not yet constitute a holistic Anti Money Laundering (AML) or youth-protection regime.²⁹ Enforcement agencies have also used existing financial-crime powers: the Enforcement Directorate has invoked PMLA tools and investigators have summoned major ad and tech platforms for information about targeting and payment flows.³⁰ Nevertheless, the overall framework remains fragmented across central cyber rules, differing state gambling statutes, taxation rules and payment-system regulation. This fragmentation slows investigations, creates jurisdictional loopholes, and limits the ability to implement precautionary safeguards.

3.7 Why youth-centred, unified regulation is necessary

Taken together, the market facts and operational realities point to an urgent need for a single, comprehensive legal framework that expressly recognises the heightened vulnerability of youth. A unified statute would

- a) harmonise definitions of RMG and distinguish skill-based activities from gambling;
- b) impose uniform AML and KYC obligations on operators, payment aggregators and

²⁷ Times of India. (2025). *ED invokes PMLA in online gaming investigations; celebrities and tech platforms summoned*. The Times of India. <https://timesofindia.indiatimes.com>

Economic Times. (2025). *Won Rs 2 lakh, then fell into Rs 9 lakh debt trap: Young online gamer...* <https://m.economictimes.com>

²⁸ India Today. (2025, May 28). *Real-money gambling: Addiction, debt, fraud and a nation trapped*. <https://www.indiatoday.in/india-today-insight/story/real-money-gambling-addiction-debt-fraud-and-a-nation-trapped-2731904-2025-05-28>

²⁹ MeitY. (2023). *Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules: Amendments regarding online gaming intermediaries*. Ministry of Electronics & Information Technology, Government of India. <https://www.meity.gov.in>

³⁰ Times of India. (2025). *ED invokes PMLA in online gaming investigations; celebrities and tech platforms summoned*. The Times of India. <https://timesofindia.indiatimes.com>

- merchant acquirers;
- c) mandate age verification, parental-consent mechanisms, spending caps and cool-off features for young users;
 - d) require ad-provenance disclosures and restrict targeting of minors with high-risk financial promotions; and
 - e) create cross-agency rapid-response protocols (including preservation and immediate disclosure duties for payment and ad intermediaries) to enable swift freezing of suspect flows. These measures would address the specific mechanisms marketing reach, payment-rail opacity and micro-transaction patterns through which youth are currently harmed.

CONCLUSION

The findings across multiple legal and policy sources make it unmistakably clear that India's existing legal architecture for online gaming is inadequate to manage the sophisticated and evolving financial-crime risks arising from real-money gaming platforms. The reliance on fragmented laws spanning intermediary rules, selective use of PMLA, variable state gambling statutes, and unaligned GST frameworks results in regulatory gaps, especially when speed and coordination are essential.

Extending PMLA to explicitly include online gaming would certainly enhance enforcement by enabling asset seizure and deeper financial investigations. However, PMLA lacks preventative mechanisms and depends on identifying predicate offences and traceable proceeds limitations that are ill-suited to the fast, micro-transaction environment of modern gaming platforms.

Add to this, varying state-level approaches from licensing to outright prohibition fragment enforcement and fuel regulatory arbitrage. This patchwork environment discourages uniform implementation of central rules and weakens anti-money-laundering measures that require a unified approach.

In short, these overlapping weaknesses reinforce the hypothesis that the absence of a comprehensive, centrally harmonized law significantly hampers both the regulation and rapid enforcement of financial-crime measures in the online gaming sector.

POLICY IMPERATIVES FOR THE EFFECTIVE REGULATION OF FINANCIAL CRIMES IN ONLINE GAMING

The exponential growth of India's online gaming sector, combined with its integration of real-money transactions, has created significant vulnerabilities to financial crime, including money laundering, illicit betting, and fraud. Recent judicial pronouncements, enforcement actions, and legislative proposals indicate a pressing need for a cohesive, binding, and enforceable regulatory framework. The following imperatives are formulated to address these risks with legislative and institutional clarity.

A. Enact a Uniform Central Statute with Superseding Authority

A comprehensive Central law should be enacted to specifically govern online gaming operations, integrating explicit anti-money laundering (AML) provisions and superseding conflicting state-level rules. This would ensure uniformity in definitions, compliance obligations, and penalties, mitigating jurisdictional overlaps. The recent upholding of Tamil Nadu's regulatory measures by the High Court underscores the feasibility of such intervention when justified on public welfare grounds. The Tamil Nadu High Court upheld the TN Online Gaming Act's age, time, and publicity restrictions, stressing the state's duty under public health powers to regulate gaming, even overriding individual freedoms.³¹

B. Unified Digital Gaming Identity (Digital Gaming Passport + Age & AML Integration)

Establish a centralized Digital Gaming Passport (DGP) that integrates KYC, biometric authentication, age-verification, and AML risk scoring. This single digital credential would replace fragmented compliance across states and platforms, preventing identity duplication and enhancing transparency. By linking the DGP directly to FIU-IND, suspicious activity can be traced seamlessly across platforms, strengthening STR coverage and enforcement speed.

C. Reg-Tech Blockchain for Real-Time Monitoring

Create a permissioned blockchain ledger where all real-money gaming transactions are mirrored and audited in real time. Embedded smart contracts would auto-flag risky transactions (e.g., chip-dumping, bonus abuse, mule accounts) even before settlement. Unlike traditional reporting models, this would shift compliance from a reactive filing obligation to a proactive

³¹ Play Games 24x7 Pvt Ltd v State of Tamil Nadu (2025) SCC OnLine Mad 2615.

fraud-prevention system.

D. Collaborative STR-as-a-Service Model

Build a shared AI-powered STR platform where gaming operators especially startups pool anonymized transaction data into a cooperative cloud. The system would generate predictive STRs based on sector-wide patterns rather than isolated datasets, reducing false positives and enhancing regulator intelligence. This approach would make STR compliance more scalable, standardized, and data-driven, filling the enforcement vacuum that exists today.

E. Dynamic, Risk-Responsive Regulation

Replace flat taxation and fragmented enforcement with a risk-weighted regulatory model. Operators demonstrating high-quality STR reporting, low fraud ratios, and strong consumer-protection safeguards could receive marginal tax incentives or compliance relaxations, while non-compliant platforms face surcharges and stricter scrutiny. This would align financial regulation with behavioural incentives, rewarding compliance rather than simply penalizing violations.

F. Pre-Publication Verification Duty for Digital Platforms

The “due diligence” requirement in the IT Rules is generic and reactive. Platforms currently have no enforceable duty to proactively verify high-risk content (like financial promotions or celebrity-led ads) *before* publication. Mandate a pre-publication compliance check, especially for ads featuring financial incentives or celebrity endorsements—requiring verification of license, legitimacy, and age-appropriateness. Violations should attract fines and temporary takedown orders, not mere after-the-fact penalties.

G. Mandate AML Compliance for All Gaming Ecosystem Stakeholders

All online gaming operators, payment gateways, and advertising intermediaries should be formally designated as “reporting entities” under the Prevention of Money Laundering Act (PMLA).

This status should entail compulsory Know Your Customer (KYC) verification, real-time Suspicious Transaction Reporting (STR), and proactive monitoring thereby shifting compliance from post-offence investigation to risk anticipation.

H. Implement Legally Binding Ad-Traceability and Sponsorship Transparency

Statutory requirements should oblige all advertising platforms to disclose the identity of sponsors, verify gaming licence status, and label AI-generated promotional content. Such transparency would dismantle the anonymity that enables cross-border illicit promotions, a concern evidenced by recent investigations involving global digital platforms.

This research demonstrates that India’s online gaming industry is constrained by fragmented regulation, which creates enforcement loopholes and weakens financial crime controls. The analysis reveals that overlapping statutes and inconsistent definitions of “online gaming” undermine policy coherence and open pathways for regulatory arbitrage.

To address this gap, the study proposes three innovative, research-backed measures: establishing a centralized compliance authority, deploying phased Reg-Tech driven AML monitoring, and creating shared infrastructures for Suspicious Transaction Reporting (STR).

These recommendations are not merely theoretical; they respond directly to observed deficiencies in India’s current legal and enforcement architecture. By advancing a framework that is both technologically progressive and operationally realistic, the study contributes to ongoing debates on how online gaming regulation can evolve into a coherent and future-ready system.

Ultimately, the findings underscore that India’s readiness for high-tech regulatory solutions must be built incrementally, but the suggested interventions provide a practical pathway to strengthen financial integrity, consumer trust, and policy legitimacy in the online gaming sector.

LIST OF ABBREVIATIONS

AML	Anti-Money Laundering
ASCI	Advertising Standards Council of India
CGST	Central Goods and Services Tax
DPDP Act	Digital Personal Data Protection Act
ED	Enforcement Directorate

FIU-IND	Financial Intelligence Unit – India
GST	Goods and Services Tax
IT Rules	Information Technology Rules
KYC	Know Your Customer
ML	Money Laundering
PMLA	Prevention of Money Laundering Act
PPIs	Prepaid Payment Instruments
RBI	Reserve Bank of India
RMG	Real-Money Gaming
RNG	Random Number Generator
Reg-Tech	Regulatory Technology
SEBI	Securities and Exchange Board of India
STR	Suspicious Transaction Report
UPI	Unified Payments Interface