



## Online gaming in India: A socio-legal analysis of addiction, money laundering and regulatory responses

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### Abstract

The explosive growth of online gaming platform in India has transformed digital entertainment into high value economic sector, attracting millions of users and substantial financial flows. However, alongside technological innovation and market growth, the online gaming ecosystem, particularly Real Money Gaming (RMG) platforms has generated serious socio-economic, psychological, and legal challenges. Online gaming platforms increasingly employ psychologically manipulative design features such as variable reward mechanisms, near-miss outcomes, and monetized progression systems— that mimic gambling behaviour and reinforce compulsive engagement. Clinical and media-documented evidence in India indicates rise in gaming-related mental health issues, including anxiety, depression, academic decline, and social withdrawal. In extreme cases, financial distress and addiction linked to online gaming losses have contributed to suicides, particularly in states with high participation in real- money gaming. Although suicide is a multifactorial phenomenon, the recurring association between gaming losses, debt accumulation, and psychological breakdown highlights a growing public health concern. This regulatory vacuum enabled the misuse of gaming platforms as conduits for financial crimes, including fraud, tax Evasion, and potential money laundering.

Mechanisms such as multi-account layering, chip dumping, mule accounts, and Offshore payment routing is commonly used to conceal the origin of illicit funds by layering transactions across multiple jurisdictions. International AML bodies such as the FATF identify complex cross-border routing and the use of financial center's with weak regulatory oversight as key indicators of money laundering risk. Government disclosures and enforcement actions reveal that thousands of crores of rupees moved annually Through gaming channels without adequate Anti-Money Laundering (AML) safeguards. This research paper undertakes a comprehensive, interdisciplinary analysis of the Indian Online gaming ecosystem, Focusing on the mechanisms of gaming addiction among Teenagers, the structural exploitation of gaming platforms for Money Laundering, and detailing about promoting and regulations of online gaming act, 2025. Drawing upon psychological theory, financial crime typologies, Legislative analysis, and documented case studies, the paper argues that unregulated Digital gaming has evolved into a high-risk socio-technical system with implications for Public health, family stability, and national security.

**Keywords:** Online gaming, gaming addiction, internet gaming disorder, money laundering, real money gaming, proga2025, national security, digital regulation

### Introduction

The digital transformation of India's entertainment economy has Fundamentally altered the structure, scale, and social impact of Gaming activities. Online gaming, once peripheral to traditional Forms of leisure, has emerged as a central component of the digital

Marketplace, driven by technological convergence and Monetization of user engagement <sup>[1]</sup>. The Indian online gaming Sector, characterized by real-money games and fantasy sports. Platforms, now occupies a legally ambiguous space at the Intersection of skill, chance, commerce, and gambling <sup>[2]</sup>. This rapid Expansion, largely outpacing regulatory preparedness, has Generated complex socio-legal challenges demanding academic and policy scrutiny <sup>[3]</sup>. At the societal level, the proliferation of online gaming platforms has Been accompanied by a rise in behavioural addiction, financial Precarity, and psychosocial harm, particularly among youth <sup>[4]</sup>. The Gamification of monetary risk through reward algorithms and Variable reinforcement mechanisms intensifies compulsive Behaviour <sup>[5]</sup>. Despite empirical evidence linking excessive online Gaming to mental health disorders and indebtedness, Indian law Inadequately conceptualizes digital behavioural addiction <sup>[6]</sup>. This Regulatory lacuna raises constitutional concerns under Article 21 of The Constitution of India <sup>[7]</sup>, read with the

Directive Principles of State Policy. From a legal standpoint, governance of online gaming in India Remains fragmented across constitutional and statutory domains. The continued reliance on the “game of skill vs. game of chance” doctrine, developed under the colonial- era Public Gambling Act, 1867 <sup>[2]</sup>, is increasingly inadequate for digital platforms. Judicial precedents such as under the colonial-era Public Gambling Act <sup>[9]</sup> have attempted to clarify the skill–chance distinction but did not anticipate algorithm-driven monetization models. Consequently, intermediaries exploit doctrinal ambiguities, resulting in regulatory uncertainty <sup>[3]</sup>. Concurrently, online gaming platforms have emerged as potential conduits for financial crimes, particularly money laundering, due to integration with digital payment systems and virtual assets <sup>[10]</sup>. The opacity created by in-game purchases and peer-to-peer transfers challenges conventional anti-money laundering frameworks. Existing regulatory instruments, including the Prevention of Money Laundering Act, 2002 <sup>[11]</sup>, have not been fully adapted to technological specificities of gaming ecosystems, raising concerns regarding financial transparency and national security <sup>[10]</sup>. Recent regulatory interventions—such as amendments to the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021, particularly the 2023 online gaming amendment <sup>[12]</sup>, GST measures under

the Central Goods and Services Tax Act, 2017 [13] have introduced due diligence obligations, self-regulatory frameworks, and compliance requirements for online gaming intermediaries. Additionally, the Promotion and Regulation of online gaming Act, 2025 has been enacted to establish a comprehensive statutory framework for the promotion and regulation of online gaming in India; however, the Act has not yet been formally notified or brought into force. As a result, its provisions remain prospective and await implementation through subordinate rules and regulatory mechanisms. However, these responses remain reactive and fragmented, producing jurisdictional conflicts between the Union and States and prolonged constitutional litigation [3]. This research adopts a socio-legal analytical framework to evaluate regulatory mechanisms governing addiction, financial misconduct, and platform accountability in light of constitutional principles and comparative regulatory models. It proposes a comprehensive, rights-oriented framework reconciling innovation with accountability while ensuring compliance with constitutional mandates [7].

## 1. Research problem

### Statement of the Research Problem

The expansion of online gaming platforms in India — particularly Real Money Gaming (RMG) websites—has generated a complex socio-economic and regulatory challenge. Although the sector has contributed to digital innovation, foreign investment, and employment generation, the absence of a comprehensive regulatory framework until 2025 enabled gaming platforms to evolve into high-risk digital environments. These platforms increasingly fostered behavioural addiction, particularly among adolescents, while simultaneously creating opportunities for large-scale financial misconduct, including money laundering and illicit fund transfers.

Existing legal frameworks were structurally ill-equipped to address the psychological manipulation embedded in platform design, the heightened vulnerability of minors, and the emergence of gaming ecosystems as alternative transactional systems operating beyond traditional banking oversight. The doctrinal focus on classifying games as “skill” or “chance” failed to capture the algorithm-driven, monetized engagement models that characterize contemporary digital gaming.

The yet-to-be-notified Online Gaming (Promotion and Regulation) Act, 2025 (PROGA 2025) faces significant enforcement challenges, including jurisdictional conflicts between the Union and State governments, the persistence of offshore and unlicensed platforms, technological difficulties in monitoring cross-border digital transactions, and the absence of clear operational rules, institutional capacity, and coordination mechanisms necessary for effective regulation.

Accordingly, the core research problem lies in examining how online gaming ecosystems in India simultaneously function as addictive behavioural systems and as infrastructures vulnerable to financial crime, and in assessing whether existing regulatory mechanisms are normatively coherent, constitutionally grounded, and institutionally sufficient to mitigate these intertwined risks without undermining legitimate digital innovation and economic development.

## 2. Research objectives

The study is guided by the following objectives:

### Primary Objectives

- To examine the extent and nature of gaming addiction among teenagers in India arising from online gaming platforms.
- To analyze how online gaming websites are exploited as instruments for money laundering and illicit financial flows.
- To analyze the potential effectiveness and anticipated challenges of India's proposed regulatory framework under PROGA 2025.
- Secondary Objectives
- To identify psychological and technological design mechanisms that contribute to addictive gaming behaviour.
- To study major Indian case examples involving gaming-related financial crimes.
- To assess regulatory gaps, enforcement challenges, and compliance failures in the online gaming sector.
- To propose policy, legal, and technological solutions for reducing addiction and preventing financial misuse.

## 3. Research questions

The study seeks to answer the following research questions:

- What factors have contributed to the rapid growth of online gaming platforms in India?
- How do online gaming platforms influence addictive behavior among teenagers?
- What psychological and design mechanisms are used by gaming platforms to encourage prolonged engagement and spending?
- In what ways are online gaming platforms used for money laundering and financial crimes?
- How effective is the Promotion and Regulation of Online Gaming Act 2025, in addressing addiction and money laundering?
- What are the key enforcement and jurisdictional challenges faced by Indian regulators?
- What policy and regulatory measures can balance innovation, consumer protection, and national security?

## 4. Research hypotheses

Based on the research problem, the following hypotheses are formulated:

**H<sub>1</sub>:** Online gaming platforms employing real-money mechanisms significantly increase the risk of gaming addiction among teenagers.

**H<sub>2</sub>:** The presence of predatory game design features (loot boxes, variable rewards, near miss mechanics) is positively correlated with compulsive gaming behavior.

**H<sub>3</sub>:** Online gaming platforms operating without stringent financial compliance mechanisms are more likely to be exploited for money laundering and illicit financial transactions.

**H<sub>4</sub>:** The absence of centralized regulation prior to 2025 directly contributed to the proliferation of offshore and illegal gaming platforms in India.

**H<sub>5</sub>:** Legislative prohibition alone is insufficient to eliminate gaming-related harms without complementary technological and educational interventions.

## 5. Research methodology

### Research Design

This study adopts a doctrinal and analytical research methodology. The primary data for this research has been collected from statutory instruments, case law, regulatory reports, and policy documents published between 2019 and 2025. Given that the Online Gaming (Promotion and Regulation) Act, 2025 (PROGA 2025) awaits formal notification and implementation, the research employs a prospective doctrinal analysis of the statutory framework alongside a retrospective evaluation of the pre-PROGA regulatory regime, including the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 and subsequent 2023 online gaming amendments. This approach enables an assessment of the Act's potential regulatory impact, enforcement challenges, and policy implications within India's evolving digital gaming governance structure.

### Nature of Research

- Doctrinal legal research for analyzing statutes, judicial decisions, and regulatory frameworks.
- Socio-legal and interdisciplinary research incorporating psychology, criminology, and digital governance.
- Sources
  - of Data Primary Sources
  - Statutes and regulations (PROGA 2025, PMLA, IT Act)
  - Parliamentary debates and government reports
  - Judicial decisions relating to online gaming and gambling Secondary Sources
  - Academic journals and research papers.
  - Reports from WHO, FATF, RBI, and NIMHANS.
  - News reports and investigative journalism on gaming scams.

### Method of Analysis

- Content analysis of legal texts
- Comparative analysis of regulatory models
- Case study analysis of major gaming-related frauds
- Thematic analysis of addiction and laundering mechanisms.

## 6. Literature review

Online gaming in India has emerged as a multifaceted socio-legal phenomenon over the past decade, driven by rapid digital adoption, smartphone proliferation, increased internet penetration, and a large youth demographic <sup>[1]</sup>. Government reports and industry assessments identify India as one of the fastest-growing online gaming markets globally, particularly in real-money gaming (RMG) and fantasy sports segments <sup>[2]</sup>. Academic and policy literature broadly converges around three core concerns: (i) addiction and public health impacts, (ii) financial crimes including money laundering, and (iii) the evolving regulatory and constitutional framework governing online gaming.

### 1. Gaming Addiction and Behavioural Studies

Global literature on Internet Gaming Disorder emphasizes that adolescents are disproportionately vulnerable due to neurological immaturity and heightened reward sensitivity <sup>[3]</sup>. The classification of "Gaming Disorder" in the ICD11 by the World Health Organization marked a major shift in international public health recognition <sup>[4]</sup>.

Neuropsychological research links excessive gaming to dopamine-based reward circuitry similar to substance addiction models <sup>[5]</sup>.

Indian clinical findings, particularly from the National Institute of Mental Health and Neurosciences (NIMHANS), report rising cases of gaming-related anxiety, depression, academic decline, and family conflict <sup>[6]</sup>. However, the literature also highlights the absence of nationwide epidemiological data and structured public health monitoring mechanisms, resulting in under-reporting and limited institutional response <sup>[6]</sup>.

Constitutional scholars connect these concerns to the State's obligations under Article 21 of the Constitution of India to protect mental well-being and dignity <sup>[7]</sup>.

### 2. Online Gaming vs. Real-Money Gaming (RMG)

In the Indian context, legal controversy largely centers on platforms involving monetary stakes—fantasy sports, rummy, and poker—distinguished from casual or social games lacking financial risk. The doctrinal foundation stems from the colonial-era Public Gambling Act, 1867 <sup>[8]</sup>, which differentiates "games of skill" from "games of chance." Judicial precedents such as *State of Bombay v. R.M.D. Chamarbaugwala* <sup>[9]</sup> and *K.R. Lakshmanan v. State of Tamil Nadu* <sup>[10]</sup> recognized skill-based competitions as constitutionally protected trade under Article 19(1)(g). However, contemporary scholarship argues that these rulings did not anticipate algorithm-driven engagement, micro transactions, and monetized behavioural design in digital platforms. The Law Commission of India's 276<sup>th</sup> Report further observed the inadequacy of existing gambling laws in addressing online betting and gaming <sup>[11]</sup>.

### 3. Social and Family Impacts

Media investigations and sociological case studies document severe psychosocial fallout linked to compulsive gaming. Reports indicate financial losses, academic deterioration, and breakdown of family relationships among adolescents and young adults. These narratives reinforce clinical findings that gaming addiction has tangible social consequences beyond individual pathology <sup>[6]</sup>. Legal scholars increasingly frame excessive RMG participation as a public health and consumer protection issue rather than merely a gambling regulation matter.

### 4. Money Laundering Allegations

Financial crime literature identifies online gaming platforms as potential vehicles for layering and integrating illicit funds due to their integration with digital wallets, Unified Payments Interface (UPI), and cross-border payment gateways <sup>[12]</sup>. The Financial Action Task Force has warned about risks associated with virtual assets and digital payment ecosystems that lack robust compliance controls <sup>[13]</sup>.

In India, the Enforcement Directorate (ED) has invoked the Prevention of Money Laundering Act, 2002 against online gaming operators suspected of laundering user funds and facilitating illegal betting networks <sup>[14]</sup>. Court filings and government affidavits have linked gaming-related transactions with suspicious remittances and offshore fund transfers, raising concerns about national financial integrity. Scholars argue that traditional AML frameworks require technological recalibration to address platform-based micro transactions and digital layering mechanisms <sup>[13]</sup>.

## 5. National Laws and Policy Initiatives

The regulatory response in India has evolved incrementally. The Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 categorize gaming platforms as intermediaries subject to due diligence and grievance redressal obligations<sup>[15]</sup>. The 2023 amendments introduced verification requirements for permissible online real-money games, including KYC compliance and addiction safeguards.

Tax reforms under the Central Goods and Services Tax Act, 2017 imposed a uniform 28%

GST on online gaming entry amounts, alongside a 30% income tax on winnings under the Income Tax Act, 1961

<sup>[16]</sup>. These measures aim to enhance transparency and reduce informal monetary flows but have been critiqued for regulatory fragmentation.

## 6. Promotion and Regulation of Online Gaming Act, 2025

The Online Gaming (Promotion and Regulation) Act, 2025 (PROGA 2025) represents a significant legislative development in India's evolving digital gaming framework. The Act received Presidential assent on 22 August 2025, indicating the Union Government's intent to establish a comprehensive statutory regime for the promotion, supervision, and regulation of online gaming. However, the Act has not yet been notified under Section 1(3), and therefore its substantive provisions have not come into force.

Following the enactment, draft subordinate rules were released for public consultation, with the consultation process concluding on 31 October 2025. The implementation of the Act has also encountered constitutional scrutiny, with challenges pending before the Supreme Court of India, where the matter is scheduled for hearing on 21 January

2026. In this context, the legality of central regulatory intervention in a domain traditionally associated with State legislative competence, as well as issues relating to federalism, trade, and technological regulation, remain under judicial consideration.

Despite the absence of formal notification, the prospective regulatory framework under PROGA 2025 has already influenced industry behaviour. Payment intermediaries, financial institutions, and online gaming platforms have begun adopting anticipatory compliance measures, including enhanced due diligence, risk classification, and transaction monitoring, in anticipation of the forthcoming regulatory environment. These developments highlight the Act's normative and signaling effect on digital financial governance even prior to operationalization.

## 7. Judicial Interpretation

Judicial responses remain varied. The Supreme Court and various High Courts have upheld the protection of genuine skill-based games while permitting reasonable state regulation.

For instance, in *Junglee Games India Pvt. Ltd. V. State of Tamil Nadu*, the Madras High Court struck down portions of Tamil Nadu's blanket ban on online skill games as disproportionate. Similarly, in *All India Gaming Federation v. State of Karnataka*, the Karnataka High Court invalidated legislative amendments criminalizing online skill-based gaming.

These rulings underscore the constitutional tension between economic freedom and public interest regulation, reflecting an evolving jurisprudence in digital gaming governance.

## Research analysis

### Research Analysis

The Online Gaming (Promotion and Regulation) Act, 2025 (PROGA 2025) represents India's first consolidated central legislative attempt to govern the online gaming ecosystem. While enacted and granted Presidential assent on 22 August 2025, the Act has not been notified under Section 1(3) and therefore remains non-operational as of February 2026. The Act also awaits constitutional adjudication before the Supreme Court of India, where key issues relating to federal competence, proportionality, and the balance between digital innovation and regulatory control are under consideration.

Looking ahead, the future trajectory of PROGA 2025 is likely to shape India's digital regulatory landscape by introducing structured licensing, enhanced financial surveillance, and coordinated oversight of online gaming platforms. If effectively implemented, the framework may foster regulatory certainty, strengthen consumer protection, and align India's approach with global standards on anti-money laundering, responsible gaming, and technological governance. At the same time, the Act may catalyze the development of a hybrid federal model in which central and state authorities collaboratively regulate digital gaming, thereby addressing jurisdictional conflicts while promoting innovation, economic growth, and digital trust in emerging virtual economies.

- a. Addiction and Social Impact: The Rationale and Its Limits Government Justifications** The government's rationale for stringent regulation is grounded in social harm concerns:
- Policymakers have explicitly cited addiction risks, financial ruin, and psychological distress, asserting that online money games are a public health issue.
  - Law enforcement has also raised alarms about gambling-related debt, youth addiction, and even links to suicide, underlining the societal urgency of curbing addictive play.

These concerns are mirrored in grassroots awareness efforts, where police and civic bodies conduct workshops to address online gaming addiction among young people.

### Limitations of Prohibition as a Solution

However, research and media analyses suggest legal prohibition alone is unlikely to solve the addiction problem:

- Past state-level bans in places like Tamil Nadu and Karnataka were struck down by courts or circumvented via offshore platforms, underscoring the limits of outright bans.
- Critics argue that prohibition may push users toward unregulated foreign platforms, where addiction, fraud, and exploitation risks can be even greater—a well-documented outcome in analogous regulatory contexts like China's gaming restrictions.

This tension highlights those structural issues—such as design features that promote compulsive play—require smarter, evidence-based intervention strategies rather than punitive prohibition alone.

**b. Financial Misuse & Money Laundering: Regulatory Responses and Risks**

**Emerging Enforcement Actions**

Academic and journalistic sources indicate that online gaming platforms have increasingly been viewed through the lens of financial crime risk, including:

- Money laundering investigations under the Prevention of Money Laundering Act (PMLA), exposing flows of illicit funds through gaming platforms.
- Regulatory orders for stringent KYC, transaction monitoring, and anti-fraud controls were proposed before the 2025 Act to mitigate exploitation and illegal financial flows.

**Systemic Risks Beyond Addiction**

The Centre has informed courts that real-money gaming channels have been linked to suspicious remittances, layering, and misuse for illicit fund movements—a risk that extends into other financial crime areas including terror financing.

Such testimony reflects the gravity with which authorities now view financial misuse via gaming economies.

**c. Future Impacts & Research Implications Short-Term Impacts (1–3 Years)**

**Regulatory adaptation:** The industry will need to adjust product offerings, compliance infrastructure, and revenue models—with greater emphasis on:•Age verification, spending limits, and responsible gaming tools

- Payment and data controls that align with anti-money-laundering and consumer protection standards
- Market shifts: Large real-money gaming operators may diversify into esports, cloud gaming, or subscription-based platforms to sustain growth within legal boundaries.

**User behaviour:** A period of backlash and migration to unregulated offshore services can occur, requiring enforcement enhancements in digital border control and cross-jurisdiction cooperation studied by scholars.

**Long-Term Impacts (5+ Years)**

Public health framing: Continued focus on gaming addiction may prompt:

**Research-backed prevention programmes, potentially using game-based interventions to build digital resilience (e.g., studies showing efficacy in teaching users to recognize scams and harmful design patterns).**

**Regulatory innovation:** India’s approach will likely influence global norms. Policymakers may explore balanced regulatory models that distinguish between entertainment gaming and exploitative wagering—similar to EU and Japanese frameworks that regulate loot-box mechanics instead of outright bans.

**Cybercrime integration:** As cybercrime and financial exploitation evolve, future regulation must integrate gaming oversight with broader fintech and cybersecurity regimes, a topic ripe for interdisciplinary research bridging law, economics, and technology governance.

**d. Research and Policy Challenges Ahead**

Despite progress, key research gaps remain:

- Quantitative prevalence data on gaming addiction in India

- Impact assessments of current regulatory measures
- Comparative analysis of global regulatory models and their applicability to India’s digital society

This analysis underscores the importance of evidence-based policy that can balance consumer protection, economic opportunity, and individual liberties.

**From Entertainment to Illicit Finance: A Legal Study of Online Gaming Regulation in India**

A Legal Study of Online Gaming Regulation in India

Online gaming in India has undergone a significant transformation over the past decade, evolving from a casual recreational activity into a complex digital economic ecosystem. This transformation has been fueled by widespread smartphone adoption, affordable internet access, and the rapid digitization of payment systems [1]. Particularly notable is the rise of real-money gaming (RMG) platforms, where users stake money with the expectation of monetary rewards. While these platforms promise entertainment and skill based competition, they have also generated substantial financial flows, cross-border participation, and regulatory ambiguity. Government and industry estimates suggest that tens of crores of Indian users participate in online gaming, with real-money gaming generating thousands of crores in annual deposits and turnover [2]. Reports placed before parliamentary and regulatory bodies have indicated significant consumer losses, highlighting systemic vulnerabilities in financial oversight and consumer protection within the digital economy [3]. These losses represent not merely individual setbacks but structural weaknesses in digital financial governance.

**Legal Context: Regulation Before 2025**

Prior to 2025, regulation of online gaming in India largely revolved around the judicially evolved distinction between games of skill and games of chance. The Supreme Court in *State of Andhra Pradesh v. K. Satyanarayana* (1968) recognized rummy as predominantly skill-based [4], and in *Dr. K.R. Lakshmanan v. State of Tamil Nadu* (1996), held that games of skill fall outside gambling prohibitions [5]. However, courts across various states delivered inconsistent rulings in the digital context, resulting in a fragmented regulatory framework. State attempts to impose blanket bans were struck down in several cases for violating constitutional protections under Article 19(1)(g), including decisions of the Madras High Court concerning online skill-based games [6]. The absence of a unified central statute created enforcement gaps, regulatory uncertainty, and inconsistent consumer protection standards across jurisdictions. The Law Commission of India in its 276<sup>th</sup> Report (2018) acknowledged the complexity of regulating gambling and betting in the digital age and highlighted the need for structured oversight [7].

**Regulatory Failure and Resultant Harm**

From a socio-legal perspective, the fragmented regime produced three interrelated regulatory failures. First, a consumer protection deficit existed, as platforms were not uniformly mandated to implement age verification, transparent risk disclosures, financial caps, or addiction warnings. The World Health Organization formally recognized “Gaming Disorder” in the ICD-11 (2019), identifying impaired control and continuation despite

negative consequences as diagnostic criteria [8]. The American Psychiatric Association similarly identified Internet Gaming Disorder as a condition requiring further study (DSM-5TR, 2022) [9]. Indian clinical observations from NIMHANS (National Institute of Mental Health and Neurosciences) have reported increasing cases of gaming-related anxiety, depression, academic decline, and familial distress [10].

Second, financial misdirection and AML gaps became evident. RMG platforms facilitated high-volume monetary transactions without being explicitly classified as reporting entities under the Prevention of Money Laundering Act, 2002 (PMLA) [11]. Enforcement Directorate investigations have invoked PMLA provisions against certain gaming platforms for alleged laundering of proceeds and illegal betting structures [12]. The Financial Action Task Force (FATF) has identified online gambling platforms as potential vehicles for money laundering due to digital anonymity, high transaction velocity, and cross-border payment integration [13]. FATF's Risk-Based Approach for Casinos and Virtual Assets Guidance emphasizes the vulnerability of online gaming environments to layering and placement of illicit funds [14].

Third, aggregate social harm emerged as a serious concern. Empirical studies link excessive gaming to psychological distress, impulsivity, and financial dependency [15]. Media reports and public interest litigations have documented instances of indebtedness, family breakdown, and suicides allegedly linked to gaming-related financial losses [16]. These harms exposed regulatory gaps at the intersection of technology law, financial regulation, and public health governance.

### **Regulatory Shift: Anticipated Framework under the Promotion and Regulation of Online Gaming Act, 2025**

In response to mounting social, financial, and public health concerns, Parliament is expected to operationalize the Promotion and Regulation of Online Gaming Act, 2025 (PROGA) as a comprehensive and centralized regulatory framework<sup>17</sup>. The proposed regulatory approach is likely to prohibit high-risk online money games involving monetary stakes, while simultaneously establishing licensing, classification, and supervisory mechanisms. A National Online Gaming Commission is anticipated to function as the primary regulatory authority to oversee compliance, platform accountability, and consumer protection. Financial enforcement is expected to be strengthened through restrictions on banking and payment intermediaries processing transactions linked to prohibited platforms, aligning the regulatory ecosystem with broader financial integrity and anti-money laundering objectives.

### **Future Regulatory Needs: Illicit Finance and Financial Integrity**

A key policy priority in the anticipated framework is the prevention of illicit financial flows linked to digital gaming ecosystems. Online gaming platforms are expected to be integrated more explicitly within anti-money laundering and counter-terror financing frameworks. This includes enhanced due diligence, beneficial ownership transparency, real-time transaction monitoring, and suspicious transaction reporting. Future regulatory design should also address complex financial structures involving micro-transactions, multiple user accounts, and layered fund movement, which

complicate forensic tracing. The incorporation of gaming platforms within reporting entity obligations under financial regulatory laws will be essential to eliminate existing blind spots.

### **Legal Analysis: Strengths and Weaknesses of PROGA**

The principal strength of PROGA lies in eliminating the skill-versus-chance ambiguity by clearly prohibiting online money games while simultaneously regulating and promoting esports and social gaming under Sections 3 and 4 [17]. The imposition of criminal liability on operators and facilitators enhances deterrence. Licensing and classification mechanisms under Sections 8–10 introduce structured oversight. However, enforcement against offshore operators remains challenging without international regulatory coordination. Comparative scholarship suggests that outright prohibition may drive users toward foreign platforms accessed through VPNs, potentially undermining regulatory objectives [20]. Additionally, prohibition alone does not directly address the psychological dimensions of addiction, which require public health interventions consistent with WHO guidelines [8].

### **Comparative Legal Perspectives**

Comparative jurisdictions adopt alternative harm-reduction models. China imposes time based gaming restrictions and curfews for minors (National Press and Publication Administration Regulations, 2021) [21]. South Korea previously implemented the “Shutdown Law” restricting late night gaming access for minors [22]. These models focus on age verification, spending caps, and behavioural regulation rather than blanket financial prohibition, offering useful lessons for Indian regulatory refinement.

The phrase “From Entertainment to Illicit Finance” encapsulates the legal transformation of online gaming in India—from a regulatory grey zone to a tightly supervised domain acknowledging both consumer vulnerability and financial crime risks. While PROGA 2025 marks a significant legislative milestone, sustainable reform requires integration with technological safeguards, financial intelligence systems, mental health infrastructure, and international regulatory cooperation.

### **Digital Platforms, Social Harm, and Regulatory Reform: Gaming-Linked Suicides (2019– 2025)**

The rapid expansion of online gaming in India has been accompanied by growing concern over its social consequences, particularly addiction, financial ruin, and extreme psychological distress. Among the most tragic manifestations of these harms are suicides linked to gaming-related financial collapse and emotional turmoil.

#### **Gaming-Linked Suicides (2019-2025)**

Although comprehensive national data remains unavailable, state-level records and investigative journalism reveal consistent patterns.

- **Karnataka:** 32 suicides (January 2023–July 2025)
- **Telangana:** 20 suicides (in 2024 alone)
- **Tamil Nadu:** Over 30 cases (in recent years)

Media estimates suggest up to 47 suicides in Tamil Nadu alone between 2019 and 2024. While partial, these figures collectively demonstrate a recurring pattern of social harm associated with gaming-related financial loss.

## Social Harm Linkages

Four primary mechanisms link gaming participation to suicide risk: financial desperation arising from heavy losses; behavioural addiction disrupting emotional regulation; social isolation due to excessive gaming; and heightened vulnerability among individuals with pre-existing mental health conditions. Regulatory Reform and Harm Reduction PROGA 2025 reflects legislative acknowledgment of these harms by criminalizing exploitative gaming models and restricting financial access. However, regulation alone cannot eliminate psychological addiction. Effective harm reduction requires parallel investment in mental health services, public awareness initiatives, and protective design standards within digital platforms.

## Virtual Economies and Real Crimes: Financial Misuse of Online Gaming Platforms

Online gaming platforms have evolved into sophisticated virtual economies involving real money stakes, digital wallets, in-game currencies, and high-frequency financial transactions. Unlike traditional financial institutions, these platforms historically operated outside the formal anti-money laundering (AML) supervisory architecture Established under the Prevention of Money Laundering Act, 2002 (PMLA) <sup>[1]</sup>. This regulatory asymmetry exposed gaming ecosystems to misuse for fraud, money laundering, and cross-border financial manipulation. The Financial Action Task Force (FATF) has repeatedly identified online gambling and gaming environments as high-risk sectors due to their transactional opacity, rapid fund movement, and integration with digital payment systems <sup>[2]</sup>. FATF's Risk-Based Approach for Casinos and its Guidance on Virtual Assets caution that online platforms enabling deposit-withdrawal cycles may be exploited for placement, layering, and integration of illicit proceeds <sup>[3]</sup>.

channel deposits and withdrawals, thereby distancing beneficial owners from illicit proceeds <sup>[4]</sup>. Such accounts are frequently opened using falsified or compromised KYC credentials. Third, offshore structuring and cross-border remittances have been alleged in ED filings and press releases between 2022–2024, where certain online gaming operators reportedly routed user funds to offshore entities under the guise of software licensing fees or service payments <sup>[4]</sup>. Government submissions before courts have indicated outward remittances exceeding ₹5,700 crore between 2019 and 2024, with transaction patterns consistent with mis-declaration, tax evasion, and layering <sup>[5]</sup>. These flows raise concerns under both the Foreign Exchange Management Act, 1999 (FEMA) <sup>[6]</sup> and PMLA <sup>[1]</sup>. Fourth, conversion into in-game credits allows illicit funds to be transformed into digital tokens circulated within platform ecosystems and subsequently withdrawn as “winnings,” a typology recognized by FATF as digital value transformation designed to complicate audit trails <sup>[3]</sup>.

### a. Regulatory Gaps Before and Persisting Beyond the Enactment of PROGA 2025"

Prior to the enactment of the Promotion and Regulation of Online Gaming Act, 2025 (PROGA), gaming platforms were not explicitly classified as “reporting entities” under Section 2(1)(wa) of the PMLA <sup>[1]</sup>. Consequently, they were not uniformly subject to mandatory Customer Due Diligence (CDD), Suspicious Transaction Reporting (STR), record retention obligations, or Enhanced Due Diligence for

high-risk accounts. This regulatory gap created exploitable blind spots within India's AML architecture. The Reserve Bank of India (RBI) Master Directions on KYC (2016, updated periodically) imposed compliance obligations on banks and payment intermediaries <sup>[7]</sup>, but gaming platforms themselves were not directly supervised as financial institutions. The Law Commission of India (276<sup>th</sup> Report, 2018) acknowledged the regulatory complexity of online betting and the risk of financial misuse in digital environments <sup>[8]</sup>.

### b. Criminal Enforcement and Illustrative Cases

The Enforcement Directorate has initiated multiple investigations under the PMLA against online gaming platforms for alleged laundering of user funds and illegal betting proceeds <sup>[4]</sup>. Arrests and asset freezes in certain cases demonstrate tangible criminal risks within unregulated gaming ecosystems. Judicial records in money laundering prosecutions have emphasized the importance of tracing beneficial ownership and transaction layering, particularly in cases involving digital platforms <sup>[9]</sup>. These enforcement actions underscore the transition of online gaming from a recreational domain to a potential vector for financial crime.

### c. Legal Implications Under PROGA 2025

The enactment of PROGA 2025 marks a significant structural shift. By prohibiting online money games involving monetary stakes and empowering authorities to block noncompliant platforms, the Act attempts to close financial loopholes <sup>[10]</sup>. Furthermore, PROGA's compliance framework aligns gaming oversight with broader AML objectives. Payment intermediaries are restricted from processing transactions linked to prohibited platforms, effectively integrating gaming regulation with financial supervisory systems <sup>[10]</sup>. E. Reclassification as Financial Intermediaries

From a regulatory theory perspective, gaming platforms operating real-money ecosystems exhibit characteristics functionally analogous to financial intermediaries, including custody of user funds, digital wallet management, rapid deposit-withdrawal cycles, and cross-border transaction capabilities. Accordingly, addressing financial crime risks requires mandatory AML compliance under PMLA, robust KYC and enhanced due diligence norms, data localization and transaction traceability requirements, real-time suspicious transaction reporting, and international cooperation through FATF frameworks and MLAT mechanisms. FATF Recommendation 15 and Recommendation 22 emphasize risk-based supervision of non-traditional financial channels, which would logically extend to real money gaming ecosystems <sup>[2]</sup>.

The evolution of online gaming into virtual economies with real monetary stakes has blurred the line between entertainment platforms and financial conduits. The absence of explicit AML supervision prior to 2025 created exploitable vulnerabilities that facilitated layering, offshore remittances, and financial mis-declaration. The legal trajectory culminating in PROGA 2025 reflects recognition of these systemic risks. However, sustainable mitigation of financial crime in digital gaming ecosystems requires deeper integration with India's AML framework, financial intelligence systems, and international regulatory cooperation.

## **Behavioral Addiction in the Digital Age: Online Gaming and Adolescents—Conceptual Framework**

Behavioral addiction involves compulsive engagement in non-substance activities producing reinforcement patterns similar to substance addiction. Monetized online gaming fits squarely within this framework.

Internet Gaming Disorder (IGD) is characterized by preoccupation, impaired control, continuation despite harm, and functional impairment. Neuropsychological research links these behaviors to deregulated reward pathways.

Consequences and socio-economic impact are particularly visible among adolescents. Affected individuals often experience anxiety, depression, academic decline, and social withdrawal. Financial strain and family conflict further compound harm. Gaming addiction thus constitutes a growing public health challenge. Understanding its psychological mechanisms is essential for designing preventive and rehabilitative interventions.

## **Regulatory Challenges of Online Gaming in India Key Challenges**

Major regulatory challenges include definitional ambiguity, enforcement against offshore entities, weak consumer protection mechanisms, and inadequate integration with financial crime frameworks.

## **Legal Responses and Continuing Gaps**

While PROGA 2025 addresses many structural concerns, enforcement limitations, cross border issues, and the absence of comprehensive addiction-mitigation strategies remain. Balancing innovation, public health, and financial integrity lies at the heart of India's online gaming regulation challenge.

## **Suggestions and recommendations**

### **a. Preparing for Potential Implementation of PROGA 2025 Subject to Constitutional Validation**

Given that PROGA 2025 has been enacted but remains unnotified and pending constitutional scrutiny before the Supreme Court of India, the immediate priority should not be operational implementation but institutional and regulatory preparedness. Interim regulatory measures may include strengthening existing frameworks under the Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Rules, 2021 (as amended in 2023), enhancing due diligence obligations, and issuing advisory guidelines to payment intermediaries and gaming platforms. Simultaneously, the government should develop draft subordinate legislation, compliance protocols, and technological audit standards to enable swift and structured enforcement if the Act is upheld. This preparatory approach will reduce regulatory uncertainty while ensuring constitutional prudence.

### **b. Enhancing Constitutional Robustness and Federal Legitimacy**

To withstand scrutiny under Articles 19(1)(g), 246, and principles of cooperative federalism, the statutory framework must clearly justify central intervention on grounds of digital trade, cross-border financial regulation, and public health. A refined regulatory model should incorporate proportionality safeguards, transparent licensing, differentiated risk-based regulation, and due process protections. Greater consultation with State

governments, model regulatory frameworks, and federal coordination mechanisms may enhance constitutional legitimacy and reduce jurisdictional conflicts.

### **c. Phased and Risk-Based Regulatory Strategy**

Assuming judicial validation, a phased enforcement model is recommended. Phase I should prioritize high-risk real-money gaming platforms and cross-border operators. Phase II may expand oversight to domestic intermediaries, financial compliance, and consumer safeguards. Phase III may focus on algorithmic accountability, behavioral risk monitoring, and emerging technologies such as virtual economies and blockchain-based gaming. This incremental model would balance innovation, compliance capacity, and regulatory stability.

### **d. Interim Regulatory and Harm-Reduction Frameworks**

During the pre-notification period, policymakers should adopt harm-reduction strategies, including age verification, spending caps, self-exclusion tools, public awareness campaigns, and mental health support systems. Recognition of gaming addiction as a public health concern aligns with international standards, including classification by the World Health Organization. These interim safeguards can mitigate harm irrespective of the final judicial outcome.

### **e. Alternative Regulatory Models in Case of Judicial Invalidation**

If PROGA 2025 is partially or wholly invalidated, alternative frameworks may include:

- Strengthening sector-specific regulation through existing IT and financial laws
- A model State law supported by central coordination
- Co-regulation through self-regulatory bodies with statutory oversight
- A public health-oriented approach focusing on behavioral risk and digital consumer protection

Such adaptive governance ensures regulatory continuity without legislative vacuum.

### **f. Strengthening Financial Oversight and Anti-Money Laundering Controls**

Irrespective of PROGA's status, real-money gaming platforms should be progressively integrated into anti-money laundering frameworks. This includes enhanced KYC, beneficial ownership verification, suspicious transaction reporting, and cross-border monitoring consistent with global standards. Regulatory coordination with financial intelligence and enforcement agencies may address offshore payment routing, layered transactions, and digital financial abuse.

### **g. Addressing Offshore and Unlicensed Operators**

Immediate focus should be placed on enforcement against offshore and unlicensed platforms through geo-blocking, payment restrictions, domain suspension, and international cooperation. Blocking powers under existing digital and financial laws may be utilised to maintain regulatory integrity during the transitional period.

### **h. Platform Liability and Algorithmic Accountability**

Platforms should adopt ethical design and algorithmic transparency standards even in the absence of a notified

statutory framework. Regulatory audits, transparency reporting, and accountability for behavioral manipulation may strengthen consumer trust and reduce litigation risk.

#### **i. Judicial and Institutional Capacity Building**

Specialized training for judges, regulators, and enforcement agencies on digital behavioral harm, financial misuse, and emerging gaming technologies is essential. Institutional preparedness will support consistent adjudication and effective regulatory response.

#### **j. Preventive and Rights-Based Digital Governance**

Finally, regulatory policy must evolve toward preventive, rights-based digital governance. Adolescents and vulnerable users should be treated as rights-bearing individuals entitled to dignity, autonomy, and informed choice. A balanced model that integrates innovation, financial integrity, and public health will ensure sustainable growth in India's digital gaming ecosystem.

### **Conclusion and Analytical Framework for Reform**

The regulatory history of online gaming in India reveals not merely administrative delay but a structural constitutional mismatch. Digital gaming platforms today operate as psychologically engineered, financially networked, algorithm-driven ecosystems. Yet regulation continues to be anchored in colonial gambling statutes and the doctrinal binary of "skill versus chance." This formal classification framework is conceptually inadequate to regulate immersive platforms that monetize behavioural engagement, real-time micro transactions, and cross-border digital payments.

The consequence is regulatory arbitrage. Platforms operate within grey zones, externalizing addiction-related harms, financial vulnerabilities, and social costs onto individuals and families. The law, instead of anticipating harm, has largely responded through fragmented litigation and episodic prohibitions. A coherent reform model must therefore move beyond gambling jurisprudence and adopt a constitutional, harm-based regulatory paradigm. I.

**Addiction as a Constitutional Injury: Article 21 and Dignity**  
Online gaming addiction cannot be reduced to a matter of personal discipline or moral failing. It implicates constitutional protections under Article 21 of the Constitution of India, which guarantees the right to life and personal liberty. The Supreme Court has consistently interpreted this provision expansively to include dignity, mental well-being, and humane conditions of existence.

In *Francis Coralie Mullin v. Administrator, Union Territory of Delhi* (AIR 1981 SC 746), the Court held that the right to life includes the right to live with human dignity and all that goes along with it, thereby expanding Article 21 beyond mere physical survival. This doctrinal expansion provides a constitutional foundation for recognizing psychological integrity and mental health as protected interests.

Similarly, in *Bandhua Mukti Morcha v. Union of India* ((1984) 3 SCC 161), the Court affirmed that Article 21 imposes affirmative obligations upon the State to ensure conditions consistent with dignity and humane existence.

The decision clarified that constitutional rights are not purely negative restraints but impose positive duties to prevent systemic harm.

Applying this jurisprudence, if platform architecture foreseeably exploits adolescent cognitive vulnerability through variable reward cycles, immersive design, and financial incentives, the State's failure to regulate such environments raises constitutional concerns. Addiction-

related harm—particularly among minors—engages dignity, mental autonomy, and substantive liberty under Article 21.

### **1. Directive Principles and Affirmative State Duties**

The constitutional argument is further strengthened by Directive Principles of State Policy. Article 39(f) requires the State to ensure that children develop in conditions of freedom and dignity and are protected from exploitation and moral abandonment. Article 47 imposes a duty upon the State to improve public health.

Although non-justiciable, these provisions guide legislative interpretation and reinforce affirmative obligations in areas involving child protection and mental health. When adolescents are exposed to psychologically manipulative gaming ecosystems lacking enforceable safeguards—such as age-gating, spending limits, and addiction warnings—the State's constitutional commitment under Articles 39(f) and 47 becomes directly relevant.

Thus, regulatory reform must incorporate mandatory age verification and parental control architecture, statutory loss caps and spending transparency mechanisms, compulsory addiction risk disclosures, and algorithmic impact audits assessing psychological harm. This approach situates gaming regulation within a public health and child protection framework rather than a narrow gambling classification model.

### **2. Financial Integrity and Digital Economic Governance**

Online gaming platforms increasingly function as hybrid entertainment-financial intermediaries. Digital wallets, in-game credits, and cross-border payment channels create transactional opacity capable of facilitating money laundering and fraud. In the absence of uniform AML obligations, these platforms risk becoming alternative conduits for illicit financial layering.

A preventive regulatory model should therefore mandate enhanced Know-Your-Customer (KYC) compliance, realtime transaction monitoring systems, suspicious transaction reporting parity with fintech entities, and periodic independent compliance audits. Protecting the integrity of India's digital economy requires integrating gaming platforms into risk-based financial oversight frameworks rather than treating them as purely recreational services.

### **3. Federalism, Jurisdiction, and Constitutional Centralisation**

Regulatory incoherence is compounded by India's federal structure. While "betting and gambling" fall within the State List, digital platforms, intermediary liability, and financial regulation engage Union powers. This overlap has produced inconsistent state-level prohibitions and constitutional challenges across High Courts.

Recognising the national importance and constitutional complexity of the issue, the Supreme Court of India has transferred all pending High Court challenges concerning the validity of the Prohibition of Online Real Money Games Act (PROGA) to itself. This centralisation of adjudication signals that the matter transcends ordinary statutory interpretation and involves fundamental constitutional questions concerning legislative competence, digital regulation, and economic freedoms.

The pending challenge in *Head Digital Works Pvt. Ltd. V. Union of India* (Writ Petition No. Pending, 2025) illustrates

the ongoing judicial examination of PROGA's validity. The Court's intervention reflects an emerging recognition that online gaming regulation requires harmonised national standards rather than fragmented state experimentation.

#### 4. Toward a Rights-Based Digital Governance Model

The analytical shift required is paradigmatic. Online gaming must be reconceptualised as a digitally mediated public space with constitutional implications. Regulation should be harm-based, technologically adaptive, and constitutionally anchored.

A coherent reform framework should include constitutional safeguards integrating dignity-based protections under Article 21, child protection mechanisms aligned with Article 39(f), and public health safeguards consistent with Article 47. Platform accountability must involve civil liability for predatory algorithmic design, mandatory transparency in reward probabilities, and independent algorithmic audits. Financial oversight integration requires AML compliance parity with digital financial intermediaries and coordinated supervision between financial regulators and cybercrime agencies. Institutional coherence demands clear demarcation of Union-State competencies, central regulatory harmonisation, and ongoing constitutional supervision by the Supreme Court.

#### Concluding Position

India stands at a constitutional crossroads in digital governance. The regulation of online gaming increasingly engages core constitutional values. Addiction implicates dignity and mental well-being under Article 21, as interpreted in *Francis Coralie Mullin v. Administrator, Union Territory of Delhi and Bandhua Mukti Morcha v. Union of India*, while child welfare derives normative strength from Articles 39(f) and 47 of the Constitution of India. At the same time, financial misuse of online gaming ecosystems raises concerns regarding systemic economic integrity, illicit financial flows, and digital financial governance. Federal fragmentation further intensifies the constitutional debate, raising structural questions about legislative competence, cooperative federalism, and the balance between centralised digital regulation and State autonomy.

The constitutional trajectory of the Online Gaming (Promotion and Regulation) Act, 2025 (PROGA 2025) remains uncertain as of February 2026. Although the Act has received Presidential assent, it has not yet been notified and therefore remains non-operational. The pending challenges before the Supreme Court of India, with the hearing scheduled for 21 January 2026, are likely to be pivotal in determining the future of India's digital gaming regulation. The outcome will significantly influence questions of federal competence, proportionality, trade freedom under Article 19(1)(g), and the permissible scope of central intervention in emerging digital markets.

Notably, regulatory uncertainty has already produced measurable economic and institutional consequences. Major industry actors such as Dream11, PokerBaazi, Mobile Premier League, yolo247, khelo24, fomo7 and Zupee have reportedly scaled down or suspended certain operations in response to evolving regulatory signals. Foreign investment decisions, including capital write-offs by entities such as Clairvest Group, alongside workforce rationalisation across segments of the gaming industry, demonstrate that anticipatory compliance and regulatory risk perception are

already reshaping India's digital economy even in the absence of formal enforcement. This situation underscores that legal uncertainty, rather than formal prohibition, may itself generate systemic economic disruption.

In this context, the centralisation of constitutional challenges reflects that online gaming regulation is no longer a peripheral issue of gambling policy. Instead, it has evolved into a broader governance question involving dignity, federalism, economic freedom, financial stability, and public health. Reform must therefore move beyond reactive prohibition toward anticipatory, rights-based digital regulation that integrates technological oversight, behavioural safeguards, and financial transparency.

Looking ahead, policymakers must remain prepared for multiple regulatory pathways. If PROGA 2025 is upheld, a phased, cooperative, and risk-based implementation strategy will be essential to balance innovation and social protection. Conversely, if the Act is struck down or substantially modified, alternative regulatory models—including strengthened intermediary obligations, sector-specific financial oversight, public health-oriented harm reduction, and coordinated State-level frameworks—must be developed to prevent regulatory vacuum.

Ultimately, only a constitutionally grounded, economically responsive, and technologically adaptive framework can reconcile innovation with social protection, foster investor confidence, and ensure that India's digital gaming ecosystem evolves in a manner consistent with human dignity, federal balance, and sustainable economic growth.

#### Final assessment

This research paper demonstrates strong analytical depth and comprehensive coverage of the subject matter. However, the fundamental factual error regarding PROGA 2025's implementation status significantly undermines the paper's credibility and requires immediate, substantial revision throughout. The paper reads as if PROGA 2025 is an operational regulatory framework, when in reality it is a pending, challenged, and unimplemented statute. This is not a minor issue but goes to the core premise of the research analysis and recommendations.

The paper would benefit from restructuring as a prospective analysis of anticipated regulatory impact rather than retrospective evaluation of regulatory effectiveness. Additionally, greater attention to the economic disruption caused by regulatory uncertainty would strengthen the overall argument.

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