Money Laundering in Online Gaming
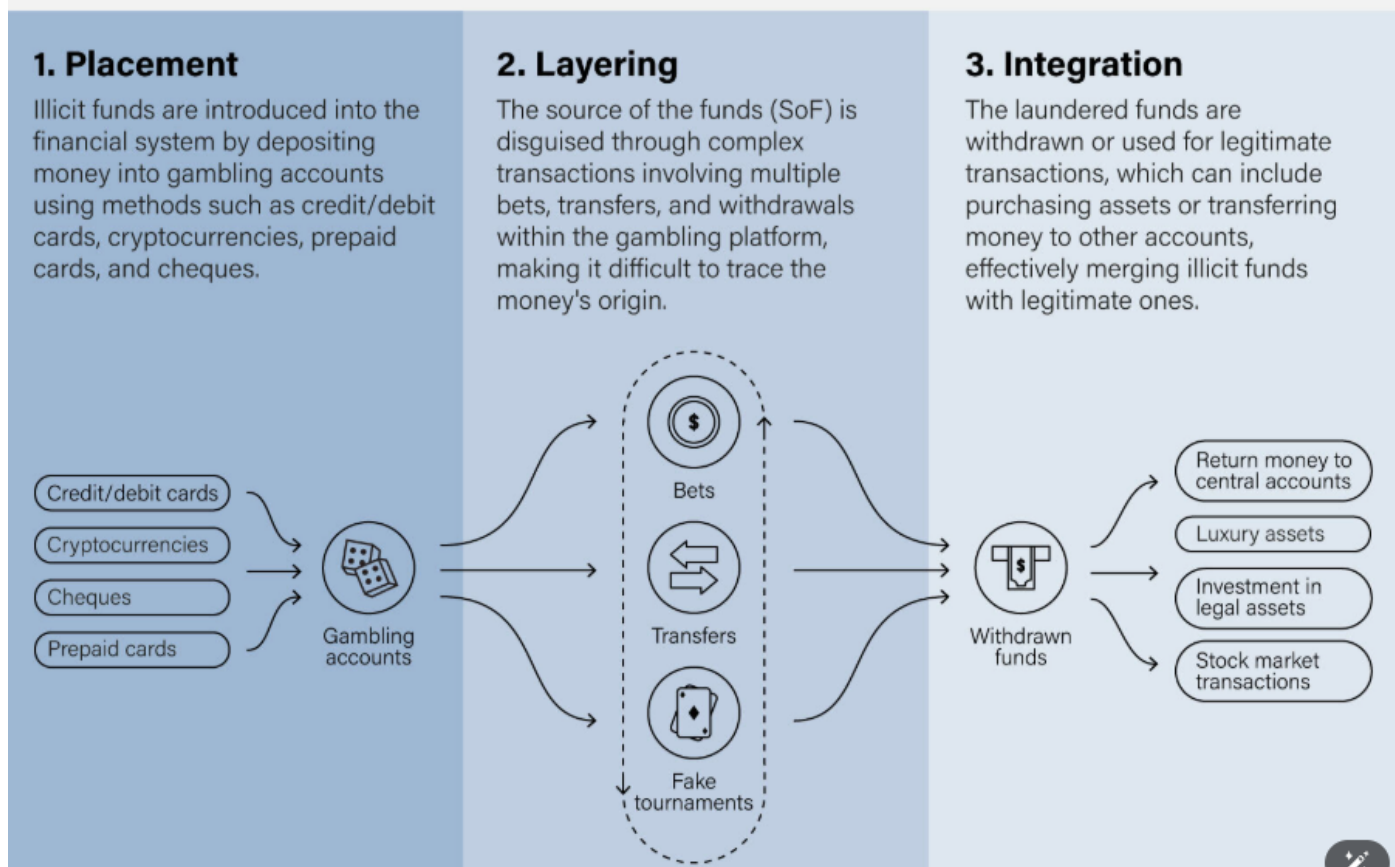
Source:BL

Why in News?

In a move to ensure financial integrity and protect users, India is planning to bring online **real money gaming (RMG)** under the ambit of the **Prevention of Money Laundering Act, 2002 (PMLA).**

What is the Landscape of Online Real Money Gaming in India?

- **Definition:** RMG platforms allow users to stake real money for potential winnings in games like fantasy sports, poker, and skill-based contests.
- **Market Momentum:** India became the **world's largest gaming market** in 2023 with 568 million gamers and 9.5 billion app downloads. The market was valued at **USD 2.2 billion in 2023, projected to reach USD 8.6 billion by 2028.**
- **Key Growth Drivers: Cheap internet data** and increasing **smartphone penetration** have made online gaming more accessible, especially to India's large and young population.
  - The **rise of digital payments** has made transactions seamless, while domestic gaming studios have flourished with technological advancements.
  - Due to **high unemployment and limited earning opportunities,** many seek quick money, making betting apps highly attractive.
  - Additionally, **popular sporting tournaments** like the **Indian Premier League,** combined with **celebrity promotions,** lure gullible youth into these platforms. **Poor digital literacy** (only **38% of households in India are digitally literate**) further increases their vulnerability.
- **Regulation:** In India, **State legislatures** have the exclusive authority to make laws on gaming, betting, and gambling under **Entry 34 of the List II (State List) of the Seventh Schedule of the Indian Constitution**.
  - At the national level, the **Public Gambling Act, 1867 exempts skill-based games** from penalties, while the Prize Competitions Act, 1955 regulates prize-based competitions.
  - The **Information Technology (Intermediary Guidelines and Digital Media Ethics Code) Amendment Rules, 2023** introduced definitions for key terms such as online game, online gaming intermediary, online real-money games (RMG), permissible games, and self-regulatory bodies, aiming to bring more structure to the rapidly evolving digital gaming landscape.
  - In India, foreign investment and technology collaboration are **completely banned** in the lottery, gambling, and betting sectors.

- **Taxation:** A **28% Goods and Services Tax (GST)** is levied on legal RMG firms, Under the Income Tax Act, 1961, winnings above Rs 10,000 from lotteries, card games, or any game (including skill-based games) are taxed at 30% (excluding surcharge and cess).
- **Money Laundering Mechanism in RMG:** The money laundering process in online gaming typically unfolds in three stages.
    - The first stage, **Placement**, involves **injecting illicit funds** into the gaming ecosystem through deposits or virtual credit purchases.
    - This is followed by **Layering**, where the origins of the funds are obscured using in-game transfers, currency conversions, and a series of complex transactions.
    - Finally, in the **Integration stage,** the "cleaned" money is withdrawn as **legitimate earnings,** such as winnings or refunds, often through cryptocurrency channels or cross-border payment systems.

The 3 stages of money laundering in gambling

1. Placement
Illicit funds are introduced into the financial system by depositing money into gambling accounts using methods such as credit/debit cards, cryptocurrencies, prepaid cards, and cheques.

2. Layering
The source of the funds (SoF) is disguised through complex transactions involving multiple bets, transfers, and withdrawals within the gambling platform, making it difficult to trace the money's origin.

3. Integration
The laundered funds are withdrawn or used for legitimate transactions, which can include purchasing assets or transferring money to other accounts, effectively merging illicit funds with legitimate ones.

Why is Regulation of Online Gaming Under PMLA Necessary?

- **Current Regulatory Gaps:** India's **Public Gambling Act (1867)** bans public gambling but **exempts games of skill.**
    - States regulate betting and gambling **differently,** resulting in a fragmented legal environment that illicit operators exploit.
    - Illegal offshore operators exploit India's regulatory gaps, evading taxes and perpetrating large-scale fraud by siphoning user funds abroad. Cases like **Mahadev app (Rs 6,000 crore suspected proceeds) and Fiewin (Rs 400 crore fraud)** exemplify the scale of illicit operations.
        - Unscrupulous operators use **shell companies, crypto wallets, and digital channels** to launder illicit money.
    - This complex scenario highlights the **need to bring online gaming under the stringent regulatory ambit of the PMLA to curb financial crimes** and enhance oversight.
- **Strengthening Accountability:** The 2023 PMLA rules extended regulatory oversight to **virtual**

asset service providers, enabling the **[Financial Intelligence Unit-India (FIU)](#)** to better monitor and penalize violations.

- By integrating virtual assets in online RMG under this framework helps to maintain transaction records and report suspicious activities, further enhancing **accountability in the gaming ecosystem.**

- **Terror Financing:** Online RMG poses a serious threat of **terror financing** due to its **anonymous and borderless nature.** Terror operatives may exploit gameplay as a covert channel to communicate and facilitate illicit transactions within the RMG ecosystem.
  - By integrating RMG under PMLA, it can be effectively secured and monitored by national security authorities.
- **Cyber Security:** India's cybersecurity infrastructure **remains inadequate** to fully safeguard emerging digital platforms, including online gaming.
  - Online gaming platforms can be exploited to **deploy [trojans or malware,](#)** potentially compromising users' bank accounts and causing financial losses.
  - Integrating under the PMLA will enhance regulatory oversight and reduce risks of cyber fraud and bank-related losses.

What are the Challenges in Enforcing Anti-Money Laundering Regulations on Online Gaming Platforms?

- **Use of Mule Accounts and Proxy Payment Channels:** Illicit gaming platforms frequently use **["mule" bank accounts](#)** or third-party wallets to route payments.
  - These accounts are often registered in the **name of unrelated individuals or shell entities**, obscuring the transaction's origin and purpose.
  - Online gaming platforms process thousands of **micro-transactions every minute**, making it difficult to detect suspicious patterns in real time. Automated systems must be **exceptionally robust to flag illicit activity** without disrupting legitimate gameplay.
- **Misuse of In-Game Purchases and Digital Wallets:** Players can convert **real money into in-game assets or [digital currencies,](#)** which can be exchanged, gifted, or withdrawn as real money often without traceability.
  - **Multiple funding methods** ([Unified Payments Interface](#), cards, wallets, crypto, etc.) create unstructured inflow and outflow patterns that are hard to monitor comprehensively. Integration with banking systems for AML checks remains inadequate or inconsistent.
- **Cross-Border and Jurisdictional Issues:** Gaming platforms may be registered in **foreign countries,** making coordination between regulatory authorities across borders difficult.
  - Different jurisdictions have varying AML laws, complicating enforcement and compliance monitoring.
  - Offshore sites like **1xBet frequently change domains and bank partners**, making enforcement and prosecution highly complex.
- **Difficulty in Proving Intent:** Distinguishing between **high-stakes gaming and deliberate money laundering** can be difficult.
  - Players might claim high volumes or rapid transactions are part of legitimate gameplay.
- **Evolving Fraud Techniques:** Money launderers are constantly adapting, exploiting loopholes like **refund abuse, referral bonuses, or dummy gameplay** to clean money.
  - Keeping up with new typologies of laundering requires constant regulatory and technological upgrades.
- **Ineffective Penalties and Enforcement:** The absence of a **central gaming regulator in India** creates a fragmented enforcement environment. With multiple agencies (ED, MHA, RBI, MeitY) sharing partial responsibilities, regulatory overlaps and gaps hinder timely and coordinated AML enforcement.
  - Even after failing AML checks, major **gambling firms often treat fines as routine costs, not deterrents**, leading to repeated violations.

How can India Balance Regulatory Rigor with User Convenience in Online Gaming?

- **Tiered KYC Approach:** Implement **graduated KYC based on user activity** and transaction

volume—light verification (e.g., OTP on mobile number) at onboarding, with full KYC triggered after a threshold.

- This approach aligns with established regulatory precedents in India. For instance, the **Reserve Bank of India (RBI)** allows OTP-based onboarding for prepaid payment instruments with balances up to ₹10,000, enabling simplified access for low-risk users.

- **Adopt a Tiered Regulation Model:** Differentiate between **casual games, competitive skill-based games, and real-money games.**
  - Impose proportionate regulations based on the level of risk involved akin to the UK's Gambling Commission framework.
- **Algorithmic Accountability as Law:** Gaming platforms must submit to **algorithm audits and dark pattern bans** (e.g., loot boxes, psychological nudging), as seen in **EU's Digital Services Act.**
  - India should mandate a **"Gaming Code of Ethics"** tied to platform licences under the upcoming **Digital India Act.**
- **Focus on Intelligence-Led Enforcement:** Prioritize resources on high-risk **operators and suspicious activities** rather than blanket measures to avoid alienating legitimate users and platforms.
- **Consumer Protection and Cybersecurity:** Regulations should also mandate safeguards against data theft, online abuse, and protection of minors.
- **Addressing Safe Havens for Gaming Companies:** Countries like the **United Arab Emirates** act as **safe havens** for online gaming firms, posing challenges for regulation and enforcement.
  - Strengthening diplomacy and **signing extradition treaties** with countries hosting gaming firms will ensure accountability and improve cross-border transaction monitoring.
- **Responsible Promotion and Celebrity Endorsements:** Encourage responsible marketing by **promoting only legitimate gaming apps** and ensuring celebrity endorsements adhere to the **Gaming Industry's Code of Ethics.**

What is the Code of Ethics Adopted by the Gaming Industry?

Click here to Read: Decoding Online Gaming Ethics

Conclusion

A robust yet balanced regulatory framework is essential to **curb financial crimes in online gaming without stifling innovation.** Integrating PMLA with tech-driven, risk-based regulation can **ensure user safety and financial integrity.** India must act decisively to make its digital gaming ecosystem **both secure and globally competitive.**

Drishti Mains Question:

With the rapid rise of the digital gaming industry in India, what steps can be taken to ensure a balance between user convenience, innovation, and financial integrity?

UPSC Civil Services Examination, Previous Year Question (PYQ)

Prelims

Q. Which of the following is/are the aim/aims of "Digital India" Plan of the Government of India? (2018)

1. Formation of India's own Internet companies like China did.
2. Establish a policy framework to encourage overseas multinational corporations that collect
3. Big Data to build their large data centres within our national geographical boundaries.

4. Connect many of our villages to the Internet and bring Wi-Fi to many of our schools, public places and major tourist centres.

Select the correct answer using the code given below:

(a) 1 and 2 only

(b) 3 only

(c) 2 and 3 only

(d) 1, 2 and 3

Ans: (b)

Mains

Q. Discuss how emerging technologies and globalisation contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. **(2021)**

PDF Refernece URL: https://www.drishtiias.com/printpdf/money-laundering-in-online-gaming