

New frontiers

Navigating the
evolving landscape for
online gaming in India

December 2023



Foreword

In the dynamic landscape of India's thriving media and entertainment sector, the online gaming segment has emerged as a powerhouse, where innovation, engagement, and economic potential converge. The recent years have witnessed a captivating surge in online gaming's popularity, propelled by factors such as widespread smartphone penetration, enhanced internet connectivity, burgeoning youth population, heightened awareness and the development of local gaming content tailored to individual preferences. The online gaming segment has grown at a CAGR of 28% over the last 3 years to reach INR16,428 crore in FY23.¹ Notably, the gaming phenomenon transcends beyond metropolitan areas, finding its impetus in the consistent growth of Tier 2 and 3 locations.

The stage was set in 2020 when the pandemic confined people indoors, giving rise to a monumental spike in mobile game downloads. As the world sought refuge in the virtual space, the allure of online gaming offered a new avenue for entertainment and community engagement.

India continues to be a 'mobile first' market with 94%² of its total gamer base engaging in mobile gaming experiences. The audience is unique compared to other regions – predominantly young and male, particularly in popular genres like fantasy sports, adventure, battle royale and card games.

Despite its rapid ascent in terms of game consumption, India's online gaming segment constitutes a mere 1.1% of the global online gaming revenue. Advertisement-led monetization holds significance in India, as the paid user base is predominantly concentrated within the RMG segment. However, with the anticipated increase in supply of world-class titles, advent of cloud gaming and expanding scale of game development studios, India is poised to mark its global presence not only as a consumption hub but also as a monetization epicenter in the coming years.

The online gaming segment has historically attracted substantial investor interest with investments worth INR22,931 crore³ from both domestic and global sources between FY20 and FY24 YTD. The recent year, however, experienced a lull due to macroeconomic headwinds and changes in taxation.

For the segment to truly thrive, a stable regulatory and legal framework is imperative. Uncertainties can impede the realization of its full potential and hinder rapid scalability. This report aims to delve into the future growth trajectory of the Indian online gaming segment, drawing insights from global regulatory practices of leading nations.



1. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions; EY FICCI report 2023 - Windows of opportunity; EY analysis
2. Kalaari Capital Gameconomy Report 2023
3. Tracxn database

After the new online gaming regulations came into effect in April 2023, the Indian gaming segment has sought to resolve various questions surrounding the legal status of different online gaming formats. This marks a crucial step toward providing clarity to the segment, investors, state governments and other enforcement agencies. While the companies are gearing up to reinvent themselves in the online gaming 2.0 era, the endeavour is now to facilitate a smooth and robust execution of these regulations and redressal of implementation hurdles.



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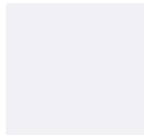
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Executive summary


The online gaming segment in India has seen remarkable growth with immense economic potential. The country boasts a substantial gaming community, comprising 42.5 crore⁴ gamers, the second largest globally after China. The sector holds the potential to boost Foreign Direct Investment (FDI) inflows, employment, and investments in various sectors. It will also catalyze ancillary sectors like fintech, cloud services, data analytics, and cybersecurity.

From FY20 to FY23, the online gaming segment in India experienced a notable CAGR of

28%

culminating in a market size of INR16,428 crore in FY23. Industry estimates suggest it will reach INR33,243 crore in FY28E, showing a 15% CAGR.⁵

The segment has attracted consistent investments totalling INR22,931 crore⁶ between FY20 and FY24 YTD from both domestic and foreign sources. Furthermore, it directly and indirectly employs around one lakh individuals, with the prospect of expanding to 250,000 job opportunities by 2025.⁷



The real money gaming (RMG) sub-segment constitutes a substantial part of the online gaming ecosystem, comprising 82.8%⁸ of the market share in FY23, with more than 400 RMG start-ups⁹. Industry estimates this sub-segment to contribute around INR6,500 crore-INR6,800 crore¹⁰ as direct tax revenues (comprising TDS and corporate tax), and INR75,000-INR76,000 crore¹¹ as indirect tax revenue (GST) to the exchequer during FY24–28E.

The Intermediary Guidelines and Digital Media Ethics Code Rules, 2021 (online gaming rules) for online gaming issued by the Ministry of Electronics and Information Technology (MeitY) is perceived by many in the industry as progressive. These guidelines aim to remove ambiguity, bolster investor sentiment, attract funding and encourage innovations in India's digital economy while prioritizing user safety.

Extensive deliberations within the GST council over the past 12-18 months have brought about changes in levy of GST on the online gaming segment. In August 2023, during the 51st GST council meeting, amendments were made to the GST laws to specify that 'actionable claims' offered by RMG platforms would be taxed at 28% on full-face value of deposits.¹²

On the backdrop of GST amendments online gaming platforms are reinventing their operating models and re-evaluating business strategies for sustained operations and growth. These include tradeoffs of absorbing the GST impact as compared to passing it on to users, product innovation and diversification and geographical expansion.

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4. EY FICCI report 2023 - Windows of opportunity; EY analysis
 5. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions; EY FICCI report 2023 - Windows of opportunity; EY analysis
 6. Tracxn database
 7. Kalaari Capital Gameconomy Report 2023; EY analysis
 8. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions; EY FICCI report 2023 - Windows of opportunity; EY analysis
 9. <https://www.livemint.com/companies/news/top-investors-ask-pm-modi-to-review-online-gaming-tax-11689965504691.html>
 10. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions
 11. Industry estimates
 12. <https://gstcouncil.gov.in/gst-council-meetings>



Factsheet

Key stats

An overview of the Indian gaming landscape



140 crore

India's population is second largest in the world; 65% aged under 35 years



INR16,428 crore

Online gaming market size in FY23; CAGR of 28% (FY20-23)



INR22,931 crore

Investments between FY20 and FY24 YTD



78 crore

Internet users in FY23; 55% of total population



INR13,596 crore

RMG market size in FY23; 83% of total online gaming market



1,400

Online gaming start-ups in FY23



54.8 crore

Smartphone users in FY23; 38% of total population



430 crore

Gaming apps downloaded in FY23



100,000

Employees in the gaming industry in FY23



42.5 crore

Online gamers in India in FY23; 2nd highest globally



10-12 hours

Average time spent per active user on gaming in a week



15,000

Game developers and programmers



1

India's thriving online gaming landscape

India's online gaming landscape is unfolding at remarkable speed, making it one of the most prominent gaming destinations on the global map

At a CAGR of 28%¹³ between FY20 and FY23, online gaming has been one of the fastest growing segments within India's media and entertainment sector

The mobile gaming dominance in India persists with 94%¹⁴ favouring mobile platforms. The 'mobile-first' trend remains a powerful force driving the expansion of India's gaming market

13. EY FICCI report 2023 - Windows of opportunity; EY analysis

14. Kalaari Capital Gameconomy Report 2023

India holds a strategic advantage in the gaming landscape due to low data costs, public digital payments infrastructure, and lower barriers to entry in mobile gaming, attributed to fewer hardware and software constraints as compared to Personal Computer (PC) and console gaming.

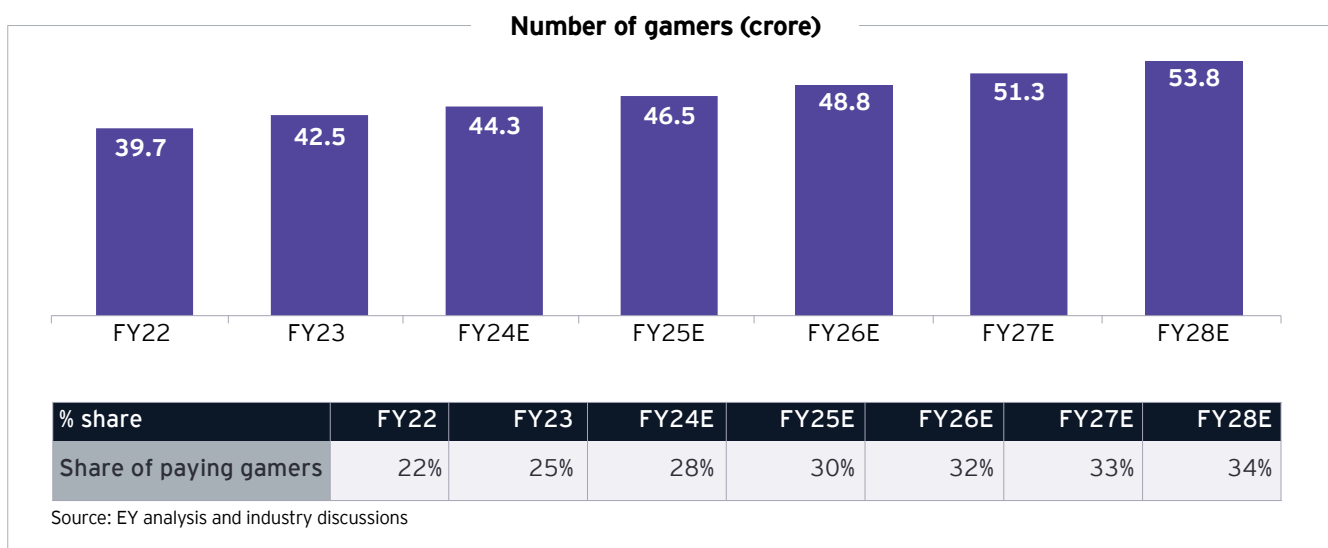
Industry trends depict a slow growth in the PC and console gamer base, prompting game developers to explore

innovative strategies. Among these strategies is the development of mobile offshoots for popular AAA PC and console titles.¹⁵

This advantage, coupled with the popularity of mobile gaming among the younger demographic, sets India apart from more mature markets like the U.S. and China, which have traditionally leaned towards PC and console gaming.

42.5 crore gamers comprise India's gaming landscape

With around 42.5 crore¹⁶ gamers in FY23, India boasts the second largest number of online gamers in the world after China, which has around 75 crore¹⁷ gamers.



India's online gamers are expected to grow at a CAGR of 5% and reach 53.8 crore by FY28E.¹⁸

- ▶ The percentage of paying gamers among the total gamer base is anticipated to increase gradually, reaching 34% by FY28E.¹⁹ This growth is primarily attributed to:

- an increasing interest in RMG among tier 2 and tier 3 audiences

- a surge in in-app purchases

- gaming evolving into a lifestyle choice for many individuals, fostering willingness to pay and an inclination to invest in enhanced gaming experiences

India possesses a distinctive demographic profile, with 65–70% of gamers below the age of 34.²⁰ Leveraging the world's largest youth population, this demographic advantage bodes well for the country's future growth in game consumption and positions it as a promising hub for emerging gaming trends and innovations.

India's gamer penetration rate hovers at around 30%²¹. This figure, however, remains notably lower compared to China and the U.S., where the gamer penetration²² ranges between 53% and 56%.²³ This indicates the scope for substantial growth of the gamer base and the segment in India.

15. 2023 Newzoo Global Games Market Report

16. EY FICCI report 2023 - Windows of opportunity; EY analysis

17. www.allcorrectgames.com

18. EY FICCI report 2023 - Windows of opportunity; EY analysis

19. EY FICCI report 2023 - Windows of opportunity; EY analysis

20. <https://www.statista.com/outlook/dmo/digital-media/video-games/worldwide?currency=usd>; EY analysis

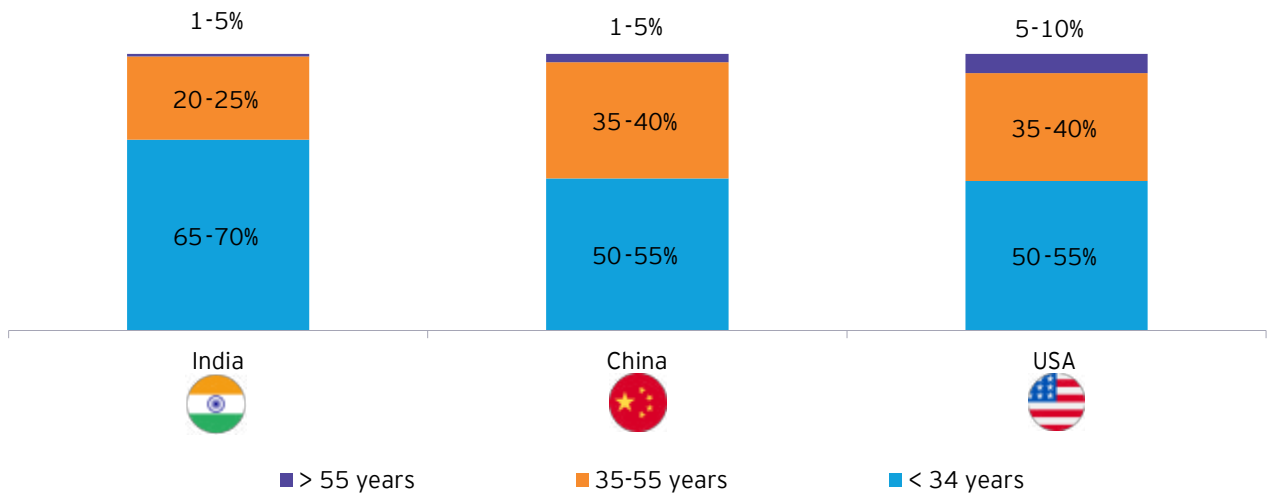
21. Allcorrect estimates for the number of gamers; Worldometer estimates for population; EY analysis

22. Gamer penetration = number of online gamers as a percentage of total population

23. Allcorrect estimates for the number of gamers; Worldometer estimates for population; EY analysis



Demographic profile of gamers - India vs global peers



Source: Statista estimates; EY analysis

Global gaming landscape: a comparative analysis of key metrics across leading gaming nations

	India	USA	China	Japan	South Korea	Germany
CAGR of gaming market (FY20-23)	28%	9%	7%	7%	5%	2%
Gaming market size in the country (FY23); INR crore	16,428	363,600	370,064	161,600	63,832	53,328
Gaming market size in the country as a % of global gaming market (FY23)	1.1%	24%	25%	11%	4.3%	3.6%
Number of gamers (FY23); Mn	425	191	750	102	34	50
Growth of gamers (FY22-23)	7%	1%	1%	5%	7%	3%
Gamer penetration % (FY23)	30%	56%	53%	83%	66%	60%
Mobile gamers as a percentage of total gamers (FY23)	94%	37%	62%	48%	36%	43%

Sources: All correct estimates; Worldometer; 2023 Newzoo Global Games Market Report; industry discussions

Online gaming's diverse influence shapes India's economy, society and digital inclusion

Online gaming has emerged as a noteworthy contributor to India's economic growth, generating substantial revenue and increasing tax contributions. It has also created diverse employment opportunities in areas like game development, technology and marketing, in turn fostering innovation and entrepreneurship within the gaming sector.

Amidst pandemic lockdowns and in the subsequent post-pandemic era, online gaming has instigated significant social changes. These platforms have become a conduit for social interaction and community building, facilitating connections among players and the establishment of gaming communities.

Furthermore, online gaming has played a role in fostering digital inclusion by extending its reach to remote areas. This has contributed to technological advancement, empowering individuals to engage with and embrace the digital ecosystem.

Growth in employment within the Indian online gaming segment

The Indian online gaming segment presently employs approximately 100,000 individuals²⁴ (direct and indirect roles across core and support functions) – an impressive figure considering the segment's relatively modest size 4–5 years ago.

Early in 2023, industry professionals expected the number of people employed in the segment to touch 250,000 job roles by 2025²⁵, focussing on highly skilled job profiles. Despite potential setbacks due to the expected slowdown of the segment, the high job creation rate is notable for India, especially considering its burgeoning youth population.

Moreover, given its robust interconnection with other segments of the digital economy, the expansion of the online gaming segment inherently yields positive network effects throughout the entire spectrum of the Information Technology (IT) and Information Technology Enabled Services (ITES) sector. Notably, game development necessitates:

intensive collaboration among animators, developers, and engineers

integration of emerging technologies such as Artificial Intelligence (AI), Machine Learning (ML), cloud computing, etc



24. TeamLease Digital Gaming Report November 2022

25. Kalaari Capital Gameconomy Report 2023; EY analysis



Charting the meteoric rise of India's online gaming start-ups in the era of Start-up India and Atmanirbhar Bharat

- ▶ The online gaming segment is vibrant with over

1,400 start-ups²⁶

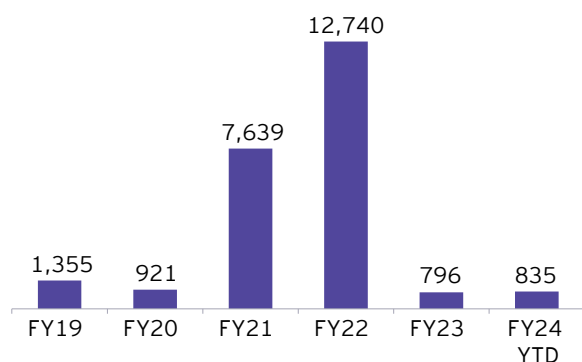
- ▶ The segment has attracted INR22,931 crore in investments from both domestic and global sources between FY20 and FY24 YTD²⁷

The last 2-3 years have seen the inception of numerous gaming start-ups, the rise of three gaming unicorns, more than six strategic exits, and a successful IPO. This growth aligns with the government's Start-up India and Atmanirbhar Bharat initiatives, aimed at fostering a vibrant start-up culture and cultivating a robust, inclusive ecosystem for innovation, self-reliance and entrepreneurship in India.

Despite the segment's growth and successes in previous years, the ongoing year has been challenging for Indian online gaming companies

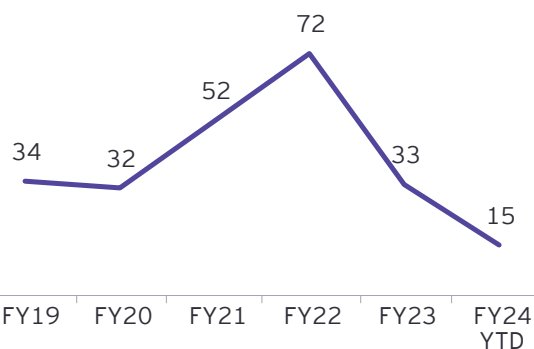
- ▶ The current financial year was marked by a substantial funding decline from INR12,740 crore in FY22 to INR835 crore in FY24 YTD.²⁸ This downturn is primarily due to global macro-economic headwinds, including interest rate hikes, tightened liquidity, inflation, changes in taxation and concerns about an imminent recession

Total online gaming funding Y-o-Y (INR crore)



Source: Tracxn; EY analysis

Number of deals in the online gaming sector



Source: Tracxn; EY analysis

Economic significance of online gaming

The online gaming sector in India is projected to experience a CAGR of 13%²⁹ over the next five years (FY24-28E), surpassing the nation's Gross Domestic Product (GDP) growth estimate of 6-7%.³⁰ This emphasizes the economic importance of the online gaming sector, showcasing its potential to generate significant revenue and attract substantial investments in the future.

Fiscal fortunes from surging GST and direct tax contribution of India's RMG sector

- ▶ The GST collection from the RMG segment was INR1,700 crore in FY23.³¹ Industry believes that with the new GST rate and valuation mechanism provided, the Y-o-Y GST collections will grow at a staggering rate of 113% CAGR from the FY23 base to reach a cumulative of INR75,000-INR76,000 crore over the next 5 years from FY24E to FY28E.³²
- ▶ Additionally, the industry estimates that the sector is poised to contribute INR6,500-INR6,800 crore³³ as direct tax revenues (comprising TDS and corporate tax) to the exchequer during the aforementioned timeframe

Moreover, the broader online gaming segment has indirectly augmented revenue streams for the exchequer by fostering collaborations with technology partners, advertising agencies, and other stakeholders.

26. https://tracxn.com/d/explore/gaming-startups-in-india/_I0hd49FrHYyE-hgF3d8DYfyM7vWKY8fAEFHgB103lo/companies

27. Tracxn database

28. <https://tracxn.com/d/reports-feed-geo/mobile-gaming-india-feed-geo-report/KCRa2fr8WmYKdsIzleMMc2XBRAus7-XZ110bJxRUI4>

29. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions

30. EY analysis

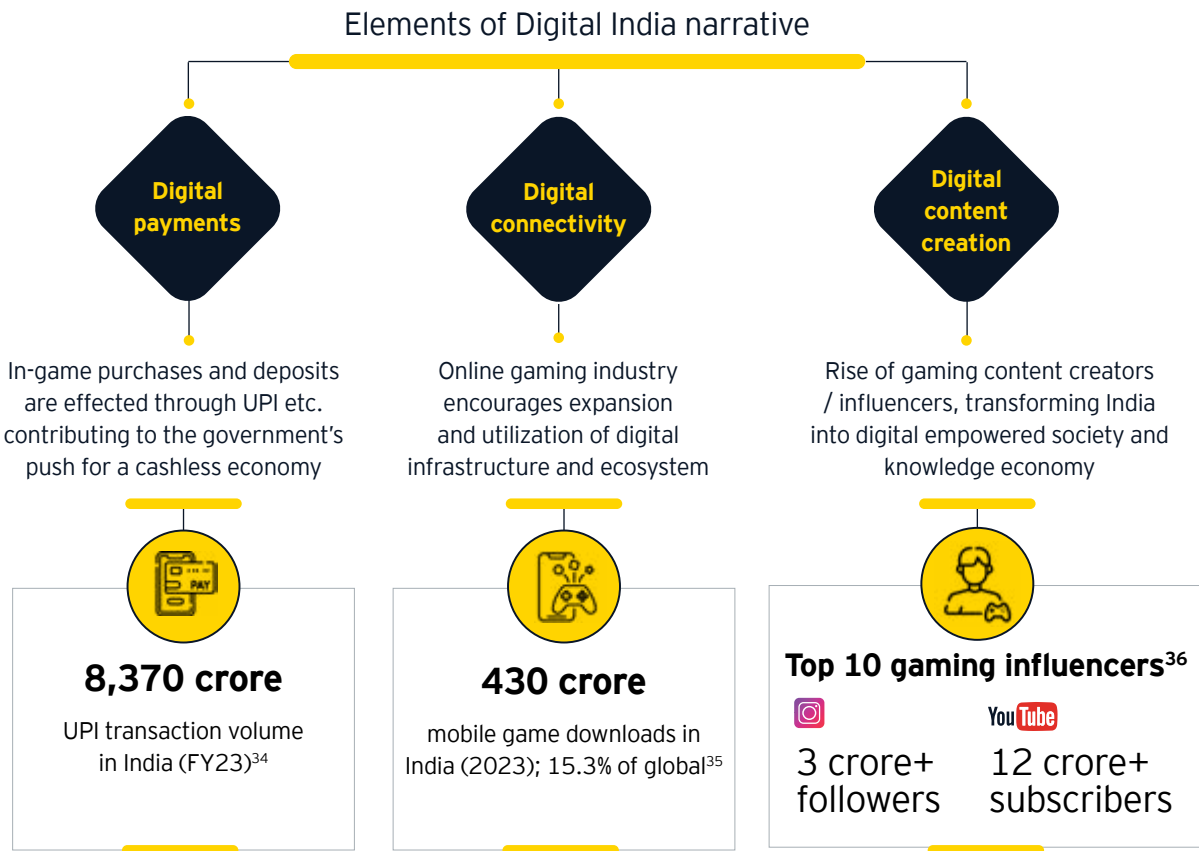
31. Revenue Secretary's interview with CNBC-TV18 held on July 13, 2023

32. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI and industry discussions. These workings assume a 'deposit to GGR' ratio of 2.7

33. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions

Vanguard of India's digital progress: Digital India narrative

Beyond its economic contributions, the online gaming segment represents an innovative and technologically advanced India which aligns with the Government's "Digital India" initiative, promoting digital literacy and boosting the country's tech-infrastructure.



Regulations that are changing the game

The last 12–18 months have seen the Indian Government taking proactive steps to introduce comprehensive gaming regulations to provide regulatory certainty to the sector and enable it to play a key role in India's 'techade' and help achieve the "trillion-dollar digital economy" vision.

These regulations by the Indian Government aim to establish an open, safe, trusted and accountable online gaming ecosystem in India by clearly differentiating online gaming from betting and gambling and by laying down a comprehensive set of measures to protect and safeguard the interests of the users. Further, the regulations also provide much needed clarity on tax structures.

34. Lumikai Gaming Report 2023

35. <https://www.businessofapps.com/news/gaming-app-downloads-in-india-soar-taking-15-of-global-total-but-revenues-cant-catch-up/#:~:text=India's%20mobile%20gaming%20market%20is,as%20the%20US%20and%20Brazil>

36. <https://www.influencer.in/top-creator-in-india/gaming-influencers/>



MeitY framework

- ▶ The IT Gaming Rules notified by MeitY establish a framework for regulating the online gaming industry, including the mechanism for verifying an online real money game as a permissible online real money game.
- ▶ One of the essential criteria for such verification is that the game must not involve any wagering on any outcome. The rules delineate the obligation as well as the additional obligations required and necessitated to be fulfilled by the online gaming intermediaries.

GST

- ▶ Extensive deliberations within the GST council over the past 12-18 months have brought about changes in the levy of GST on the online gaming sector.
- ▶ The GST Council has clarified that GST on online gaming (including value of actionable claims) shall be taxed at 28 % of the deposit value.

TDS

- ▶ TDS was not applicable to those winning less than INR10,000, but under the new tax proposal introduced in the Union budget for FY24, the Centre has proposed that tax should be levied on the net winnings.
- ▶ TDS can either be calculated at the end of the financial year or at the time of withdrawal by a player.

AVGC taskforce

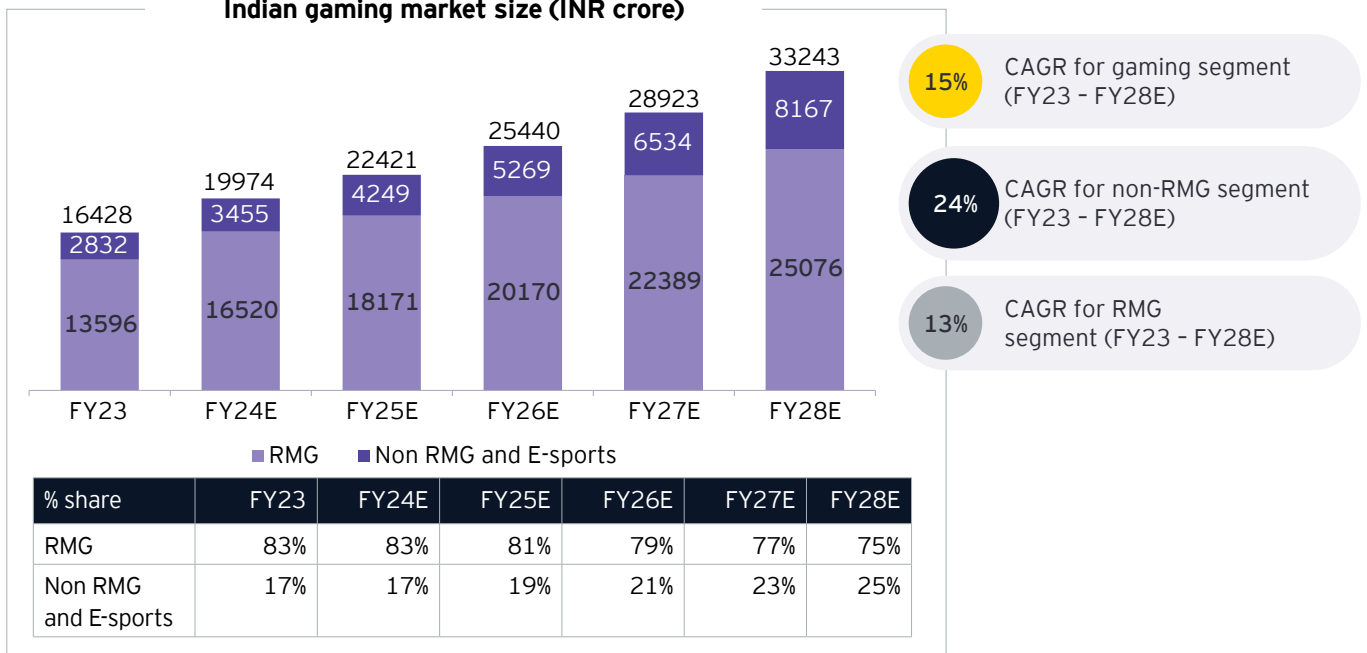
- ▶ Recognising that the Animation, Visual Effects, Gaming and Comics (AVGC) industry has tremendous potential to boost domestic capabilities, a task force on AVGC was setup by the Ministry of Information and Broadcasting (MIB) to recommend initiatives around this.
- ▶ The taskforce compiled its insights and submitted its report in December 2022, which was broadly based on three pillars - (i) create world class products in India, (ii) upskill and empower the youth, and (iii) technology and other incentives to promote the sector.

Source: Government websites - MEITY.gov.in; GSTCouncil.gov.in; incometaxindia.gov.in; mib.gov.in; EY analysis

Transformative shifts expected in India's online gaming segment: RMG sub-segment may be under pressure, while non-RMG and E-sports will continue to flourish

Although RMG sub segment constitutes a substantial share of the online gaming segment in India, recent taxation regulations have cast a shadow on this segment of the market.

Indian gaming market size (INR crore)



Source: As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions

- ▶ Per the industry estimates, the online gaming segment in India is valued at INR16,428 crore in FY23 and is expected to grow to INR33,243 crore by FY28E, at a CAGR of 14%.³⁷
- ▶ Presently, RMG revenues constitute a substantial 82.8%³⁸ of the online gaming segment size. However, projections indicate a decline to 75.4% by FY28E,³⁹ owing the recent GST amendments and accompanying notices. The resultant effects of these developments on the RMG sub-segment may include:

industry consolidation

rationalization of customer acquisition spends as RMG players implement cost optimization measures

increased tax burden

reduced inflow of investments

possible impediment to the creation of new job opportunities

- ▶ The non-RMG and E-sports segments are projected to experience a growth of 24%⁴⁰ between FY23–28. This growth is attributed to the following factors:

escalating demand for mid-core and hard-core games, fuelled by the availability of high-quality titles. Further, wider adoption of 5G will propel cloud gaming, in turn improving access to mid-core and hard-core games

surging popularity of E-sports and the influence of gaming personalities

increasing in-app purchases (IAP)

expected expansion in brand integration deals

Revenue share of non-RMG subsegments, in % (FY23–28E): midcore and AAA games, along with E-sports expected to surge

Non-RMG sub-segments	FY23	FY28E
Casual and hyper casual games	60% - 65%	40% - 45%
Midcore and AAA games	35% - 40%	50% - 55%
E-sports and others	1% - 4%	2% - 5%

Source: Lumikai Report; EY analysis and industry discussions

Heightened user engagement and click-through are driving an increasing recognition among brand managers about the Return on Investment (ROI) potential of the gaming segment's marketing rates. This awareness is expected to lead to a greater allocation of marketing budgets to the gaming segment in the coming years, consequently fostering its growth.

- ▶ mobile gaming ad revenue is expected to grow at a CAGR of 25%⁴¹ from 2023 to 2028E
- ▶ in game ad formats such as opt-in reward ads, playable ads and personalized video ads have successfully made gaming ads a feature that gamers enjoy
- ▶ the gaming segment is witnessing an ad completion rate of 90%⁴²

Real money gaming platforms at the forefront of India's gaming sector growth

INR1,60,000 crore

Total enterprise valuation of India's online RMG segment

10–30%

Top 2-3 RMG companies reporting healthy EBITDA margins; others on the road to profitability (it is important to note that this range represents the current margins and may change in the future)

3 gaming unicorns

Games 24x7, MPL, and Dream11, all operating within the RMG sector, have emerged as Indian gaming companies attaining unicorn status

INR19,897 crore

The cumulative funding for Indian RMG companies over the past years (FY19–FY24 YTD)

82.8%

RMG share of total online gaming market in FY23

400+

Number of RMG start-ups in the country

INR6,500–6,800 crore

Estimated corporate tax and TDS contribution to the exchequer by the RMG sector between FY24-28E

INR75,000–76,000 crore

Estimated GST contribution to the exchequer by the RMG sector between FY24-28E

37. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions; EY FICCI report 2023 - Windows of opportunity; EY analysis

38. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions; EY FICCI report 2023 - Windows of opportunity; EY analysis

39. As per the letter written by E-Gaming Federation (EGF) and the Federation of Indian Fantasy Sports (FIFS) to the GoI; industry discussions; EY FICCI report 2023 - Windows of opportunity; EY analysis

40. EY analysis

41. EY analysis

42. www.criteo.com





2

New regulatory framework and tax regime in India and its impact

Announcement of new online gaming rules

The central government announced online gaming rules in April 2023 to establish an unambiguous and self-governance framework for regulating the skill-based gaming sub-segment.⁴³ **The segment faced many regulatory challenges prior to the online gaming rules due to lack of a uniform framework.**

The Public Gambling Act, 1867, adopted by many states, provides a broad framework for determining regulation of gaming, including betting and gambling, stipulating that games of chance are prohibited while games of skill are exempted from the purview of these acts.⁴⁴ Betting and gambling is primarily a state subject which means that states have the authority to make laws and regulate betting and gambling within their respective jurisdictions. Some states have enacted their own laws, which vary widely.⁴⁵

The judiciary has upheld and safeguarded the constitutionality of games of skill and adherence to the established jurisprudence distinguishing between games of skill and games of chance. However, some states have amended the gambling laws to include games of skill and prohibit the same in their states. For instance, Tamil Nadu government attempted to ban Rummy and Poker. However, the ban was lifted by the Madras High Court in November 2023 stating that Rummy and Poker are games of skill.⁴⁶ Various other state bans have been overturned by the High Courts and some of them are currently sub-judice.

By adopting a unified approach, the recently notified online gaming rules have brought in clarity to companies in this space. In furtherance of the central government's commitment to advancing online gaming as a catalyst for "Digital India" initiative and to promote a safe, trusted and accountable online gaming ecosystem, the following steps were taken:

- ▶ On December 23, 2022, the Government of India (Allocation of Business) (Three Hundred and Seventieth Amendment) Rule, 2022 (AoBR) was notified allocating matters relating to online gaming to the MeitY⁴⁷
- ▶ On April 6, 2023, MeitY notified the online gaming rules to provide a responsible and accountable regulatory framework for the online gaming intermediaries⁴⁸

The online gaming rules further establish a framework for regulating the online gaming segment, including the mechanism for verifying an online real money game as a permissible online real money game.

These rules call for setting up SRBs which are empowered to declare an online real money game as permissible if it meets the following criteria:

does not involve wagering on an outcome

is in compliance with due diligence requirements as provided in the rules

is in compliance with a verification framework formulated by the SRB that addresses issues pertaining to, inter alia, user harm, addiction and financial loss

Through the SRB mechanism, the rules also aim at curbing the growing menace of offshore betting and gambling platforms by ensuring that non permissible games are banned completely, including their advertisements.

However, the formation of SRBs is delayed because MeitY is in the process of seeking consensus from various ministries⁴⁹ and addressing concerns around independence of regulatory bodies.⁵⁰

43. ICLG - Gambling Laws and Regulations

44. ICLG - Gambling Laws and Regulations

45. <https://www.cnbcvt18.com/sports/madras-hc-on-tn-law-banning-rummy-poker-gameskraft-games24x7-junglee-rummy-18288171.htm>

46. <https://www.mondaq.com/india/gaming/1305570/meity-notifies-amendments-to-it-rules-2021-online-real-money-gaming-platforms-now-regulated-by-the-centre>

47. <https://www.mondaq.com/india/gaming/1305570/meity-notifies-amendments-to-it-rules-2021-online-real-money-gaming-platforms-now-regulated-by-the-centre>

48. <https://inc42.com/buzz/govt-delays-gaming-srb-plans-aims-for-unified-approach/>

49. <https://q2g.news/online-gaming-laws/meity-may-shun-idea-of-self-regulation-if-srbs-are-dominated-by-major-online-gaming-firms/>, industry discussions

50. <https://gstcouncil.gov.in/gst-council-meetings>



Three tier structure : Roles and responsibilities of online gaming intermediaries, SRBs and grievance appellate committee

Tier 1

Online gaming intermediaries

User education: Publish clear rules, regulations, privacy policy, and user agreements on the platform, and ensure accessibility.

Data governance: Adhere to data policies governing collection, storage, and security and, implement measures to safeguard user data and privacy.

Due diligence requirements: Manage user registrations, conduct KYC per RBI guidelines, appoint a chief compliance officer and a grievance officer, publish regular compliance reports on received complaints and actions taken, and ensure user awareness of deposit, withdrawal, and winning processes.

Grievance redressal mechanism: Acknowledge complaints within 24 hours of receipt while resolving them within 15 days from the date of acknowledgment. Implement a user-friendly mechanism for receiving complaints.



Tier 2

Self-Regulatory Body (SRB)

Set-up framework: Verification and certification of to be based on objective framework, which is to be implemented by SRBs.

Review application: Review application for declaring RMG as permissible and ensure compliance with legal provisions related to age for entering contracts.

Permissibility of RMG: Provide provisional permissibility for 3 months, while continuing to review game in the meantime.

Verification oversight: Suspend or revoke verification of online real money games if found non-compliant with the rules and provide written communication of reasons.

Documentation: Maintain a public list of permissible online real money games on the website or mobile application.

Grievance mechanism: Establish a grievance redressal mechanism and appoint a Grievance Officer based in India.



Tier 3

Grievance appellate committee

Timely resolution: Expedite the appeal process, aiming to resolve appeals within thirty calendar days from receipt.

Online appeal Resolution: Implement an online dispute resolution mechanism for the entire appeal process, ensuring a digital mode from filing to the final decision.

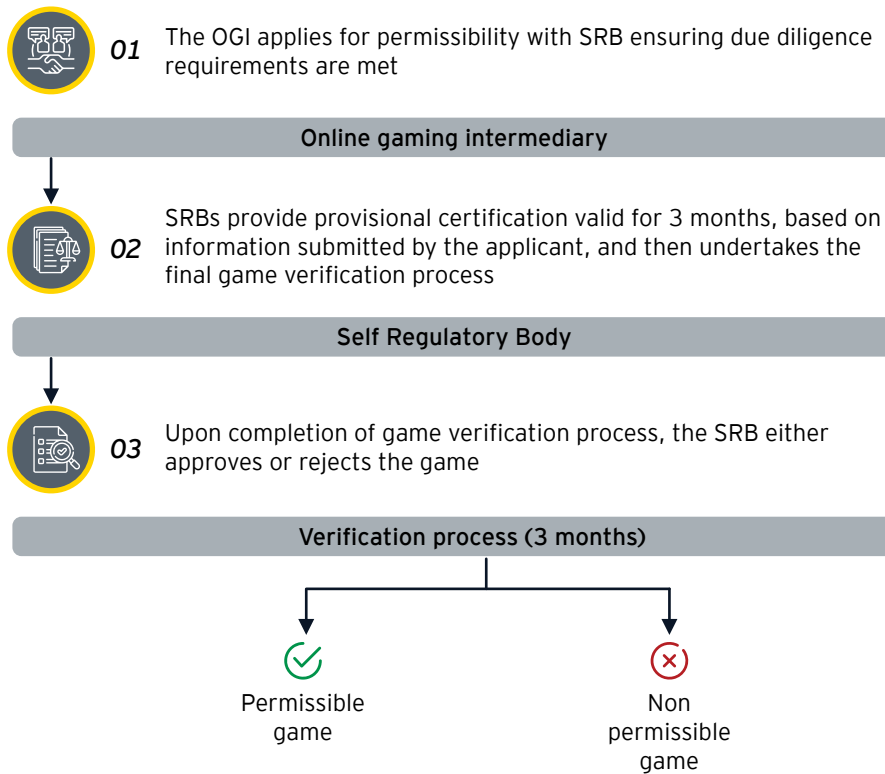
Expert assistance: Establish a network of qualified individuals with expertise in the subject matter, for potential use during the appeal process.

Compliance: Every order passed by the Grievance Appellate Committee shall be complied with the intermediary concerned

Source : The online gaming rules notified by MeitY on 6 April 2023

Flowchart depicting the evaluation process for permissibility of online games in India

Game permissibility process



Source : The online gaming rules notified by MeitY on 6 April 2023

Key notes :

1. A 'permissible online game' is one that is either free-to-play or an online real money game verified by the SRB in accordance with the Online Gaming Rules.
2. The Online Gaming Rules do not delve extensively on the criteria and method for the SRB to verify an 'online real money game' and the process is expected to be based each SRB's own game verification framework.
3. In case, an OGI is not satisfied with SRB's decision, it has the option to file appeal with MEITY

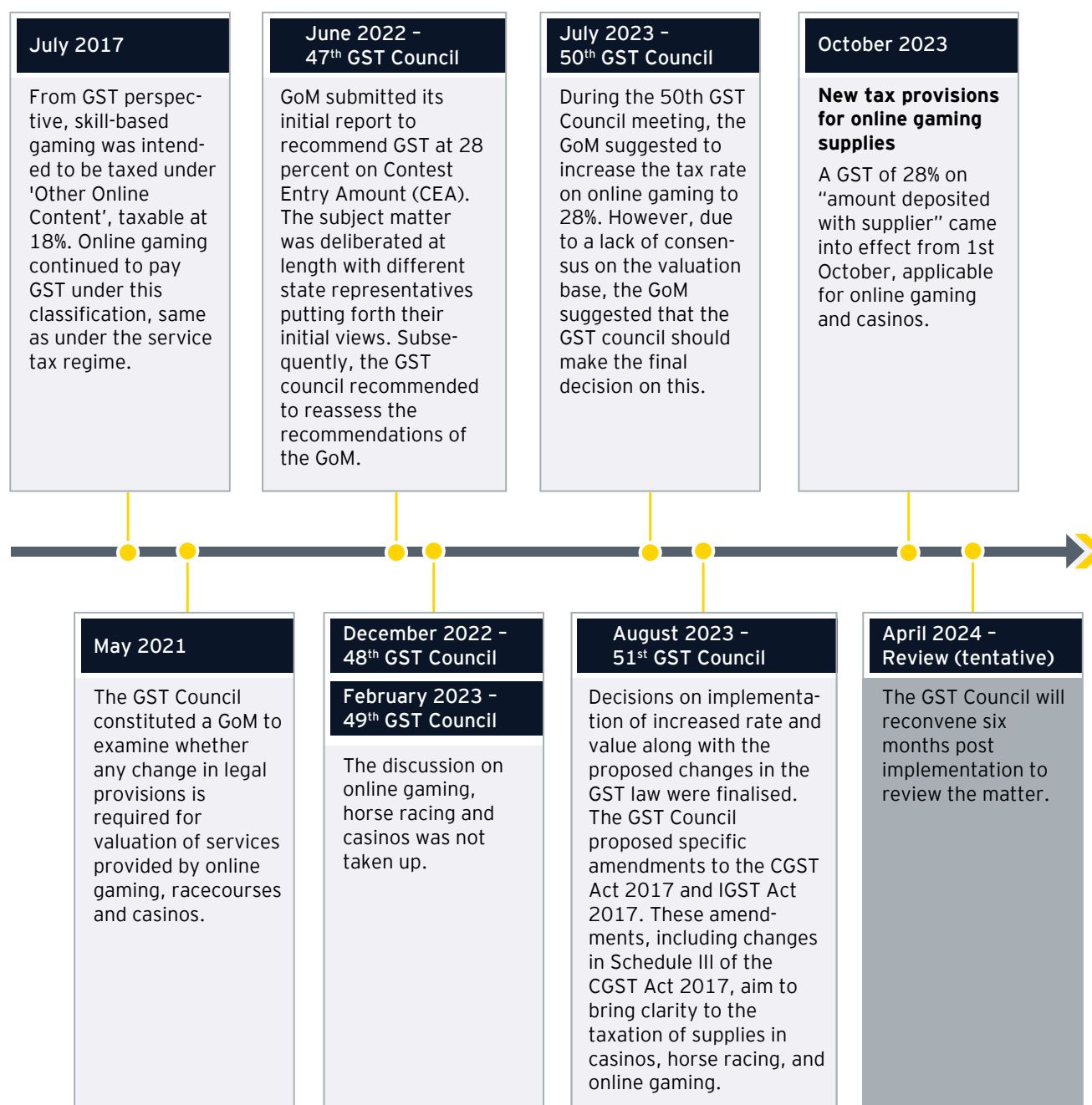


Navigating the game of indirect tax (GST)

Extensive deliberations within the GST council over the past 12-18 months have brought about changes in levy of GST on the online gaming segment. In August 2023, amendments were made to the GST laws to specify that 'actionable claims' offered by RMG platforms would be taxed at 28% on full-face value of deposits.

Before October 01, 2023, the RMG companies followed a practice of paying 18% GST on platform fees, also known as Gross Gaming Revenue (GGR).

Timeline detailing the sequence of events that culminated in the enactment of this amendment



Source: Minutes of GST Council Meetings⁵¹

51. <https://www.a2ztaxcorp.com/online-gaming-companies-plan-to-move-court-term-gst-demand-retrospective/>

The GST department contends that the amendment is only 'clarificatory' in nature and that tax was always payable on the full-face value. Accordingly, the RMG companies have been served with tax demand notices for prior years. So far, the department has issued tax demand notices to the tune of INR1-1.5 lakh crore to more than 40 RMG companies.⁵²

Industry stakeholders suggest that the GST amendment has impacted the unit economics of RMG companies bringing down profitability, and therefore affecting investor sentiment.

Discussions with stakeholders reveal that unit economics of RMG firms have been hampered by the amendment, leading to a drop in Earnings before Interest, Taxes, Depreciation, and Amortization (EBITDA) margins, which will result in a subsequent impact on valuations.

In July 2023, a consortium of 30 prominent domestic and international start-up investors, including Tiger Global, Peak XV Partners, and Steadview Capital, penned a letter to the Prime Minister's Office (PMO)⁵³, highlighting concerns that the amendment could potentially lead to a write-off of the INR20,000 crore capital invested in the sector, and is also expected to impact prospective investments, estimated to be at least INR32,000 crore in the next 3-4 years, thus impeding the growth of the gaming segment in India.

Industry professionals also believe that the anticipated deceleration in the RMG sub-segment will impact non-RMG and E-sports, as the overall segment's ability to attract funds would reduce

TDS amendments

The union government carves out a clear distinction between online skill-based games and other chance-based games such as lottery, puzzles, and crossword puzzles for the purpose of TDS. New clauses in the Income Tax Act were introduced for online games which were put to effect from 1 April 2023⁵⁴:

section 194BA

pertains to TDS (tax deducted at source) on net winnings from online games

section 115BBJ

relates to computation of income tax on winnings from online games

Per the new provisions, the gaming companies are mandated to deduct TDS at the rate of 30% from the 'net winnings' of the user account, on every withdrawal or at the end of the financial year in case of no withdrawals.

52. <https://www.cnbctv18.com/finance/gst-online-gaming-venture-capitalists-letter-pm-narendra-modi-17294091.htm>

53. <https://www.taxmann.com/post/blog/analysis-changes-introduced-in-the-lok-sabha-approved-finance-bill/#::-:text=4.-;TDS%20provision%20under%20Section%20194BA%20on%20winning%20from%20online%20games,w.e.f.%2001%20D04%2D2023%5D>

54. <https://economictimes.indiatimes.com/news/economy/finance/centre-collected-rs-600-crore-from-online-gaming-companies-in-tds/articleshow/104317201.cms>

55. <https://pib.gov.in/PressReleasePage.aspx?PRID=1886679>



The chairman of the Central Board of Direct Taxes (CBDT) remarked that the Centre has collected INR600 crore from the online gaming companies as TDS in the first six months of the current financial year

Source: The Economic Times⁵⁵

Key highlights of the TDS amendment

Computation of net winnings

- ▶ TDS on net winnings will be computed either at the conclusion of the financial year or at the time of user's withdrawal
- ▶ The detailed guidelines issued for computation along with the amendments enhances overall compliance
- ▶ Moreover, the "net winnings" approach allows players to offset their losses a relief to the players

Removal of INR10,000 threshold

- ▶ The minimum threshold of INR10,000 for TDS (under the earlier regime) has been removed
- ▶ The TDS amendments aim to curb revenue leakage for the government on user earnings from the prize pool
- ▶ Platforms now bear complete responsibility and liability for deducting tax at the highest rate, which is, 30% on net winnings
- ▶ Industry professionals unanimously agree that this move provides much-needed clarity to the gaming sector and is a win-win situation for gaming companies, users, and the exchequer



Recommendations from AVGC promotion task force

Recognising that the AVGC industry has tremendous potential to boost domestic capabilities, a task force on AVGC was setup by the MIB in May 2022 with the vision to promote this industry as one of the 12 Champion Service Sectors.⁵⁶

The task force compiled its insights and recommendations on strategies to enhance and uplift gaming and other sectors.

The recommendations of the taskforce report, which was released in December 2022, were broadly based on three pillars:

AVGC Task force

3 strategic pillars

01

Create world class products in India

02

Upskill and empower the youth

03

Tech and other incentives to promote the sector

To do so, the task force recommended the following



Market development

- ▶ Implement awareness campaigns.
- ▶ Host annual AVGC Expo, "Game India Hackathon," and other events.
- ▶ Ensure AVGC start-up and SME representation at events.
- ▶ Establish an IP protection framework.



Infrastructure, Research and development

- ▶ Establish a National CoE for AVGC development.
- ▶ Create Regional CoEs at the state level.
- ▶ Set up R&D labs at IITs, NITs, IISC.
- ▶ Develop Centers of Entrepreneurship.
- ▶ Establish tech incubators and provide software access.



Talent development

- ▶ Implement a curriculum recognized by UGC.
- ▶ Establish degree courses with standardized content.
- ▶ Introduce scholarships for AVGC.
- ▶ Form skill partnerships with the industry.
- ▶ Collaborate with industry players to create a job aggregation portal.



AVGC incentives

- ▶ Offer tax breaks for 3-5 years to attract global players for setting up operations.
- ▶ Provide grants for local production.
- ▶ Allocate R&D grants to support the industry.
- ▶ Extend concessions and subsidies on power bills.

Source : AVGC taskforce report available on MIB's website

The recommendations put forth by the AVGC taskforce report advocate for tax incentives and comprehensive support encompassing technical, financial and market access assistance tailored to the sector's needs. Additionally, the recommendation report underscores the gaming segment's pivotal role within the AVGC sectors, serving as the bedrock for overall ecosystem growth.

56. <https://www.livemint.com/companies/news/top-investors-ask-pm-modi-to-review-online-gaming-tax-11689965504691.html>

Rediscovering the route to sustainability

Strategic adjustments and business pivots by online gaming companies post the GST amendment

Discussions with industry stakeholders indicate that, online gaming platforms are reinventing their operating models and re-evaluating business strategies for sustained operations and growth in response to the GST amendments. Although some outcomes may include consolidation and slower growth, the segment's resilience is poised to redefine opportunities despite the challenges. Some of the aspects are highlighted below:

Evaluating the trade-offs: whether or not to absorb the GST impact

Faced with an increased GST liability, there are two strategic choices that RMG platforms will potentially explore, depending on their product offerings, assessment of user sensitivity and financial position:

absorb the entire GST liability

pass on the burden partially or completely to the users

Regardless of the chosen option, these platforms must reevaluate their business model and implement necessary pivots (discussed in more detail later) from a financial viability standpoint

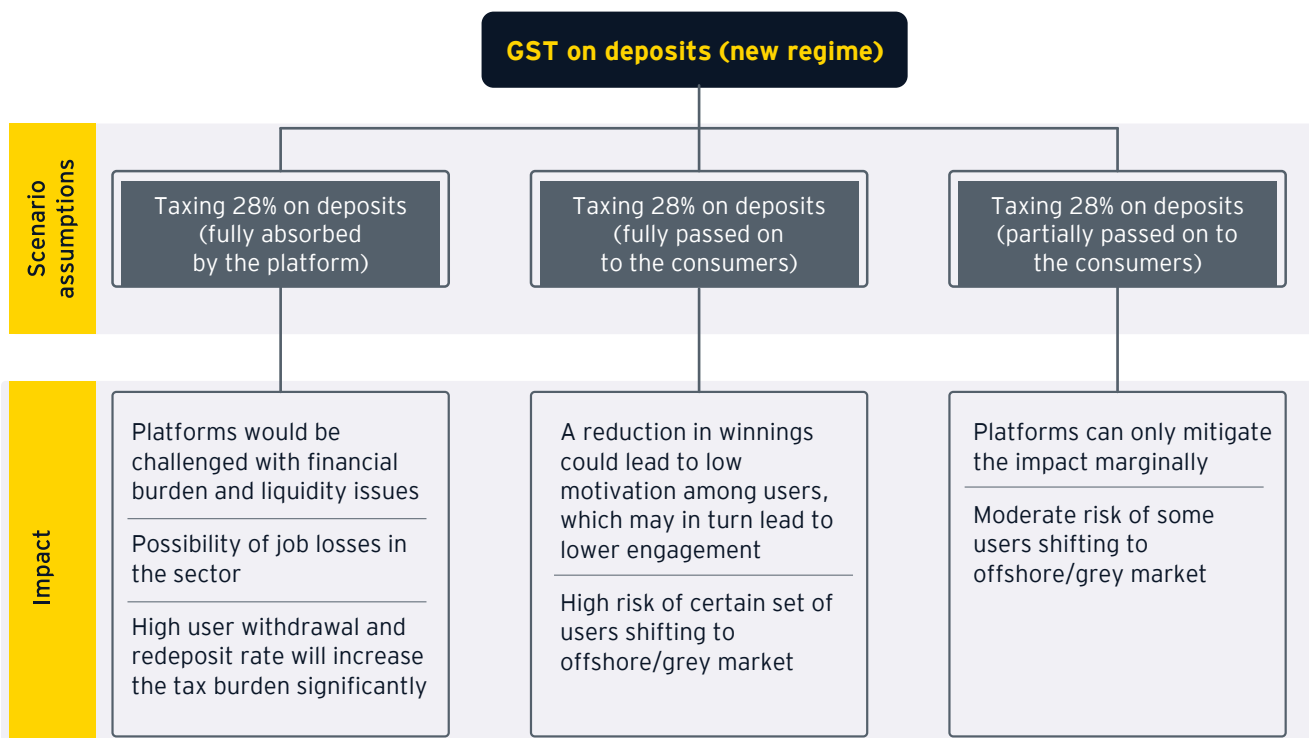
Impending wave of industry consolidation

India boasts approximately

400 RMG start-ups⁵⁷.

The implementation of the GST amendment will potentially impact the free cash flows of both major and minor players, thereby presenting challenges for their innovation initiatives.

Stakeholders and professionals anticipate industry consolidation, foreseeing smaller companies either winding up or undergoing acquisitions as they absorb the financial impact of GST while maintaining sufficient funds for marketing and customer acquisition initiatives.⁵⁸



Source : Industry discussions ; EY analysis

57. Industry discussions

58. <https://www.thehindubusinessline.com/companies/real-money-gaming-companies-pivot-after-28-gst-ruling/article67430925.ece>



Product innovation and diversification

In response to the changing landscape, RMG platforms may consider innovative strategies to enhance spin rates, reduce Customer Acquisition Cost (CAC), and improve unit economics.

Exploring the development of a multi-game platform to attract users and enhance engagement could also witness increased adoption.

While perceived as an expensive undertaking due to elevated production costs, extended deployment times, and intense competition within the subsegment, exploring non-RMG gaming alternatives could provide a means to diversify revenue streams. For instance, popular genres like battle royale and casual titles involving in-app transactions could be explored.

Geographical diversification

The GST amendment provides further impetus for RMG firms to diversify operations into other geographies, offering a viable growth lever.

as an example, Winzo has declared a significant investment of INR200 crore to enter the Brazilian market, where the tax levy stands at 2–5%.⁵⁹ According to one of the co-founders, this expansion is particularly timely in the context of challenges faced by India's gaming ecosystem due to increase in the GST⁶⁰

Cost rationalization measures

RMG companies are prioritizing cost-cutting measures to combat the challenging unit economics and achieve sustainable growth. Media reports suggest that companies such as MPL, Hike and Spartan Poker have implemented workforce reduction measures.⁶¹ Industry professionals indicate that despite the ICC World Cup and the ongoing festive season, RMG players have significantly scaled back on ad spending.

Companies are also actively exploring the redesign of workflows to eliminate redundancies. This strategic shift is concentrated on optimizing areas such as data storage, enhancing capacity utilization, and undertaking other similar initiatives.



59. <https://www.thehindubusinessline.com/companies/real-money-gaming-companies-pivot-after-28-gst-ruling/article67430925.ece>

60. <https://inc42.com/features/real-money-gaming-real-gst-problems/>

61. Official website of The Gambling commission of the UK

The GST twist

While on a single game basis, it may appear that the new GST regulations reduce the take home winnings for users, the answer however depends on multiple factors.

Industry experts believe that a users inclination to withdraw and re-deposit money plays a critical role in actual GST incidence, as now the GST is payable only at the time of deposit.

The below illustration showcases the GST incidence in a one time deposit scenario over eight games.

GST amendments in action		
INR	Prior to October 01, 2023	From October 01, 2023
Number of games played	8	8
Deposit per player (A)	10,000	10,000
Stake per player (B)	2,000	2,000
Pot (C)	4,000	4,000
Platform fee (D=C*15%)	600	600
Method of GST calculation	(D*18%)	(A/128%) * (28%) [A is inclusive of tax]
GST (E)	108 (applies in every game)	2,188 (per player, applies once on deposits)
Total GST levied after eight games	864	2,188
Net winning per game (C-B-D-E*) [*E applies only prior to October 01, 2023]	1,292	1,400

Assumptions:

- ▶ There are two players participating in a game, playing a total of eight rounds.
- ▶ This illustration depicts a scenario for Player 1 with a win / loss ratio of 50% where one of the players wins the first five games and loses the next three games.
- ▶ Deposit amount is considered to be inclusive of GST
- ▶ Platform fee does not attract GST at 18% post October 01, 2023
- ▶ All figures have been rounded off to the next decimal.





3

International standards for regulating and taxing online gaming






Exploring exemplary approaches: an overview of global practices

We conducted an analysis of global practices observed in advanced online jurisdictions, with a special focus on real money gaming. The analysis encompasses key aspects including the legislative framework, tax regulations, due diligence requirements, user safety and content regulation.

The insights derived from this analysis provide valuable perspectives that can serve as a benchmark for the continuous evaluation and improvement of India's online gaming rules.

International policies are strategically crafted to foster the growth of gaming enterprises and related sectors. These initiatives aim to improve channelling rates, protect user privacy and data, and maximise tax revenues for the exchequer.

After studying international experiences, it emerges that India stands unique from other leading online gaming markets since it is amongst the few jurisdictions that have looked to objectively differentiate games of skill from games of chance.

	 Australia⁶²	 Denmark⁶³	 Malta⁶⁴	 South Korea⁶⁵	 United Kingdom (The UK)⁶⁶
Legislation	<p>At a federal level, real money games are regulated by the Interactive Gambling Act, 2001 (IGA)</p> <p>Australian states and territories separately regulate online gambling in their respective jurisdictions.</p>	<p>Danish Gambling Act is the primary legislation for real money games in Denmark.</p> <p>It is supported by a series of specific executive orders.</p>	<p>The Gaming Act (Chapter 583 of the Laws of Malta) is the primary legislation for real money games in Malta, supplemented by other supporting legislations.</p>	<p>The Game Industry Act is the primary legislation for real money games in South Korea supplemented with other supporting legislations.</p>	<p>Gambling Act 2005 is the guiding law for real money games in the UK, supplemented with other supporting legislations.</p>
Regulatory body	<p>The Australian Communications and Media Authority is the main federal regulator. Each state has a regulatory body, guided by federal and state laws.</p>	<p>Danish Gambling Authority</p>	<p>Malta Gaming Authority</p>	<p>The Ministry of Culture, Sports, and Tourism in South Korea and the Game Rating and Administration Committee</p>	<p>The UK Gambling Commission</p>

62. Report titled The Gaming Law 2022 by Chambers and Partners

63. Official website of The Danish Gambling Authority

64. Official website of The Malta Gaming Authority

65. Report titled The Gaming Law 2022 by Chambers and Partners

66. Official website of The Gambling commission of the UK



Game coverage and licensing requirements	<p>All real money games (games with even a slight element of chance) fall under the purview of these regulations.</p> <p>However, online gambling is restricted, permitting only licensed regulated interactive gambling services.</p> <p>All game operators providing above games in Australian market require a license from the State regulatory body.</p>	<p>All Real money games (games with even a slight element of chance) fall under the purview of these regulations.</p> <p>No distinction between game of skill and game of chance.</p> <p>All game operators providing above games in Danish market require a license, either betting or online casino, from the Danish Gambling Authority.</p>	<p>All Real money games (games with even a slight element of chance) fall under the purview of these regulations.</p> <p>However, for the purpose of game licensing, the regulations draw a distinction between game of skill and game of chance. Game operators are required to obtain licenses from MGA with licensing requirements being more stringent for chance-based games.</p>	<p>All Real money games (games that are speculative in nature) fall under the purview of these regulations.</p> <p>No distinction between game of skill and game of chance.</p> <p>Online gambling is largely illegal for South Korean residents, with a few exceptions such as the government-run Sports Toto and Lotto.</p>	<p>All Real money games (games with even a slight element of chance) fall under the purview of these regulations.</p> <p>No distinction between game of skill and game of chance. All game operators providing above games in the UK market require a license from the Gambling Commission, depending on the type of gambling activity.</p>
Taxation	<p>10% - 20% on GGR (Varies by state)</p>	<p>28% on GGR</p>	<p>5% on GGR</p>	<p>No separate tax rates for gambling, and the general corporate tax in Korea will apply.</p>	<p>21% on GGR</p>
Standout social responsibility standards	<p>I. Adherence to strict advertising standards</p> <p>II. Display gambling product information is mandatory</p> <p>III. Tracking of financial transactions to restrict money laundering and gambling addiction</p> <p>IV. Assistance with Self exclusion programs for users, along with counselling services</p> <p>V. Installation of safe-gambling tools</p> <p>VI. Tracking of financial transactions to restrict money laundering and gambling addiction</p>	<p>I. Prevention of gambling addiction through strict responsible gaming measures</p> <p>II. Strict user verification process, including age verification</p> <p>III. Clear disclosure of marketing material in a clear and unambiguous manner</p> <p>IV. Self-exclusion programs for users (ROFUS)</p> <p>V. Collaboration with addiction treatment centres</p> <p>VI. Tracking of financial transactions to restrict money laundering and gambling addiction</p> <p>VII. Prohibition of credit to users</p>	<p>I. Enablement of user protection through self-exclusion schemes and risks of gambling</p> <p>II. Prohibition of misleading and unfair promotional activities</p> <p>III. Implementation of a risk-based approach in applying AML measures</p> <p>IV. Installation of safe-gambling tools</p> <p>V. Strict age verification processes to prevent minors from gambling</p>	<p>I. Strict user verification process, including age verification</p> <p>II. Anti-Addiction Measures by promoting healthier gaming habits</p> <p>III. Adherence to strict advertising standards</p> <p>IV. Enablement of self-requested restriction from gaming, during specific hours</p>	<p>I. Strict user verification process</p> <p>II. Assistance with Self exclusion programs for users</p> <p>III. Installation of safe-gambling tools</p> <p>IV. Easy access to responsible gambling resources</p> <p>V. Tracking of financial transactions to restrict money laundering and gambling addiction</p> <p>VI. Adherence to strict advertising standards</p> <p>VII. Contribution towards gambling related research and treatment</p>

Demystifying global tax structures and regulatory practices

The taxation regime followed by leading gaming nations in the world can broadly be classified into two categories:

1

GGR tax model

under this model, the platform pays tax on the rake fee or the service fee

2

Turnover tax model

under this model, tax is levied on the entire entry or the turnover amount, albeit at lower rates

Worldwide, countries such as the UK and France are shifting from deposit-based taxation to the GGR model due to:

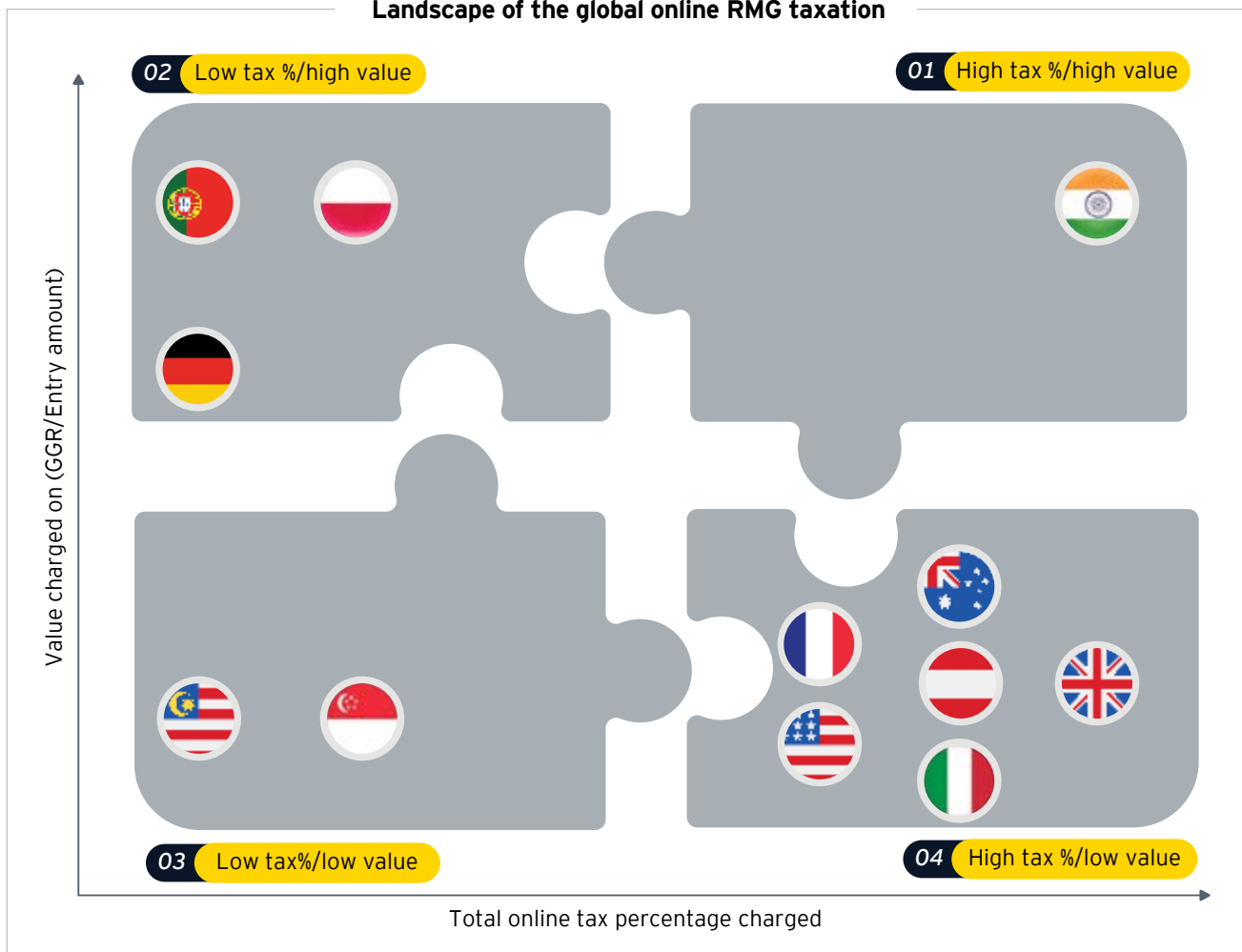
1

users migrating to black markets, leading to revenue loss

2

escalating non-compliance with the licensing and regulatory system⁶⁷

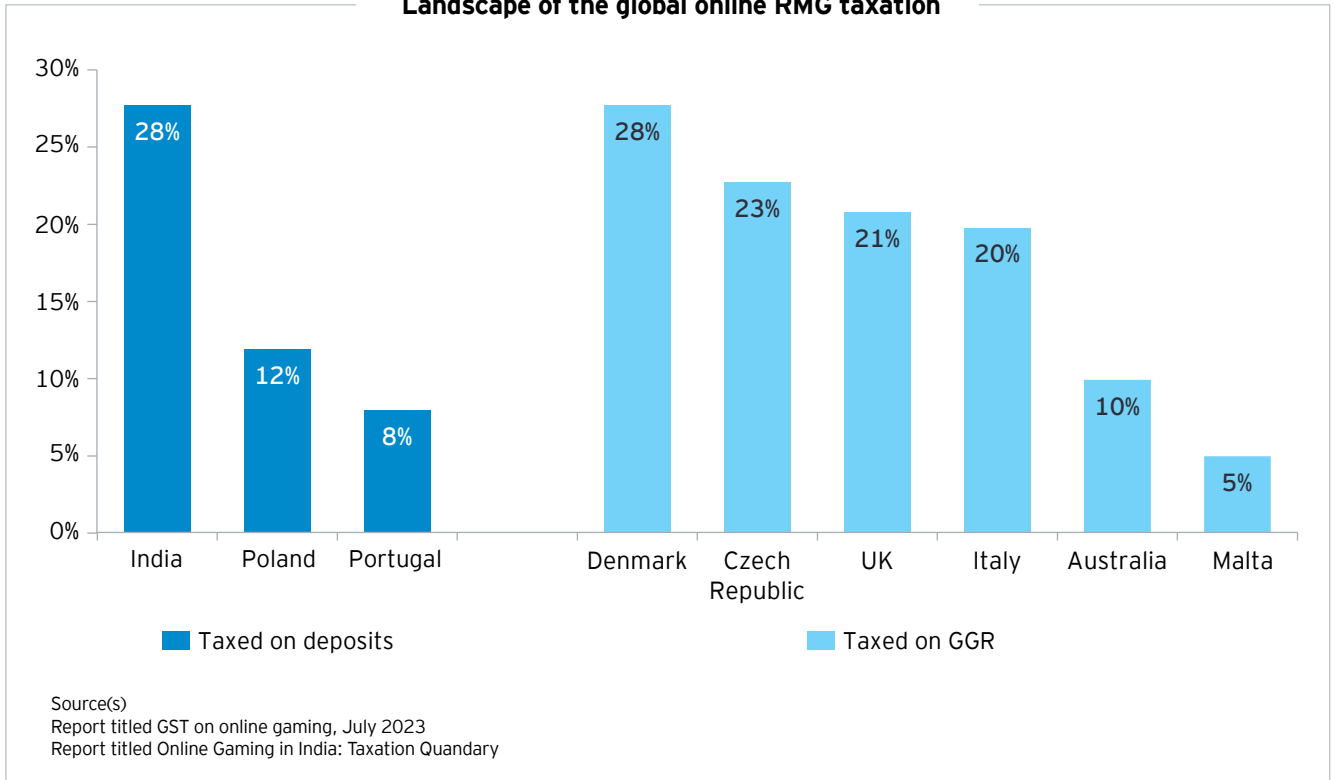
Landscape of the global online RMG taxation



67. LKS Report - Analysis of the GoM report on Online Gaming; Report titled GST on online gaming, July 2023; Report titled Online Gaming in India: Taxation Quandary



Landscape of the global online RMG taxation



Progressive gaming regulations: lessons from global practices

In the global landscape of real money gaming, India stands at the forefront by adopting key regulatory measures. While exploring global practices, it is evident that India is already addressing crucial aspects such as responsible gaming, content regulations, anti-money laundering (AML), and data privacy. The establishment of a robust regulatory framework is paramount for the continued success and responsible growth of the online gaming segment in the country.

Responsible gaming

Provide easy access of gaming activity to the user

a well-informed user is potentially less likely to get addicted to RMG. Information provided should include the following:

- ▶ frequency of gaming sessions, and time spent per session
- ▶ amount of money spent and won on the online platform

Promote responsible play

to help safeguard user safety, online RMG platforms should incorporate platform-level features, to constantly inform and empower users to take informed decisions and avoid risk of financial harm. Some of the features are listed below:

- ▶ Timeouts: provide users with an option to self-exclude themselves from the platform for a time period as decided by them
- ▶ User defined alerts: provide users with the option to set alert limits for themselves on crossing certain thresholds such as net loss

Invest in robust age verification process

since minors form a particularly vulnerable group, real money gaming companies must prevent minors from accessing their platforms. This requires RMG companies to pay special attention to verifying the age and identity of the players through a robust Know Your Customer (KYC) mechanism.

Prohibit the online gaming intermediaries from providing credit to users, either directly or indirectly

to reduce financial harm to users, real money gaming platforms should not provide or facilitate credit to users for the purpose of playing games.

Content regulation - marketing and promotional activities

Include disclaimer about risks in ads

incorporate clear risk disclaimers in all media forms, maintaining consistency in colour and font with advertisements. Allocate at least 20% of space for effective disclosure.

Use "18+" to indicate age restriction on ads

this will help to reduce underage participation in real money games.

Likelihood of success should not be promised

prohibit advertising that suggests online real money gaming provides success or positions it as an income source or job alternative.

Implement stricter penalties for non-compliance

in FY23, RMG was amongst the leading segment running advertisements that are not in compliance with the Advertising Standards Council of India (ASCI) guidelines. It is pertinent to note that these violations were largely limited to smaller players and that most of these were corrected by the respective players. There is, however, an urgent need for the regulatory body to impose strict penalties so that the entire sector complies with the prescribed guidelines.



Anti-Money Laundering (AML)

Employ rigorous customer due diligence process

RMG companies must conduct thorough customer identity verification. High-risk customers necessitate enhanced scrutiny through Enhanced Due Diligence (EDD).

Install agile recording and reporting system

RMG companies must maintain comprehensive records of transactions and customer identification. Reporting large or suspicious transactions to law enforcement enables swift action, preventing financial damage.

Appoint a designated officer

online RMG companies must appoint a designated officer responsible for ensuring AML.

Apply a risk-based approach

employing a risk-based approach enables online real money gaming companies to allocate resources efficiently, balancing regulatory requirements with operational effectiveness in AML compliance for online gambling.

As the online gaming landscape continues to evolve globally, policymakers remain vigilant, fostering an environment that supports innovation, protects consumers, and maintains the integrity of online gaming, thereby contributing to a sustainable and responsible gaming environment.



Various gaming nations typically adhere to one of the two following regulatory structures for efficient monitoring and enforcement of their gaming regulations:

1

Co-regulatory structure

In this framework, the Central Government designates a capable government authority for rulemaking and oversight. This is complemented by a SRB, either independent or industry-led, endowed with limited powers for administration, monitoring, and addressing instances of non-compliance.

Pros

Industry experience: Allows for industry-specific knowledge to be integrated into the regulatory framework through the involvement of Self-Regulatory Bodies (SRBs).

Flexibility: Promotes adaptability to the dynamic nature of the gaming segment, with SRBs contributing to effective self-regulation.

Stakeholder Collaboration: Fosters a collaborative approach involving various stakeholders, including government bodies, industry players, and consumers.

Innovation: Encourages innovation within the segment, as SRBs can respond more swiftly to market changes compared to government bodies.

Cons

Potential Conflict of Interest: There is a risk of SRBs facing conflicts of interest, especially if industry players have significant influence over them.

Varied Standards: Inconsistent standards and practices might emerge across different SRBs, leading to regulatory fragmentation.

Limited Enforcement Power: SRBs may have limited enforcement powers compared to government regulators, which could impact their effectiveness.

Complex Governance: Balancing the independence of SRBs with necessary oversight from the government can be challenging.

2

Government regulator

Unlike the co-regulatory structure, there are no distinct SRBs. The competent government authority appointed by the Central Government takes full control over the administration and monitoring of the gaming regulations, in addition to its basic roles and responsibilities highlighted above. The government regulatory structure reflects a preference in countries where centralized control over the gaming segment is deemed essential.

Pros

Centralized Control: Provides a centralized and authoritative regulatory body overseeing the entire segment, ensuring uniform standards.

Public Accountability: Government regulators are generally more accountable to the public and can be subject to democratic processes.

Consistent Enforcement: Enables consistent enforcement of regulations across the segment, reducing the risk of regulatory arbitrage.

Enhanced Authority: Government regulators often have broader authority and resources for effective oversight.

Cons

Bureaucratic Delays: Government regulators may face bureaucratic hurdles, leading to delays in adapting to sector and segmental changes.

Limited sector and segmental understanding: Government regulators might lack in-depth sector-specific knowledge, potentially hindering effective regulation.

Less Responsive to Market Changes: Government regulators may struggle to keep pace with the rapid evolution of the gaming industry, potentially stifling innovation.

Risk of Overreach: There is a risk of regulatory overreach, where regulations might become too burdensome and stifle the segment growth.

According to industry professionals, given the dynamic and ever-evolving nature of the gaming segment, co-regulatory governance model augers well for the segment as it fosters a collaborative and multi-stakeholder approach. The effectiveness of the co-regulatory framework hinges on the ability of SRBs to enhance compliance and consumer protection through market-driven innovations.





4

Charting a path forward:

building a sustainable future for India's online gaming segment

The Indian online gaming segment finds itself at a pivotal moment, on the cusp of substantial growth while contending with regulatory challenges. As elucidated in the report, this segment carries the promise of making substantial contributions to the nation's economy. These contributions encompass FDI inflows, the creation of employment opportunities, and revenue generation for the country and the government. For national development, the segment's vital role in harnessing the youthful demographic is highlighted through its alignment with key government initiatives like Digital India, Start-up India, and Atmanirbhar Bharat.

Proactive measures are imperative to establish SRBs, combat offshore platforms, and address concerns related to responsible gaming and user safety. Collaborative efforts between the government and industry stakeholders are crucial in navigating these complexities, unlocking the immense growth potential inherent in the Indian gaming industry. The recommendations outlined here aim to facilitate this collaborative approach for a progressive and well-regulated online gaming ecosystem in India.

Establishment of self-regulatory body/(ies) under MeitY guidelines to address regulatory gaps

The introduction of online gaming rules by MeitY in April 2023 was warmly received by the online gaming segment as a positive stride toward operational streamlining. However, the implementation of SRBs, a critical element outlined in these rules, confronts obstacles in execution, prompting the industry to await MeitY's notification for their establishment.

In the absence of functioning SRBs, operators in the RMG sub-segment nationwide grapple with uncertainty, facing sporadic state-specific bans and legal repercussions stemming from mischaracterization of their games as 'gambling.'

To address these challenges effectively, expeditious notification and activation of SRBs hold paramount importance. This action would facilitate the smooth distribution of authorized games across states, fostering a uniform treatment of online gaming throughout the country and cultivating a standardized national market.

Strengthening regulations and enforcement to combat offshore betting

- ▶ The offshore sports betting market in India, estimated at INR8.2lakh crore per annum, has witnessed a rapid 20% annual growth in the last three years.⁶⁸
- ▶ At the current GST rate of 28%, this amounts to INR2.3lakh crore in GST collections, with an additional INR1.6lakh crore in direct taxes due to the 30% TDS on player earnings.⁶⁹

As RMG companies recalibrate their operational frameworks in response to the recent amendments, there is a possibility of decline in user appeal, potentially driving them toward offshore platforms. This shift emphasizes the criticality of promptly addressing this challenge, considering not only the industry's vitality but also the potential threat it poses to the government's agenda.

Indian lawmakers should proactively address the threat of offshore operators. Tackling this issue will require a more structured and synergized approach that involves the government, law enforcement agencies and the industry.

Current efforts, such as Uniform Resource Locator (URL) blocking, fall short as these operators find ways to operate through alternate URLs. It is, therefore, important to also educate and sensitize users about the distinction between permissible and non-permissible game formats and empower them to make informed choices and contribute to a lawful gaming environment.

As a first step, it is imperative to develop a fair and objective game verification framework that can clearly differentiate between online gaming intermediaries offering permissible online real money games and those platforms that are offering betting and gambling services. The game verification framework adopted by SRBs must take into account the jurisprudence laid down by the Indian courts and lay down a set of quantitative principles that can statistically prove the predominant role of skill element.

68. Extracts of report titled 'State of the betting & gambling industry in India' from Think Change Forum accessed through multiple news articles

69. Extracts of report titled 'State of the betting & gambling industry in India' from Think Change Forum accessed through multiple news articles ; EY analysis



It is recommended that the SRBs maintain a database of all game formats that have been held to be permissible and those that have not been. Such a central database can help regulators and Law Enforcement Agencies (LEAs) clearly assess the legitimacy of online game formats, and accordingly take action against operators offering non permitted games.

It is also important to prohibit advertising from illegitimate operators. Increased collaboration between the MIB, ASCI and the SRBs can help develop a more holistic monitoring system and prevent such instances of advertising by illegitimate operators.

Enhancing compliance for responsible gaming and user safety/empowerment

As is the case with most emerging sectors, the growth and innovation need to be carefully balanced against users' safety and welfare. In recent times, the following concerns have emerged in the context of online gaming:

1

addiction related concerns and financial losses incurred due to such addiction

2

educating and sensitising users on the associated risks and implications

3

content related concerns - depiction of violent or inappropriate content

4

ads of offshore gambling and betting websites targeting Indian users

5

lack of safeguards to secure users' interests

To address such concerns effectively through legal means, MeitY introduced various checks and balances through the online gaming rules notified in April 2023. These measures include age verification, self-exclusion and restrictions on inappropriate advertisements.

These regulatory provisions draw inspiration from global practices and offer a solid foundation for addressing the identified issues. However, it is crucial for the government to continually assess the effectiveness and robustness of these checks and balances, including challenges in implementation and the required level of stringency.

This will not only enhance the effectiveness of the regulatory framework but also contribute to altering the negative perception surrounding the online gaming segment. Responsible gaming with regulatory oversight is a preferable approach compared to strict restrictions and bans. This can foster a positive image for the online gaming segment.

Synthesizing insights and concluding reflections

The Indian online gaming segment is poised to become a robust economic force in the foreseeable future. Having experienced remarkable growth, it stands as a thriving segment within India's media and entertainment sector, offering significant potential to boost the country's economic advancement, spur innovation, and generate employment opportunities. While the segment players are prepared to cooperate and adhere to rigorous regulations, substantial government support is deemed essential to fully realize its potential, aligning with global benchmarks and affirming India's capability to develop a competitive global-standard industry.

The industry stakeholders view recent legislative and taxation amendments positively and call for collaborative efforts to further propel its progress. Certification of game format by a regulatory body recognized under the online gaming rules is essential to resolve the conundrum on legal status of various online gaming formats and thereby provide clarity to the segment, investors, state governments and other enforcement agencies. Establishing robust regulatory practices for online gaming necessitates meticulous balancing between effective oversight and an optimized tax structure, crucial for nurturing a responsible and thriving gaming ecosystem. The success of the co-regulatory framework hinges on the ability of SRBs to boost compliance and consumer protection by leveraging their technical knowledge while managing stakeholders' expectations adeptly.

As the online gaming landscape continues to evolve globally, policymakers remain vigilant, fostering an environment that supports innovation, protects consumers, and maintains the integrity of online gaming, thereby contributing to a sustainable and responsible gaming industry. Recognizing the dynamic nature of the gaming sector, leading gaming nations look to adopt a collaborative co-regulatory governance approach. Ultimately, complementing governance policies with taxation laws would be instrumental in unlocking substantial growth and prosperity for all stakeholders involved.



Glossary

Particulars	Description
AI	Artificial Intelligence
AML	Anti-Money Laundering
AVGC	Animation, Visual Effects, Gaming and Comic
CAGR	Compounded Annual Growth Rate
CEA	Contest Entry Amount
CTF	Counter-Terrorist Financing
DPIIT	Department for Promotion of Industry and Internal Trade
EU	European Union
FY	Financial year (12-month period from April 1st to March 31st)
Game of chance	A game that is determined entirely by mere luck, the result of which is wholly uncertain and doubtful and, a human being cannot apply his/her mind to estimate the result
Game of skill	A game where success depends principally upon the superior knowledge, training, attention, experience and adroitness of the participating player
GDP	Gross Domestic Product
GGR	Gross Gaming Revenue
GoM	Group of Ministers
GST	Goods and Services Tax
Hon'ble	Honourable
IAMA	Internet and Mobile Association of India
IAP	In-App Purchases
IPO	Initial Public Offering
MeitY	Ministry of Electronics and Information Technology
MIB	Ministry of Information and Broadcasting
ML	Machine Learning
MoF	Ministry of Finance
MoL&E	Ministry of Labour and Employment

Particulars	Description
MPL	Mobile Premier League
OGI	Online Gaming Intermediary
Online games	Digital interactive entertainment experience played over the internet
Online gaming intermediaries	Platforms or entities that facilitate real money gaming activities by connecting players to gaming providers, managing transactions, and providing a platform for the gaming experience
Permissible online games	Games that are verified by the Self-Regulatory Body
Permissible online real money games	Real money games that are verified by the Self-Regulatory Body
PMO	Prime Minister's Office
RMG	Real Money Gaming
SRB	Self-Regulatory Body
SRO	Self-Regulatory Organization
TDS	Tax Deducted at Source
URL	Uniform Resource Locator
VFX	Visual Effects
Y-o-Y	Year on Year
YTD	Year to date

Conversion rate: for the purposes of this report, the conversion rate of 1 USD to INR is considered as 1:80, reflecting the exchange rate used for financial references throughout the document



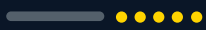
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Industry insights



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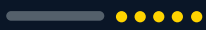
Dream 11

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EY's approach to professional services centres around the sector, with digital media being a key focus. In India, our media & entertainment team comprises over 400 professionals spanning 13 crucial segments, dedicated to addressing the sector's diverse challenges. Serving both prominent domestic M&E companies and global media giants in the country, we offer a comprehensive range of services covering the entire value chain. From corporate portfolio and BU strategy to transaction strategy, business model reinvention, and beyond, our expertise extends to areas such as EBITDA transformation, process excellence, cross media expansion, digital sales acceleration, data analytics, marketing and technology transformation. With a strong presence in each industry segment, we stand ready as your advisors to help navigate and respond swiftly to the current challenges facing the entertainment sector.

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EYIN2312-002

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