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UNVEILING THE LEGAL LANDSCAPE OF ONLINE GAMBLING AND FANTASY GAMING IN INDIA: AN ANALYSIS OF THE UNDERGROUND ECONOMY

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Abstract

The emergence of online gaming stands as a pioneering force in this century, transforming in an age marked by rapid technological progress and widespread internet access. However, the unregulated landscape of online gambling presents significant implications for both individuals and nations. This article delves into the nuanced domain of gambling and online betting regulations in India, providing an in-depth analysis of its regulatory framework. It offers a comprehensive overview of India's legal landscape concerning online gambling, including key legislations such as the Public Gambling Act of 1867, the Information Technology Act of 2000, and the Financial Exchange Management Act of 2000. Within the current legal framework of India, the paper advocates for the potential benefits of legalizing and regulating gambling activities. It underscores the imperative to delineate between games of skill and chance within online gaming platforms and explores the associated complexities. Furthermore, it highlights the repercussions of unregulated online gambling in India and the pressing need for a robust legal framework. Finally, the paper puts forth recommendations for more stringent oversight and management of online gaming in the country.

Keywords - Online Gambling, Regulatory Framework, Gambling Laws, Fantasy Games, Games of Skill, Taxes

Introduction

"Gambling is a principle inherent in human nature" - Sir Edmund Burke

Throughout human culture, betting and gambling have always existed. Gambling has been around for as long as there have been people. used in a variety of contexts, such as gambling, horse racing, gaming, wagering, etc. "Though morally and religiously repugnant, the way that society views betting and gambling has evolved over time. Because of this behavior's persistent attraction, laws have not been able to prevent people from partaking in it. This is seen as a common past time where people gamble on the possibility of earning

large sums of money while spending little money."1055

The well-off individuals Use it for amusement on large scale. It usually has disastrous outcomes and repercussions for the underprivileged families of gamblers in the social group. There is a chance that self-harm will occur when gambling or betting. Gambling has become into a challenging legal issue. "Gambling has consequently grown to be a serious problem for the law and morality. This is a high-risk activity because the outcome of the betted event is unpredictable. When you bet, you can agree in person or online, and you may exchange money or any other asset. The development of Internet technology has given

¹⁰⁵⁵ MacKay, T, Internet Gambling in Canada Waits in Legal Purgatory. National Policy Working Group: Policy Discussion Document (2004)



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betting and gambling new dimensions and given rise to a global market. As a result, recent years have significantly changed how people play games."¹⁰⁵⁶

Therefore, in order to make sure that consumers are adequately protected from its detrimental effects, it is necessary to review the laws controlling gaming and betting. Indian mythology and history both abound with instances of gambling and betting. Betting with money or other objects is referred to as gambling. 1057

To the extent of being called "the stakes on an event with trials element outcome." The main objective is to receive the honour. Three prerequisites are necessary for gambling:

1. Consideration (a sum of money bet)

2. Risk (a chance accepted)

3. Award 1058

A single dice roll, a spin of the roulette wheel or a horse crossing the finish line are examples of situations where the outcome of the wager usually happens instantaneously. Gambling was practiced in the Palaeolithic age, predating written history. "In China, there were a lot of casinos in the first millennium BC, and it was common to wager on animal combat. The concept of "playing cards" originally appeared in China in the ninth century. In countries such as the United States of America and Great Britain, gambling is widely accepted as the main source of entertainment."1059

Online sports betting is one type of gambling. "The main distinction between gambling and betting is that stakes are made on an event without taking the outcome into account. On the other hand, wagers in sports betting are, at minimum, predicated on a notion or outcome associated with the designated sporting event. It is the activity of forecasting sporting events

and placing bets on the outcomes."1060 Different cultures gamble on different sports more or less frequently, with professional and amateur American football, baseball, basketball, cricket, boxing, and other sports receiving the majority of bets. "Apart from sporting events, sports betting also offers bets on non-sporting events such as reality TV series and dog, horse, and cockfighting bouts. Sports bettors have two options for placing their wagers: legally through a bookmaker or sportsbook, or illegally through privately held companies."1061 The term book refers to the ledgers wage brokers use to record wagers, payouts, and debts. Several legal sportsbooks are found online, run over the Internet from jurisdictions separate from the clients they serve, as a means of getting around various gambling laws in particular markets, such as Las Vegas, Nevada, or on gambling cruises through self-serve kiosks. They take "upfront" bets, which require the bettor to pay the sportsbook upfront. Since they do not require payment in full up advance, there is a greater chance that the bettor may owe the bookie Illegal bookmakers can money. operate anywhere due to the nature of their business and only take money from losses. This generates a number of additional criminal components, which increases their illegality. It has long been debated whether gambling and betting are games of skill or chance. Gambling and betting have changed in terms of forms and techniques. These days, wagers and gambles are made by Skype, SMS, and other phones. Because online betting sites are so widely available and common, regulating gambling has become quite challenging. Technology advancements telecommunications and international banking have linked betting hosts to networks. 1062

Laws and regulations pertaining to gaming and betting have several benefits. The first is the

⁰⁵⁶ Id.

 $^{^{1057}}$ Budd, A, "Gambling Review Report (The Budd Report)", United Kingdom Government Department for

Culture, Media and Sport (2001)

¹⁰⁵⁸ *Id*.

¹⁰⁵⁹ Shalina Pillai, "Now, online gaming is a career for some" (May 7, 2018)

¹⁰⁶⁰ Id.

 $^{^{1061}}$ Study by KPMG and Google, online gaming in India: Researching a new Pinnacle, May 2017. See also

https://www.stoodnt.com/blog/career-in-online-gaming/

¹⁰⁶² Ranade, S., S. Bailey, and A. Harvey, "A literature review and survey of statistical sources on remote

Gambling", 2006



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already enormous scope of betting and gambling. The police are unable to stop it. "According to reports, most gambling and betting is done in secret, and organised crime groups are said to control it by using unreported winnings. Legalising the activity will help criminal organisations cut off a sizable source of black money, but it will also bring in a sizable amount of tax revenue for the government, which can be allocated to a number of worthwhile social projects." 1063

Legalising gambling and sports betting could result in significant tax revenue for the Indian government. Currently, the gambling industry is largely unregulated and clandestine, meaning that the government does not benefit financially from it. Legalising gaming and betting would enable the government to erect a framework for regulating the industry and collecting taxes from its profits. These income may be used to fund essential services including education, healthcare, and infrastructure. Second, more jobs might become accessible if gambling and betting are legalised in India. The gaming industry is labor-intensive and requires a wide range of skills, from customer service to technological know-how. "Thirdly, increased tourism to India may result from the legalisation of gaming and betting. Legalised gambling has aided in the expansion of tourism businesses in other countries; India may follow suit."1064 The government should create a safe and regulated gaming environment to attract tourists who are interested in gambling.¹⁰⁶⁵

Legalising sports betting and gambling may also aid in addressing India's gambling addiction issue. Legalisation of the sector would allow the government to set up a system for helping those who are addicted to slot machines. "Programmes for therapy, counselling, and education and awareness could fall under this category. Legalising sports betting and gambling will also contribute to a

decline in the number of illicit sports betting and gambling operations in India. Because gambling is now illegal, there is a booming underground gambling market that is mainly unregulated and frequently draws in criminal activity."¹⁰⁶⁶ Legalisation would allow the government to create a framework for oversight and regulation, improving participant safety and lowering the likelihood of illegal conduct.¹⁰⁶⁷

In conclusion, legalising betting and gambling in India may have a positive impact on the country's economy and society, help with the issue of gambling addiction, and lessen the likelihood of illicit gaming. But in order to guarantee that any legislation is just, open, and accountable, it must be well drafted. By doing this, India can create a flourishing, regulated, and safe gaming sector that is advantageous to all parties.

Present Legal Status of Online Gambling in India

In actuality, the majority of India still views online gambling as illegal. It is imperative to acknowledge that gambling is subject to restrictions inside the nation, which are derived from the **Public Gaming Act of 1867**¹⁰⁶⁹. There is no mention of online gambling in this statute because it was passed before the internet was even a thing. Below is a list of some states that permit internet betting.

Here is a list of states that allow online gambling.

 Online providers can apply for and get licences for sports betting and casinos from the Sikkim local government. In Sikkim, playing video games online including skill and chance games is completely legal. In the state of Goa, gambling is allowed both online and offline.¹⁰⁷⁰

¹⁰⁶³ Supra note 7

¹⁰⁶⁴ Morse, E.A. (2006). Extraterritorial Internet Gambling: Legal Challenges and Policy Options

¹⁰⁶⁵ Id.

 $^{^{1066}}$ McMillen, J. (2000). Online gambling: Challenges to national sovereignty and regulation. Prometheus, 18(4):

³⁹¹⁻⁴⁰¹

¹⁰⁶⁷ Regulating Sports Betting in India: FICCI

¹⁰⁶⁸ Id.

¹⁰⁶⁹ The Public Gaming Act, 1867, Act No. 3 of 1867

¹⁰⁷⁰ Supra note 8



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- Daman and Diu has no restrictions over internet gambling, despite the fact that there are a few respectable land-based casinos there, making it a favourite vacation spot for gamers.
- The Nagaland Prohibition of Gambling and Promotion and Regulation of Online Games of Skill Act of 2016 has made it legal for Nagaland to play online games that fall under the category of games of skill, such as poker and rummy.¹⁰⁷¹
- The state of Meghalaya also has made it legal to allow online games like poker and also even rummy.

The Public Gambling Act of 1867-Vital legislation for online gambling in India

The Public Gambling Act of 1867 forbids gambling and sports betting within the existing legal system. "According to Section 2(b) of the Act, wagering and betting are considered forms of gambling, while lotteries are not. Even if the enactments listed in Article 395 are repealed, the laws that were in effect in India at the time of the Constitution's ratification, along with the other provisions, shall remain in force unless they are altered, repealed, or amended by a competent legislature or other competent authority, according to Article 372(1) of the Indian Constitution. The Entry 62 State List of the Constitution gives states the authority to pass tax and gaming laws." 1072

GA does not define or explain "public gaming." "PGA's definition is the only one available. "Section 12 of the PGA states that no game of mere skill, regardless of where it is played, is governed by PGA rules. To decide if a game counts as gambling, one must ascertain whether it is primarily dependent on skill or luck." This was explained by the Supreme Court in the case of **State of Tamil Nadu v. Dr. K.B.** Lakshmana¹⁰⁷³n, the court determined, the same as well-

"To put it simply, gambling is the practice of making financial bets in the hopes of winning something. The outcome of the game can depend totally on chance, or it can take both skill and luck to win. Games of chance, such as wheel rolling or dice rolling, rely entirely or mostly on chance. These games have completely and unpredictable random outcomes. Games of skill still have some element of chance, but the player's skills, knowledge, and abilities are what really determine their success. Games like chess, golf, and rummy are examples of skill-based games. The courts have determined that most games are not purely skill-based or chancebased, but rather fall somewhere in between."

Information Technology Act, 2000¹⁰⁷⁴

To prohibit internet betting, the Indian government does away with particular laws and instead employs Section 67 of the Information Technology Act. A fine of up to Rs 1 lakh and a prison sentence of up to five years are imposed under this provision on anyone who publishes, transmits, or assists in the distribution of electronic material that contains offensive sexual content or content that has the potential to deprave and corrupt people. Since gambling and sports betting are prohibited in India, any website that offers these services would fall under the previously specified definition of immoral or perverse. 1075

"According to Rule 3 of the Information Technology (Intermediaries Guidelines) conjunction with Section 79 of the Information Technology Act, 2000 (IT Act), the federal government may potentially require Internet service providers (ISPs) to prohibit websites that online gambling." Nevertheless, promote websites that advertise online gambling have not yet been subject to this authority. But because of Section 69-A of the IT Act, the Computer Emergency Response Team (CERT) has acknowledged that it is powerless to apply

1075 The Digital Legal Library (2022) ICNL. Available at https://www.icnl.org/resources/library

 $^{^{1071}}$ Nagaland Prohibition of Gambling and Promotion of Online Games of Skill Act, 2005

 $^{^{1072}}$ Supra note 15

¹⁰⁷³ Dr. K.B. Lakshmanan v. State of Tamil Nadu, 1996 SCC (2) 226.

 ¹⁰⁷⁴ Section 67, Information Technology Act, 2000.
 1075 The Digital Legal Library (2022) ICNL. A



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limitations on websites that offer online gambling.¹⁰⁷⁶

Foreign Exchange Management Act, 1999¹⁰⁷⁷

The Foreign Exchange Management Act of 2000 regulates the influx of foreign capital into India as well as the exchange of foreign currencies and money transfers from India to other nations. This provision excludes any transfer that involves gambling, although it does not exclude other types of betting. As a result, they would be unable to pay for websites that provide these services.¹⁰⁷⁸

"This act prohibits any Indian resident from opening a business, keeping a foreign currency account, or maintaining one without the RBI's special permission. This prohibition also extends to any resident attempting to use any of these websites to engage in online gambling by opening a foreign currency account in a country where sports betting is permitted."

Apart from this acts such as the **Prize**Competition Act, 1955 and the Central lotteries

Regulation Act of 1988 is also vital when pertinent to online gambling.

Why Should Gambling be Legal: Arguments in favor of legalizing Online Gambling

1. Combatting Match Fixing

Match-fixing has been a concern for the Indian Premier League (IPL) and the Board of Control for Cricket in India (BCCI), and it can help resolve it. "The Committee called Lodha suggested in its second phase that betting laws may help stop athletes from engaging in unethical betting." 1079

2. Accepting Reality

We need to understand reality. Without a question, India's gaming market has expanded dramatically. One argument in favour of regulation in India and other nations is the social impact of sports betting. Making money from sports betting is becoming a more

common habit. In a nation the size of India, where a high proportion of the population lives in poverty, a lot of people find themselves enticed to gamble because they perceive it as a quick and easy method to get money in spite of their lack of stability and resources.

3. Consolidation and Transparency

Second, the availability of sports betting websites might promote the use of online platforms by users and lead to a consolidation of betting businesses, making regulation and monitoring easier. This can ensure clear and equitable gaming and for sure it is a very transparent process as well.¹⁰⁸⁰

4. Combating the serious issue of Black money

This seriously harms the national, its people and the economy hugely. Legalisation could lead to a large rise in the flow of illicit funds. "The Federation of Indian Chambers of Commerce & Industry (FICCI), with projects that could generate revenues of 12,000-19,000 crore rupees, has urged the government to legalise betting." 1081

5. Normalizing the use of VPN's

VPNs are already being used by people to access websites that offer sports betting. "While foreign participation in the gaming industry is outlawed by the 2015 Foreign participation (FDI) policy and the External Commercial Borrowing (ECB) Rules, some gambling firms, like as Bet365, that are governed by UK law, do business in India." Their servers are situated outside of India, which limits the options available to the Cyber Police. Legalising gambling could contribute to the making normal of these websites and the use of VPN.

6. Paving the way for Fantasy Sports

Legal issues and disputes such as the Humphrey v. Viacom case have cast doubt on the classification of fantasy sports as gambling, highlighting the need for regulatory frameworks

^{.0/6} Id.

¹⁰⁷⁷ Section 67, Information Technology Act, 2000

 $^{1078 \}text{ Ic}$

¹⁰⁷⁹ The Lotteries (Regulation) Rules, 2010

¹⁰⁸⁰ Supra note 13

¹⁰⁸¹ Supra note 16



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to ensure fair competition and protect the interests of consumers. "With courts highlighting the significance of the analytical and strategic components involved in such activities, legislation like the Nagaland Prohibition of Gambling and Promotion of Online Games of Skill Act, 2005, attempt to classify fantasy sports as skill-based games rather than games of chance in India."

When we look into this field, it is a huge topic of debate as lot of people argue that skill is not involved for these type of sports but, lots of fantasy and sports and gambling lovers say that it is hugely based on skill and only a highly skilled person can work at it. "While the analytical requirements for fantasy sports and sports betting are similar, the games' real-time nature and necessary skill level differ." In order for only regulated platforms to operate, "it will become more crucial as the industry grows to find a balance between making money and player welfare, ethics, and legal frameworks."

7. Huge Monetary Gains

The author analysed a report submitted by KPMG way back in 2010. The report stated that—The tax revenue can be increased tremendously. How we ask? We can look into it.

"By taxing gaming winnings, the government may be "able to recoup some of the money it had previously lost as a result of gambling's illegality. In summary, legalising gambling presents states with a compelling opportunity to combat illegal gaming while also leveraging its economic potential to enhance both the state's financial position and society." This is even profitable as the gambling market is worth billions. This argument goes way back in history where there was a tax on winnings and it was 5% and it was to combat illegalities.

8. It is mostly or even purely based on Skill of the person

No matter where the games are played, "Section 12 of the Public Gambling Act of 1867 declares that the Act's rules do not apply to games that are only skill-based. People who wager on sports must use their knowledge, application, and analytical skills. Clarifying the differences between games of chance and skill is crucial." 1083

Judicial Developments

One important case to be discussed is the "Varun Gumber" case 1084. This question was first posed to the Court. In this case, "the petitioner made an attempt to use the PGA to prosecute Dreamll, the respondent, for a crime. Regarding Dreamll, the Bombay High Court was confronted with a fresh legal challenge." A Public Interest Litigation (PIL) brought in the Gurdeep Singh Sachar v. Union of India 1085. At the centre of the issue was whether Dreamll participated in illegal betting under the pretence of online fantasy sports. The High Court dismissed the petition. "It decided that a user's virtual team's performance remained unrelated to the team's actual performance. As seen in the Varun Gumber instance, points were given according to each player's unique performance, necessitating expertise in both selection and management." This is precedent from the Varun Gumber case. One interesting event occurred after that. In reaction to an SLP filed by the Maharashtra government, the Supreme Court served notice to all parties, and further arguments will now be held. "Despite numerous rulings, including those by Varun Gumber, Chandresh Sankhla, and Gurdeep Singh Sachar, that uphold online fantasy sports platforms as games of skill rather than gambling," this most recent development brings all previous court judgements on this point back into sharp relief.

Let us look at the case of *Rex v. Fortie*¹⁰⁸⁶ in which was this actually talked about in detail.

¹⁰⁸² Williams, R.J. & Wood, R.T., Internet Gambling: A Comprehensive Review and Synthesis of the Literature,

Report prepared for the Ontario Problem Gambling Research Centre, Guelph, Ontario, Canada, 2007, p. 38

¹⁰⁸³ Id.

 $^{^{1084}}$ Varun Gumber v. Union Territory of Chandigarh and Others, $\rm MANU/PH/1265/2017$

¹⁰⁸⁵ Id.

¹⁰⁸⁶Rex v. Fortier, 13 Q.B. 308, p.25. 35



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This case also gave the proper definition and a statutory interpretation of the Chance that we have when we play a game. "These games are characterised as ones in which skill levels like talent, practice, or judgement are either irrelevant or hindered by chance, and are instead largely or entirely determined by luck or chance."

Lets see few cases of this. The Indian Supreme Court ruled in the case of Dr. K.R. Lakshmanan v. State of Tamil Naduix¹⁰⁸⁷ that football, baseball, boat racing, and horse racing are all considered games of skill. "Because it permits wagering on horse races but forbids it in other sports, the regulation is incoherent." Further "Competitions where victory depends on a substantial degree of talent are not gambling," the Supreme Court declared categorically in the rulings in State of Andhra Pradesh v. K Satyanarayanaxi¹⁰⁸⁸ and State of Bombay v. RMD Chamarbaugwalax. 1089 "If a game's main objective is skill-based, it is still referred to as mere skill even when chance is included. Courts have ruled again and time again that all sports are contests of talent rather than chance. It is allowed since horse racing is a skill-based sport.

A Global Perspective of developments in Online Gambling

Understanding of this perspective is imperative because for legislators and business leaders seeking to balance consumer safety, ethical gaming standards, and economic opportunity. The global evolution of regulations pertaining to online gambling emphasises the need for constant collaborations and conversations to tackle the intricacies posed by this dynamic industry.

EU: Some countries have a more liberalised (UK, MALTA) and some countries have a more strict approach (Such as NETHERLANDS AND GERMANY).

UK: This country is known for having the gambling number pretty high. Hence it is strictly regulated. They even have a body just for it. "This body is called Gaming Commission is established by Section 20 of The Gambling 2005 Act to supervise gaming and betting operations carried out by licenced operators. These companies serve as intermediaries in the betting sector and offer a variety of services. The Commission oversees the licencing of games, investigates and prosecutes illegal gambling, and has the authority to fine players and revoke licences. It also provides guidance on gaming to the federal, state, and local governments." 1090

USA: They have both at State and Federal level. "The 2006 Unlawful Internet Gambling Enforcement Act (UIGEA) serves as evidence of the United States' previous restrictive posture. However, things have altered recently as a result of the legalisation and regulation of online gambling in multiple jurisdictions, most notably Delaware, Nevada, and New Jersey."

Let us look at Las Vegas, Nevada as an example. The industry has resulted in considerable increases in gaming revenue and related sectors. The state benefits from a sizable influx of visitors searching for gaming establishments, which enhances several economic sectors like lodging, transportation, and hospitality.

It is vital to discuss the case of Humphrey v. Viacom¹⁰⁹¹, the judge provided two explanations. "First off, they weren't regarded as because the entry fees are unconditionally. Second, fantasy sports were skill-based games where a player's success was decided by how well he could choose his players and squad for the event. As was previously said, the second argument has been accepted by numerous Indian courts."

Also the case of *FanDuel v. Schneiderman*¹⁰⁹², gave rise to the belief that these online gambling and fantasy sports are based on skill.

¹⁰⁸⁷ K.R. Lakshmanan v. State of Tamil Nadu, MANU/SC/0309/1996.

 $^{^{1088}}$ Andhra Pradesh v. K. Satyanarayana and Ors., MANU/SC/0081/1967.

¹⁰⁸⁹ State of Bombay v. R.M.D. Chamarbaugwala, MANU/SC/0019/1957

¹⁰⁹⁰ Supra note 22

¹⁰⁹¹ Humphrey v. Viacom, Inc., No. 06-2768 (DMC), 2007 WL 1797648

¹⁰⁹² FanDuel v. Schneiderman, 102014/2015



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Asian countries: Asia is very diverse and hence the regulations are also very diverse. Lets say while in Singapore, Thailand and Philippines, gambling is very liberalised, countries like China, India and Korea continue to follow a very strict and regulated approach. Hence a balance or equilibrium is required. 1093

Conclusion and Suggestions

In conclusion, a multitude of gambling laws and regulations oversee the rapidly growing online gaming industry. In certain countries, playing video games online is acceptable, yet it is strictly forbidden in others. "The legality of online gaming, casinos, and fantasy sports depends on a number of factors, two of which are the player's location and the nation in which the operator is licenced."

Supreme courts ruling can have a huge impact, hence one suggestion that is pertinent is that Even if the highest "Court decides that a Union law cannot be passed on state property, gambling and betting may still be included in List I of a constitutional amendment." Many legislators view gambling as unethical, therefore, if gambling is not made legal, our focus should be on legalising online betting as a skill-based game. "According to Supreme Court decisions, states must define gambling broadly and allow games that demand a high level of skill. Games of skill are protected under Article 19(1)(g) of the Constitution; governments are only permitted to outlaw games of skill in order to uphold public order or prevent the spread of immoral acts, according to the M.J. Sivani case¹⁰⁹⁴."

It is of no doubt that the current legal framework is full of loopholes and inconsistent wordings. Our main legislation does not even define properly let alone give a proper and clear picture and difference between skill and chance/luck. Due to this there is a very prevalent illegal, illicit and Black market of gambling in India. "Because of the skill element, fantasy sports might be included in legal sports

betting, which could bring in a sizable amount of tax money for the government. Legalisation and regulation of this industry could drive it out of the shadows and lessen the problems associated with the black market, including as money laundering and criminal behaviour. It can also generate significant tax revenue for the government."¹⁰⁹⁵

India must follow to strike a balance between the interplay of generating profits and also of regulating or implementing strict actions. 1096

In summary, banning online gaming will merely make it more hidden because it is already extensively used in underground societies. Second, "it would penalise illegal bookies and remove missing money from the economy by legalising online gaming." Thirdly, government might make a sizable sum of money from internet gambling if it were made legal and subject to taxes. Fourth, there's no denying the benefits of creating possibilities. Establishing a strong regulatory structure to monitor internet gambling will guarantee that people don't act in an excessive manner and that what they do complies with the law. And last, but no less significant, a complete prohibition on internet gaming would be far from reality.

¹⁰⁹³ Supra note 28

¹⁰⁹⁴ M.J. Sivani And Ors vs State Of Karnataka W.P.No.45101/2017

¹⁰⁹⁵ Supra note 17

¹⁰⁹⁶ Suresh, Aditya & Ab, Asif. (2023). A LEGAL CONUNDRUM ON INTERNET GAMBLING. 3. 65-74.