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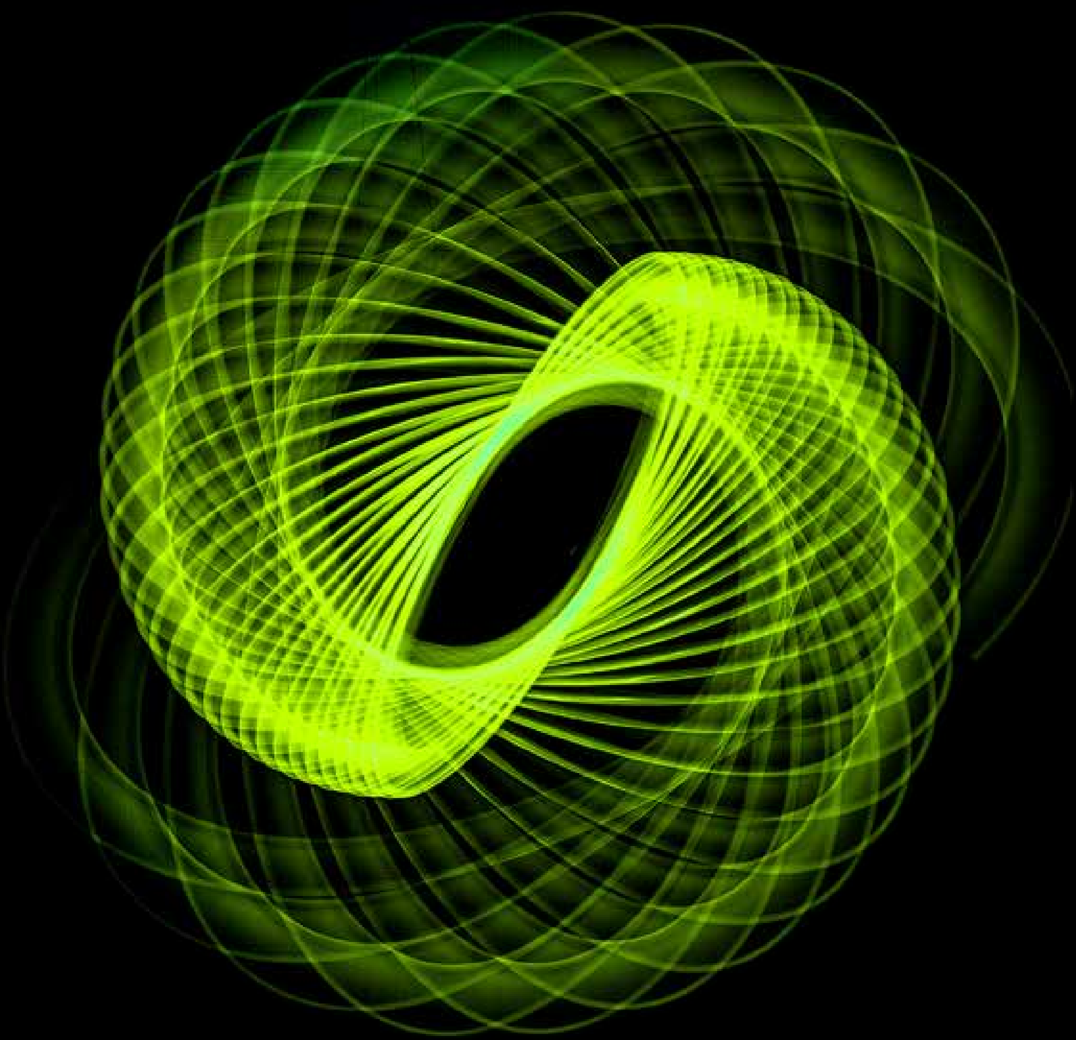
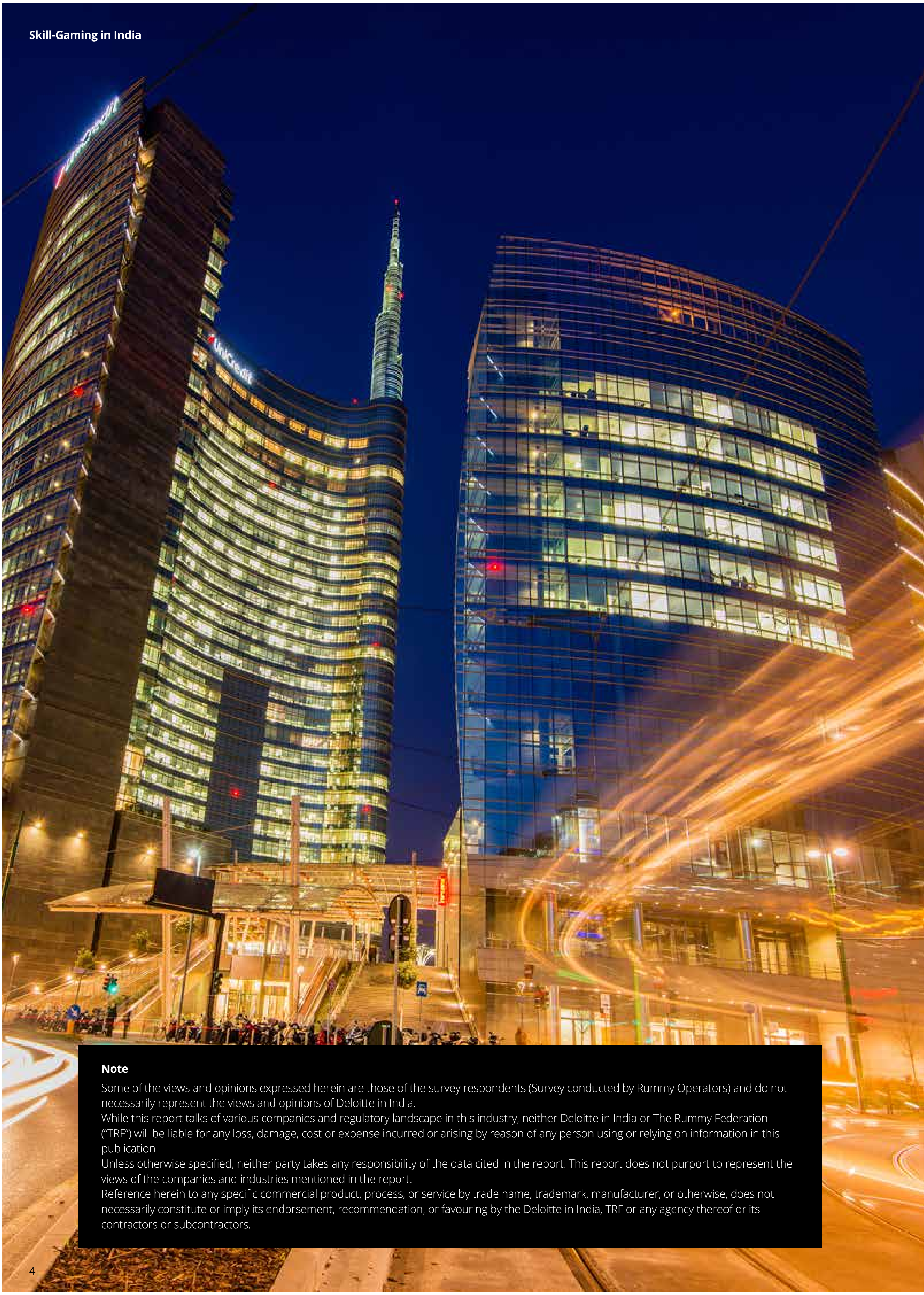


Skill Gaming in India
The changing landscape

July 2018

Risk Advisory

Contents



Note

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Introduction

This document is a report collated based on desktop research and is not a survey

The Games Industry is undergoing dramatic changes. As the industry transitions from being limited to a friends and family activity to a thriving online activity, participation and engagement in gaming is becoming widely recognised and pursued. Growth in the country's gaming industry is being fuelled by enhanced connectivity, changing needs in social interaction and a growing youth population base. The universal appeal and social nature of the gaming industry offers a multitude of opportunities for direct monetization, user engagement and brand promotions.

For the purpose of regulating monetary offerings in the gaming industry, Indian laws differentiate between games of skill and games of chance. There is a strict prohibition on participation and offer of money in games of chance. However, games of skill are treated differently in that they are comparable to any other entertainment activity. The differential treatment which is accorded to games of skill and games of chance, as the former being permitted and the latter being prohibited has been a historic feature of Indian law which has flowed into the Indian statute from the prevalent principles under the British ruled India.

A game is classified as a skill game based on the outcome of the game which predominantly depends on the skills of the players and not on a chance event and hence is considered legal in all aspects including in social settings, clubs, casinos and online.

Although gaming practices date back to the early 17th century, the advent of a digital age has revolutionized the gaming industry. The internet has opened the door to a whole new realm of opportunities for this industry. As the trend of online gaming progresses, companies have substantially improved the gaming experience that they offer. The fierce competition between companies has been a result of the ever-expanding user base of customers who have a wide range of choices of online games. Therefore, gaming providers continue to look for ways to expand their services and ensure continued user engagement.

The growth trajectory of this industry has led to an increasing need of a regulatory framework to ensure integrity and transparency.

This paper gives an overview of the gaming industry in India while highlighting the current regulatory landscape and drawing insights on the growth and revenue generation in skill gaming in India. It also emphasizes the behavioural pattern of Indian skill gamers and their need for online engagement.

With proliferation of entertainment options across online media platforms, the online gaming industry, represents a significant avenue for growth. A clear regulatory regime which, inter alia, does not disrupt innovation and growth will allow Indian operators to access and ride this tide, generating significant revenue and employment opportunities in a burgeoning industry.

Understanding the Regulatory Landscape

Overview of Betting and Gaming

Gaming is perhaps as old as mankind and has been globally practised legally as well as illegally. The attitude of society towards gaming has varied across time and geography and in most cases, laws have supported wagering on activities that are based on skill and prohibited betting on games of chance. Betting involves transaction of money or any property and this arrangement may be arrived face to face or through virtual means. The revolution of Internet technology has opened new dimensions of gaming and has created a global market for activities on which people can legally place a wager in their respective jurisdiction. Today, people place their wagers over phone, personal computer etc. Easy access to internet gaming sites, having a global presence has made regulation of gaming an important issue. Telecommunication technology and global bank transfers have linked gaming hosts into networks. But despite these developments, 'skill' or 'chance' is still a decisive factor in determining the legality of a gaming business in India.

Skill gaming is different from prohibited gambling or gaming on games of chance which is understood to be gambling in nature. The expression "gaming" found in all the State gambling laws has been interpreted by the Supreme Court in the case of Dr. K.R. Lakshmanan v. State of Tamil Nadu and Anr., (1996) 2 SCC 226

"32. The expression 'gaming' in the two Acts has to be interpreted in the light of the law laid-down by this Court in the two Chamarbaugwala cases, wherein it has been authoritatively held that a competition which substantially depends on skill is not gambling. Gaming is the act or practice of gambling on a game of chance. It is staking on chance where chance is the controlling factor. 'Gaming' in the two Acts would, therefore, mean wagering or betting on games of chance. It would not include games of skill like horse-racing. In any case, Section 49 of the Police Act and Section 11 of the Gaming Act specifically save the games of mere skill from the penal provisions of the two Acts. We, therefore, hold that wagering or betting on horse-racing - a game of skill- does not come within the definition of 'gaming' under the two Acts."

Statutory Provisions in India – Overview

The two main enactments dealing with gaming in India are the pre-Independence Public Gambling Act, 1867 (PGA) and the Prize Competitions Act, 1955 (PCA).

The PGA criminalises the act of gambling in a public forum in India and the keeping of a 'common gaming house'. Common gaming-house is defined as any house, walled enclosure, room or place in which cards, dice, tables or other instruments of gaming are kept or used for the profit or gain of the person owning, occupying, using or keeping such house, enclosure, room or place, whether by way of charge for the use of the instruments of gaming, or of the house, enclosure, room or place or otherwise howsoever.

As per the Seventh Schedule to the Constitution of India (Entries 34 and 62 of List II), the state governments have been authorised to make laws on betting and gambling. Therefore, where a state legislation on gambling exists, it prevails over the PGA, which is a central legislation promulgated earlier in time. Accordingly, in addition to the PGA, a number of states in India have enacted legislation to govern gambling and gaming within these states

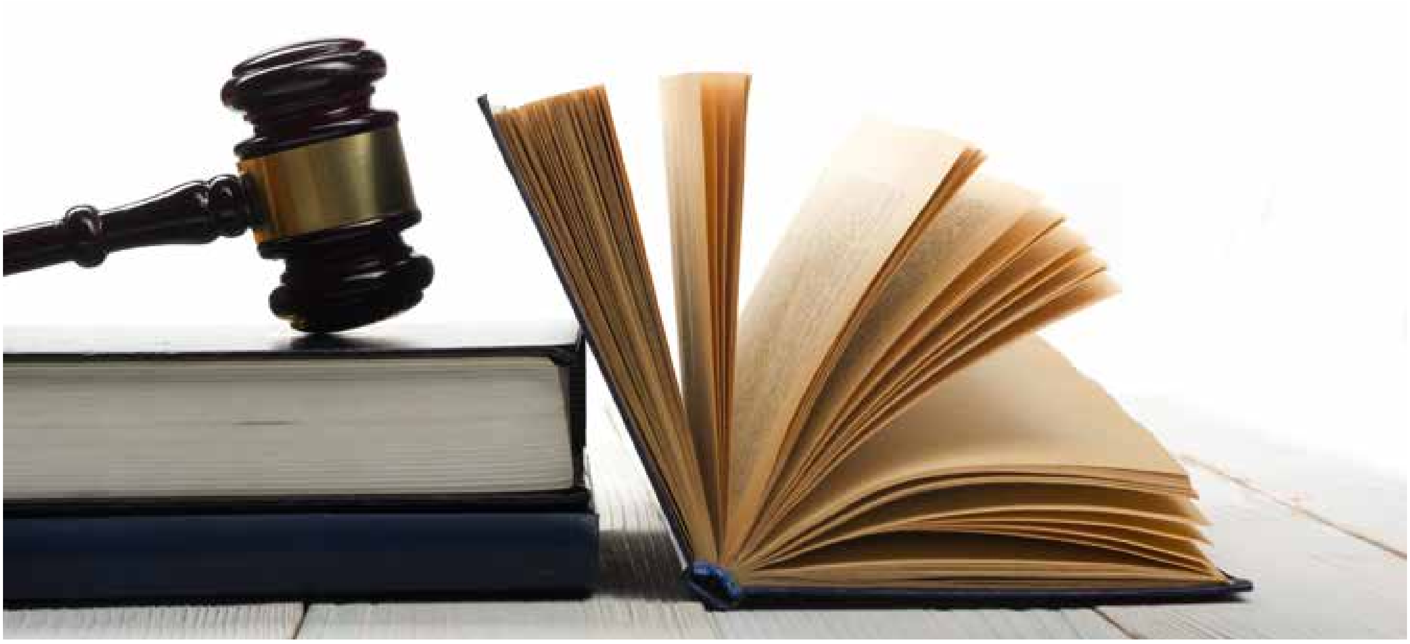
Skill Gaming – Regulatory Insights

The differential treatment accorded to games of skill and games of chance, with the former permitted and the latter prohibited, has been a historic feature of Indian law. Section 12 of the Public Gambling Act exempts games of skill from the penal provisions against gambling – '***Nothing in the foregoing provisions of this Act contained shall be held to apply to any game of mere skill wherever played'.***

In the case of Dr. K.R. Lakshmanan v. State of Tamil Nadu and Anr., (1996) 2 SCC 226, the Supreme Court ("SC") of India has interpreted the words "mere skill" to include games which are preponderantly of skill and have laid down that (i) the competitions where success depends on substantial degree of skill will not fall into category of 'gambling'; and (ii) despite there being an element of chance, if a game is preponderantly a game of skill, it would nevertheless be a game of "mere skill". Hence, games which satisfy test of skill are not regulated under gambling legislations.

There have been various legal precedents to argue that a game which requires substantial degree of skill for a player to be successful will be considered as a game of skill and does not amount to gambling. Some of these judgements have been reproduced below:

- In the case of State of Andhra Pradesh v. K Satyanarayana, the Supreme Court held that the thirteen card game of rummy was not a game entirely based on chance. The division bench, while allowing the game of rummy to be played in clubs, observed "The game of Rummy is not a game entirely of chance like the 'three-card' game mentioned in the Madras case to which we were referred. The 'three card' game which goes under different names such as 'flush', 'brag' etc. is a game of pure chance. Rummy, on the other hand, requires a certain amount of skill because the fall of the cards has to be memorised and the building up of Rummy requires considerable skill in holding and discarding cards. We cannot, therefore, say that the game of Rummy is a game of entire chance. It is mainly and preponderantly a game of skill."
- In the case of Dr. K.R. Lakshmanan v. State of Tamil Nadu the Supreme Court held Horse-racing is a sport which primarily depends on the special ability acquired by training. It is the speed and stamina of the horse, acquired by training, which matters. Jockeys are experts in the art of riding. Between two equally fast horses, a better trained jockey can touch the winning-post. 'Gaming' in the two Acts would, therefore, mean wagering or betting on games of



chance. It would not include games of skill like horse-racing. We, therefore, hold that wagering or betting on horse-racing - a game of skill does not come within the definition of 'Gaming' under the two Acts. The court further followed the legal position affirmed in the two Chamarbaugwala cases and quoted - "We must hold that as regards gambling competitions, the petitioners before us cannot seek the protection of Article 19(1)(g)...(5) As regards competitions which involve substantial skill however, different considerations arise. They are business activities, the protection of which is guaranteed by Article 19(1)(g)"

- In the case of Shri Varun Gumber v. Union Territory of Chandigarh and Ors., the Punjab and Harayana High Court held that:
  - The competitions where success depends upon the substantial degree of skill are not gambling; and
  - Despite there being an element of chance, if a game is preponderantly a game of skill it would nevertheless be a game of "mere skill".

Based on the submissions and contentions of respondent-company and factual position admitted in writ petition, Judge was of the view that playing of fantasy game by any participant user involves virtual team by him which would certainly requires a considerable skill, judgment and discretion. The participant has to assess the relative worth of each athlete/sportsperson as against all athlete/sportspersons available for selection. He is required to study the rules and regulations of strength of athlete or player and weakness also. The several factors as indicated above submitted by the respondent – company would definitely affect the result of the game.

The Judge further, expressed that gambling is not a trade and thus, is not protected by Article 19(1)(g) of Constitution of India and thus, the fantasy games of the respondent -company cannot said to be falling within the gambling activities as the same involves the substantial skills which is nothing but is a business activity with due registration and paying the service tax and income tax, thus, they have protection granted by Article 19(1)(g) of Constitution of India. Accordingly, the writ petition stands dismissed.

- In the case of Auth Rep, Head Infotech (India) Pvt. Ltd., Hyderabad & Anr vs. Chief Secy, State of Telangana, Hyderabad & 3 Ors ("the Writ")

The Telangana State Gaming (Amendment) Ordinance, 2017 ("Ordinance I") was promulgated by the Governor of the state of Telangana ("State") on June 17, 2017 to amend the Telangana State Gaming Act, 1974 ("the Act").

On 20 June, 2017, Ordinance I was challenged before the High Court of Hyderabad ("Court") by several rummy operators. Pending final outcome of the proceedings before the Court, on July 8, 2017, the State passed another Ordinance, the Telangana Gaming (Second Amendment) Ordinance, 2017 ("Ordinance II") to amend the Act further.

The Challenge to Ordinance I: The Act, like most State gaming enactments excludes games of skill from its purview. Therefore, prohibitions under the Act do not apply to games of skill. Ordinance I added an explanation stating that games of skill which have part elements of chance cannot be termed 'skill games'. Ordinance I furthermore specifically stated that Rummy was not a skill game as it involved part chance.

The challenge to Ordinance II: Ordinance I only made gaming within common gaming houses an offence and removed Rummy specifically from the ambit of games of skill. Ordinance II further amended the law to specifically make online games of skill an offence in the state by entirely removed the exemption to all types of games of skill.

The challenges to the Ordinances I & II and the subsequent Telangana Gaming (Amendment) Act 2017 passed pursuant to the said Ordinances are based on several grounds, most importantly, that this amendment has upset the law laid down by the Supreme Court upholding the exclusion of games of skill from the ambit of gambling laws and that this Act violates the fundamental right to do business and profession under Article 19(1)(g) of the Constitution of India.

Tertiary Laws

1994

The Cable Television Network Rules, 1994
The Cable Television Network Rules, 1994101 prohibit the advertisement of gambling activities. However, as set out in rule 7 the advertisement of games of skills, such as horse racing, rummy and bridge, is not prohibited.

1999

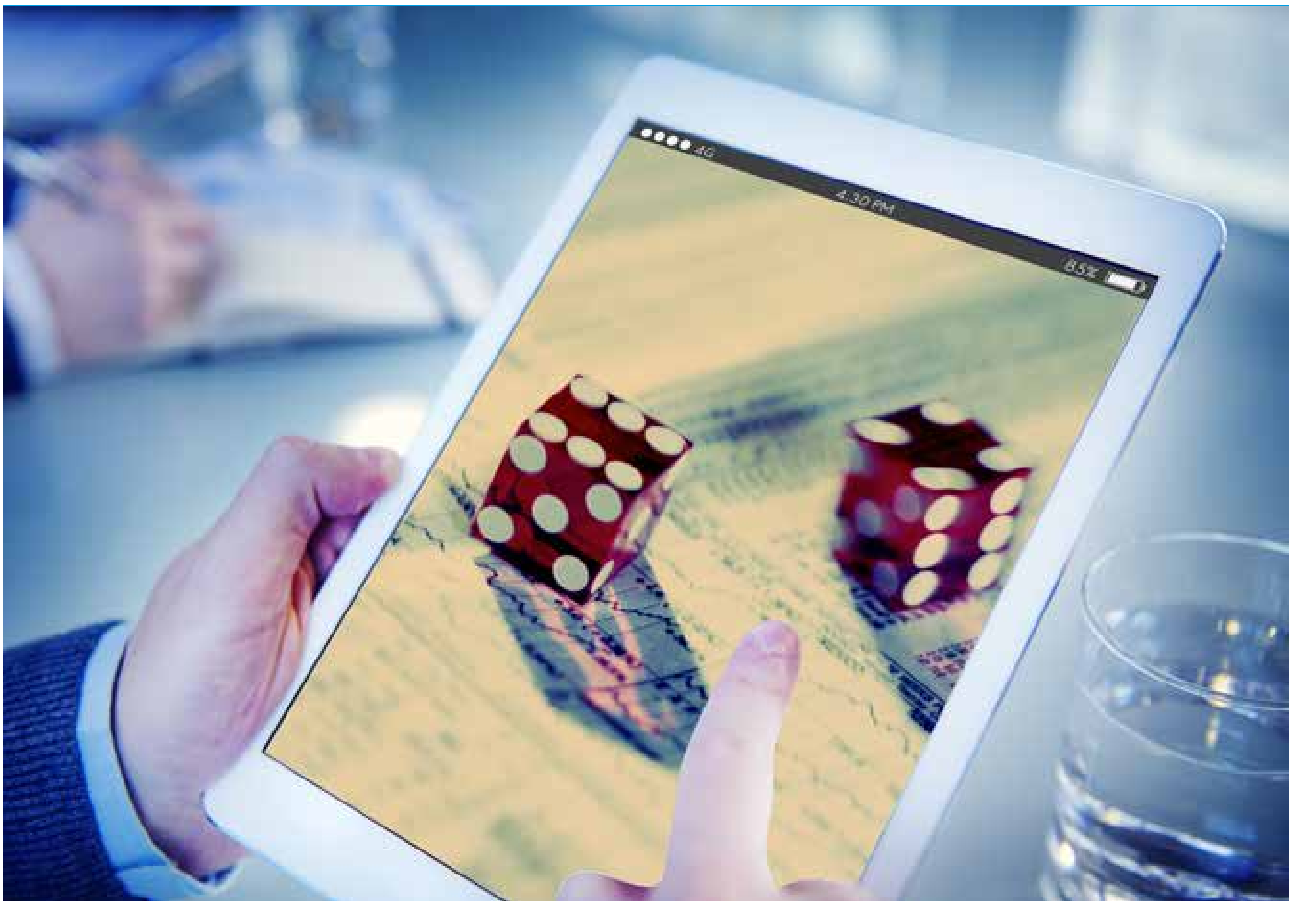
Foreign Exchange Management Act, 1999
Remittances of Income from lottery winnings, racing/riding, sweepstakes etc. are prohibited under the Act, 1999 read with Rule 3 and Schedule 1 of the Foreign Exchange Management (Current Account Transaction) Rules, 2000. The Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 201794 and the Consolidated Foreign Direct Investment (FDI) Policy, 201795 issued by the Government of India, vide clause 5.1(a) prohibit both, "Foreign Direct Investment" and "investment by a person resident outside India" in entities conducting "lottery Business including Government/private lottery, online lotteries etc." and "Gambling and Betting including casinos etc." by clause 5.1(b). The Consolidated FDI Policy and the Foreign Exchange Management (Transfer or Issue of Security by a Person Resident Outside India) Regulations, 2017 are reflective of the National Policy of India in matters pertaining to foreign direct investment and investment by a person resident outside India. Similarly, collaborations in foreign technology in any form whatsoever, for the purposes of gambling and betting activities is also prohibited under clause.

2010

Telecom Commercial Communications Customer Preference Regulations, 2010
The Telecom Commercial Communications Customer Preference Regulations, 2010 have been issued by The Telecom Regulatory Authority of India, with the objective of prohibiting "Unsolicited Commercial Communications". These regulations have been framed in response to various complaints made against spam calls and SMSs. Therefore, any sort of unsolicited commercial communication pertaining to gambling or betting will attract the prohibition contained in these Regulations.

2011

Information Technology (Intermediaries Guidelines) Rules, 2011 (Intermediaries Rules)
The Intermediaries Rules, which have been framed under Section 87(2)(zg) read with Section 79(2) the Information Technology Act, 2000. Rule 3(2)(b) thereof requires 'intermediaries' like internet service providers, network service providers, search engines, telecom operators etc. not to host or transmit any content which inter alia relates to or encourages gambling. Further, Rule 3(4) requires intermediaries to remove content relating to or encouraging gambling within thirty-six hours, either "upon receiving actual knowledge or on being notified to do so by the appropriate government or its agency that any information, data or communication link residing in or connected to a computer resource controlled by the intermediary is being used to commit the unlawful act..."



Gaming in India

Gaming has a universal recreational appeal for people across all ages and socioeconomic groups. The gaming industry has witnessed a paradigm shift with the evolution of television, digital and online gaming models leading to a surge in the number of online gaming sites over the last few years. Given the high growth potential of the gaming industry in India, many foreign entities are exploring possibilities to set up operations here. While operating gaming businesses is easier in some countries of the world where games of chance and games of skill are regulated, the business environment is not as conducive in India since the laws are stringent.

Gambling as per most legislations is understood as "the act of wagering or betting" for money or money's worth on a game of chance. However, it does not include

01. Games of 'mere skill'
02. Games of Chance (Casinos, regulated Gambling):
03. Lotteries (covered under Lottery Laws)

Games of Mere Skill

A "game of skill" is one where success depends principally upon superior knowledge, training, attention, experience, adroitness, personal attributes and capabilities of the player. It is a game in which, while the element of chance cannot be entirely ruled out, it is the element of skill on the part of the participants that plays a dominant role in determining the outcome of the game. Games of skill are identified as a separate category because various states in India (excluding Assam and Orissa, Telangana) have codified gambling acts that exclude games of skill from the ambit of gambling. The popular online games in India that have been recognized as games of skill include Horse Racing, Rummy and Fantasy Sports.

- **Rummy**
  There are many different card games played in the world, but rummy is one of the most popular. There are several different formats of the game, such as Canasta and basic rummy. However, these formats are all based on the same basic concept: collecting melds. A meld is a run of cards, which can be either sets of three or four cards of the same rank, or three or more sequential cards in the same suit. Skill in Rummy is displayed in the activity of memorising discarded cards and mentally estimating the probability of obtaining useful cards from the closed deck or the recent discard. This engaging aspect of gameplay in rummy is the skill required to win the game and is therefore a very popular competitive game amongst millions of gamers in India and abroad. This format of skill games is dominated by 4-5 major operators who have been operating for more than 5 years.

- **Fantasy Sports**
  Fantasy sports games are games which involve users drafting fantasy teams based on certain conditions from a list of players scheduled to play live games on a given day. The users pay an entry fee to enter a contest and it is pooled in for distribution among the users ("Entry Pool") after deduction of a service/administrative fee by fantasy sports games providers. The users draft their teams based on their application of knowledge (gathered through systematic research), attention, experience and adroitness regarding the relevant sport. Based on the performance of the players selected by the user to draft his/her team, the user collects points. The users are ranked based on the points their selected players accumulate throughout the contest as per their on-field actions and scoring metrics for the contests. The various games offered by Fantasy sport operator in India includes Cricket, Football, Basketball and Kabbadi. This format of game is seeing a lot of new entrants but the format is currently dominated by one of the major operator in this space. \

- **Horse Racing:**
  Most states have adopted the Public Gambling Act 1867 with an amendment pertaining to horse racing, whereby it has been specifically excluded. Horse racing and betting on horse racing has been classified as a game of skill by the Supreme Court. Therefore, it is also permitted in licensed premises.

- **Online Game of Skill - Regulated**
  There is no specific definition of online gambling under the state enactments. However, skill-based or preponderantly skill based games can be played online in all states except the states of Telangana, Assam and Odisha. Furthermore, in the State of Nagaland, these games can be played only on websites that are licensed by the State of Nagaland.
  The following are the card based games regulated by the respective government:
  State of Nagaland: Nagaland Prohibition of Gambling and Promotion and Regulation of Online Games Skill Act 2015 covers Poker, Rummy, Nap, Bridge, etc.
  State of West Bengal: The West Bengal Gambling and Prize Competition Act 1957 covers Poker, Rummy, Nap, etc

Games of Chance

Games of chance for stakes fall within the ambit of the gambling acts of the states and are largely prohibited. Some states, for example Goa, have created exceptions within their gambling acts, allowing for authorized gaming. Thus, licenses are issued in the state of Goa for games of chance in casinos, which are operated on land as well as offshore. The state of Sikkim has also promulgated the Sikkim Casino Games Act 2004, which allows for casino operations within the state and through Sikkim Online Gaming (Regulation) Act 2008 online gambling for Roulette, Pontoon, Bingo, Casino brag, Poker dice, and certain other games is permitted through issue of License.

Lotteries:

The Central Lotteries Act of 1998 governs lotteries and gave state governments the authority to run such gambling restricting it to a maximum of one draw per week. This act covers the whole of India and enables the state governments to organise and promote lotteries and sell them via distributors and agents.

Understanding the Skill-Gaming Industry in India

Majority of the Operators in skill gaming industry are corporate entities registered in India as a Private Limited Company.

Over the last few years, the industry has grown rapidly and the same is witnessed through the increase in the revenue of the operators.

Not only has the revenue of the industry grown significantly, also the number of operators are increasing with new entrants in this industry.

Increasing smartphone, internet penetration, income level of consumers, improving demographics and rising disposable income are major factors for drastic change in the industry

The growth of the industry is also assisting in generation of employment, contribution in the form of taxes to the government and CSR spends.

Basis the various judgements and the state enactments across majority of the states in India, skill gaming in India (Real Money Games) covers Card Games (Primarily Rummy), Fantasy Sports, Horse Racing and eSports. This section focuses on Rummy and Fantasy Sports which is growing exponentially compared to the traditional form of gaming i.e. Horse Racing.

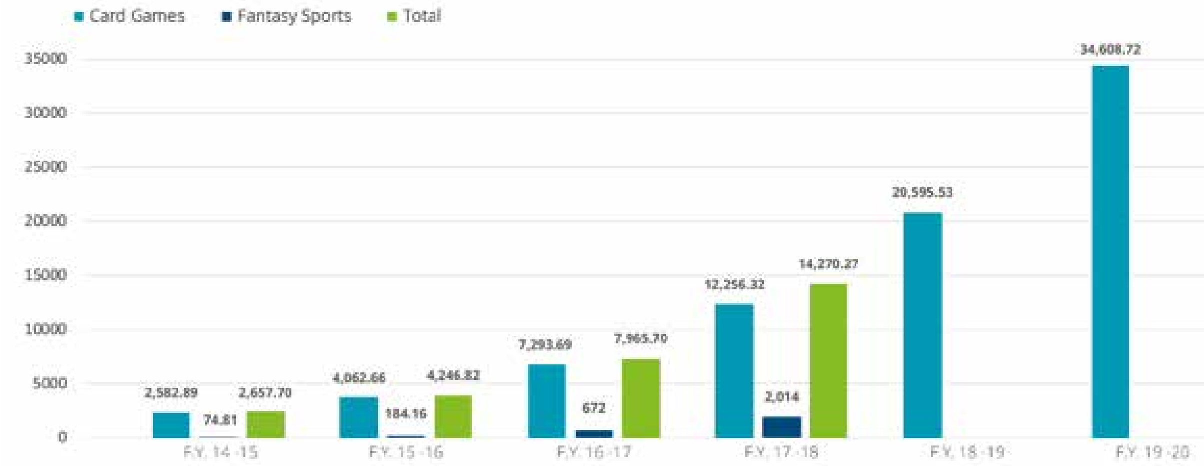
Corporate Structure

The gaming industry in India is divided into two segments, i.e. the offline gaming industry (gaming clubs, casinos) and the online gaming industry (gaming websites). All the Operators in these segments are corporate entities, registered in India as private limited companies. The business of these corporate entities is managed in a structured manner, guided by the principles and requirements of corporate governance. This adherence to laws ensures that there is transparency and integrity in all transactions by the businesses as well as end users.

Growing Trends

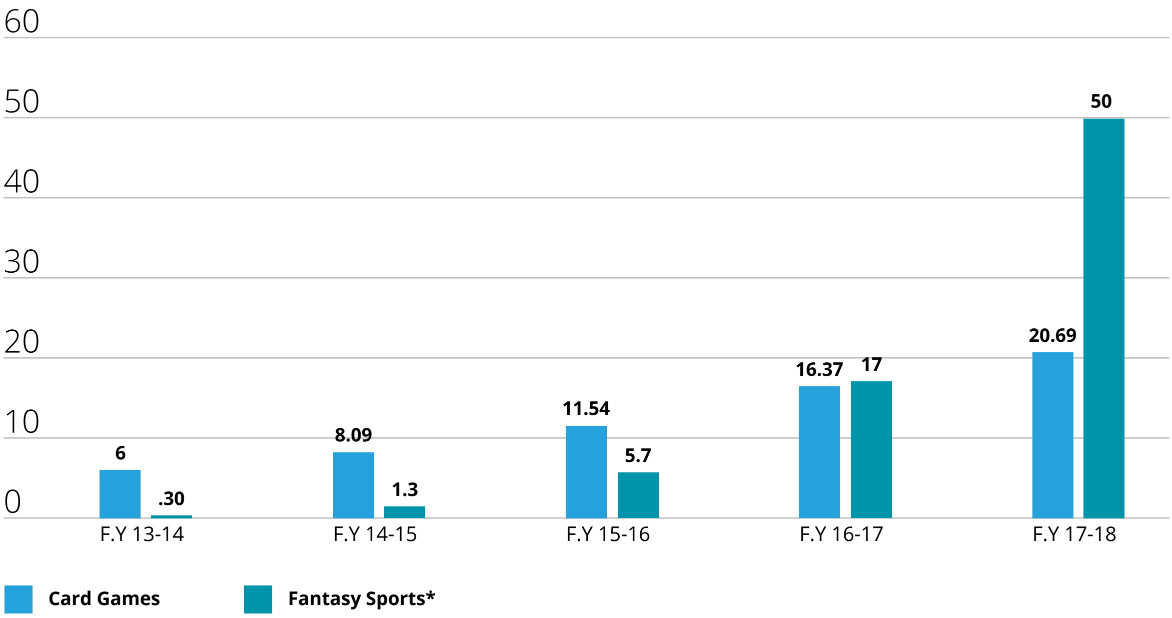
The last few years have led to a remarkable growth in the revenue figures of this industry. The calculated CAGR for the last 3 years for card based games on the basis of change in revenue is 67.58 percent generating a total revenue of about 730 crores in 2016-17 and Fantasy Sports has grown by 199.69 percent generating a total revenue of about 67 crores in 2016-17.

Growth Trend of the Indian Gaming Industry



*Calculated figures of revenue for the FY 17-18, FY 18-19 and FY-19-20 on the basis of CAGR. As Fantasy Sports is having an exponential growth due to IPL and busy sports seasons...we have not included the projections.
*12 companies (Rummy only) in card gaming industry and 9 companies in Fantasy Sports were considered for calculating revenue (In Fantasy Sports, One operator contributes to 90 percent of the revenue in this format).

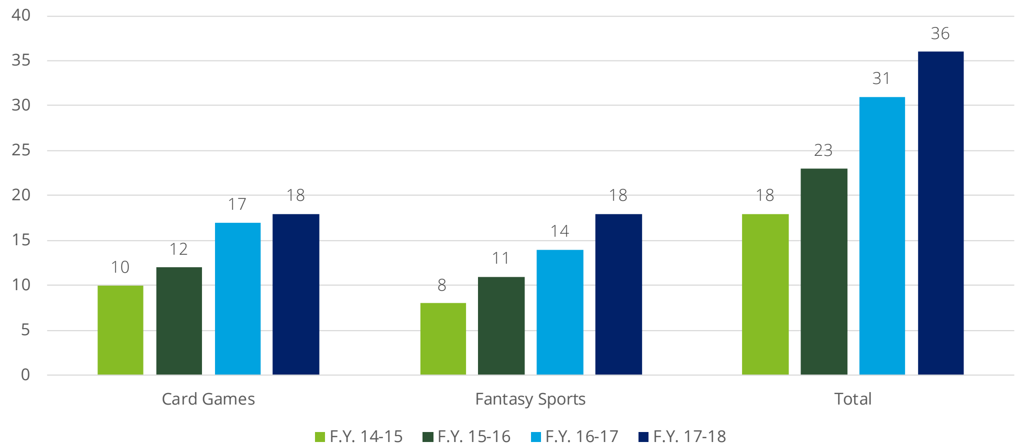
Users Gaming Industry (Millions)



#The above user database is of 3 card operators contributing > 90 percent of the total revenue booked in FY 16-17 by 6 card operators who are members of TRF
Based on online information

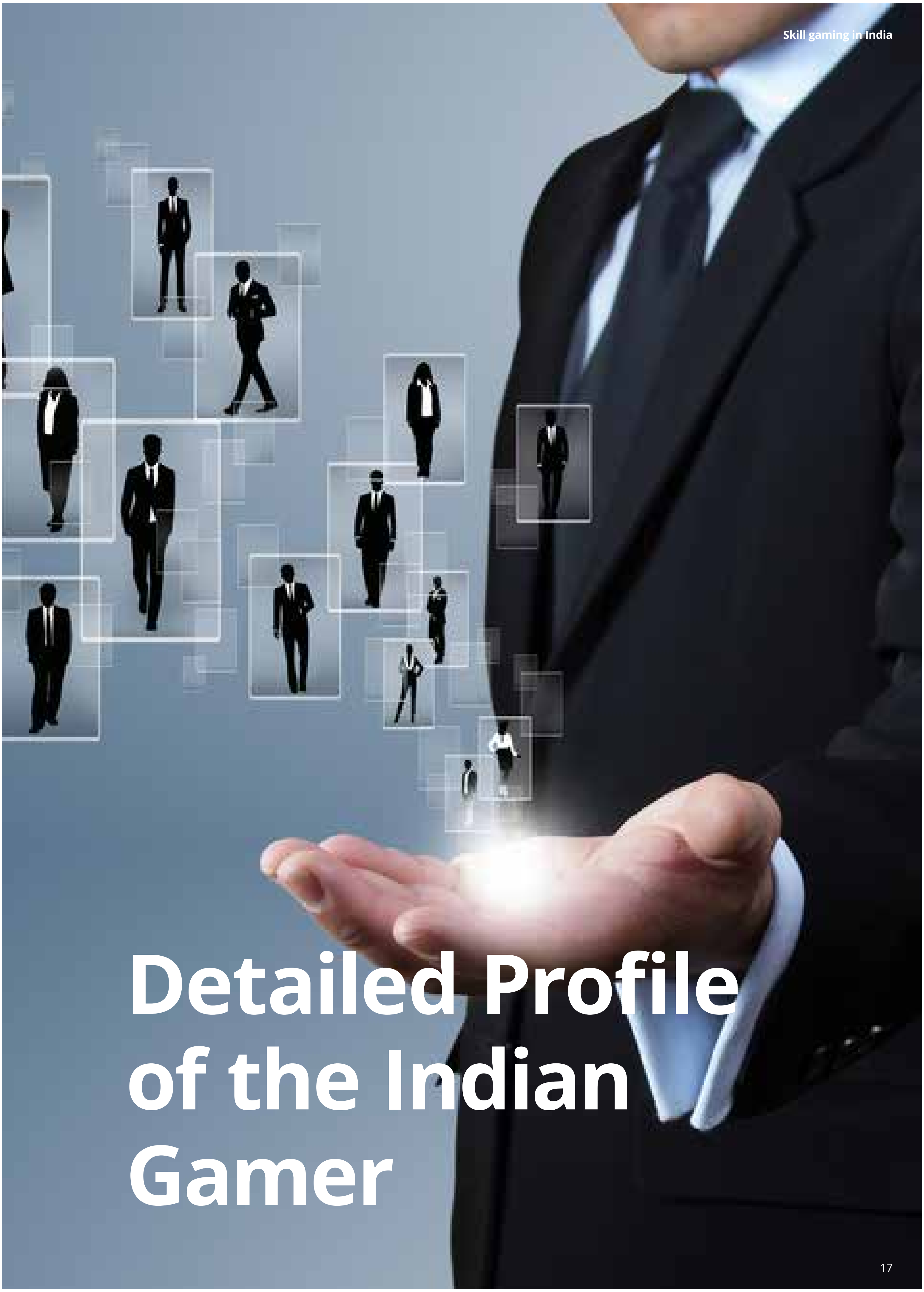
Given the emergence and growing adoption of 3G/4G network mobile services coupled with increasing production of games, the gaming industry in India is anticipated to grow significantly in the future. Rapid changes in the gaming industry are expected to offer new opportunities for developers, publishers as well as technology partners in the future, and this is anticipated to boost growth in the Indian gaming market. Below is the table showing the new entrants and increase in the number of operators in card based games and fantasy sports.

Number of Operator in the Gaming industry



*Only major active Indian operators in the industry are considered in the above table for card games. The number represents the cumulative number of operators in a FY.

The growth of this industry has contributed to the employment opportunities not only in this industry but across industries specifically IT and related services attracting millennials and creating opportunities in non-conventional sectors



Detailed Profile of the Indian Gamer

Market Demographics and Economic Trends

Population Trends
A World bank study of population trend by age group in India, depicts population below the age of 45 was 984.73 million in 2011 which increased to 1.01 billion in 2016 resulting in increase of gaming consumer base by 2.84 percent and male population to grow at CAGR of 1.00 percent. India with more than 75 percent of population below the age of 45, makes it one of the largest potential market for online gaming in terms of volume.

Moreover, the Indian population is becoming increasingly urban, as the total urban population was 31.99 percent and has increased to 33.53 percent of the total population in 2017. Increasing urbanization is one of the factors that have contributed to growth of the gaming market in India.

Economic Trends
According to the International Monetary Fund ("IMF"), India had a gross domestic product ("GDP") of nearly INR 167.73 trillion at current price in 2018, growing from INR 87.36 trillion in 2012. Increasing per capita GDP will have an impact on disposable income and consumption patterns of the Indian consumers.

Indian Consumers' Usage Pattern

In recent yearsthe behaviour, preferences and lifestyle of Indian consumers has changed drastically. Increase in disposable income, increased consumer awareness, penetration of internet and social media have resulted in the consumer demanding beyond just necessities . The Indian approach has shifted from need-based choices to more aspirational consumption patterns and such spending is anticipated to more than double by 2025.

A study on the Indian consumer suggests that if India continues to grow at the current pace, average household incomes will triple over the next two decades, making India the world's fifth-largest consumer economy by 2025, a significant shift up from the current 12th position. Putting in perspective the growth that India is witnessing, the 1.01 billion people under the age of 45 coupled with substantial increase in smartphone ownership and data usage makes India the largest potential market for online gaming. The number of internet users have increased at a CAGR of 19 percent from 2012 to 2017 and smartphone users have increased by 47 percent. Increasing penetration of low-cost smartphones with multiple features and the ease of internet connectivity in urban markets have been key factors that has led to the emergence and rapid increase of online gaming in India. As more and more people are getting accustomed to smartphone ownership, service providers focused around this IT ecosystem are flushed with new opportunities.

Indian Skill-Gamer

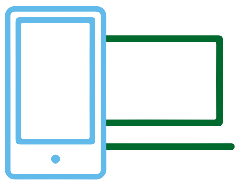
This section covers the profiling of an Indian Online Gamer based on a study conducted by Rummy Operators.

Understanding the Indian Skill-Gamer

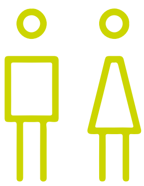
An average Indian online gamer is predominantly a male between the age group of 20-44.

Gamers from south India dominate this online gaming format

Gamers are engaged for mainly two reasons – human connection (social interaction) and relief (stress)



Mobile phones are the most preferred playing device followed by Laptop



Friends and family members are generally aware of gamer's online activity.

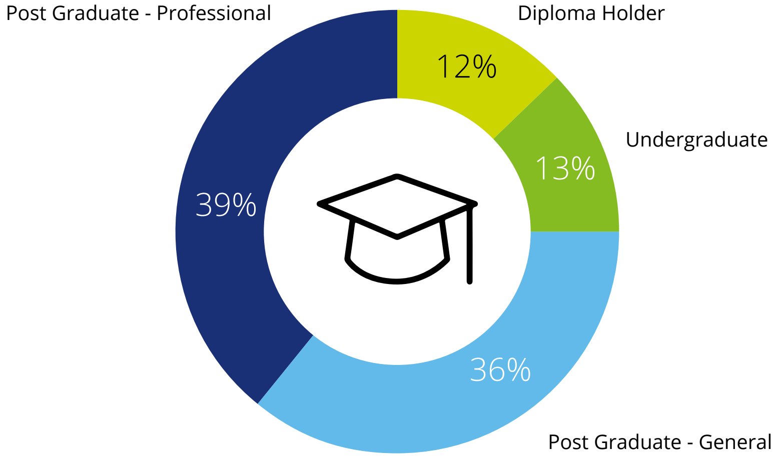
Detailed profile of the Skill-Gamer

A typical Indian gamer is a graduate, a working professional/self-employed, staying with family, married, has a disposable income and engages in online gaming for social interaction/stress relief.

Education

Nearly 75 percent of the population engaged in online gaming have completed their graduation. These gamers are usually more exposed to technology and online platforms.

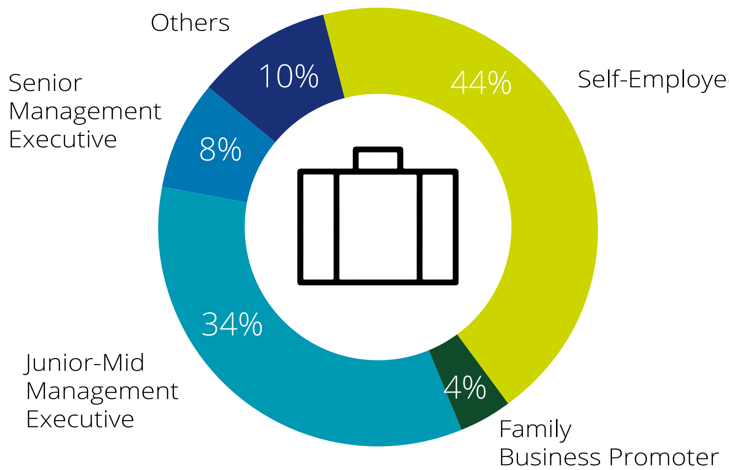
Educational Statistics



Occupation

The survey showed that self-employed people running their own businesses and the experienced professionals in the junior or mid-management level occupied a major chunk i.e. 78 percent of the online gamers market.

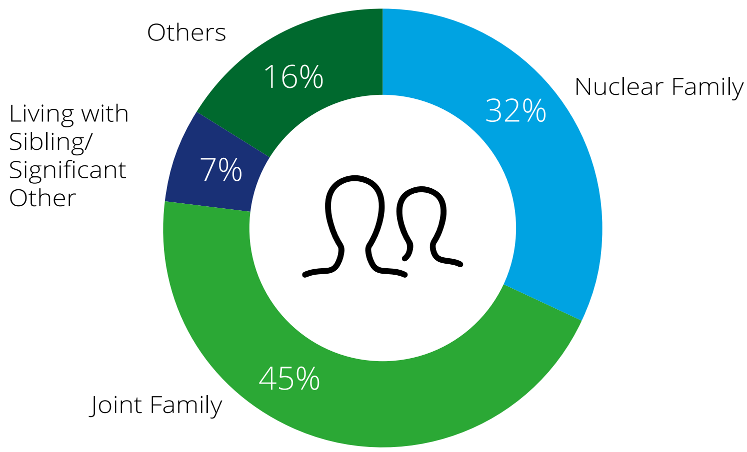
Occupational Statistics



Family status

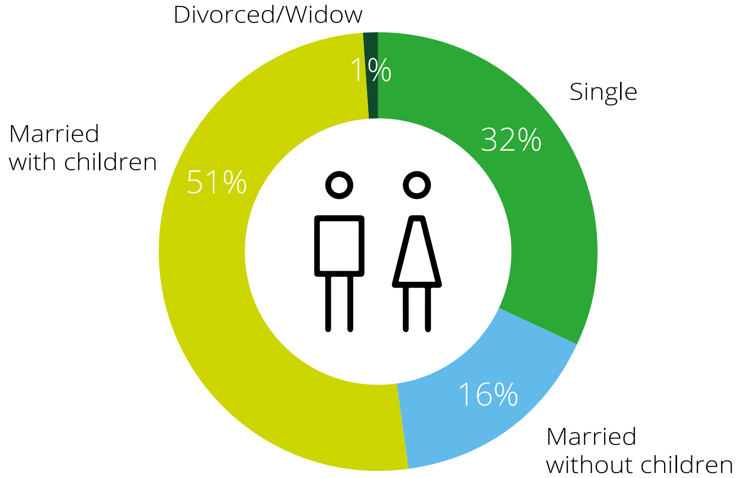
A plurality (45%) of Indian online gamers live in a joint family, while about one third (32%) live in nuclear families.

Family status



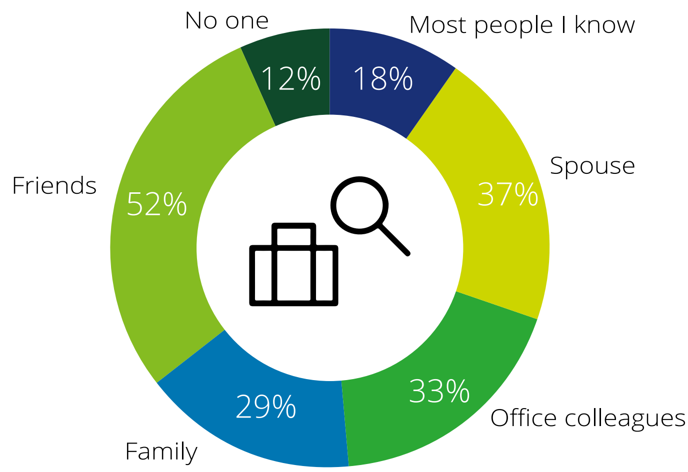
Relationship status
A majority of online gamers are married with children while another 32% are single.

Relationship status



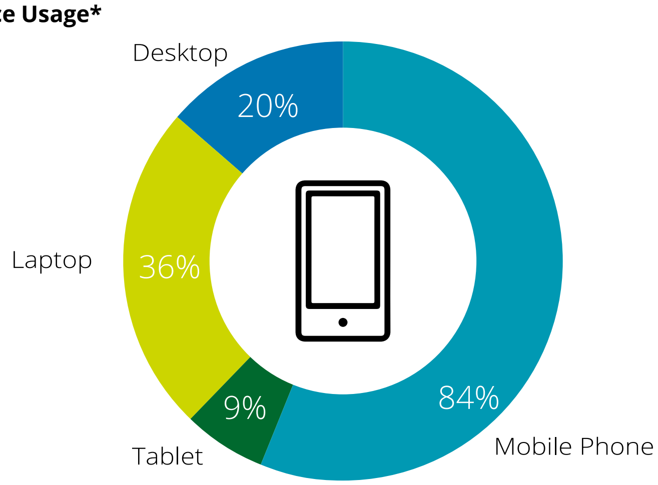
Transparency about online games
Players mentioned that either their friends or their spouses were most likely to be aware of their online gaming activity.

Transparency about online games*



Device usage
93 per cent of online gamers use smartphones and tablets. Larger screen size in low-cost mobile devices, increased compatibility of games on multiple device types and portability are key reasons for popularity of mobile phones for gaming activity in India.

Device Usage*



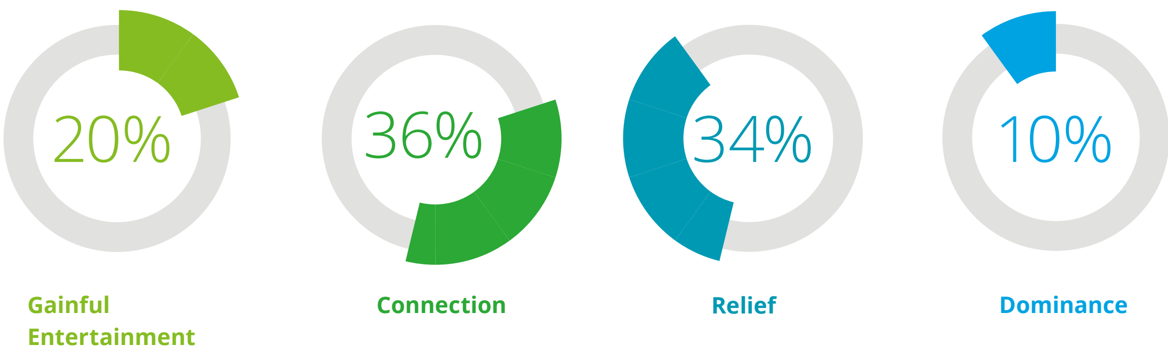
*Mutually inclusive

Indian Skill-Gamer – What keeps him engaged?

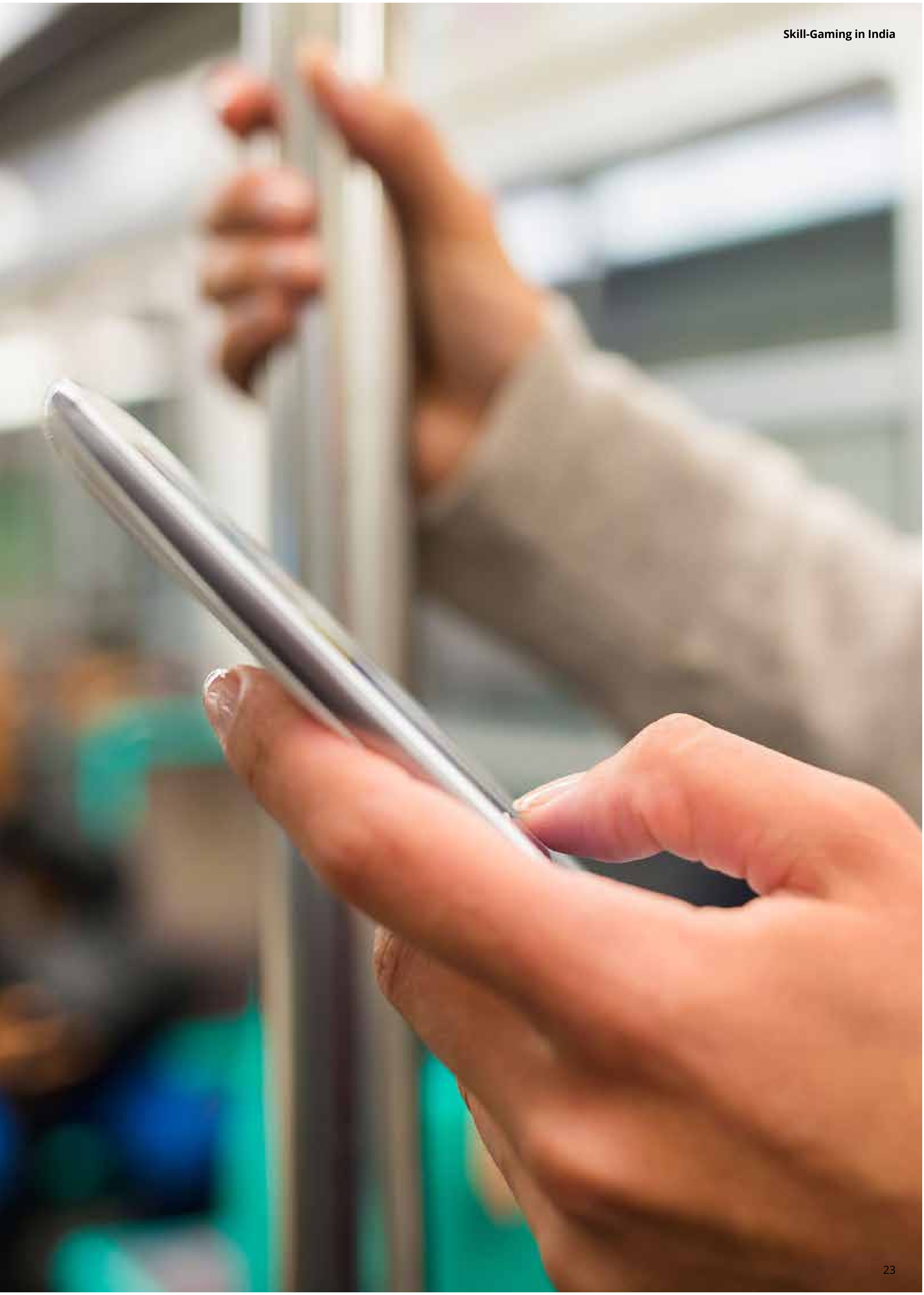
A gamer after his initial experience of playing online, will continue to play and stay engaged with online games for specific needs such as:.

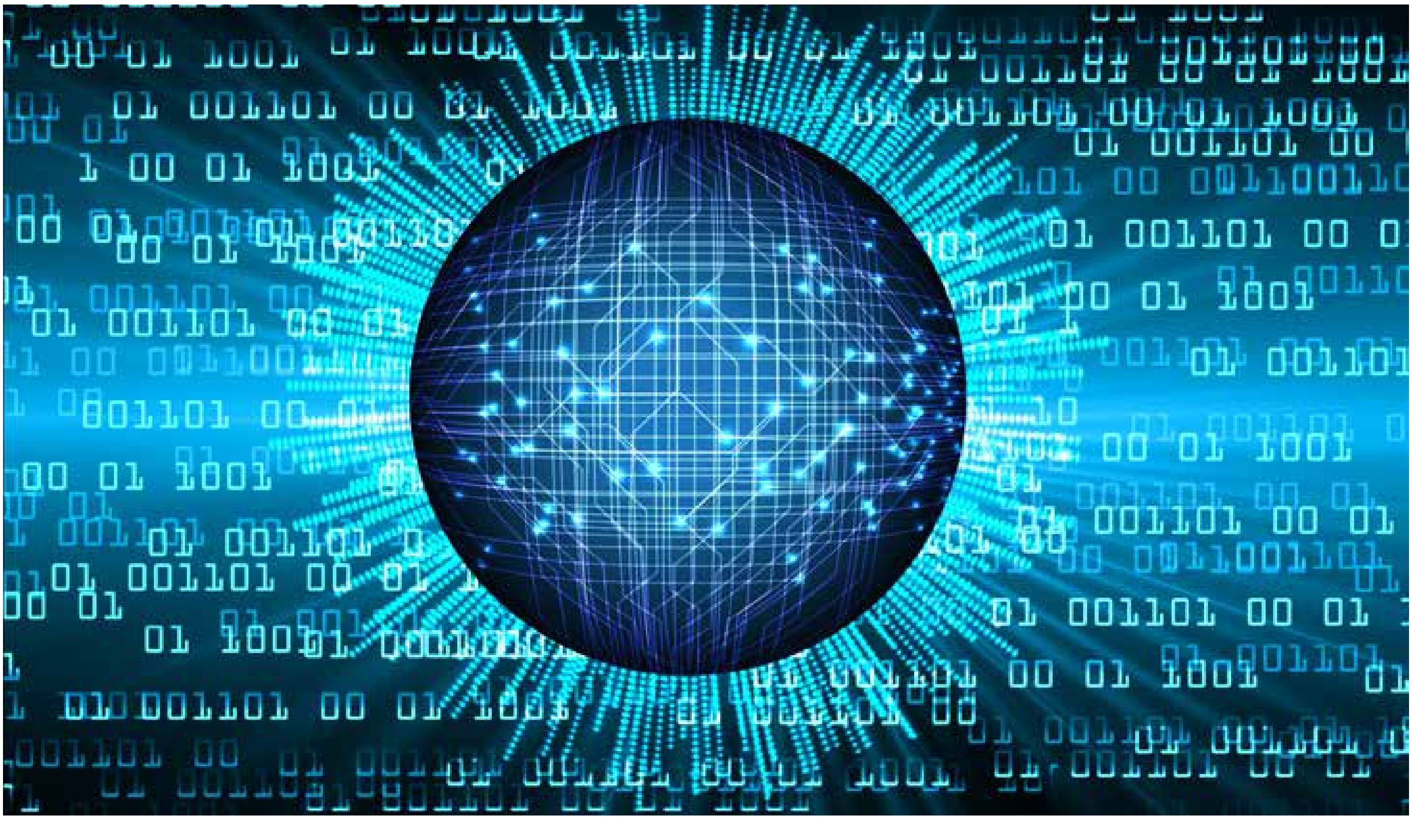
- **Gainful Entertainment** - Gamers playing for entertainment take online gaming as one of the alternative options in their free time or fora change from their routine.
- **Connection** - Gamers playing for social interaction are those who are interested in making new friends, socializing and look for it as alternate means to connect with like-minded people
- **Relief** - Gamers playing for stress-relief or for means to get a break from their hectic work life
- **Dominance and Significance** - Gamers playing for the thrill of competing and winning so as to claim a higher status vis-à-vis other players.

Analysis of need states identified the following:



*All values are in % of weighted base of 904 respondents





Enablers of the Skill-Gaming Industry

The online skill gaming space is evolving quickly. The speed and sophistication of this evolution is being fuelled by an emerging ecosystem that rewards companies and gamers that take full advantage of it. . The gaming ecosystem has become an important force because it is changing the rules on how to grow online gaming communities. Social networks and social media are two parts of the ecosystem that have radically changed the gaming landscape. However, these are not the only elements that have changed the ecosystem.

The Gaming Ecosystem can be broadly classified into the following elements – Information Technology Infrastructure, Business Partner/ Employees, Player/ Gamer and Product (Game)/ Services:

1. Information Technology Infrastructure

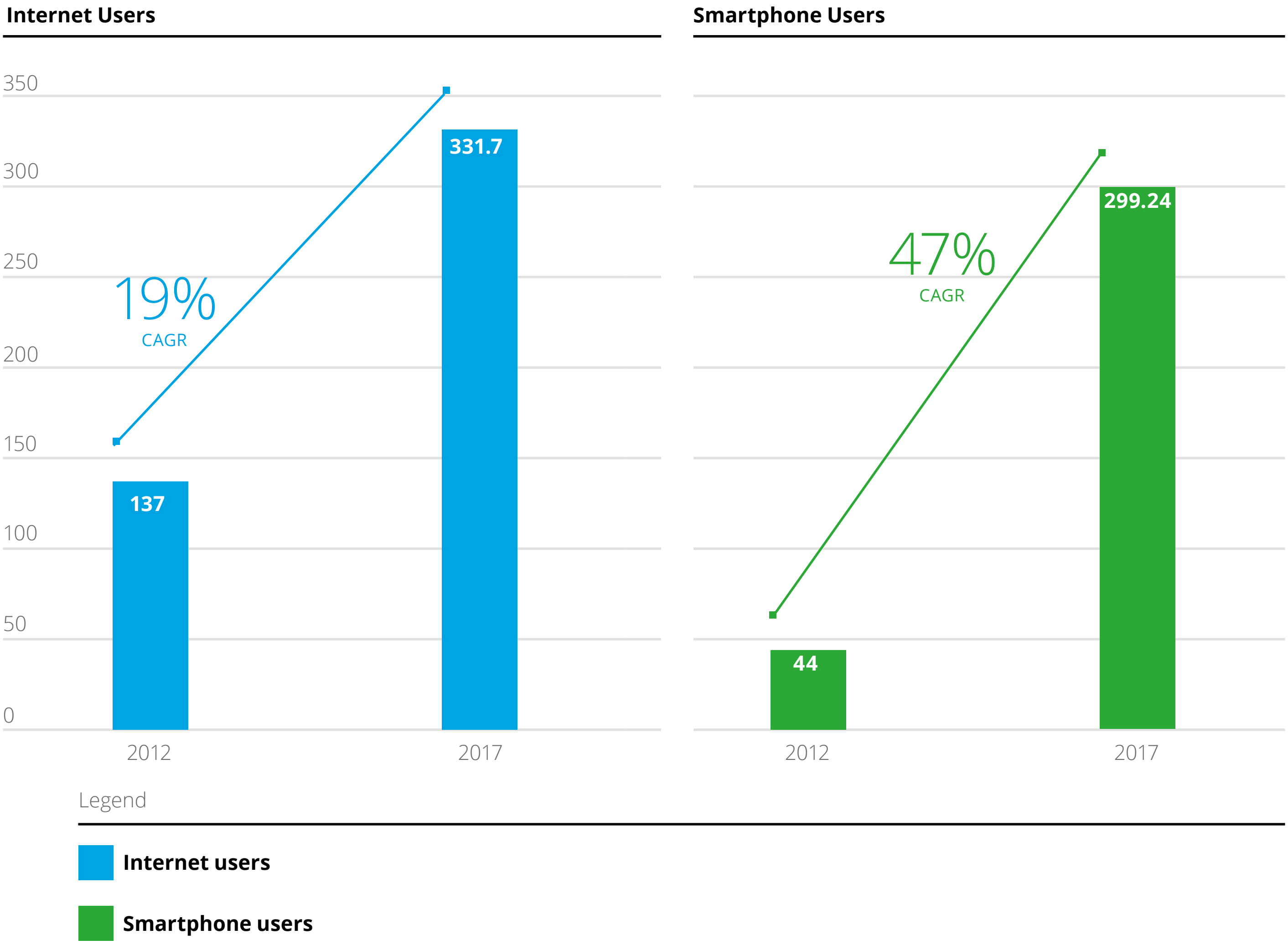
Gaming industry in India has been continuously evolving over the past few years in terms of availability of better hardware for operating games. With the presence of new and advanced gaming platforms as well as their rising penetration, the industry is witnessing rapid growth. In addition to hardware infrastructure, improvements in telecom infrastructure also contribute to creating a perfect platform for the growth of the gaming industry..

The Gaming Ecosystem can be broadly classified into the following elements

1. Information Technology Infrastructure
2. Business Partner/ Employees
3. Player/ Gamer
4. Product (Game)/ Services:

While, Internet has been one of the major contributors in the growth of online gaming, India still ranks quite low on the internet and broadband penetration (including average broadband speed) when compared to the rest of the world. Connecting and to play as per their convenience has been far from desirable. 4G rollout in India, an increasing number of high-end mobile phone users and dropping data costs have facilitated a move in the positive direction..

On an average a smartphone user spend 15% of his time on online gaming. Number of internet users increased at a CAGR of 19% from 2012 to 2017 and smartphone users has increased by 47% giving an impetus to the online gaming industry.



Source : https://www.statista.com/statistics/255146/number-of-internet-users-in-india/-

- Digital Payments

The use of mobile wallets for payments has increased substantially in the last couple of years and is expected to keep increasing. As a result, the effortless deposit and withdrawals using mobile wallets have been the driver of growth of the online gaming industry.

Year	Digital Payment transactions – India		Mobile Wallet transactions – India	
	Volume (Billions)	Value (Trillions - INR)	Volume (Millions)	Value (Billions - INR)
FY 13-14	9	1,329	33	10
FY 14-15	10	1,519	108	29
FY 15-16	12	1,683	255	82
FY 16-17	16	1,839	604	206
FY 17-18	21	2,295	1,630	532

Source: Reserve Bank of India Data; M-Wallet Post Demonetization Scenario report published by ASSOCHAM India

2. Business Partners/Employees

Digital Marketing & Social Media

Online advertising as a significant driver in online gaming industry.

Contemporary marketing goes way beyond the outbound marketing methodologies like TV and radio ads, print ads, hoardings, banners, magazines, etc. Now, Digital Marketing (inbound marketing) has become a prevalent method of customer acquisition as well as branding. Digital Marketing provides powerful techniques of marketing that traditional modes of marketing cannot. Through Digital Marketing, refined targeting and segmentation has made it possible to measure the success of marketing campaigns.

Social media is another key communication medium that players use to communicate amongst themselves and with the game providers. Social media changes quickly as dozens of new platforms arrive each year. Current outlook of Social Media marketing in driving customer engagement is 36% with future outlook to increase to 55%. As social media keeps evolving, it has massive power to channelize marketing campaigns in innovative and effective ways. Social media adeptly responds to new tech innovations making it a powerful digital marketing medium..

Key findings of a recent Digital Marketing survey showed the following:

- 34% of the companies already had an integrated digital marketing strategy in 2016
- 72% marketers believe that the traditional model of marketing is no longer sufficient
- Company revenue driven by digital marketing to increase by 30%.

Year	Digital Ad spending (in billions)	Mobile Internet Ad spending (in billion)
2016	76.92	17.14
2017	101.54	31.54
2018	134.03	55.54
2019	*174.25*	*77.48*
2020	*226.52*	*98.74*
2021	*294.48*	*118.63*

Source: https://www.statista.com/statistics/796767/india-spending-value-in-digital-advertising-industry/ and https://www.statista.com/statistics/275919/mobile-ad-spending-forecast-for-india/

Customer Relationship Management ("CRM")/ Customer Service Department ("CSD")
Online skill gaming industry, like all online services, is set apart from the conventional practices of CRM due to its limitation in terms of constrained personal connection with the customers.. Therefore, innovative approaches to harness technology for understanding customer preferences and behaviours become necessary. This is where tracking and analysing customer data helps in providing top-notch customer support.

CRM is a commitment to simultaneously boost customer satisfaction and shareholder value by providing consistent, seamless, high-quality experiences for valued customers. The companies will need better analytics, customer management and alliance development capabilities with growing scale.

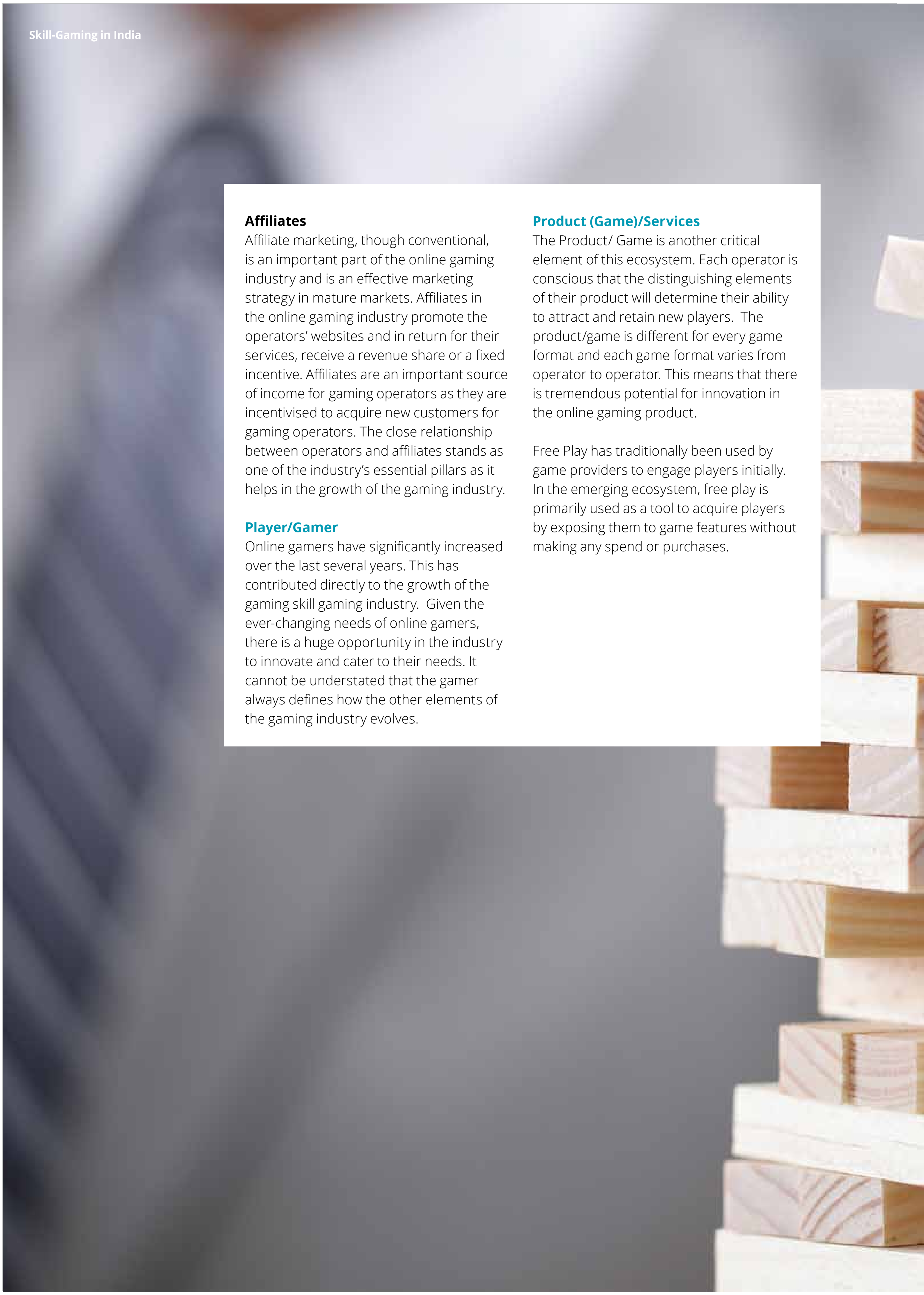
CRM is defined as the holistic process of identifying, attracting, differentiating and retaining customers.

User Centric

- Providing better customer service through customization
- Defined TAT for resolution and escalation
- Defining and continuous monitoring of KPI's
- Making Call centres more efficient

Business support

- Identifying and segmenting players
- Targeting specific player with appropriate offer and promotion
- Sharing player information across the enterprise
- Increasing profitability through segmenting, targeting and retention.



Affiliates

Affiliate marketing, though conventional, is an important part of the online gaming industry and is an effective marketing strategy in mature markets. Affiliates in the online gaming industry promote the operators' websites and in return for their services, receive a revenue share or a fixed incentive. Affiliates are an important source of income for gaming operators as they are incentivised to acquire new customers for gaming operators. The close relationship between operators and affiliates stands as one of the industry's essential pillars as it helps in the growth of the gaming industry.

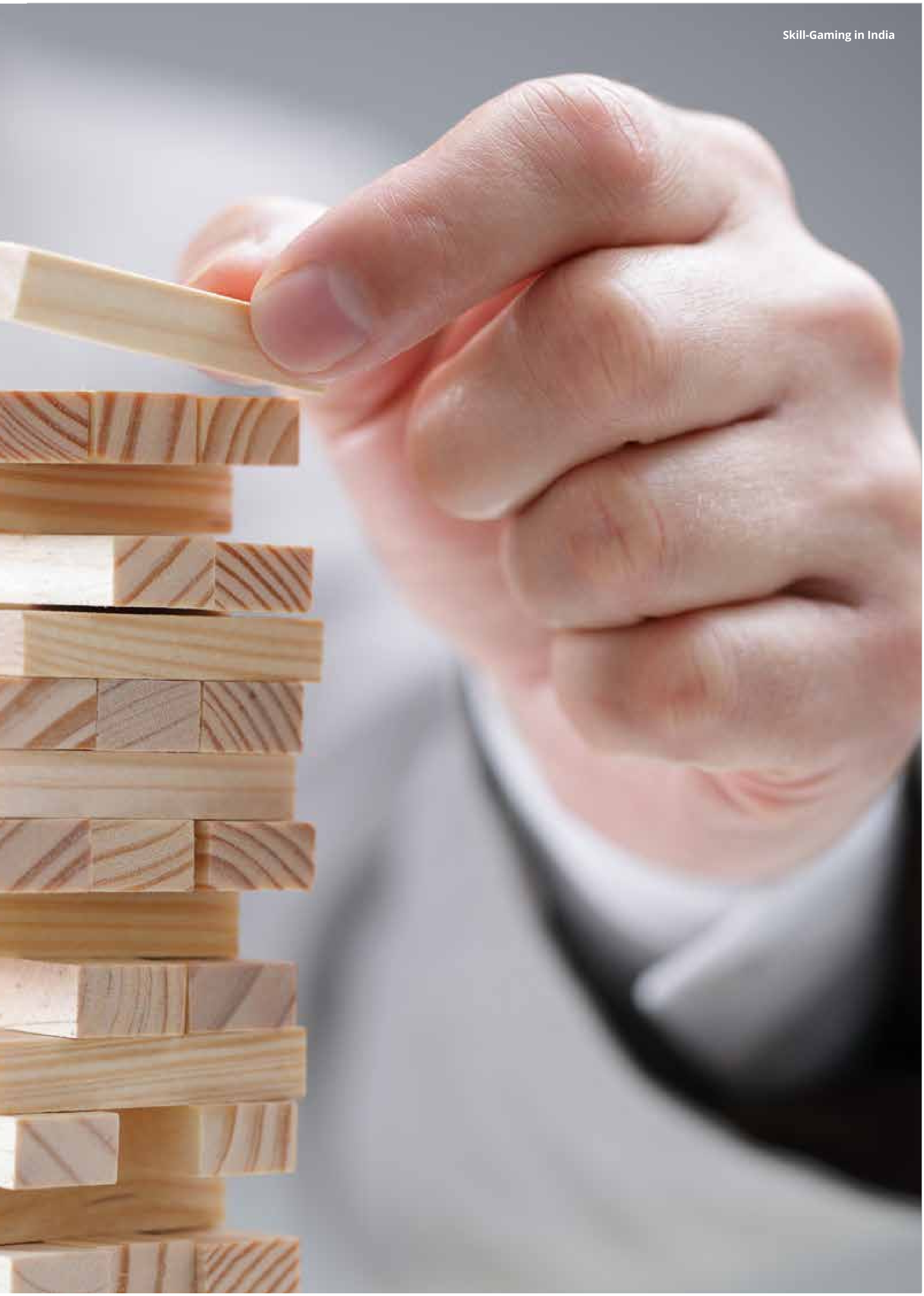
Player/Gamer

Online gamers have significantly increased over the last several years. This has contributed directly to the growth of the gaming skill gaming industry. Given the ever-changing needs of online gamers, there is a huge opportunity in the industry to innovate and cater to their needs. It cannot be understated that the gamer always defines how the other elements of the gaming industry evolves.

Product (Game)/Services

The Product/ Game is another critical element of this ecosystem. Each operator is conscious that the distinguishing elements of their product will determine their ability to attract and retain new players. The product/game is different for every game format and each game format varies from operator to operator. This means that there is tremendous potential for innovation in the online gaming product.

Free Play has traditionally been used by game providers to engage players initially. In the emerging ecosystem, free play is primarily used as a tool to acquire players by exposing them to game features without making any spend or purchases.



Way Forward

The online gaming industry experiences a gamut of challenges and opportunities. Growth of an industry is driven by identifying challenges faced by various stakeholders and understanding the current and future expected scenarios for initiatives taken or to be taken. This will help in catering to the challenges already persisting in the industry and in planning for future challenges. This section summarizes the stakeholder's challenges, expectations, and the present and future initiatives that may regulate this industry.

Considering the current regulatory landscape, it is important that the skill-gaming operators adopt and maintain a high standard of governance and self-regulation. Realizing the need of self-regulation, the industry has taken/proposed various initiatives including communicating with the stakeholders and users to gain real insights into the demands and requirements.

Industry Initiatives:
The online gaming industry has witnessed the formation of a not-for-profit association/federation to guide and promote self-regulation in the gaming industry. The focus is on policy advocacy, research, unified voice and a forum for discussion amongst various stakeholders associated with the gaming industry to address their key concerns.

Association Initiatives:
The Association of Operators is deploying the following initiatives to boost the growth of skill gaming in India:

- **Charter/ Framework:**
  - Defining a charter/framework which every member of the association will have to abide by to be sealed as 'Approved Operator'.
  - The charter to be followed by a member lays down the standards that an operator has to follow to ensure/improve consumer reliance and confidence.
  - Charter will lay down standards and guidelines on fair play violation policies, responsible gaming standards, software integrity and related internal control standards, advertising standards, etc.
- **Partnering:**
  - Partnering with the legal advisors to seek opinion and stay abreast with the changes happening across the regulatory landscape.
  - Making industry representations at the right forum.
  - Empanelment of service providers after adequate due diligence to ensure quality service and safety standards for federation members.
  - Use of the empanelled vendors/service providers by the operators to increase credibility of the product/service being provided and increase customer confidence.
- **Awareness:**
  - Organising events, conference and newsletters to create awareness of current industry scenario, key areas of significance, latest developments and initiatives taken to address stakeholder concerns.
- **External Advisory:**
  - Expert Committee has been formed by inducting highly experiences and qualified professionals from various fields and professions such as the judiciary, data analytics, academics, psychology, and economics to give an unbiased and independent opinion on possible challenges and on evaluating certain business strategies when the industry is poised for exponential growth.

Operator Initiatives:
Following are the leading practices operators of the skill gaming industry have undertaken to ensure adherence to high benchmarks of the industry, growing demands of the market, and the changing regulation:

- **Partnering**:
  Becoming a member of a skill gaming association, participating and adopting their standards for self-regulation and responsible gaming.
- **Product Certification:**
  Ensuring the gaming platform, product and payment gateways are adequately and periodically verified and certified by external recognized agencies carrying the necessary certification or seal.
- **Fair Play & Responsible Gaming:**
  Designing a fair-play violation policy and ensuring strict adherence to the guidelines laid down in the policy. Laying down policies and procedures for notifying/restricting users in defined scenarios is also advised.
- **Dispute Resolution:**
  Adopting effective dispute resolution mechanisms for player disputes besides facilitating a speedy turnaround time along with a suitable escalation matrix for resolving complaints from players
- **Data Privacy:**
  Ensuring data privacy by defining policies and procedures to secure proprietary, sensitive or confidential user information.
- **Holding Funds in Fiduciary Capacity:**
  Formulating stringent guidelines and policies to ensure management of user funds, and take measures to ensure that the guidelines are strictly adhered to. User fund management includes measures like separate bank accounts for incoming customers funds; funds from user accounts must not be used for operational expenses, and the terms and conditions must be scripted to secure user funds, etc.
- **Player Verification:**
  Establishing adequate Know Your Customer/Client (KYC) norms to ensure more transparency and accountability from the player’s side as well as assist in better compliance by operators..

Skill Gaming in India is witnessing immense growth in the gaming industry which is being fueled by access to technology, innovation and changing consumption patterns. The current status of regulatory landscape and people perception will require this industry to set-up policies and procedures like self-regulation, ensuring high standards of corporate governance, integrity and transparency. These initiatives would not only reduce the instances of problem-gamers and improve consumer protection, but will ensure development of an industry outlook that contributes to the welfare of the nation through employment and taxation.

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