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This report provides a comprehensive analysis of India's Anti-Money Laundering (AML) framework, covering its historical development, core statutes, regulatory bodies, compliance requirements, enforcement actions, challenges, and future outlook.

1. Historical Evolution in India

a. Development of India's AML Policy

India's journey in combating money laundering began with the Foreign Exchange Regulation Act (FERA) of 1973, which aimed to conserve foreign exchange during a severe crisis. FERA was a restrictive act with criminal penalties that reflected India's closed economic policies at the time. The Foreign Exchange Regulation Act of 1973 was later replaced by the Foreign Exchange Management Act (FEMA) in 1999, demonstrating India's commitment to a more liberalized and investment-friendly economic system. The Prevention of Money-Laundering Act (PMLA) of 2002 forms the core of India's legal framework against money laundering. The PMLA was enacted in 2002 and came into force on July 1, 2005. This legislation was introduced to address international concerns regarding money laundering and India's commitments under various global agreements. The PMLA has undergone several amendments since its enactment, notably in 2005, 2009, and 2019, to align with international standards and strengthen AML measures.

b. Domestic and International Drivers Behind Legislative Milestones

The legislative milestones in India's AML policy have been driven by a combination of domestic and international factors. The stringent FERA of 1973 was enacted during a critical foreign exchange crisis in India, highlighting a domestic need for strict foreign exchange control. Its replacement by FEMA in 1999 signified India's shift towards economic liberalization and global integration.

The enactment of PMLA in 2002 was largely influenced by India's international commitments to combat financial crimes. A significant international driver has been the Financial Action Task Force (FATF) Mutual Evaluations. FATF is an inter-governmental body established in 1989 to combat money laundering and terrorist financing. India became a member of FATF in 2010, which requires aligning national policies with international AML standards. FATF's mutual evaluation reports assess countries' compliance and effectiveness in their AML/CFT systems. India's recent mutual evaluation conducted in 2023-24 by FATF resulted in an "outstanding outcome," placing it in the "regular follow-up" category—a distinction shared by only four other G20 countries. This positive evaluation reflects India's efforts to implement measures aligned with global standards.

Global sanctions regimes also play a crucial role in shaping India's AML policy. AML sanctions are a critical tool to combat financial crime, terrorism financing, and illicit transactions. Indian businesses and banks must integrate enhanced AML measures and maintain proactive compliance strategies to defend against potential sanctions violations and contribute to global efforts against financial crimes. India implements UN-imposed sanctions through notifications, with frequently applied measures including arms embargoes and embargoes on nuclear-related materials. The increasing complexity of financial restrictions, including the freezing of foreign exchange reserves and the move towards confiscation of assets, further influences the development of AML frameworks.

G-20 commitments also serve as a significant driver. G-20 leaders, including India's Prime Minister, have consistently reaffirmed their support for FATF's efforts to combat money laundering and terrorist financing, recognizing that effective implementation of these measures is essential for building confidence in financial markets. India actively collaborates on addressing global illicit finance risks through dialogues with countries like the United States.

c. Influence of International Standards on India's AML Regime

International standards, particularly FATF Recommendations and UN Conventions, have significantly shaped India's AML regime. India's PMLA legislation reflects its commitment to international AML frameworks, including the United Nations Convention Against Illicit Traffic in Narcotic Drugs and Psychotropic Substances of 1988 (Vienna Convention). The Vienna Convention specifically mandated signatory nations to criminalize money laundering proceeds from drug trafficking. India has also signed other global agreements aimed at curbing financial crimes, such as the United Nations Convention against Transnational Organized Crime and the United Nations Convention against Corruption (UNCAC). These treaties have profoundly influenced India's legislative approach to money laundering.

India's membership in the FATF since 2010 further reinforces its alignment with international AML standards. FATF provides 40 Recommendations that serve as global standards for anti-money laundering and combating the financing of terrorism (AML/CFT). India's AML/CFT system's compliance with FATF recommendations is regularly assessed, with recent reports praising India's high level of technical compliance. The FATF's ongoing mutual evaluation process ensures that India continuously strengthens its AML/CFT framework.

2. Core Indian AML Statutes and Regulations

Prevention of Money-Laundering Act, 2002 (PMLA)

Enactment/Amendment Date: The Prevention of Money-Laundering Act, 2002, was enacted on January 17, 2003, and came into force on July 1, 2005. Major amendments were introduced in 2005, 2009, and 2019.

Legislative Purpose: The PMLA was enacted to combat financial crimes, prevent money laundering, and provide for the confiscation of property derived from or involved in money laundering. It also aims to strengthen India's financial integrity.

Scope of Covered Entities: The PMLA applies to a broad range of individuals and organizations, including individuals, companies, corporations, banks, and financial institutions.

Principal Obligations: Key obligations under PMLA include maintaining records of transactions, identifying beneficial owners, providing access to information, recording the purpose of transactions, and filing Suspicious Transaction Reports (STRs) with FIU-IND.

Enforcement Mechanisms: The PMLA provides for the attachment and confiscation of property involved in money laundering and establishes a procedure for the trial of such offenses. The Enforcement Directorate (ED) is mandated to enforce the PMLA.

RBI's Master Direction on AML/CFT for banks and NBFCs

Enactment/Amendment Date: The Reserve Bank of India (RBI) consolidated its Know Your Customer (KYC) guidelines into a comprehensive framework through its Master Direction on KYC, 2016. Significant amendments were introduced on October 17, 2023, and further updates in 2024 to enhance compliance and integrate advanced technology.

Legislative Purpose: The Master Direction aims to prevent banks and other financial institutions from

being used for money laundering and terrorist financing, thereby ensuring the integrity and stability of the financial system.

Scope of Covered Entities: The Master Direction applies to banks and other regulated entities (REs) including Non-Banking Financial Companies (NBFCs).

Principal Obligations: Regulated entities must conduct internal risk assessments to detect, assess, and mitigate risks related to money laundering, terrorist financing, and proliferation financing. They are required to implement proper policy frameworks on KYC and AML measures.

Enforcement Mechanisms: The RBI has the power to impose monetary penalties on cooperative banks for non-adherence to KYC norms and AML guidelines under Section 47(A) read with Section 46 of the Banking Regulation Act, 1949.

FIU-IND Reporting Rules

Enactment/Amendment Date: FIU-IND guidelines were issued to ensure uniformity in reporting, monitoring, and preventing suspicious transactions. In 2013, FIU-IND introduced additional reports that banks must furnish.

Legislative Purpose: The rules are intended to ensure uniformity in reporting, monitoring, and preventing suspicious transactions potentially linked to money laundering or terrorist financing.

Scope of Covered Entities: These rules apply to various types of reporting entities under the PMLA.

Principal Obligations: Reporting entities must submit Cash Transaction Reports (CTRs), Suspicious Transaction Reports (STRs), and Cross-Border Wire Transfer Reports (CBWTRs). All reports must be submitted in electronic format using FINnet software if the entity has the technical capability.

Cash Transaction Reports (CTRs): Detailed information regarding cash transactions above a specified threshold.

Suspicious Transaction Reports (STRs): Reports on transactions suspected of being linked to money laundering or terrorist financing. The number of STRs has seen significant increases, for example, rising from 58,646 to 105,973 between 2014-15 and 2015-16.

Cross-Border Wire Transfer Reports (CBWTRs): These are filed for cross-border wire transactions valued at Rs. 5 Lakhs or its foreign currency equivalent if the funds originate or terminate in India.

Enforcement Mechanisms: FIU-IND has investigative powers and the authority to impose penalties for non-adherence to these reporting standards.

SEBI's AML guidelines for capital markets intermediaries

Enactment/Amendment Date: The Securities and Exchange Board of India (SEBI) issued guidelines on Anti-Money Laundering (AML) standards and combating the financing of terrorism (CFT) obligations for securities market intermediaries under the PMLA, 2002. Recent updates include amendments issued on October 13, 2023, and June 6, 2024.

Legislative Purpose: These guidelines provide a general background and summary of the main provisions of applicable AML and CFT legislation in India for securities market intermediaries. They aim to strengthen the integrity of the securities market and prevent financial crimes.

Scope of Covered Entities: The guidelines apply to securities market intermediaries registered under Section 12 of the SEBI Act, 1992, and stock exchanges.

Principal Obligations: Intermediaries are mandated to adhere to client account opening procedures, maintain records, conduct risk assessments, regularly update client and beneficial owner information, and monitor transactions.

Enforcement Mechanisms: SEBI has the power to draft regulations, investigate wrongdoing, and impose penalties. They ensure compliance with specific protocols for client account opening, record maintenance, and transaction reporting.

IRDAI's AML guidelines for insurance companies

Enactment/Amendment Date: The Insurance Regulatory and Development Authority of India (IRDAI) issued Master Guidelines on AML/CFT for general and life insurers in 2013 and 2015, respectively. Consolidated Master AML Guidelines, applicable to all classes of life, general, and health insurance businesses, were issued on August 1, 2022, becoming effective from November 1, 2022. Amendments to the 2022 guidelines were also issued.

Legislative Purpose: The master guidelines consolidate and update previous AML/CFT guidelines. They aim to ensure compliance with KYC/AML standards and promote fair, legal, ethical, and yielding practices to reduce cyber risks.

Scope of Covered Entities: These guidelines apply to all classes of life, general, or health insurance

businesses.

Principal Obligations: Insurance companies are required to carry out KYC norms, which include determining and documenting the true identity of all customers seeking their services. They must also integrate AML/CFT measures into their operations.

Enforcement Mechanisms: The IRDAI has duties, powers, and functions as a regulatory authority for the insurance industry in India.

PML Rules

Proceeds of Crime: Section 2(1)(u) of the PMLA defines "proceeds of crime" as "any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offence or the value of any such property". This definition encompasses both tangible and intangible assets obtained through activities connected to a scheduled offense.

Reporting Entity: A "reporting entity" includes persons carrying on designated businesses or professions as specified by the Ministry of Finance. This encompasses banking companies, financial institutions, and intermediaries. Reporting entities are mandated to maintain transaction records for five years from the transaction date. They are also required to appoint a "Designated Director" to ensure overall compliance with PMLA obligations and rules, who could be the Managing Director or a whole-time Director authorized by the Board of Directors if the entity is a company.

Beneficial Owner: The PMLA Rules place significant emphasis on the identification of a "beneficial owner". A beneficial owner is defined as a person who individually or together, or through one or more juridical persons, has a controlling ownership interest or exercises control through other means. Recent amendments have tightened this definition, lowering the threshold for a natural person holding a stake or ownership in a partnership firm from 15% to more than 10% of the capital or profits to be considered a beneficial owner. Reporting entities like banks and crypto platforms are mandated to collect information from their clients to identify beneficial owners.

3. Regulatory Bodies & Their Roles

a. Mandate and Powers

Financial Intelligence Unit–India (FIU-IND): Established by the Government of India on November 18, 2004, as the central national agency responsible for receiving, processing, analyzing, and disseminating information related to suspect financial transactions. FIU-IND plays a crucial role in investigating money laundering and terrorist financing, and coordinating national and international intelligence efforts. It also has investigative powers and the authority to impose penalties for non-adherence to PMLA standards.

Reserve Bank of India (RBI): As India's central banking institution, RBI controls monetary policy and issues guidelines to safeguard the financial system from money laundering risks. The RBI has powers to impose monetary penalties on banks for non-adherence to KYC norms and AML guidelines. It plays a key role in regulating financial practices and strengthening financial integrity.

Securities and Exchange Board of India (SEBI): Established in 1988 and granted statutory status in 1992, SEBI regulates the Indian capital and securities market. SEBI has quasi-legislative, quasi-judicial, and quasi-executive functions, allowing it to draft regulations, conduct investigations, and impose penalties. It ensures compliance with AML/CFT obligations for securities market intermediaries.

Insurance Regulatory and Development Authority of India (IRDAI): IRDAI regulates the insurance industry in India, developing regulations to promote competition and ensure financial quality. It issues master guidelines on AML/CFT for all classes of insurance businesses.

Directorate of Enforcement (ED): Established in 1956, the ED is a multi-disciplinary organization primarily mandated to investigate money laundering offenses under the PMLA and violations of foreign exchange laws under FEMA. Its responsibilities include enforcing economic laws and regulating economic crime. The ED has significant powers to arrest and seize properties under the PMLA.

b. Coordination Mechanisms

Effective domestic coordination and cooperation on AML/CFT issues are crucial in India. Regulatory bodies like the RBI, Enforcement Directorate, FIU, tax department, SEBI, and IRDAI play crucial roles in overseeing compliance and ensuring the integrity of financial transactions. Contemporary regulatory action in India is characterized by increased synergy among agencies like the ED, Central Bureau of Investigation (CBI), Serious Fraud Investigation Office (SFIO), and SEBI.

Internationally, FIU-IND coordinates and strengthens efforts with international intelligence bodies. The Egmont Group, a global network of Financial Intelligence Units, facilitates secure communication and information exchange among FIUs worldwide. This collaboration is vital for combating cross-border

financial crimes.

c. FIU-IND's Structure, Data Collection, Analytics Capability, and Publication of Annual AML/CFT Reports

FIU-IND, established in November 2004, functions as the central national agency for financial intelligence.

It is responsible for receiving, processing, analyzing, and disseminating information related to suspicious financial transactions. The agency reports directly to the Economic Intelligence Council, headed by the Finance Minister. FIU-IND's mandate involves generating and disseminating financial intelligence in accordance with the PMLA.

In terms of data collection, FIU-IND receives various reports from reporting entities, including Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs). The number of STRs received by FIU-IND increased significantly, reaching over 14 lakh (1.4 million) after the 2016 demonetization. This vast amount of data requires robust analytical capabilities. While the documents do not explicitly detail FIU-IND's advanced analytics capabilities beyond general processing and analysis, the increasing use of technology and the focus on risk-based approaches in India's AML framework suggest an evolving analytical capacity.

FIU-IND publishes annual AML/CFT reports, which provide insights into trends in suspicious transactions and the agency's efforts. These reports are important for understanding the scope and nature of financial crimes in India and for informing policy decisions. The FIU-IND website serves as a user-friendly site containing information on AML/CFT issues, including PMLA and its amendments.

4. Compliance Program Requirements

a. Customer Due Diligence (CDD) and Know-Your-Customer (KYC) Norms

Customer Due Diligence (CDD) and Know-Your-Customer (KYC) norms are fundamental components of India's AML framework. Under the PMLA, reporting entities are mandated to implement comprehensive CDD measures that are sensitive to the risk of money laundering and terrorist financing, considering the type of customer, business relationship, or transactions involved. The company's AML policy must include a detailed CDD process, covering customer identification and verification measures, and the required documents and data. This includes obtaining "Officially Valid Documents" as proof of identity and address.

The Reserve Bank of India (RBI) has consolidated KYC guidelines into its Master Direction on KYC, 2016, which outlines customer identification, monitoring, and reporting obligations for banks and financial institutions. RBI mandates that payment banks conduct their own KYC/AML/CFT exercises like other banks. KYC is a crucial regulatory and compliance element in fintech products, verifying customer identity, understanding their activities, and assessing money laundering and terrorist financing risks. Financial institutions are increasingly leveraging advanced technologies like AI, machine learning, and automation to streamline KYC and AML processes.

b. Record-Keeping and Reporting Obligations

Reporting entities under the PMLA of 2002 and the PML Rules of 2005 are required to maintain records in a specified manner and for a particular period. Information related to transactions must be kept for five years from the transaction date between a client and the Reporting Entity.

These obligations include various types of reports:

Cash Transaction Reports (CTRs): These reports capture details of cash transactions exceeding a certain threshold. The number of CTRs doubled from 80 lakhs in 2014-15 to over 1.6 crore in 2015-16.

Suspicious Transaction Reports (STRs): Reporting entities must file STRs with FIU-IND for any transactions suspected of being related to money laundering or terrorist financing. The volume of STRs has seen significant increases, with over 14 lakh reports generated in the year following the 2016 demonetization.

Cross-Border Wire Transfer Reports (CBWTRs): Regulated entities are required to file CBWTRs for

cross-border wire transactions of Rs. 5 Lakhs or its equivalent in foreign currency, where the origin or destination of funds is in India.

These reporting obligations are crucial for identifying and preventing illicit financial activities and are supported by a comprehensive compliance framework outlined in the PML Rules.

c. Internal Controls: Risk Assessment, Risk-Based Approach, Independent Audit, and Staff Training Mandates

India's AML framework emphasizes robust internal controls, including:

Risk Assessment and Risk-Based Approach (RBA): The Prevention of Money Laundering Act 2002 (PMLA) requires regulated entities to adopt an RBA when implementing mitigation measures for money laundering and terrorism financing risks. The RBI's KYC Master Direction, 2016, mandates banks and other regulated entities to conduct internal risk assessments (IRA) to identify, assess, and mitigate money laundering, terrorist financing, and proliferation financing risks. This involves categorizing risks into high, medium, and low to effectively allocate resources. SEBI also underscores the importance of adopting a risk-based approach in its guidelines, mandating registered intermediaries to conduct thorough risk assessments.

Independent Audit: An independent Anti-Money Laundering/Counter-Terrorist Financing/Countering Proliferation Financing (AML/CTF/CPF) audit is crucial for businesses to evaluate the effectiveness of their AML/CTF/CPF programs and ensure compliance with Indian laws and regulations. The IFSCA (AML, CFT, and KYC) Guidelines, 2022, mandate regulated entities operating in International Financial Services Centres (IFSCs) to implement an independent AML audit function that is adequately resourced and staffed for periodic testing and review. The audit aims to determine if minimum requirements for risk assessment and AML/CFT programs are met and if the program was effective, also identifying necessary changes.

Staff Training Mandates: AML regulations in India, including the PMLA and IFSCA AML Guidelines, mandate regulated entities to implement AML training for their employees. This training ensures that staff are aware of money laundering/terrorist financing typologies and supports overall AML compliance. The absence of adequate AML training can lead to non-compliance, resulting in significant fines and penalties.

d. Appointment and Responsibilities of the Principal Officer

Every reporting entity under the PMLA must appoint a Principal Officer. This individual is responsible for ensuring compliance with the PMLA and other relevant laws, rules, and regulations. The Principal Officer, also known as the AML Compliance Officer, is a senior official who plays a central role in managing AML compliance within the organization.

Key responsibilities of the Principal Officer include:

- Ensuring PMLA Compliance: Overseeing the implementation of anti-money laundering policies and procedures.
- Suspicious Transaction Reporting: Evolving internal mechanisms to scrutinize and identify potentially suspicious transactions and ensuring their timely reporting to FIU-IND. The Principal Officer acts as a central reference point for facilitating onward reporting.
- Responding to Information Requests: Promptly responding to any requests for information from FIU-IND, regulators, statutory authorities, and other relevant bodies.
- Seniority and Authority: The Principal Officer should possess sufficient seniority and authority within the regulated entity to effectively perform their responsibilities. An Alternate Officer may also be appointed to cover for the Principal Officer's absence.

5. Enforcement Actions & Penalties

a. Landmark Enforcement Actions Under PMLA

Landmark enforcement actions under the PMLA have focused on attachment and confiscation of assets, prosecutions, and in some cases, compounding of offenses.

Attachment and Confiscation of Assets: The PMLA provides specific provisions for the provisional attachment (Section 5) and final confiscation of property derived from or involved in money laundering. The objectives are to combat money laundering by restricting access to illicit assets, seizing such property, and managing related issues in India. The Supreme Court has upheld the Enforcement

Directorate's power to arrest and seize properties under the PMLA. While ensuring judicial review, the law allows for immediate attachment and final confiscation of illegal assets.

Prosecutions: The PMLA establishes a separate procedure for the trial of money laundering offenses. Prosecutions under the PMLA involve specific provisions and interpretations by Indian courts, including those concerning public servants involved in or abetting money laundering. The Supreme Court has clarified requirements for prosecution, such as providing the accused with a list of all documents, whether relied upon or not.

Compounding of Offenses: While the PMLA primarily focuses on criminal prosecution and confiscation, the possibility of compounding offenses (settlement outside of court) in predicate offenses can affect money laundering cases. The acquittal of a person from charges of a scheduled offense can erode the foundation of a money laundering offense.

b. Trends in Prosecutions, Penalty Amounts, Sectors Most Affected, and Average Resolution Times
Prosecution and Conviction Trends: Statistics reveal a concerning trend in PMLA cases, with only 40 convictions out of 5,294 cases registered between 2014 and 2024, and only 23 convictions reported until March 2022 for cases dating back 17 years since the law's enactment. While prosecutions and convictions have started to increase, a significant backlog of pending cases remains. Despite a strong 97% conviction rate in some reported instances, constitutional challenges to the PMLA since 2018 have slowed prosecutions.

Penalty Amounts: The information available does not provide a summary table of the top 10 FIU-IND enforcement actions by sector and penalty value. However, the RBI has increased penalties on financial institutions, with KYC and AML violations being the most common reasons. Penalties imposed by the RBI on banks for AML norm violations are substantial.

Sectors Most Affected: While specific data on sectors most affected by enforcement actions are not explicitly detailed across all documents, financial institutions, particularly banks, are heavily scrutinized due to their central role in the financial system and their obligations under AML/CFT regulations. Cases often involve illicit financial activities within the banking sector, as seen in high-profile frauds. Virtual asset service providers are also increasingly subject to AML/CFT regulations.

Average Resolution Times: Judicial delays pose a major challenge to anti-money laundering efforts in India, with a large backlog of pending cases severely hindering AML prosecutions. The Enforcement Directorate (ED) filed 911 chargesheets related to money laundering between 2019 and October 2024, with trials pending in 257 cases. This indicates that a significant portion of cases are still awaiting resolution. To address these delays, India is urged to implement major court reforms and enhance the ED's efficiency.

c. High-Profile Cases and Lessons Learned

High-profile cases such as those involving Nirav Modi and Vijay Mallya have highlighted critical vulnerabilities and led to important lessons for India's AML framework.

Nirav Modi Case: This case involved a colossal \$2 billion fraud facilitated by deceitful Letters of Undertaking (LoUs) and Letters of Credit (LoCs) from Punjab National Bank (PNB). Modi, with the assistance of senior PNB officials, obtained LoUs without providing adequate collateral, bypassing the bank's internal core banking system (CBS) through SWIFT messages to overseas banks.

Lessons Learned: The Nirav Modi scandal underscored the importance of robust internal controls and the need for employees to act as "conscious keepers" to thwart fraudulent attempts. It also emphasized the need to learn from past mistakes to prevent future white-collar crimes and strengthen regulatory and enforcement mechanisms. The case led to the PMLA court declaring the Central Government entitled to proceeds from the sale of Modi's London property.

Vijay Mallya Case: This case involved a loan default of approximately 9,000 crore, exposing flaws in India's banking system and corporate governance. Mallya left India in 2016, initiating a complex extradition process from the UK.

Lessons Learned: The Vijay Mallya scam highlighted the critical need for comprehensive reforms in India's financial and regulatory landscape. Key lessons include strengthening corporate governance, enhancing the capacity of regulatory bodies, improving the transparency of financial reporting, and enforcing stricter penalties for white-collar crimes. It also emphasized the necessity for lenders and creditors to be extremely cautious when lending, and the importance of addressing non-performing assets in banks. The case continues to reflect the complexities of international legal cooperation in financial

crime prosecution.

6. Impact, Challenges & Effectiveness

a. Academic and Industry Studies on Effectiveness

Academic and industry studies offer varied evaluations of India's AML regime effectiveness. While some acknowledge India's significant progress in aligning its AML policies with international standards, including improved KYC measures and financial monitoring, challenges persist. The FATF's recent Mutual Evaluation Report (MER) for India in June 2024 states that India has achieved a "high level of technical compliance" with global anti-money laundering standards and has an "effective" AML/CFT system. The report noted good results in risk understanding, financial intelligence use, beneficial ownership information access, and asset deprivation.

However, the effectiveness in terms of outcomes is still under scrutiny. For example, analysis of PMLA cases shows a low conviction rate despite a large number of registered cases. Academic papers critically examine the challenges in regulating money laundering, focusing on interpretational shifts, procedural complexities, and balancing effective enforcement with individual rights. Studies also highlight issues such as misuse of enforcement powers and low conviction rates, raising concerns about due process and constitutional protections. Peer-reviewed journals assess the enforcement of AML policies, particularly in financial reporting, risk, and KYC. While India has made strides, some studies suggest that AML implementation needs further work to be truly effective on the ground.

Cost-benefit analyses are not explicitly detailed in the provided documents, but the consistent emphasis on enhancing compliance functions, streamlining processes, and the increasing investment in RegTech solutions (discussed below) imply an ongoing evaluation of operational costs versus the benefits of stronger AML frameworks.

b. Challenges: Over-Reporting of STRs, KYC Pitfalls, Technological Limitations, Coordination Gaps

India's AML framework faces several challenges:

Over-reporting of STRs: The number of Suspicious Transaction Reports (STRs) has significantly increased, for instance, from 58,646 to 105,973 in one year, and a record 1.4 million STRs were generated after the 2016 demonetization. While this indicates increased vigilance, there are concerns that financial institutions might err in over-reporting. This can lead to a high volume of alerts, potentially overwhelming the system and diverting resources from genuinely high-risk transactions.

KYC Pitfalls: Despite robust KYC frameworks, challenges persist in their implementation and effectiveness. Common pitfalls include issues with compliance, inconsistent enforcement, and the need for improved KYC measures. Financial institutions face challenges in complying with frequent updates to laws and extensive reporting requirements. Furthermore, there is a lack of universal KYC/AML protocols, and the existing framework might impede access to formal financial services for marginalized communities due to stringent documentation requirements and over-cautious compliance behavior by banks. Penalties imposed by the RBI for KYC and AML violations highlight these issues, with an 88% surge in penalties over three years.

Technological Limitations: While technological advancements offer potential to improve AML in India, there are challenges in fully realizing these benefits. These include limitations in infrastructure, data privacy concerns, and the need for customized AI solutions. Traditional, rule-based AML systems are often inadequate in detecting hidden risks and lead to a flood of false positives, making programs costly and inefficient. The ability of AML systems to cope with the growing complexity and scale of digital transactions is also a challenge.

Coordination Gaps: Despite efforts towards coordination among regulatory bodies, gaps can exist. Money laundering activities, especially those amplified by online banking, can be difficult to counter due to non-cooperation between teams monitoring banking fraud and those focused on anti-money laundering. Mule accounts, for example, exploit these gaps, fueling online scams and money laundering in Indian cities. Judicial delays and a large backlog of pending cases further indicate challenges in the overall enforcement and coordination across the legal system.

c. Role of RegTech in India

Regulatory Technology (RegTech) is playing an increasingly vital role in India's AML framework to

address these challenges, leveraging advanced technologies such as AI, biometrics, and blockchain.

AI-Driven Transaction Monitoring: AI and machine learning (ML) are being leveraged to enhance AML compliance, improve fraud detection, risk assessment, and regulatory efficiency. AI-driven solutions offer greater accuracy and efficiency in transaction monitoring, risk assessments, and the detection of complex money laundering schemes compared to traditional rule-based systems. They enable dynamic baselines, adjusting alerting thresholds based on evolving customer behavior patterns and reducing false positives. This allows financial institutions to manage money laundering risks proactively. AI also helps in real-time monitoring of transactions to identify and warn of suspicious activities.

Biometric KYC: Biometric authentication, including facial recognition and fingerprint scanning, provides a secure and practical solution for KYC processes. India's Aadhaar system, a unique biometric-based identification system, is being utilized for eKYC to streamline verification. The RBI has simplified procedures to allow Aadhaar-based eKYC and video KYC, which reduce document risk and fraud. Biometric KYC helps ensure compliance with AML/CFT norms while potentially reducing customer acquisition costs for payment banks.

Blockchain for Secure Record-Keeping: Blockchain technology offers enhanced security, transparency, and efficiency for record-keeping in AML efforts. It allows customer data to be stored in a secure digital identity, reducing the need for paper-based documents and manual data entry. Blockchain makes it harder for criminals to bypass disclosure laws by verifying records. The technology can help maintain proper KYC records, detect fraudulent activities, and eliminate duplication. Proposed smart-contract based blockchain models aim to reduce the time and cost involved in the KYC process by enabling secure sharing of customer KYC details among banks under the supervision of the national regulator. RegTech solutions automate key compliance processes like customer onboarding and transaction monitoring, adapting to local compliance requirements. This revolutionizes compliance operations, allowing financial institutions to streamline processes and reduce operational costs associated with compliance.

7. Current Developments & Future Outlook

a. Recent PMLA Amendments

Recent amendments to the PMLA aim to strengthen anti-money laundering measures by expanding its scope and tightening definitions.

Expanding "Designated Non-Financial Businesses and Professions" (DNFBPs): The PMLA has been amended to broaden its scope by extending reporting requirements to various entities. This includes formation agents of companies and LLPs, company directors or secretaries, partners of firms, trustees of express trusts, and nominee shareholders. The goal is to enhance accountability in financial transactions and combat money laundering by bringing more entities under the AML framework.

Establishment of Beneficial Ownership Registers: Amendments to the PMLA rules include tightening the definition of "beneficial owners". For partnership firms, a natural person holding a stake or ownership exceeding 10% of the capital or profits is now considered a beneficial owner, down from the previous 15% threshold. This change aligns the PMLA with the Companies Act and other rules on defining beneficial ownership. These amendments also mandate reporting entities, such as banks and crypto platforms, to collect information from their clients regarding beneficial ownership. Non-profit organizations are also now required to maintain records of all their financial transactions.

These amendments reflect India's efforts to align with FATF recommendations and enhance its AML/CFT framework.

b. India's FATF Mutual Evaluation Status and Action Plans

India has achieved an "outstanding outcome" in the Financial Action Task Force (FATF) Mutual Evaluation conducted during 2023-24. The Mutual Evaluation Report (MER) of India, adopted at the FATF plenary in Singapore between June 26 and June 28, 2024, places India in the "regular follow-up" category. This is a significant distinction shared by only four other G20 countries.

The FATF has lauded India's efforts to implement measures to tackle illicit finance, including money laundering and terror funding. The report indicates that India's anti-money laundering and counter-terrorist financing (AML/CFT) framework is achieving good results in areas such as risk understanding, access to

beneficial ownership information, and depriving criminals of their assets. The report also acknowledges that India has developed an action plan as part of this evaluation, with detailed recommended actions to be analyzed further. While India's system is considered effective, the FATF has highlighted the need for improvements in judicial processes to increase conviction rates and expedite trials, citing a large backlog of pending money laundering cases.

c. Emerging Issues: AML for Virtual Assets, Trade-Based Money Laundering, and Cross-Border Information Sharing

AML for Virtual Assets (Crypto Exchanges): The rapid growth of virtual digital assets (VDAs) and unregulated digital asset trading has led to an increased focus on their use in illegal activities, including money laundering and terrorist financing. In March 2023, India subjected Virtual Digital Assets Service Providers (VDASPs) to the AML-CFT regulations of the PMLA 2002. This amendment means that VDASPs are now required to register with FIU-IND and fulfill reporting and record-keeping duties. This is a major step towards regulating cryptocurrencies in India, demonstrating an intent to monitor crypto transactions and enhance transparency and accountability. Despite a focus on VDA taxation, there is a recognized need for sector-specific AML guidelines for virtual assets. FATF standards limit the scope of monitoring virtual assets to AML/CFT purposes, not financial stability in general.

Trade-Based Money Laundering (TBML): TBML remains a sophisticated method for laundering illicit funds and moving "value" across borders under the guise of legitimate trade transactions. It involves techniques such as over- and under-invoicing, multiple invoicing, over- and under-shipment of goods, and falsely described goods. TBML in India has been a significant concern, with estimates suggesting billions of dollars laundered annually through illicit trade. For example, trade-based money laundering in India reportedly soared to \$674.9 billion from 2009 to 2018. Cases like the Bank of Baroda money laundering scheme between 2014 and 2015 highlight the vulnerability of the Indian banking sector to complex TBML schemes.

Cross-Border Information Sharing Initiatives: The increasing complexity and scale of financial transactions necessitate enhanced cross-border information sharing. Regulatory changes for 2025 signal a decisive shift towards boosting cooperation and coordination through such initiatives. The application of information technology, including big data analytics, artificial intelligence, and blockchain, is crucial for improving AML compliance and regulatory efficiency in cross-border payment systems. However, challenges such as data privacy protection, technical compatibility, and security issues need to be addressed to fully leverage these technologies. Strengthening coordination among multiple legal systems and regulatory frameworks is essential for effective global AML efforts.

Deliverables

Chronological Timeline Infographic of Key Indian AML Laws, Regulations, and Advisories
Best Practices for Creating a Timeline Infographic:

Clarity and Simplicity: A good timeline infographic should organize events in chronological order clearly and concisely, making complex information easy to understand.

Visual Engagement: Utilize visual elements, colors, fonts, and decorative shapes to make the timeline engaging and aesthetically appealing.

Key Milestones: Highlight important dates and events, providing brief details for each entry.

Layout and Flow: Choose an appropriate layout (horizontal is common) to guide the reader through the sequence of events.

Source of Inspiration: Review existing timeline infographic examples from various sources to gather inspiration for effective design and techniques.

Tools: Tools like Canva, Venngage, Piktochart, and EdrawMax can be used to create compelling timeline infographics with templates and customization options.

(Self-correction: As an AI, I cannot actually "create" a visual infographic. However, I can provide the content and structural guidelines necessary for a user to create one, adhering to the requested format.)

Key Indian AML Laws, Regulations, and Advisories (Chronological Data Points for Infographic):

- 1973: Foreign Exchange Regulation Act (FERA) enacted.- 1999: Foreign Exchange Management Act (FEMA) replaces FERA.- 2002: Prevention of Money-Laundering Act (PMLA) enacted.- 2004: Financial Intelligence Unit-India (FIU-IND) established.- 2005: PMLA comes into force (July 1, 2005) and first major

amendments to PMLA. RBI advises banks to formulate KYC/AML policy frameworks by December 31, 2005.- 2009: Major amendments to PMLA.- 2010: India becomes a member of the FATF.- 2013: FIU-IND introduces two more reports for banks to furnish transactions.- 2014: RBI Master Circular on KYC norms / AML standards / CFT / Obligation of banks under PMLA, 2002 (July 1, 2014).- 2016: RBI's Master Direction on KYC, 2016 issued, consolidating KYC guidelines.- 2019: Major amendments to PMLA.- 2021: RBI Master Direction on KYC updated (May 2021), mandating a risk-based approach.- 2022: IRDAI issues consolidated Master AML/CFT Guidelines (August 1, 2022, effective November 1, 2022).- 2023:

- March: India subjects Virtual Digital Assets Service Providers (VDASPs) to AML-CFT regulations of PMLA 2002.
- May 9: Ministry of Finance expands "reporting entity" definition under PMLA.
- October 13: SEBI amends guidelines on AML/CFT for securities market intermediaries.
- October 17: RBI introduces significant amendments to KYC Master Direction, 2016.
- November 6: RBI introduces significant amendments to the Master Direction on KYC, 2016.- 2024:
- June 6: SEBI issues updated Guidelines on Anti-Money Laundering (AML) Standards and Combating the Financing of Terrorism (CFT) obligations for securities market intermediaries.
- June 26-28: FATF Plenary adopts India's Mutual Evaluation Report, placing India in "regular follow-up" category.
- October 10: RBI issues comprehensive guidelines on internal risk assessment for regulated entities.

Summary Table of Top 10 FIU-IND Enforcement Actions by Sector and Penalty Value

(Self-correction: The provided documents do not contain sufficient specific details (e.g., precise penalty values, specific sectors for enforcement actions, or a ranked list of "top 10" actions) to generate a credible and accurate summary table as requested. While some documents mention penalties imposed by RBI, and FIU-IND's supervisory functions, they do not provide the detailed data necessary for a "top 10" list by sector and penalty value. Therefore, I will provide a conceptual outline of such a table.)

Conceptual Outline for "Top 10 FIU-IND Enforcement Actions by Sector and Penalty Value":

| Rank | Case/Entity Name (Example) | Sector | Date of Action | Penalty Value (INR) | Brief Reason for Action |
|------|---|--------|----------------|---------------------|-------------------------|
| 1 | Banking | | | | |
| 2 | Financial Services | | | | |
| 3 | Capital Markets | | | | |
| 4 | Insurance | | | | |
| 5 | Virtual Assets | | | | |
| 6 | Banking | | | | |
| 7 | Designated Non-Financial Businesses & Professions | | | | |
| 8 | Financial Services | | | | |
| 9 | Capital Markets | | | | |
| 10 | Insurance | | | | |

Notes for Populating the Table:

- Data for specific penalty amounts and sectors would typically come from FIU-IND's annual reports or official enforcement records.
- The table would detail how different types of reporting entities across sectors have been subjected to enforcement actions by FIU-IND.

Annotated Bibliography of Primary Sources and Authoritative Analyses

Guidelines for an Annotated Bibliography:

An annotated bibliography is a list of citations followed by a brief descriptive and evaluative paragraph (annotation) for each source. Annotations typically include a summary of the source's content, an evaluation of its quality, and a reflection on its relevance or applicability to the research. They should be written in complete sentences and appear on the line below the full citation for the source. The primary function is to help readers find sources and assess their nature and value.

Primary Sources:

- Prevention of Money-Laundering Act, 2002 (PMLA)

- Ministry of Finance, Government of India. The Prevention of Money-Laundering Act, 2002. Enacted January 17, 2003. Available at: indiacode.nic.in/handle/123456789/2036. - Annotation: This is the foundational legislation for India's AML framework, outlining the offense of money laundering, provisions for attachment and confiscation of property, and obligations of reporting entities. It reflects India's commitment to international AML standards.
- FIU-IND Annual Reports
 - Financial Intelligence Unit – India. Annual Report. Various years (e.g., 2020-21, 2021-22, 2022-23). Available at: fiuindia.gov.in/pdfs/downloads/AnnualReport2020_21.pdf (and other year-specific links). - Annotation: These annual reports from FIU-IND provide official statistics on suspicious financial transactions, trends in money laundering and terrorist financing, and detailed information on the agency's operations and compliance efforts in India. They are critical for understanding the practical implementation and outcomes of India's AML regime.
- RBI Master Directions on AML/CFT
 - Reserve Bank of India. Master Direction – Know Your Customer (KYC) Direction, 2016. As amended. Available at: rbi.org.in/commonman/English/scripts/notification.aspx?id=2607. - Reserve Bank of India. Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002. As updated (e.g., July 1, 2014). Available at: rbi.org.in/Scripts/BS_ViewMasCirculardetails.aspx?id=6520. - Annotation: These master directions and circulars from the RBI provide detailed guidelines for banks and other regulated entities on KYC norms, AML standards, and CFT measures. They outline customer identification procedures, risk assessment requirements, and reporting obligations, serving as key regulatory texts for financial institutions.

Authoritative Analyses (Peer-Reviewed Journals, Industry Whitepapers, FATF Evaluations):

- FATF Mutual Evaluation Reports for India
 - Financial Action Task Force. Anti-Money Laundering and Counter-Terrorist Financing Measures: India. Mutual Evaluation Report. June 2024. Available at: fatf-gafi.org/content/dam/fatf-gafi/mer/India-MER-2024.pdf. - Annotation: This is a crucial intergovernmental evaluation assessing India's compliance with FATF recommendations and the effectiveness of its AML/CFT system. It provides an independent, expert-level analysis of India's progress and areas needing improvement, serving as a benchmark for international standards.
- Academic Analyses of PMLA
 - Joshi, Meera. Anti-Money Laundering in India: Policy, Practice, and Challenges. 2017. - Annotation: This book provides a focused analysis of the policy and practical implementation of anti-money laundering laws in India, with a specific emphasis on the PMLA 2002. It offers insights into the nuances of India's AML efforts.
 - Vashishth, Ruchi, and Simranjeet Kaur Gill. "An Analysis Of The Prevention Of Money Laundering Act 2002 (PMLA) In India: Achievements & Challenges." International Journal of Legal Research and Publications (2024). - Annotation: This article offers a comprehensive analysis of the PMLA, discussing its historical context, legislative purpose, and current challenges in implementation. It delves into the effectiveness of the Act and its ongoing adaptation.
- Industry Whitepapers on AML Compliance in India
 - ZIGRAM and The Digital Fifth. Emerging AML & KYC Challenges For Fintechs In India. - Annotation: This whitepaper provides insights into the evolving AML and KYC challenges faced by fintech companies in India. It discusses the dynamics between fintech, banks, and regulators, and offers solutions to navigate renewed regulatory challenges, including technological aspects.
 - KPMG. Financial Crime Bulletin. February 2025. - Annotation: This bulletin from KPMG offers updates on financial crime in India, including recent changes in AML compliance requirements for various sectors like the securities market. It is valuable for understanding current industry perspectives and regulatory expectations.
- Peer-Reviewed Journals on India's AML Framework
 - Kumar, J. "An Overview of Anti-Money Laundering Practice in the Indian Financial System." Journal of Research in Business and Management (2023). - Annotation: This study explores how the Indian financial system has addressed FATF's recommendations on AML. It provides an academic perspective on India's compliance status based on mutual evaluations.

- Seth, S., & Bhalla, G. (2019). "Anti-Money Laundering Law in India: A 'Glocalization' Model." Singapore Law Review, 40(3), 224-245. - Annotation: This article analyzes India's AML regime through a "Glocalization" model, examining how international obligations and the risk of sanctions influence the adoption of stricter compliance measures in developing countries.

Mind Map

Visualize how concepts connect

Flowchart

Visualize process of workflow

Related Images

TaxGuru

Statutory Powers of Financial Intelligence Unit- India (FIU-IND)

Enterslice

Financial Intelligence Unit Registration - Enterslice

Finlaw Consultancy

What is The Role of Financial Intelligence Unit India (FIU IND) - Blog

en.wikipedia.org

Financial Intelligence Unit—India - Wikipedia

Metalegal

FIU-IND: Safeguarding Financial Integrity Through PMLA Compliance

The Economic Times

FIU-IND signs pact with IRDAI to share information - The Economic ...

AML India

Reporting with FIU-IND Under PMLA

IMF eLibrary

2 Establishing an FIU in: Financial Intelligence Units

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A Guide For Entities Subject To FIU-IND Reporting On FINGate 2.0 ...

Gift City Consultants

Types of Reports Filed by Regulated Entities with FIU-IND

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Was this answer helpful?

Follow-ups

What are the key differences between FERA and FEMA in India's financial regulatory history

How has the FATF's evaluation influenced the recent amendments to India's PMLA

What are the primary challenges faced by SEBI in enforcing AML guidelines for capital market intermediaries

Can you elaborate on the specific technological limitations hindering effective AML compliance in India

What are the implications of India's FATF 'regular follow-up' status for its future AML policies

Switch Model

Make It Detailed

Make It Simple

Sources

All

1052

Paper

634

Web

418

4

finlaw.in

FIU India Guidelines: What Every Reporting Entity Must Know

The FIU guidelines in India are a set of comprehensive regulatory instructions issued by FIU-IND to various types of reporting entities under the PMLA. These guidelines are intended to ensure uniformity in the reporting, monitoring, and prevention of suspicious transactions that may be linked to money laundering or terrorist financing.

Cite

Summarize

12

ijlr.ilededu.in

Indian Journal Of Legal Review Issn 2583 2344 - ijlr.ilededu.in

This research paper provides a comprehensive analysis of India's anti-money laundering (AML) regulatory framework, tracing its evolution from the enactment of the Prevention of Money Laundering Act (PMLA) in 2002 to recent amendments addressing cryptocurrencies and enhanced compliance requirements.

Cite

Summarize

14

ijlmh.com

The Evolution of the Prevention of Money Laundering Act: Challenges and ...

Abstract This article examines the development of the Prevention of Money Laundering Act (PMLA) in India, focusing on the historical background of money laundering, the legislative process of the Act, and the current difficulties and adjustments in its implementation.

Cite

Summarize

15

sanctionsscanner.com

What is Financial Intelligence Unit (FIU)? - Sanction Scanner

What is Financial Intelligence Unit (FIU)? Financial crime is a growing concern for governments and financial institutions worldwide, with millions of dollars being laundered each year through various illegal activities.

Cite

Summarize

16

norma.ncirl.ie

“Analysis on the significance and effectiveness of anti-money ...

The research also aims in identifying the challenges faced by the bank employees while following the Anti-money laundering policies and procedures. The main basis of this study is made by collecting the primary data from the bank employees who are working in Bangalore, Karnataka, India.

Cite

Summarize

17

indiacode.nic.in

Prevention of Money-Laundering Act, 2002 - India Code

Enactment Date: 2003-01-17 ; Act Year: 2003 ; Short Title: The Prevention of Money-Laundering Act, 2002 ; Long Title: An Act to prevent money-laundering and to ...

Cite

Summarize

22

anti-money-laundering.eu

Financial Intelligence Units (FIUs) - Anti-Money Laundering

Explore the pivotal role of Financial Intelligence Units (FIUs) in combating money laundering and terrorism financing. Understand their functions, powers, and international collaboration at Anti-Money-Laundering.eu.

Cite

Summarize

23

enforcementdirectorate.gov.in

[PDF] Prevention of Money Laundering Act 2002

THE SCHEDULE. [17th January, 2003.] An Act to prevent money-laundering and to provide for confiscation of property derived from, or involved in, money- ...

Cite

Summarize

24

fiumauritius.org

International Cooperation – Financial Intelligence Unit (FIU)

International Cooperation Pursuant to Part V of the Financial Intelligence and Anti-Money Laundering Act 2002, the FIU exchanges information with overseas financial intelligence units and comparable bodies.

Cite

Summarize

25

rbi.org.in

Master Circulars - Reserve Bank of India

Master Circular – Know Your Customer (KYC) norms / Anti-Money Laundering (AML) standards/Combating of Financing of Terrorism (CFT)/Obligation of banks under PMLA, 2002

Cite

Summarize

You are tasked with producing a comprehensive, scholarly research report on India's Anti Money Laundering (AML) framework, with primary focus on the P