

India's Anti-Money Laundering (AML) Framework: A Comprehensive Review

1. Historical Evolution in India

a. Development from FERA to PMLA

- **Foreign Exchange Regulation Act (FERA), 1973:** Focused on controlling foreign exchange transactions and curbing illegal outflows, FERA was India's first major legislative step addressing economic crimes linked to money laundering^[1].
- **Economic Liberalization (1991):** Liberalization increased cross-border transactions and revealed the inadequacy of FERA, leading to its replacement by the Foreign Exchange Management Act (FEMA), 1999, which emphasized regulation over penalization^[1].
- **Prevention of Money-Laundering Act (PMLA), 2002:** Enacted to address the growing threat of money laundering, especially after global pressure and increasing domestic economic crimes. Came into force on July 1, 2005, with subsequent amendments in 2005, 2009, 2012, and 2019 to expand its scope and align with international standards^{[2] [3] [4]}.
- **Key Amendments:**
 - **2005:** Broadened predicate offenses and enforcement powers.
 - **2009/2012:** Strengthened due diligence, introduced "reporting entity," and lowered beneficial ownership thresholds.
 - **2019:** Expanded "proceeds of crime" and included newer forms of financial crimes, such as those involving virtual assets^{[5] [4]}.

b. Domestic and International Drivers

- **Domestic Drivers:**
 - Major financial scandals (e.g., Hawala, Commonwealth Games scam) and terror financing incidents (e.g., 2008 Mumbai attacks) highlighted the need for robust AML laws^[1].
 - Judicial activism and public demand for accountability spurred legislative action.
- **International Drivers:**
 - **FATF Mutual Evaluations:** India's inclusion in the Financial Action Task Force (FATF) in 2010 required compliance with 40 FATF Recommendations, prompting legislative and regulatory reforms^{[6] [7] [8]}.
 - **UN Conventions:** The Vienna and Palermo Conventions on drug trafficking and transnational organized crime influenced India's AML framework^[4].

- **G-20 Commitments:** India's participation in global economic forums reinforced its obligations to implement effective AML/CFT controls^[9].

c. Influence of International Standards

- **FATF Recommendations:** India's AML regime is modeled on FATF's 40 Recommendations, covering criminalization, preventive measures, supervision, and international cooperation^[10]^[7].
- **UN Conventions:** The PMLA and its amendments reflect obligations under UN treaties, especially concerning predicate offenses and asset confiscation^[4].
- **Egmont Group:** FIU-IND's membership in the Egmont Group has facilitated information exchange and best practices in financial intelligence^[1].

2. Core Indian AML Statutes and Regulations

Prevention of Money-Laundering Act, 2002 (PMLA)

Aspect	Details
Enactment/Amendments	2002 (enacted), 2005, 2009, 2012, 2019 (major amendments) ^[2] ^[4] ^[5]
Purpose	Prevent money laundering, confiscate proceeds of crime, and combat terrorism financing
Scope	Banks, financial institutions, intermediaries, designated non-financial businesses/professions
Obligations	Client identification, record maintenance, reporting suspicious/cash transactions to FIU-IND
Enforcement	Attachment/confiscation of assets, prosecution, penalties, powers to Enforcement Directorate

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

Aspect	Details
Date	Updated periodically; latest major revision in 2023 ^[11] ^[12]
Purpose	Prescribe KYC, AML, and CFT standards for regulated entities
Scope	Banks, NBFCs, All India Financial Institutions
Obligations	KYC policy, risk-based CDD, transaction monitoring, periodic risk assessment, staff training
Enforcement	RBI supervision, penalties under Banking Regulation Act, 1949

FIU-IND Reporting Rules

Aspect	Details
Key Reports	Cash Transaction Report (CTR), Suspicious Transaction Report (STR), Cross-Border Wire Transfer Report (CBWTR), Counterfeit Currency Report (CCR), Non-Profit Organisation Transaction Report (NTR), Property Transaction Report (PTR) ^[13]
Purpose	Ensure timely reporting of transactions indicative of money laundering
Scope	All “reporting entities” under PMLA
Obligations	Timely submission of reports (e.g., CTRs for cash > ₹10 lakh, CBWTRs for cross-border transfers > ₹5 lakh) to FIU-IND ^[13]
Enforcement	FIU-IND oversight, penalties for non-compliance

SEBI’s AML Guidelines for Capital Markets Intermediaries

Aspect	Details
Date	Master Circular issued June 6, 2024 ^[14] ^[15]
Purpose	Align capital markets with PMLA, FATF standards
Scope	All SEBI-registered intermediaries, including stock exchanges, mutual funds, brokers
Obligations	CDD, beneficial ownership verification (threshold: 10%), record-keeping, suspicious transaction reporting, group-wide AML policies
Enforcement	SEBI inspections, penalties, suspension of registration

IRDAI’s AML Guidelines for Insurance Companies

Aspect	Details
Date	Master Guidelines effective from November 1, 2022 ^[16] ^[17]
Purpose	Safeguard insurance sector from ML/TF risks
Scope	General, life, and health insurers
Obligations	CDD, KYC, ongoing monitoring, appointment of Principal Officer, reporting to FIU-IND
Enforcement	IRDAI supervision, penalties, and compliance reviews

PML Rules: Key Definitions

- **Proceeds of Crime:** Any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offense, including its value if held outside India ^[5].
- **Reporting Entity:** Banking company, financial institution, intermediary, or any person carrying on designated business or profession as notified ^[18].
- **Beneficial Owner:** Natural person(s) who ultimately owns or controls a client or the person on whose behalf a transaction is being conducted; thresholds set at 10% for companies and

partnerships (as per 2024 SEBI Guidelines)^[14].

3. Regulatory Bodies & Their Roles

a. Mandate and Powers

- **FIU-IND:** Central agency for receiving, analyzing, and disseminating financial intelligence; coordinates with law enforcement and international FIUs; empowered to collect various transaction reports and share actionable intelligence^{[19] [20]}.
- **RBI:** Regulates banks and NBFCs, issues AML/CFT guidelines, supervises compliance, and imposes penalties for violations^{[12] [11]}.
- **SEBI:** Regulates securities markets, enforces AML/CFT guidelines for intermediaries, conducts inspections, and penalizes non-compliance^{[14] [15]}.
- **IRDAI:** Regulates insurance sector, enforces AML/CFT compliance, and oversees KYC and reporting requirements^{[16] [17]}.
- **Directorate of Enforcement (ED):** Investigates and prosecutes money laundering offenses under PMLA, attaches/confiscates assets, and coordinates with domestic and international agencies^{[21] [1]}.

b. Coordination Mechanisms

- **Domestic Coordination:** Economic Intelligence Council (EIC) headed by the Finance Minister oversees inter-agency coordination; regular information sharing among FIU-IND, ED, RBI, SEBI, and IRDAI^{[19] [20]}.
- **International Cooperation:** FIU-IND is a member of the Egmont Group, facilitating cross-border intelligence sharing; India participates in FATF and APG mutual evaluations and implements action plans^{[1] [6] [7]}.

c. FIU-IND's Structure and Analytics

- **Structure:** Multidisciplinary body with 75 sanctioned personnel from various regulatory and enforcement backgrounds^{[19] [20]}.
- **Data Collection:** Receives CTRs, STRs, CBWTRs, NTRs, PTRs, and CCRs from reporting entities; maintains a national database^[13].
- **Analytics:** Uses advanced analytics to uncover financial crime patterns; annual AML/CFT reports published for transparency and policy guidance^[19].

4. Compliance Program Requirements

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

- **PMLA and sectoral guidelines** require all reporting entities to implement robust CDD and KYC processes, including identity verification, risk profiling, and ongoing monitoring ^[12] ^[11] ^[14] ^[17].
- **Enhanced Due Diligence** is mandated for high-risk customers, politically exposed persons (PEPs), and complex transactions.

b. Record-Keeping and Reporting Obligations

- **Record Maintenance:** Entities must maintain records of all transactions for at least five years ^[22].
- **Reporting:** Timely submission of CTRs, STRs, CBWTRs, and other reports to FIU-IND is mandatory ^[13] ^[23] ^[24].

c. Internal Controls

- **Risk Assessment:** Entities must conduct periodic ML/TF risk assessments and adopt a risk-based approach ^[11] ^[25].
- **Independent Audit:** Regular independent audits of AML/CFT programs are required.
- **Staff Training:** Ongoing AML/CFT training for staff to recognize and report suspicious activities ^[14] ^[17].

d. Principal Officer

- **Appointment:** All reporting entities must appoint a Principal Officer responsible for AML/CFT compliance and liaison with regulators and FIU-IND ^[26] ^[17].
- **Responsibilities:** Oversee internal controls, ensure timely reporting, and act as the point of contact for authorities.

5. Enforcement Actions & Penalties

a. Landmark Enforcement Actions

- **Asset Attachment/Confiscation:** ED has attached and confiscated assets in high-profile cases (e.g., Vijay Mallya, Nirav Modi) ^[1] ^[27].
- **Prosecutions:** Over 1,700 cases under trial as of May 2025, with a conviction rate of 93.6% in concluded cases ^[28].
- **Compounding of Offenses:** Certain offenses may be compounded subject to regulatory approval.

b. Trends

- **Prosecutions:** Increasing trend in number of cases filed and assets attached since 2014^[28]^[29].
- **Penalty Amounts:** Penalties range from monetary fines to asset forfeiture and imprisonment.
- **Sectors Affected:** Banking, NBFCs, real estate, and capital markets most frequently involved.
- **Resolution Times:** Prolonged due to judicial delays and complexity of investigations^[28].

c. High-Profile Cases and Lessons

- **Nirav Modi:** ED seized assets worth over ₹1,400 crore; extradition proceedings ongoing.
- **Vijay Mallya:** Properties worth ₹9,000 crore attached; highlights importance of international cooperation^[1]^[27].
- **Lessons:** Need for faster judicial processes, enhanced international cooperation, and robust preventive measures.

6. Impact, Challenges & Effectiveness

a. Effectiveness

- **FATF Mutual Evaluation (2024):** India rated “substantially effective” in 6 of 11 key areas, with high compliance across FATF Recommendations^[6]^[7]^[8].
- **Academic/Industry Studies:** Recognize improvements in financial transparency and asset recovery, but highlight high compliance costs and operational challenges^[7]^[30].

b. Challenges

- **Over-Reporting of STRs:** Risk of “defensive reporting” diluting actionable intelligence.
- **KYC Pitfalls:** Gaps in verification, especially in rural and informal sectors.
- **Technological Limitations:** Legacy IT systems and lack of integration across agencies.
- **Coordination Gaps:** Need for seamless data sharing and unified approach across regulators^[7]^[30].

c. RegTech Innovations

- **AI-Driven Monitoring:** Increasing adoption of AI/ML for transaction monitoring and anomaly detection.
- **Biometric KYC:** Video-based and biometric KYC solutions improving onboarding and reducing fraud^[16]^[17].
- **Blockchain:** Pilot projects for secure, tamper-proof record-keeping in financial institutions.

7. Current Developments & Future Outlook

a. Recent PMLA Amendments

- **2023/2024:** Expanded coverage to virtual asset service providers, professionals (e.g., accountants, company secretaries), and stricter beneficial ownership disclosure^{[31] [4]}.
- **Beneficial Ownership Registers:** Lowered thresholds and mandatory public registers for transparency^[14].

b. FATF Mutual Evaluation Status

- **2024 Evaluation:** India placed in “regular follow-up” (highest category), joining only four other G20 countries; recognized for technical compliance and international cooperation^{[6] [7] [8] [32]}.
- **Action Plans:** Continued focus on supervision of non-financial sectors, risk-based approach, and improving effectiveness in ML/TF investigations.

c. Emerging Issues

- **Virtual Assets:** AML/CFT obligations extended to crypto exchanges and virtual asset service providers.
- **Trade-Based Money Laundering:** Enhanced scrutiny of cross-border trade transactions.
- **Cross-Border Information Sharing:** Strengthened mechanisms for mutual legal assistance and intelligence sharing with global partners^{[6] [7] [30]}.

Timeline Infographic: Key Indian AML Laws & Regulations

Year	Milestone
1973	Foreign Exchange Regulation Act (FERA) enacted
1999	Foreign Exchange Management Act (FEMA) replaces FERA
2002	Prevention of Money-Laundering Act (PMLA) enacted
2005	PMLA comes into force; FIU-IND established
2009	Major PMLA amendment broadening scope
2010	India joins FATF
2012	PMLA amendment: introduces “reporting entity”
2019	PMLA amendment: expands “proceeds of crime,” includes virtual assets
2022	IRDAI issues consolidated AML/CFT Master Guidelines
2023	PMLA (Maintenance of Records) Amendment: stricter CDD, covers crypto
2024	SEBI issues new AML/CFT Master Circular; India achieves top FATF rating

Summary Table: Top 10 FIU-IND Enforcement Actions by Sector & Penalty Value

Rank	Sector	Case/Entity	Penalty/Asset Value (₹ crore)	Year	Nature of Action
1	Banking	Nirav Modi/PNB	1,400+	2018	Asset attachment
2	Banking	Vijay Mallya/Kingfisher	9,000+	2016	Asset attachment
3	Real Estate	DHFL	415	2022	Asset attachment
4	Capital Mkts	National Herald	100+	2022	Asset attachment
5	Banking	Yes Bank	3,700	2020	Asset attachment
6	Capital Mkts	Sahara Group	2,500	2014	Asset attachment
7	NBFC	Avantha Group	100+	2022	Asset attachment
8	Banking	ICICI-Videocon	600	2019	Asset attachment
9	Capital Mkts	Satyam Computers	700	2009	Asset attachment
10	Banking	Bank of Baroda (Forex scam)	6,100	2015	Asset attachment

Note: Values are approximate and based on public disclosures; actual penalty/asset attachment figures may vary^{[1] [27] [33]}.

Annotated Bibliography

- **Prevention of Money-Laundering Act, 2002:** Official text and amendments available via India Code and Department of Revenue^{[34] [35]}.
- **FIU-IND Annual Reports:** Comprehensive data on enforcement actions, sectoral trends, and analytics^{[19] [20]}.
- **RBI Master Directions:** Detailed KYC/AML/CFT obligations for banks and NBFCs^{[12] [11]}.
- **SEBI AML/CFT Guidelines:** Master Circulars and updates on capital market obligations^{[14] [15]}.
- **IRDAI AML Guidelines:** Master Guidelines for insurance sector compliance^{[16] [17]}.
- **FATF Mutual Evaluation Reports (2024):** International benchmarking and effectiveness assessments^{[6] [7] [8] [32]}.
- **Peer-Reviewed Analyses:** Academic and industry studies on AML effectiveness, challenges, and innovations^{[1] [36] [30]}.

- **Case Law and Enforcement Summaries:** Notable case studies and judicial interpretations^{[1] [27] [33]}.

This report provides a detailed, up-to-date, and scholarly overview of India's AML framework, anchored in official sources and the latest regulatory and enforcement developments.

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