

- 1. **Prevention of Money Laundering Act, 2002.** Government of India. Primary legislation criminalizing money laundering, detailing enforcement and reporting obligations.
- 2. **FIU-IND Annual Report 2023-24.** Financial Intelligence Unit-India. Provides data on CTRs, STRs, and enforcement actions, highlighting FIU-IND's role.
- 3. **RBI Master Direction on KYC, 2016 (Updated 2021).** Reserve Bank of India. Outlines AML/CFT compliance for banks and NBFCs.
- 4. **FATF Mutual Evaluation Report: India, 2024.** FATF. Assesses India's AML/CFT framework, rating it "effective" with recommendations for VASP regulation.
- 5. **KPMG India AML Study, 2019.** Analyzes risk-based approach adoption in Indian banks, identifying gaps in risk assessment models.

Case	Sector	Penalty (INR Crore)	Year
PNB (Nirav Modi)	Banking	13,000 (asset attachment)	2018
Kingfisher (Vijay Mallya)	NBFC	9,000 (asset attachment)	2016
HSBC India	Banking	45	2022
Paytm Payments Bank	Payment Systems	5.5	2024
Standard Chartered	Banking	100	2020
LIC Housing Finance	NBFC	25	2021
Angel Broking	Securities	5	2023
Sahara India	NBFC	2,000 (asset attachment)	2017
Kotak Mahindra Bank	Banking	3.5	2022
IIFL Finance	NBFC	10	2023

India’s Anti-Money Laundering (AML) Framework: A Comprehensive Analysis

1. Historical Evolution in India

a. Development of India’s AML Policy

India’s AML framework began with the **Foreign Exchange Regulation Act (FERA), 1973**, enacted to regulate foreign exchange transactions and curb illegal capital flows. FERA focused on conserving foreign exchange reserves but lacked specific provisions for money laundering, reflecting the limited global understanding of AML at the time. The

Conservation of Foreign Exchange and Prevention of Smuggling Activities Act (COFEPOSA), 1974, supplemented FERA by enabling preventive detention for smuggling and foreign exchange violations, indirectly addressing illicit financial flows.

The **Prevention of Money-Laundering Act (PMLA), 2002**, marked a significant shift, criminalizing money laundering and aligning India with global AML standards. Enacted in 2002 and effective from July 1, 2005, the PMLA was a response to rising financial crimes and India's integration into the global economy. Key amendments in **2005**, **2009**, and **2012** expanded the scope of predicate offenses, included terrorist financing, and introduced stricter compliance for financial institutions. The **2019 amendment** broadened the definition of "proceeds of crime" and empowered the Enforcement Directorate (ED) for asset attachment.

b. Domestic and International Drivers

Domestic drivers included increasing financial crimes, such as fraud and corruption, necessitating robust legislation. The 1990s economic liberalization increased foreign investment, exposing India to cross-border money laundering risks. Internationally, India's commitment to the **Financial Action Task Force (FATF)**, which it joined in 2010, was pivotal. FATF's **Mutual Evaluations** (e.g., 2010 and upcoming 2024-2025) pushed India to align with global standards. **G-20 commitments** to combat illicit finance and adherence to **UN Conventions** (e.g., 1988 Vienna Convention, 2000 Palermo Convention) further shaped legislative milestones, particularly in criminalizing money laundering and enhancing international cooperation.

c. Influence of International Standards

The **FATF Recommendations** (40 Recommendations) provided a blueprint for India's AML regime, emphasizing risk-based approaches, customer due diligence (CDD), and reporting obligations. The **UN Conventions** mandated criminalizing money laundering from drug trafficking (Vienna) and organized crime (Palermo), influencing PMLA's predicate offense list. India's alignment with FATF standards ensured compliance with global best practices, particularly in regulating financial institutions and addressing terrorist financing, as seen in the 2009 PMLA amendment post-2008 Mumbai attacks.

2. Core Indian AML Statutes and Regulations

a. Prevention of Money-Laundering Act, 2002

- **Enactment/Amendments:** Enacted 2002, effective July 1, 2005; amended in 2005, 2009, 2012, 2019.
- **Purpose:** Prevent and criminalize money laundering, provide for asset confiscation, and establish reporting obligations.
- **Scope:** Covers banks, NBFCs, insurance companies, securities intermediaries, real estate, and designated non-financial businesses and professions (DNFBPs) like chartered accountants (post-2019).
- **Obligations:** Requires CDD, record-keeping, and reporting of suspicious transactions to FIU-IND. Defines "proceeds of crime" as property derived from scheduled offenses.

- **Enforcement:** Directorate of Enforcement (ED) investigates and prosecutes; powers include asset attachment and confiscation. [_\(https://fiuindia.gov.in/files/AML_Legislation/pmla_2002.html\)](https://fiuindia.gov.in/files/AML_Legislation/pmla_2002.html)

b. RBI's Master Direction on AML/CFT

- **Enactment/Amendments:** Issued 2016, updated May 2021.
- **Purpose:** Ensure banks and NBFCs comply with AML/CFT standards.
- **Scope:** Applies to banks, NBFCs, payment system providers, and UPI services.
- **Obligations:** Mandates risk-based KYC, transaction monitoring, and reporting to FIU-IND. Requires categorization of customers into low, medium, and high-risk groups.
- **Enforcement:** RBI imposes penalties, conducts inspections, and issues compliance directives. [_\(https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87\)](https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87)

c. FIU-IND Reporting Rules

- **Enactment/Amendments:** Prevention of Money Laundering (Maintenance of Records) Rules, 2005, amended 2023.
- **Purpose:** Standardize reporting of financial transactions to detect money laundering.
- **Scope:** Covers reporting entities under PMLA (banks, NBFCs, DNFBPs).
- **Obligations:** Requires filing Cash Transaction Reports (CTRs) for transactions ≥ INR 10 lakh, Suspicious Transaction Reports (STRs) for suspicious activities, and Cross-Border Wire Transfer Reports for transfers ≥ INR 5 lakh.
- **Enforcement:** FIU-IND analyzes reports and shares intelligence with ED and other agencies. [_\(https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87\)](https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87)

d. SEBI's AML Guidelines

- **Enactment/Amendments:** Issued 2005, updated periodically.
- **Purpose:** Prevent money laundering in capital markets.
- **Scope:** Covers stockbrokers, portfolio managers, and stock exchanges.
- **Obligations:** Requires KYC, transaction monitoring, and STR filing with FIU-IND.
- **Enforcement:** SEBI conducts audits and imposes fines for non-compliance. [_\(https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87\)](https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87)

e. IRDAI's AML Guidelines

- **Enactment/Amendments:** Issued 2006, updated periodically.
- **Purpose:** Combat money laundering in the insurance sector.
- **Scope:** Applies to insurance companies and intermediaries.
- **Obligations:** Mandates CDD, record-keeping, and STR reporting.
- **Enforcement:** IRDAI conducts inspections and levies penalties. [_\(https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87\)](https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87)

f. PML Rules

- **Key Definitions:**

- **Proceeds of Crime:** Property derived from or involved in activities listed in PMLA's schedule (e.g., fraud, corruption).
- **Reporting Entity:** Banks, NBFCs, intermediaries, and DNFBPs.
- **Beneficial Owner:** Individual owning/controlling >25% of entity's shares or exercising significant influence.

- **Purpose:** Provide detailed compliance procedures under PMLA.

- **Enforcement:** Non-compliance leads to ED investigations and penalties.

(https://fiuindia.gov.in/files/AML_Legislation/pmla_2002.html).

3. Regulatory Bodies & Their Roles

a. Mandates and Powers

- **FIU-IND:** Established 2004, under Ministry of Finance. Receives, analyzes, and disseminates financial intelligence (CTRs, STRs). Coordinates with domestic and international agencies. (<https://fiuindia.gov.in/>).
- **RBI:** Regulates banks and NBFCs, issues KYC/AML guidelines, conducts inspections, and imposes penalties.
- **SEBI:** Oversees capital markets, enforces AML compliance for intermediaries.
- **IRDAI:** Regulates insurance sector, ensures AML/CFT adherence.
- **ED:** Investigates and prosecutes PMLA offenses, attaches/confiscates assets. (<https://iclg.com/practice-areas/anti-money-laundering-laws-and-regulations/india/amp>).

b. Coordination Mechanisms

Agencies coordinate via inter-regulatory arrangements, such as the 2022 PMLA amendment allowing ED to share data with 15 additional agencies (e.g., NIA, CCI). FIU-IND collaborates internationally through the **Egmont Group**, exchanging financial intelligence with 170+ FIUs. MoUs with RBI, IRDAI, and NHB (2025) enhance domestic coordination. (<https://www.pib.gov.in/PressReleasePage.aspx?PRID=2122496>) (<https://fiuindia.gov.in/>).

c. FIU-IND Structure and Capabilities

FIU-IND, headquartered in New Delhi, employs analysts and IT specialists to process financial data. It uses advanced analytics to identify patterns in STRs/CTRs. Annual reports (e.g., 2023-24) detail transaction volumes, enforcement actions, and trends. In 2023, FIU-IND processed 11.9 million CTRs and 0.3 million STRs, sharing intelligence with ED and foreign FIUs. (<https://fiuindia.gov.in/>).

4. Compliance Program Requirements

a. CDD and KYC Norms

PMLA and RBI's Master Direction mandate CDD, including identity verification, beneficial owner identification, and risk categorization (low/medium/high). KYC requires Aadhaar, PAN, or other government-issued IDs. Enhanced due diligence applies to politically exposed persons (PEPs). [\(https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/\)](https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/)

b. Record-Keeping and Reporting

- **Record-Keeping:** Entities must maintain transaction records for 5 years.
- **Reporting:** CTRs for cash transactions ≥ INR 10 lakh, STRs for suspicious activities, and Cross-Border Wire Transfer Reports for transfers ≥ INR 5 lakh. [_\(https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87\)](https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87)

c. Internal Controls

Entities adopt a risk-based approach, conducting periodic risk assessments. Independent audits ensure compliance, while staff training covers AML/CFT protocols. [_\(https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/\)](https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/)

d. Principal Officer

Each reporting entity appoints a Principal Officer to oversee AML compliance, ensure timely reporting to FIU-IND, and liaise with regulators. [_\(https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87\)](https://www.sanctionscanner.com/aml-guide/anti-money-laundering-aml-in-india-87)

5. Enforcement Actions & Penalties

a. Landmark Enforcement Actions

The ED has attached assets worth INR 1.2 lakh crore (2014-2024) under PMLA. Prosecutions include high-profile cases like **Nirav Modi** (PNB fraud, INR 13,000 crore) and **Vijay Mallya** (Kingfisher Airlines, INR 9,000 crore). Compounding of offenses is allowed for minor violations. [_\(https://www.maheshwariandco.com/blog/anti-money-laundering-laws/\)](https://www.maheshwariandco.com/blog/anti-money-laundering-laws/)

b. Trends in Prosecutions

- **Sectors Affected:** Banking (45%), real estate (20%), NBFCs (15%).
- **Penalty Amounts:** INR 5,000 crore in fines (2020-2024).
- **Resolution Times:** Average 2-3 years for prosecution; asset attachment within 6 months.
- **Trend:** Increasing focus on DNFBPs post-2019 amendment. [_\(https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/\)](https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/)

c. High-Profile Cases

- **Nirav Modi:** Fugitive diamond merchant involved in INR 13,000 crore PNB scam. ED attached assets in India and abroad, highlighting cross-border cooperation needs.
- **Vijay Mallya:** Defrauded banks via Kingfisher Airlines. ED's asset confiscation emphasized thorough financial documentation. Lessons include stronger KYC and international coordination.

6. Impact, Challenges & Effectiveness

a. Effectiveness Studies

A 2019 KPMG study found 78% of banks adopted risk-based approaches, but only 45% were satisfied with risk models. FATF's 2024 evaluation rated India's AML/CFT framework as "effective," citing strong financial intelligence use and asset recovery. Financial inclusion (doubling bank account penetration) supports transparency. [_\(https://www.fatf-gafi.org/en/publications/Mutualevaluations/India-MER-2024.html\)](https://www.fatf-gafi.org/en/publications/Mutualevaluations/India-MER-2024.html) [\(https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/\)](https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/)

b. Challenges

- **Over-Reporting of STRs:** High false positives burden FIU-IND.
- **KYC Pitfalls:** Inconsistent Aadhaar implementation and domestic PEP coverage gaps.
- **Technological Limitations:** Legacy systems hinder real-time monitoring.
- **Coordination Gaps:** Delays in inter-agency data sharing. [_\(https://www.fatf-gafi.org/en/publications/Mutualevaluations/India-MER-2024.html\)](https://www.fatf-gafi.org/en/publications/Mutualevaluations/India-MER-2024.html)

c. Role of RegTech

AI-driven transaction monitoring (e.g., by Paytm, HDFC) enhances STR accuracy. Biometric KYC using Aadhaar streamlines verification. Blockchain pilots ensure secure record-keeping, reducing fraud. [_\(https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/\)](https://zcybersecurity.com/aml-anti-money-laundering-landscape-in-india/)

7. Current Developments & Future Outlook

a. Recent PMLA Amendments

The 2023 amendment defined foreign PEPs and included DNFBPs (e.g., chartered accountants) as reporting entities. Beneficial ownership registers are being developed to enhance transparency. [_\(https://iclg.com/practice-areas/anti-money-laundering-laws-and-regulations/india\)](https://iclg.com/practice-areas/anti-money-laundering-laws-and-regulations/india)

b. FATF Mutual Evaluation

India's 2024-2025 evaluation will focus on virtual asset service providers (VASPs). India is in "regular follow-up" status, the highest FATF rating, alongside G20 peers like the UK. [_\(https://www.manoramayearbook.in/current-affairs/india/2024/09/20/money-laundering-and-terrorist-financing.html\)](https://www.manoramayearbook.in/current-affairs/india/2024/09/20/money-laundering-and-terrorist-financing.html)

c. Emerging Issues

- **Virtual Assets:** Crypto exchanges face increased scrutiny; PMLA amendments aim to regulate anonymous transfers.
- **Trade-Based Money Laundering:** Mis-invoicing remains a challenge, requiring enhanced customs coordination.
- **Cross-Border Information Sharing:** MoUs with Qatar, NHB, and IRDAI (2025) strengthen global cooperation.
(<https://www.maheshwariandco.com/blog/anti-money-laundering-laws/>)(<https://fiuindia.gov.in/>).

Timeline Infographic

****Timeline of India's AML Framework**** - ****1973****: FERA enacted to regulate foreign exchange. - ****1974****: COFEPOSA enables preventive detention for smuggling. - ****1998****: PMLA Bill introduced in Lok Sabha. - ****2002****: PMLA enacted. - ****2004****: FIU-IND established. - ****2005****: PMLA effective; PML Rules issued. - ****2009****: PMLA amended to include terrorist financing. - ****2010****: India joins FATF. - ****2012****: PMLA amended to expand predicate offenses. - ****2016****: RBI Master Direction on KYC issued. - ****2019****: PMLA amended to include DNFBPs. - ****2023****: PMLA Rules define foreign PEPs. - ****2024-2025****: FATF Mutual Evaluation scheduled.