

India's Anti-Money Laundering (AML) framework, primarily anchored by the **Prevention of Money Laundering Act (PMLA), 2002**, and supported by key regulatory bodies like the **Financial Intelligence Unit-India (FIU-IND)** and the **Reserve Bank of India (RBI)**, represents a comprehensive legal and institutional structure aimed at combating illicit financial flows. While India has made significant strides in aligning its framework with international standards, particularly those set by the Financial Action Task Force (FATF), challenges persist in areas such as **effective implementation, judicial delays, regulatory coordination, and addressing emerging risks from digital technologies**. The FATF's 2024 Mutual Evaluation Report acknowledged India's high level of technical compliance but also highlighted the need for improvements in **supervision, preventative measures, and the prosecution of money laundering and terrorist financing cases**.

India's Anti-Money Laundering Framework: A Scholarly Report

1. The Prevention of Money Laundering Act (PMLA), 2002: India's Legal Scaffold

1.1. Overview and Key Provisions of the PMLA

The **Prevention of Money Laundering Act (PMLA), 2002**, serves as the **cornerstone of India's legislative framework** to combat money laundering and confiscate proceeds of crime. Enacted on July 1, 2005, the PMLA was designed to address the escalating threat posed by money laundering and related socio-economic offenses, fulfilling India's international obligations under various treaties and conventions, including the United Nations General Assembly's Political Declaration and Global Programme of Action (adopted in June 1998). The primary objectives of the PMLA are to **prevent money laundering, provide for the confiscation of property derived from, or involved in, money laundering, and to penalize those involved in such illicit activities**. The Act defines money laundering broadly to encompass any process or activity connected with the proceeds of crime, including its concealment, possession, acquisition, or use, and projecting it as untainted property. This expansive definition aims to cover a wide range of activities involved in legitimizing illicit gains. The PMLA imposes **stringent penalties, including rigorous imprisonment and substantial fines**, on individuals and entities found guilty of money laundering offenses. The enforcement of the PMLA is primarily carried out by the **Enforcement Directorate (ED)**, which is tasked with investigating and prosecuting offenses under the Act. The Act has undergone several amendments since its inception to broaden its scope, strengthen its provisions, and align it more closely with international standards, particularly those set by the Financial Action Task Force (FATF).

The PMLA's framework is built upon several key provisions that define its scope, establish obligations for reporting entities, and outline enforcement mechanisms. **Section 3 of the PMLA defines the offense of money laundering**, stating that whosoever directly or indirectly attempts to indulge or knowingly assists or is a party or is actually involved in any process or activity connected with the proceeds of crime, including its concealment, possession, acquisition, or use, and projecting or claiming it as untainted property, shall be guilty of the offense of money laundering. This definition is crucial as it forms the basis for prosecution under the Act. The Act also provides for the

****attachment and confiscation of property involved in money laundering****, as outlined in Chapter III. This allows authorities to seize assets believed to be derived from or linked to criminal activities, even during the pendency of trial, and to eventually confiscate them upon conviction. Furthermore, the PMLA mandates various obligations for "reporting entities," which include banks, financial institutions, intermediaries, and designated non-financial businesses and professions (DNFBPs) . These obligations include ****maintaining records of all transactions for a period of ten years from the date of cessation of transactions with their clients, verifying the identity of clients (Know Your Customer - KYC norms), and reporting suspicious transactions (STRs) and cash transactions above a certain threshold (CTRs) to the Financial Intelligence Unit-India (FIU-IND)**** . The Act also contains provisions regarding the burden of proof, presumptions as to inter-connected transactions, and the powers of authorities to summon persons, produce documents, and conduct searches and seizures .

1.2. Predicate Offenses and Scope of the Act

The PMLA adopts a ****"list approach"** for predicate offenses******, meaning that money laundering is criminalized only if it involves proceeds from a specific list of scheduled offenses . The Schedule to the PMLA is divided into three parts: ****Part A, Part B, and Part C****. ****Part A**** lists a wide range of offenses under various statutes, including the Indian Penal Code (now largely replaced by the Bharatiya Nyaya Sanhita, BNS), the Narcotic Drugs and Psychotropic Substances Act, the Unlawful Activities (Prevention) Act, and the Prevention of Corruption Act, among others . These offenses cover a broad spectrum of criminal activities, from terrorism and drug trafficking to corruption and financial fraud. ****Part B**** of the Schedule deals with offenses under Section 132 of the Customs Act, 1962 (false declarations, use of false documents), which are considered predicate offenses only if the total value involved is ****INR 10 million (approximately EUR 112,000) or more**** . This monetary threshold for customs offenses has been a point of discussion. ****Part C**** of the Schedule captures cross-border elements of offenses, extending the PMLA's reach to international dimensions of money laundering . This includes offenses specified in Part A, offenses against property under Chapter XVII of the Indian Penal Code (now BNS), and willful attempt to evade tax under the Black Money Act, 2015. Crucially, Part C also recognizes foreign crimes as predicate offenses if the criminal conduct outside India constitutes an offense in that jurisdiction and corresponds to a scheduled offense under the PMLA, and if proceeds are transferred to India, or if a scheduled offense in India generates proceeds transferred abroad .

The scope of the PMLA is extensive, covering a wide array of financial transactions and activities. It applies to individuals, companies, and other legal persons involved in money laundering. The definition of ****"proceeds of crime"** is broad******, encompassing any property derived or obtained, directly or indirectly, by any person as a result of criminal activity relating to a scheduled offense; this includes the value of any such property . The Act also covers attempts, abetment, and conspiracy to commit money laundering. While the PMLA's scope is wide, its 2010 Mutual Evaluation Report (MER) by the Financial Action Task Force (FATF) highlighted some deficiencies, such as a high monetary threshold for most ML predicates and the ML provision not covering the physical concealment of criminal proceeds or the sole knowing acquisition, possession, and use of criminal proceeds . Although India has made amendments to address some of these, the effectiveness of these changes and the overall scope in practice remain subjects of ongoing evaluation. The FATF's

2024 MER noted that India meets most criteria for predicate offenses, with minor deficiencies related to the coverage of trafficking in human beings and migrant smuggling, and the monetary threshold for customs offenses . The establishment of proceeds of crime and the commission of a predicate offense are ****prerequisites for prosecuting an individual for money laundering**** under the PMLA .

1.3. Enforcement Mechanisms and the Role of the Enforcement Directorate (ED)

The primary agency responsible for enforcing the PMLA is the ****Enforcement Directorate (ED)****, which operates under the Department of Revenue, Ministry of Finance . The ED is vested with ****extensive powers to investigate, search, seize, and arrest individuals suspected of money laundering**** . It can initiate investigations based on First Information Reports (FIRs) filed by other law enforcement agencies for scheduled offenses, or upon receiving intelligence from FIU-IND. The ED has the authority to summon persons, compel the production of documents, and record statements, which are admissible as evidence in court . A significant power granted to the ED is the ability to ****provisionally attach property suspected to be proceeds of crime under Section 5 of the PMLA****, even before a chargesheet is filed, for a period of up to 180 days, extendable by the Adjudicating Authority . This power is intended to prevent the accused from disposing of or concealing illicit assets during the investigation. To establish a criminal violation of the money laundering laws, the government, through the ED, must prove the existence of "proceeds of crime," the accused's participation in processes or activities connected with these proceeds (concealment, possession, acquisition, use, or projection as untainted property), the commission of a predicate offense, and the "knowledge" on the part of the accused regarding the illicit nature of the proceeds and their participation .

The ED's role extends to conducting investigations, initiating prosecution, and ensuring the confiscation of proceeds of crime. Once an investigation is complete, the ED files a prosecution complaint (equivalent to a chargesheet) before the Special Court designated under the PMLA. The ****Adjudicating Authority****, a separate body, decides on the confirmation of attachment and confiscation of property. While the ED's powers are crucial for effective enforcement, they have also been a subject of criticism and legal challenge. Concerns have been raised about the ****potential for misuse of these broad powers, lack of adequate checks and balances, and the impact on individual rights**** . The reversal of the burden of proof under Section 24, where the accused must prove the legitimacy of their assets, and stringent bail conditions under Section 45, have also been contentious . Furthermore, allegations of ****selective enforcement, particularly in high-profile cases involving political figures and businesspersons****, have prompted calls for greater transparency and judicial oversight in the ED's functioning . The Supreme Court of India has also examined alleged misuses of the PMLA, focusing on transparency, due process, and the impact of ED's actions on individual liberties .

1.4. Critical Analysis of PMLA's Implementation and Effectiveness

The implementation and effectiveness of the Prevention of Money Laundering Act (PMLA), 2002, have been subjects of considerable scholarly debate and critical analysis. While the PMLA provides a robust legal framework, its practical application faces several challenges. One major criticism revolves around the **perceived gap between the law as written and its actual enforcement on the ground**. Despite the extensive powers granted to the Enforcement Directorate (ED), there are concerns about the **low conviction rates and the lengthy judicial processes**, which hinder swift justice and the deterrent effect of the legislation. The FATF's 2024 Mutual Evaluation Report (MER) for India, while acknowledging improvements, also points to areas needing further strengthening, such as the understanding and implementation of Targeted Financial Sanctions (TFS) obligations and the detection of suspicious transactions, particularly by Designated Non-Financial Businesses and Professions (DNFBPs). The report also highlighted that while India has initiated a large number of ML investigations, **achieving convictions remains a challenge**. The socio-economic impact of money laundering in India is far-reaching, affecting sectors such as real estate, gold trading, and banking, underscoring the need for effective AML measures.

Scholarly articles have pointed to several specific issues affecting the PMLA's effectiveness. These include procedural and constitutional challenges associated with the Act. For instance, the **broad discretionary powers granted to the ED**, such as the power to provisionally attach property without filing a charge sheet for up to 180 days, have been criticized for lacking appropriate checks and balances and potentially leading to abuse of power. The **reversal of the burden of proof under Section 24**, where the accused must prove the legitimacy of their assets, and the **stringent conditions for bail under Section 45**, have faced scrutiny for potentially violating principles of natural justice and the presumption of innocence. Furthermore, the **Enforcement Case Information Report (ECIR)**, which is the ED's internal document equivalent to an FIR, is often not shared with the accused, raising concerns about due process and transparency. Allegations of **political interference in the ED's functioning and selective targeting** of political opponents have also eroded public trust in the impartiality of the agency. The complexity of financial transactions, coupled with the rapid advancement of technology, further complicates investigations and enforcement efforts, often leaving enforcement agencies struggling to keep pace with sophisticated money laundering techniques. The Supreme Court of India has also examined various aspects of the PMLA, with judgments like *Vijay Madanlal Choudhary v. Union of India* (2022) upholding several contentious provisions, thereby significantly empowering the ED, but also sparking debate regarding the balance between prosecuting financial offenses and safeguarding fundamental rights.

2. The Regulatory Ecosystem: Roles of FIU-IND and RBI

2.1. Financial Intelligence Unit-India (FIU-IND): Mandate and Functions

The **Financial Intelligence Unit-India (FIU-IND)** is the **central national agency responsible for receiving, processing, analyzing, and disseminating information relating to suspected financial transactions** to enforcement agencies and foreign FIUs. Established in November 2004, FIU-IND operates under the Ministry of Finance and plays a crucial role in India's Anti-Money Laundering (AML) and Counter-Financing of Terrorism (CFT) framework. Its primary mandate is derived from

the Prevention of Money Laundering Act (PMLA), 2002, and its associated rules. FIU-IND acts as the **central repository for all Cash Transaction Reports (CTRs), Suspicious Transaction Reports (STRs), Counterfeit Currency Reports (CCRs), and Non-Profit Organization Transaction Reports (NTRs)** filed by reporting entities, which include banks, financial institutions, and DNFBPs. The unit is tasked with analyzing these reports to identify patterns of suspicious activity that may indicate money laundering or terrorist financing. FIU-IND operates as an independent body, reporting directly to the Economic Intelligence Council (EIC), chaired by the Union Finance Minister, ensuring high-level oversight.

FIU-IND's functions extend beyond mere data collection. It is responsible for conducting **in-depth analysis of financial intelligence to generate actionable information** for law enforcement agencies (LEAs) such as the Enforcement Directorate (ED), Central Bureau of Investigation (CBI), and intelligence agencies. This involves identifying links between individuals, entities, and transactions. FIU-IND also issues guidelines and advisories to reporting entities to improve reporting quality and highlight emerging typologies. Since 2013, FIU-IND has undertaken strategic analysis, and in August 2020, expanded this to identify themes for operational analyses, establishing a **Strategic Analysis Lab (SAL)** in 2021 staffed by data science experts. Between 2021 and the 2024 FATF MER, 76 strategic analysis studies were undertaken. FIU-IND plays a significant role in international cooperation by exchanging financial intelligence with FIUs of other countries and is a member of the Egmont Group. It also conducts outreach and training programs for reporting entities and assists regulatory authorities in training their staff. FIU-IND's compliance vertical reviews compliance by reporting entities and suggests policy interventions. Despite its crucial role, FIU-IND faces challenges such as keeping pace with technological advancements, managing data volume, and resource limitations.

2.2. Reserve Bank of India (RBI): Regulatory and Supervisory Role in AML/CFT

The **Reserve Bank of India (RBI)**, as the central bank and primary regulator of the financial sector, plays a **pivotal role in India's AML/CFT framework**. Its responsibilities encompass issuing comprehensive AML/CFT guidelines and regulations for the entities it supervises, including commercial banks, cooperative banks, non-banking financial companies (NBFCs), payment system operators, and authorized dealers in foreign exchange. These regulations are designed to ensure that regulated entities implement robust customer due diligence (CDD) procedures, including **Know Your Customer (KYC) norms, monitor transactions for suspicious activities, and maintain appropriate records**. The RBI's Master Directions on KYC/AML/CFT provide detailed instructions on risk assessment, customer identification, beneficial ownership identification, and reporting obligations. The FATF's 2024 MER noted that banks generally demonstrate a good understanding and implementation of preventive measures, though this is less developed for cooperative and rural banks. The RBI regularly updates these guidelines to address evolving risks and align with international standards.

The RBI's **supervisory role involves monitoring and ensuring compliance** by regulated entities with the PMLA and RBI's own AML/CFT directives through off-site surveillance and on-site

inspections . During these examinations, the RBI assesses the adequacy of an institution's AML/CFT policies, procedures, and internal controls. The FATF 2024 report highlighted that while the RBI has, on selected occasions, imposed business restrictions that "appear dissuasive" (such as prohibiting new customer onboarding or withdrawing licenses for money or value transfer services), there are concerns that **monetary penalties, when imposed, are generally not proportionate or dissuasive, especially for larger firms** . The report also pointed out that RBI's enforcement department's decision on the significance of fines appears to be driven by the materiality of failure relative to the institution's size, rather than a refined consideration of its potential impact . The RBI is also tasked with enhancing financial literacy and awareness regarding AML/CFT risks within the financial sector . It collaborates with FIU-IND and other agencies to share information and strengthen the overall AML/CFT regime. The RBI's focus extends to new and evolving areas within the financial landscape, such as fintech and digital lending, where it has issued guidelines emphasizing KYC/AML compliance .

2.3. Coordination and Collaboration between FIU-IND and RBI

Effective coordination and collaboration between the **Financial Intelligence Unit-India (FIU-IND)** and the **Reserve Bank of India (RBI)** are crucial for a robust Anti-Money Laundering (AML) and Counter-Financing of Terrorism (CFT) framework in India. Recognizing this, the two institutions formalized their commitment to enhanced cooperation through a **Memorandum of Understanding (MoU) signed on April 17, 2025** . This MoU aims to foster seamless synergy between the RBI, as the country's banking regulator, and FIU-IND, the central agency for receiving, processing, and disseminating financial intelligence . The agreement establishes a framework for regular communication, information sharing, and joint initiatives to strengthen the implementation of the Prevention of Money Laundering Act (PMLA) and its associated regulations. A key aspect of the MoU is the mutual commitment to **share pertinent intelligence and data from their respective repositories** , which is expected to empower both institutions to proactively identify and disrupt illicit financial flows .

The MoU outlines several areas of cooperation, including the **designation of nodal officers by both FIU-IND and RBI** to ensure consistent communication and operational efficiency . It also aims to streamline the reporting and analysis of suspicious transactions and establish clear procedures for how regulated entities report to FIU-IND under PMLA rules, thereby enhancing compliance and transparency . Furthermore, the RBI and FIU-IND will **jointly conduct outreach and training programs** for regulated entities to upgrade their AML/CFT skills and ensure vigilance against evolving threats . The agreement also provides for **joint assessments of money laundering and terror financing risks** within various financial sub-sectors and the identification of red flag indicators for suspicious transactions . To maintain momentum and ensure effective implementation, the MoU mandates **quarterly meetings between the two agencies** to review progress, address emerging challenges, and exchange insights . This collaborative effort aligns with international standards and is anticipated to significantly bolster the resilience and integrity of India's financial system . Prior to this MoU, FIU-IND already had a close relationship with financial sector regulators like the RBI, holding regular meetings to discuss matters of common interest and ensure that regulatory guidelines addressed FIU-IND's concerns . The FATF's 2024 MER also noted

that FIU-IND has institutionalized bi-monthly meetings with LEAs and quarterly meetings with sectoral regulators, including RBI, focusing on better coordination .

2.4. FATF Evaluation of India's Regulatory Framework (2024)

The **Financial Action Task Force (FATF)** conducted a Mutual Evaluation of India's Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) measures, with an onsite inspection in November 2023 and the report adopted in June 2024 and published in September 2024 . The assessment concluded that **India has achieved a high level of technical compliance** with the FATF Recommendations, being rated as **'compliant' or 'largely compliant'** with 37 out of the 40 FATF Recommendations . India was placed in the **'regular follow-up' category**, a distinction shared by only a few other G20 countries, indicating a robust AML/CFT framework . This rating signifies that India has demonstrated a strong understanding of ML/TF risks, effective use of financial intelligence, and successful international cooperation . The FATF specifically recognized India's efforts in mitigating risks from corruption, fraud, and organized crime, as well as the transition to a digital economy to reduce ML/TF risks through initiatives like the JAM (Jan Dhan, Aadhaar, Mobile) Trinity .

Despite these achievements, the FATF report also highlighted several areas requiring improvement. India was found to have only a **'moderate' level of effectiveness** in AML/CFT supervision (Immediate Outcome 3), ML/TF preventative measures and financial sanctions implementation (IO.4 & IO.10), and ML/TF investigation and prosecution (IO.7 & IO.9) . Partial compliance was noted concerning **non-profit organizations (Recommendation 8)**, politically exposed persons (Recommendation 12), and the regulation and supervision of designated non-financial businesses and professions (DNFBPs) (Recommendation 28) . The FATF called for India to **strengthen prosecution in ML and TF cases**, better protect the non-profit sector from terrorist abuse, and enhance the supervision and implementation of preventive measures . A significant concern raised was the need for **greater use of proportionate and dissuasive monetary penalties** against financial institutions with AML/CFT deficiencies, as current penalties were often deemed insufficient, particularly for larger firms . The report noted that supervisors, including the Reserve Bank of India (RBI), primarily addressed breaches with "educative measures," though the RBI had, on occasion, imposed dissuasive business restrictions . The FATF also urged India to improve its framework for implementing Targeted Financial Sanctions (TFS) and enhance the capacity of all DNFBP supervisors .

3. Comparative Analysis: India's AML Framework and International Standards

3.1. Comparison with the United States AML Framework (FinCEN, Federal Reserve)

India's Anti-Money Laundering (AML) framework, primarily anchored by the Prevention of Money Laundering Act (PMLA), 2002, shares common objectives with the United States' AML regime, notably the combating of illicit financial flows and the safeguarding of financial system integrity.

However, distinct differences emerge in their legislative approaches, enforcement mechanisms, and the specific roles of their respective Financial Intelligence Units (FIUs) and central banking regulators. The **US AML framework is largely built upon the Bank Secrecy Act (BSA) of 1970**, which, as amended, forms the cornerstone of its efforts, imposing requirements such as customer identification programs, suspicious activity reporting (SARs), and currency transaction reporting (CTRs) on financial institutions. In contrast, India's PMLA, enacted later, draws from international standards and evolving global practices, but its operationalization and the specific nature of its reporting obligations, such as Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) in the Indian context, reflect its unique socio-economic and legal landscape. A key distinction lies in the approach to reporting: while the US system mandates both SARs and CTRs, some comparative analyses have suggested reforms like eliminating CTR requirements and focusing solely on STRs, drawing parallels to what might be considered international best practices.

The enforcement architecture also presents notable differences. In the US, the **Financial Crimes Enforcement Network (FinCEN)**, a bureau of the Department of the Treasury, serves as the national FIU, collecting and analyzing financial transaction data to combat money laundering and other financial crimes. FinCEN's role is complemented by various federal banking agencies, including the **Federal Reserve**, which supervise financial institutions for BSA compliance. India's FIU-IND performs a similar core function, but the broader enforcement landscape involves the Enforcement Directorate (ED) as the primary investigative agency for PMLA offenses, alongside regulatory bodies like the Reserve Bank of India (RBI) for the banking sector. The US system features a more decentralized enforcement model with multiple agencies, including the Department of Justice (DOJ) and Homeland Security Investigations (HSI), playing significant roles. The US framework also includes specific provisions like the **USA PATRIOT Act**, which significantly expanded the tools available for AML efforts, including enhanced due diligence and information sharing provisions. While both nations strive for robust AML regimes, the specific legal instruments, institutional setups, and operational emphases reflect their distinct legal traditions and risk environments. For instance, the US system has a long history of plea bargaining and settlement agreements in financial crime cases, whereas such mechanisms are not recognized for PMLA offenses in India, which are considered to affect the socio-economic condition of the country.

3.2. Comparison with the United Kingdom AML Framework (NCA, FCA, Home Office)

Comparing India's AML framework with that of the United Kingdom reveals distinct institutional structures and legislative approaches, though both aim to combat money laundering and terrorist financing in line with international standards. The **UK's primary AML legislation includes the Proceeds of Crime Act 2002 (POCA)** and the **Money Laundering Regulations (MLRs)**, which have undergone several updates, with the 2017 regulations being a significant iteration. POCA, similar to India's PMLA, criminalizes money laundering and provides for the confiscation of criminal assets. The UK's institutional framework involves several key bodies: the **National Crime Agency (NCA)**, which houses the UK Financial Intelligence Unit (UKFIU) and leads the UK's fight against serious and organized crime; the **Financial Conduct Authority (FCA)**, which is the conduct regulator for financial firms and ensures their compliance with AML/CFT requirements; and the **Home Office**, responsible for overall security and crime policy, including the AML/CFT legal

framework . This multi-agency approach, while complex, aims to provide comprehensive coverage. The UKFIU, part of the NCA, receives, analyzes, and disseminates suspicious activity reports (SARs) from the regulated sector, a function comparable to that of India's FIU-IND .

A significant feature of the UK's AML regime is the **"consent regime"** under POCA²², where reporting entities must obtain consent from the NCA before proceeding with a transaction they suspect involves criminal property. Failure to do so can lead to criminal liability. This is a more prescriptive approach compared to India. The UK's Money Laundering Regulations impose detailed obligations on regulated entities, including customer due diligence (CDD), ongoing monitoring, and record-keeping, which are broadly similar to the requirements under India's PMLA. However, the **UK's FCA is known for its proactive and often assertive supervisory approach²³**, conducting thematic reviews and imposing significant fines for AML failures. The Joint Money Laundering Steering Group (JMLSG) in the UK issues guidance notes that are widely followed by the financial sector . While India has similar guidance, the level of detail and expectation of adherence in the UK's JMLSG guidance is noteworthy. A comparative study by Sharma (2024) notes that while India's AML regime has made considerable progress, it may lack the rigor seen in some developed economies like the UK, particularly concerning enforcement and the practical implementation of risk-based supervision . The UK's 2022 FATF Mutual Evaluation Report highlighted areas of strength but also pointed to challenges, such as the effectiveness of supervision in certain non-financial sectors .

3.3. Alignment with FATF Recommendations and International Best Practices

India's Anti-Money Laundering (AML) and Counter-Terrorist Financing (CTF) framework, primarily anchored by the Prevention of Money Laundering Act (PMLA), 2002, has undergone significant scrutiny to assess its alignment with international standards, particularly those set by the Financial Action Task Force (FATF). The FATF's mutual evaluation reports provide a comprehensive benchmark for this comparison. The **FATF's 2024 Mutual Evaluation Report (MER) on India²⁴** offers a current assessment, concluding that India has achieved a **high level of technical compliance with the FATF Recommendations, being "compliant" or "largely compliant" with 37 out of 40 Recommendations²⁵** . India was not found "non-compliant" with any recommendations, a significant improvement, placing it in the "regular follow-up" category, a status shared with only three other G20 countries . The 2024 MER acknowledges that India has implemented an AML/CFT system achieving "good results" in areas like risk understanding, national coordination, use of financial intelligence, asset confiscation, and international cooperation . This indicates a strong formal alignment with FATF's prescriptive requirements and efforts towards effective implementation.

However, the FATF 2024 MER also identifies key areas where India's AML/CFT system requires major improvements to enhance its effectiveness. While India achieved a "substantial" level of effectiveness in six areas, it was rated only **"moderate"** in AML/CFT supervision (IO.3), ML/TF preventative measures and financial sanctions implementation (IO.4 & IO.10), and ML/TF investigation and prosecution (IO.7 & IO.9)²⁶ . A critical area highlighted is the **need to increase prosecutions and convictions in ML and TF cases and address delays in trials²⁷** . The FATF specifically recommends that India focus on concluding prosecutions and ensuring that terrorist financiers are

convicted and appropriately sanctioned . Other areas needing attention include improving customer risk-profiling by financial institutions, enhancing oversight of ownership information by the Ministry of Corporate Affairs (MCA) Registry, and strengthening the framework for freezing funds and assets related to targeted financial sanctions . The FATF also pointed out the need for better safeguards in the non-profit sector against terrorist financing abuse and a clearer definition and risk-based measures for domestic Politically Exposed Persons (PEPs) . An earlier IMF report (2011) also highlighted technical shortcomings, many of which have seen progress, but the continued focus on DNFBPs and STR quality indicates ongoing challenges . The evolution from the 2010 FATF evaluation to the 2024 status demonstrates significant progress, yet the journey towards full effectiveness is ongoing .

4. Challenges and Critiques in India's AML Regime

4.1. Implementation Gaps and Enforcement Challenges

India's Anti-Money Laundering (AML) regime, despite a comprehensive legal framework centered around the Prevention of Money Laundering Act (PMLA), 2002, faces **significant implementation gaps and enforcement challenges**. Scholarly research and reports from international bodies like the FATF consistently point to a disconnect between the law on paper and its practical application on the ground . One of the primary challenges is the **capacity and effectiveness of enforcement agencies, particularly the Enforcement Directorate (ED)**. While the ED is vested with extensive powers, concerns have been raised about the **low conviction rates in money laundering cases, lengthy judicial processes, and the sheer volume of cases**, which can overwhelm investigative resources . The FATF's 2024 Mutual Evaluation Report (MER) noted that while India has initiated a large number of ML investigations, achieving convictions remains a challenge . This suggests systemic issues in investigation, prosecution, or judicial processes that need to be addressed. Interviews with enforcement officers have revealed that **political interference, a chronic lack of adequate resources, and the increasing complexity of financial transactions** often hinder thorough investigations .

Another significant implementation gap lies in the **compliance by various reporting entities**. The FATF 2024 MER highlighted that while commercial banks generally demonstrate good understanding and implementation of preventive measures, this is **less developed for cooperative and rural banks, and for some Other Financial Institutions (OFIs)** . Furthermore, **Designated Non-Financial Businesses and Professions (DNFBPs)**, such as accountants, company secretaries, and real estate agents, who became reporting entities more recently, have **yet to detect suspicious transactions and file Suspicious Transaction Reports (STRs) in a significant way**, despite the identified risks in these sectors . This indicates a need for more effective supervision, outreach, and capacity building for these entities. The FATF report also pointed to the **inadequate understanding and implementation of Targeted Financial Sanctions (TFS) obligations** without delay as an area for improvement . Moreover, the general awareness and training among bank employees regarding AML threats and procedures have been found to be limited in some studies, which directly impacts the effectiveness of frontline defense against money laundering . The lack of adequate feedback

from FIU-IND to banks on the STRs they file also makes it difficult for them to improve their detection and reporting mechanisms .

4.2. Regulatory Overlaps and Compliance Burdens

A significant challenge within India's Anti-Money Laundering (AML) framework is the presence of ****regulatory overlaps and the consequent compliance burdens**** placed on reporting entities, particularly financial institutions. The Prevention of Money Laundering Act (PMLA), 2002, serves as the primary legislation, but its implementation involves multiple regulatory bodies, including the ****Reserve Bank of India (RBI), the Securities and Exchange Board of India (SEBI), the Insurance Regulatory and Development Authority of India (IRDAI), and the Financial Intelligence Unit-India (FIU-IND)**** . Each of these regulators may issue its own set of guidelines, circulars, and master directions related to AML/CFT (Combating the Financing of Terrorism) compliance. While these regulations aim to cover different sectors of the financial industry, the ****lack of perfect harmonization can lead to situations where reporting entities, especially those operating in multiple sectors or offering diverse financial products, face conflicting or duplicative requirements**** . This can create confusion, increase the complexity of compliance programs, and lead to inefficiencies in resource allocation for regulated entities.

The compliance burdens are particularly acute for ****smaller financial institutions and emerging fintech companies**** , which may lack the extensive resources and specialized compliance teams that larger, established banks possess . The PMLA and associated rules impose stringent obligations on reporting entities, including robust Know Your Customer (KYC) norms, Customer Due Diligence (CDD), Enhanced Due Diligence (EDD) for high-risk customers, ongoing transaction monitoring, and the timely reporting of suspicious transactions (STRs) and cash transactions (CTRs) to the FIU-IND . Failure to comply with these obligations can result in ****severe penalties, including hefty fines, imprisonment for responsible officers, business restrictions, and even revocation of licenses**** . The high operational costs associated with setting up and maintaining dedicated compliance teams, investing in sophisticated transaction monitoring systems, and ensuring continuous staff training add to the compliance burden . While the recent MoU between FIU-IND and RBI aims to foster better coordination and streamline reporting procedures , addressing the broader issue of regulatory overlaps and reducing unnecessary compliance burdens across the entire financial sector remains an ongoing challenge that requires continuous dialogue and cooperation among all stakeholders.

4.3. Judicial Delays and Legal Hurdles

****Judicial delays and legal hurdles present a significant challenge**** to the effective enforcement of India's Anti-Money Laundering (AML) framework, primarily embodied in the Prevention of Money Laundering Act (PMLA), 2002. One of the most critical issues is the ****substantial backlog of cases in Indian courts**** , which leads to prolonged trials and delays in the dispensation of justice. This backlog affects all types of cases, including those related to money laundering and predicate offenses. The FATF's 2024 Mutual Evaluation Report specifically highlighted the ****need for India to**

address the backlog of money laundering cases pending conclusion of court processes** and to focus on concluding prosecutions to convict and appropriately sanction offenders . Such delays can undermine the deterrent effect of the PMLA, as timely investigation, prosecution, and conviction are crucial for demonstrating the consequences of financial crimes. Furthermore, prolonged legal battles can be financially and emotionally draining for all parties involved, including accused individuals who may be incarcerated for extended periods during trial, especially given the stringent bail provisions under the PMLA .

Legal hurdles also arise from the **complexities inherent in the PMLA and its interpretation**. The Act's provisions, such as the **broad definition of "proceeds of crime," the reverse burden of proof (Section 24), and the stringent bail conditions (Section 45)** , have been subject to numerous legal challenges and judicial reviews . While the Supreme Court of India has upheld the constitutional validity of many of these provisions, their application in specific cases often leads to protracted litigation on procedural and substantive grounds. The admissibility of statements made by the accused during investigation as evidence during trial, and the non-communication of grounds of arrest in certain instances, have also been contentious legal issues . The evolving nature of financial crimes, particularly with the advent of digital technologies and cryptocurrencies, further complicates legal proceedings, as existing laws may not always be adequately equipped to address novel modus operandi. Ensuring that the legal framework remains adaptive and that the judiciary is equipped with the necessary expertise and resources to handle complex financial crime cases is essential for overcoming these hurdles. Streamlining legal procedures, expediting trials in PMLA cases, and ensuring clarity in legal provisions can contribute significantly to enhancing the effectiveness of India's AML regime.

4.4. Emerging Challenges: Digital Banking, Cryptocurrencies, and Fintech

The rapid evolution of the financial landscape, driven by the proliferation of **digital banking, cryptocurrencies, and fintech innovations, presents a new frontier of challenges** for India's Anti-Money Laundering (AML) framework. These technologies, while offering numerous benefits such as increased financial inclusion and efficiency, also create **novel avenues for money launderers and terrorist financiers to exploit**. Digital banking and payment platforms can facilitate rapid and often cross-border movement of funds, making it more difficult for traditional monitoring systems to detect suspicious patterns in real-time. The **anonymity or pseudonymity associated with certain cryptocurrencies and decentralized finance (DeFi) platforms poses a significant challenge** for AML/CFT (Combating the Financing of Terrorism) compliance, as it can obscure the origin and destination of illicit funds . Fintech companies, including digital lenders and payment aggregators, may also be targeted by criminals seeking to launder money through complex transaction structures or by taking advantage of potential vulnerabilities in their relatively new and evolving compliance systems .

The Indian regulatory authorities, including the Reserve Bank of India (RBI) and the Financial Intelligence Unit-India (FIU-IND), have recognized these emerging threats and have begun to adapt the regulatory landscape. For instance, the government has taken steps to **subject Virtual Digital

Asset Service Providers (VASPs) to AML/CFT obligations**, a move influenced by FIU-IND's strategic analysis of risks in this sector . However, the pace of technological innovation often outstrips the development and implementation of regulatory responses. Ensuring that reporting entities, particularly those in the fintech and crypto space, have **robust KYC (Know Your Customer), CDD (Customer Due Diligence), and transaction monitoring systems** in place is crucial . The FATF has also highlighted the need for countries to understand and mitigate the ML/TF risks associated with virtual assets and VASPs. Enforcement actions, such as the **RBI barring Paytm from onboarding new customers due to KYC and AML compliance failures**, and scrutiny of crypto exchanges by the Enforcement Directorate for inadequate transaction monitoring, underscore the regulatory focus on these areas . Addressing these emerging challenges requires continuous monitoring of technological developments, regular updates to AML/CFT guidelines, enhanced capacity building for both regulators and regulated entities, and fostering greater public-private partnerships to share intelligence and best practices .

5. Future Directions and Recommendations for Strengthening India's AML Framework

5.1. Addressing Identified Weaknesses and Enhancing Effectiveness

To bolster India's Anti-Money Laundering (AML) framework, **a primary focus must be on addressing the identified weaknesses and enhancing the overall effectiveness of its implementation**. This involves a multi-pronged approach targeting legislative, enforcement, and judicial aspects. Based on critiques and evaluations, such as the FATF's 2024 Mutual Evaluation Report, key areas requiring immediate attention include **improving the conviction rates in money laundering cases and expediting judicial processes**. This necessitates strengthening the capacity of investigative agencies like the Enforcement Directorate (ED) with adequate resources, specialized training in complex financial investigations, and protection from undue political interference . Furthermore, there is a need to **clarify ambiguous provisions within the PMLA**, such as the broad definition of "proceeds of crime" and the stringent bail conditions, to prevent potential misuse and ensure a balance between effective enforcement and protection of individual rights . Enhancing the understanding and implementation of AML/CFT obligations by all reporting entities, particularly Designated Non-Financial Businesses and Professions (DNFBPs) and smaller financial institutions, through targeted outreach, training, and robust supervision is crucial . The **FATF's recommendations regarding the application of proportionate and dissuasive sanctions** for non-compliance should be rigorously implemented to create a stronger deterrent effect .

5.2. Improving Inter-Agency Coordination and Information Sharing

Enhanced inter-agency coordination and seamless information sharing are paramount for a more effective AML/CFT regime in India. While mechanisms like the recent MoU between FIU-IND and RBI are positive steps , these collaborative efforts need to be deepened and extended across all relevant agencies, including other financial sector regulators (SEBI, IRDAI), law enforcement agencies (ED, CBI, state police), and intelligence bodies. Establishing **centralized platforms or task forces for

real-time intelligence sharing and joint investigations** can help in tackling complex, multi-jurisdictional money laundering schemes more effectively. The FATF's 2024 MER noted that while India has proactive information exchange, the sheer number of authorities necessitates robust coordinating structures . Therefore, streamlining communication channels, defining clear protocols for information exchange, and conducting regular joint training exercises can bridge existing gaps. Furthermore, **improving the feedback loop from FIU-IND to reporting entities** on the utility of filed STRs can help banks and other entities refine their detection mechanisms and improve the quality of reporting . Encouraging a culture of collaboration rather than siloed operations among agencies will be key to developing a more cohesive and intelligence-driven national response to money laundering and terrorist financing.

5.3. Leveraging Technology and Building Capacity

The fight against money laundering is increasingly becoming a technological battle, and **India's AML framework must continuously adapt by leveraging advanced technologies and building specialized capacity** . This involves investing in sophisticated data analytics, artificial intelligence (AI), and machine learning (ML) tools for FIU-IND and other enforcement agencies to better detect suspicious patterns, identify complex money laundering networks, and analyze vast amounts of financial data more efficiently . Reporting entities, especially in the fintech and cryptocurrency sectors, should be encouraged and supported in adopting **regtech and supotech solutions** to enhance their transaction monitoring, customer due diligence, and risk assessment capabilities . Building human capacity is equally important. This includes **providing specialized training to investigators, prosecutors, and judicial officers** on handling complex financial crimes, understanding new money laundering typologies (especially those involving digital assets), and effectively using technological tools. Continuous professional development programs and international collaborations for knowledge sharing can help keep Indian agencies abreast of global best practices and emerging threats. FIU-IND's Strategic Analysis Lab (SAL) is a step in this direction, but its capabilities and reach need to be expanded .

5.4. Aligning with Evolving International Standards and Global Cooperation

India's commitment to aligning its AML framework with **evolving international standards, particularly the Financial Action Task Force (FATF) Recommendations, must remain unwavering** . This requires a proactive approach to legislative and regulatory reforms, ensuring that domestic laws and practices are consistently updated to reflect changes in global AML/CFT norms. The **FATF's 2024 MER provides a clear roadmap for such enhancements** , focusing on areas like strengthening supervision, improving preventative measures, and ensuring effective prosecution and sanctions . India should actively participate in international forums and initiatives aimed at combating transnational financial crime. **Enhancing global cooperation in areas such as extradition, mutual legal assistance, and asset recovery** is crucial, especially given the cross-border nature of many money laundering schemes. This includes streamlining procedures for making and responding to international requests and fostering stronger bilateral and multilateral relationships with counterpart agencies in other countries. Furthermore, India should contribute to the development

of international best practices, particularly in addressing new challenges posed by virtual assets and the misuse of emerging technologies, ensuring that its voice is heard in shaping the global AML/CFT agenda.