



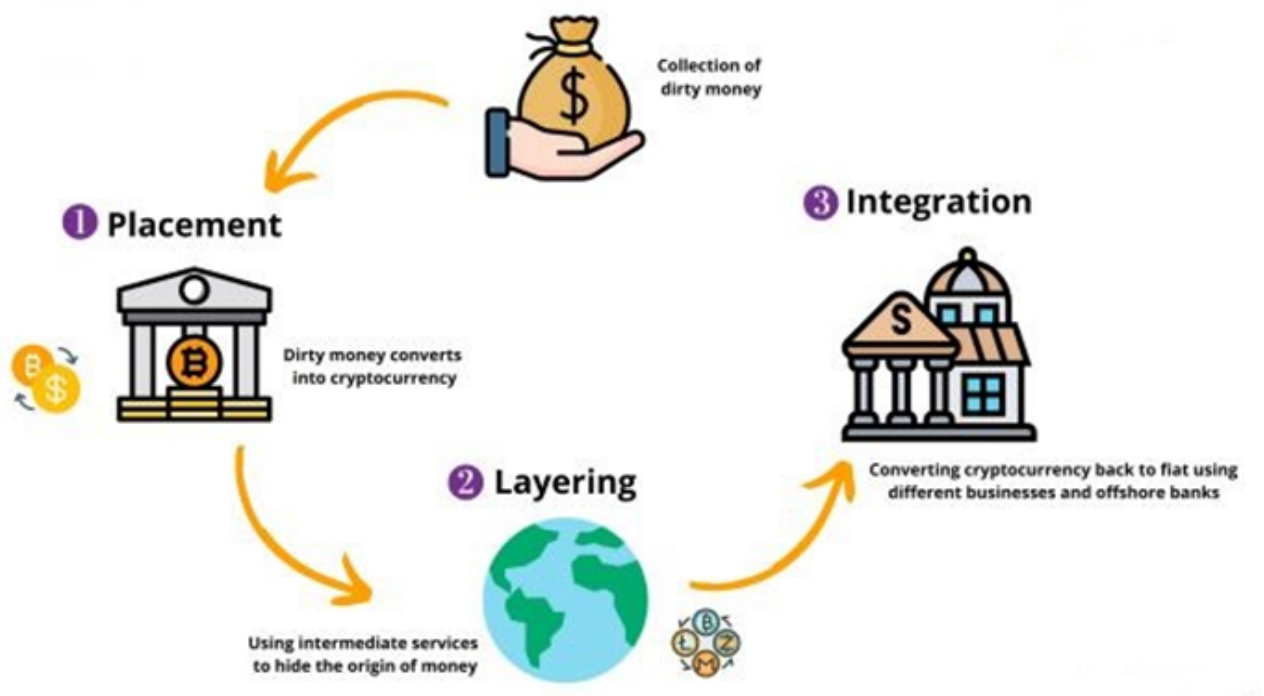
KAMARAJ IAS ACADEMY
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MONEY LAUNDERING

Published On: 06-08-2025

What is Money Laundering?

Money laundering is the process of hiding the source of money obtained from illegal sources and converting it to a clean source, for the purpose of avoiding prosecution, conviction, and confiscation of the criminal funds.



Impacts of money laundering:

security impacts of money laundering

IFunding Terrorism and Organized Crime

Money laundering allows criminal and terrorist organizations to finance their operations, posing direct threats to national and international security.

Example: The 26/11 Mumbai terrorist attacks were financed through laundered funds using hawala networks.

IEnabling Espionage and Cybercrime

Laundered funds can be redirected to sponsor espionage activities and sophisticated cybercrimes, compromising national security infrastructure.

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Example: Reports indicate that laundered money has financed cybercriminal enterprises and smuggling of sensitive information, making it harder for authorities to trace and shut down these operations

Economic impacts:

Reduces Tax Revenues: By hiding illegal income, money laundering directly lowers government tax collections.

Undermines Financial Sector Integrity: Illicit money damages the credibility and functioning of legitimate banks and financial institutions in India, which has prompted regulatory crackdowns and affected investor confidence.

Distorts Markets & Investment: Money laundering introduces large sums of “black money” into the economy, distorting asset prices (like real estate), deterring genuine investors, and creating financial instability.

Social impacts:

Erosion of Public Trust: When dirty money filters into the financial system, people lose faith in banks and public institutions, seeing them as unsafe or complicit.

Example: The Punjab National Bank fraud (Nirav Modi, Mehul Choksi) led to massive loss of trust in Indian banking.

Widening Social Inequality: Illicit wealth disproportionately benefits criminals and their networks, increasing the gap between rich and poor, and stalling social mobility.

Steps taken for tackling money laundering in India:

Legal Framework through PMLA and Amendments:

The Prevention of Money Laundering Act, 2002 criminalizes money laundering and empowers authorities to confiscate assets derived from illegal activities.

Involvement of Specialized Agencies:

Enforcement Directorate (ED): Investigates and prosecutes money laundering offenses under PMLA.

Financial Intelligence Unit – India (FIU-IND): Analyzes suspicious transaction reports and financial data to aid enforcement.

Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India (IRDAI): These regulators set AML guidelines and enforce compliance in their respective sectors

International Cooperation

Vienna Convention, 1988: The United Nations Convention against Illicit Traffic in Narcotic Drugs and Psychotropic Substances provides a framework for international cooperation in combating drug-related crimes, including money laundering.

The 1990 Council of Europe Convention: The Council of Europe Convention on Laundering, Search, Seizure, and Confiscation of the Proceeds from Crime promotes international cooperation to combat money laundering and recover proceeds from criminal activities.

Financial Action Task Force (FATF): The FATF is an intergovernmental organization that sets global standards and promotes the implementation of effective measures to combat money laundering, terrorist financing, and

proliferation financing.

Egmont Group: The Egmont Group is a network of financial intelligence units (FIUs) that facilitates the exchange of financial intelligence and enhances cooperation among FIUs worldwide to combat money laundering and terrorist financing.

Challenges in tackling money laundering:

²Low Conviction Rate

Despite frequent investigations, actual convictions under the Prevention of Money Laundering Act (PMLA) are rare, revealing gaps in prosecution and evidence gathering.

²Complex and Evolving Money Laundering Methods

Rapidly evolving technology, digital currencies, and sophisticated layering schemes make tracing illicit funds difficult.

Example: Use of cryptocurrencies and digital wallets in organized crime rings; hawala operations for funding.

²Judicial and Procedural Delays

Special PMLA courts face huge backlogs, which undermines swift justice and deterrent effect.

²Use of Shell Companies and Benami Accounts

Offenders set up layers of dummy companies and proxy accounts to obscure ownership and move black money.

Example: Use of shell entities in the DHFL and Patra Chawl scams to conceal true beneficiaries and sources of funds.

²Cash Dominance and Informal Sectors

Preference for cash transactions and a large informal economy make it easy for launderers to move illicit funds undetected.

Way forward:

vUsing AI and machine learning to detect complex laundering patterns and conduct real-time transaction monitoring with reduced false positives.

vEnhancing coordination between enforcement agencies via shared digital platforms for intelligence sharing.

vTightening regulations and oversight of cryptocurrencies and virtual assets.

vTraining and capacity building for officials in new investigative techniques and international compliance standards.

vJudicial reforms to fast-track cases and ensure accountability.

vEncouraging banks and financial institutions to perform thorough KYC and suspicious activity reporting, with the use of third-party utilities and analytics.

Conclusion:

Money laundering remains a significant global challenge that undermines financial systems, fuels organized crime, and hampers economic development. As criminals continue to find sophisticated ways to legitimize illicit funds, it is crucial for governments, financial institutions, and international bodies to strengthen regulatory frameworks, enhance transparency, and invest in advanced detection technologies. Combating money laundering is not just a legal necessity—it is essential for ensuring justice, security, and long-term financial stability.