

10. MONEY LAUNDERING AND ITS PREVENTION

INTRODUCTION:

- It is a way to converting illegally earned money in such a way that it appears as earned from a legitimate source; Intensity of money laundering can be seen from the fact that according to an IMF the amount of money laundered globally in one year is 2 - 5% of global GDP, or \$800 billion - \$2 trillion in current US dollars.

STAGES OR PROCESS OF MONEY LAUNDERING:

- Placement:** Introduction of Funds; Most vulnerable stage; Transfer to legal financial system
- Layering:** Structuring stage; Complex transaction; Use various techniques
- Integration:** Reintroduction into financial system; Use for buying Luxury; Difficult to recognise

VARIOUS TECHNIQUES USE FOR MONEY LAUNDERING:

- Hawala; Round tripping; Shell companies; Third party Cheques; Credit cards; P-Notes; Crypto-currency; Structural deposits; Cash intensive business; Casino; Salaries in Cash.

EFFECT AND IMPACT OF MONEY LAUNDERING:

- Economic Impact:** Liability of financial institutions; Effect on money Flow; Effect on growth rate; Effect on income distribution; Reduction in tax revenue; Loss of trust in policy; Volatile exchange rate; Lack of Ease of doing business; Flourishing organised crime; Inequality in competition
- Social Impact:** Unemployment and poverty; Increase inequality; Increase in anti-social activities; Lack of moral and ethical values; Human trafficking; Transfer of economic power
- Political Impact:** Diversification on government spending; Reduction in government trustworthiness; Instability in politics; Criminalisation of politics
- Security Impact:** Increase in organised crime; Terrorism and Naxalism; Cybercrimes.

CHALLENGES TO TACKLE MONEY LAUNDERING:

- International constraint; Emerging technology; Co-ordinated Money laundering; Compliance failure; Lack of awareness; Multiple agencies; Expanding volume of data; Financial confidentiality.

FRAMEWORK FOR PREVENTION OF MONEY LAUNDERING:

- Statutory Frameworks:** Prevention of Money laundering Act 2002; The Smugglers and Foreign Exchange Manipulators Act, 1976; Narcotic Drugs and Psychotropic Substances Act, 1985; The Conservation of Foreign Exchange and Prevention of Smuggling Activities Act, 1974; Foreign Exchange Management Act, 1999; Benami Transaction Prohibition Act, 1988.
- Institutional Framework:** Enforcement Directorate; Finance Intelligence Unit (FIU).
- International Cooperation:** Financial Action Task Force; Vienna Convention; The Council Of Europe Convention; Basel Committee On Banking Regulation; The International Organization Of Securities Commissions; United Nation Global Programme Against Money Laundering; International Money Laundering Information Network; Egmont Group Of Financial Intelligence Units.

FINANCIAL ACTION TASK FORCE (FATF) KEY RECOMMENDATION ON MONEY LAUNDERING:

- Assessing Risk and applying Risk based approach; National Cooperation and coordination; Criminalization of Money laundering; Confiscation and provisional measures; Criminalising Terrorist financing; Targeted Financial sanctions; Prohibit from anonymous account; Updates about New technology; Wire transfer; Monitoring High risk Countries; Reporting every suspicious transaction; Empowering law enforcement agencies; International cooperation.

TREATING MONEY LAUNDERING AS SEPARATE OFFENCE AND ITS SIGNIFICANCE:

- Avoid Multiplicity of investigation agencies; Facilitate quick action; Bring law at par with foreign laws; Empower Enforcement directorate.