Money Laundering in India: Economy

The Enforcement Directorate has handled 5,892 PMLA cases since 2015 but secured only 15 convictions, highlighting enforcement and judicial challenges in tackling money laundering. Money laundering remains a major economic, political, and security threat in India, requiring stronger regulation, technology use, and international cooperation.

Money Laundering in India – Status, Challenges, and Legal Framework

As per a report submitted in the Rajya Sabha, the Enforcement Directorate (ED) has taken up 5,892 cases under the Prevention of Money Laundering Act (PMLA) since 2015, but only 15 convictions have been secured. Highlights poor conviction rate and enforcement challenges in tackling financial crimes in India.

1.Money Laundering

Process of making illegally obtained money appear legitimate by passing it through complex financial transactions.

1.Section 3 of PMLA (2002)

Covers activities like concealing, possessing, acquiring, using proceeds of crime, and projecting them as untainted property.

2. Three Stages of Money Laundering

1. Placement: Introducing illicit money into the financial system (e.g., depositing cash into banks, buying assets).
2. Layering: Moving funds through a complex web of transactions to obscure origin (e.g., multiple bank transfers, offshore accounts).
3. Integration: Reintroducing the funds into the economy as legitimate assets or investments (e.g., real estate, business investments).

2. Consequences of Money Laundering

1.Economic Impact

Distorts asset prices and undermines fair market competition. Destabilizes financial institutions and markets. Case Example, PMC Bank Crisis (2019): Linked to fund misreporting and laundering, leading to depositor distress.

2. Political & Governance Impact

Illicit funds can influence elections, policy decisions, and weaken democratic institutions.

3. Security Impact

Closely linked with terror financing, drug trafficking, and cross-border criminal networks.

3. Issues in Tackling Money Laundering in India

1. Regulatory Loopholes

Shell companies, hawala networks, and real estate sector remain inadequately regulated. Cryptocurrency transactions create blind spots; as of 2025, India lacks a comprehensive crypto regulation framework.

2. Enforcement Challenges

Under-staffing in agencies like ED and FIU-IND. Allegations of selective action and political misuse (e.g., ED raids preceding state elections).

3. Judicial Delays

Conviction rate under PMLA is extremely low. Slow trial process reduces deterrence effect.

4. Cross-Border Complexity

Money laundering often involves transnational networks. Challenges in extradition, mutual legal assistance, and real-time information sharing. Panama Papers (2016) and Pandora Papers (2021) exposed Indian names with offshore holdings.

4. Role of Prevention of Money Laundering Act (PMLA), 2002

1.Objective

Criminal law aimed at preventing money laundering and confiscating property derived from such activity.

2. International Alignment

Complies with the UN Political Declaration and Global Programme of Action (1990).

3. Enforcement

Investigations, property attachment, prosecutions, and confiscations handled by ED through Special Courts.

4. Key Provision

Burden of proof lies with the accused, reversing the usual presumption of innocence.

5. Supreme Court's Observations

1. Vir Bhadra Singh vs ED (2017)

Issuance of an Enforcement Case Information Report (ECIR) is enough to start proceedings—no FIR required.

2. Vijay Madanlal Chaudhury vs Union of India (2022)

A scheduled offence is needed for prosecution under Section 3. However, property can be attached under Section 5 without a pre-registered case.

6. Conclusion

Money laundering is not just a financial offence but also a socio-political and security risk. Stronger laws and global cooperation agreements (around 85 Double Taxation Avoidance Agreements – DTAAs) Digital and global laundering channels evolving faster than enforcement.

1. Actionable Steps

1. Follow FATF guidelines with integrity to avoid political misuse.
2. Deploy AI/ML algorithms in banking to detect suspicious patterns.
3. Strengthen independence of ED & FIU; improve parliamentary oversight.
4. Enhance cooperation for cross-border investigations.

2. Interesting Facts

Origin of the term "Laundromat"

Coined from U.S. crime syndicates' practice of using laundromats as fronts for illicit cash flows. Represents financial setups—banks, firms—that can be exploited to launder proceeds, hide ownership, evade taxes, or move money offshore.

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