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Mains Practice Questions

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Q. How does globalization impact money laundering? Examine the recent policy efforts by the Government of India to tackle the problem. (250 words)

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Approach

- Start the answer by writing the link between money laundering and globalization.
- How globalization impacts money laundering.
- Examine the recent policy efforts taken by government.
- Give a way forward.

Introduction

- Money laundering is defined as the process that disguises illegal profits without compromising the criminals who wish to benefit from the proceeds.
- Money laundering has become a global problem as a result of the confluence of several remarkable changes in world markets (i.e., the globalization of markets). The growth in international trade, the expansion of the global financial system, the lowering of barriers to international travel, and the surge in the internalization of organized crime have combined to provide the source, opportunity, and means for converting illegal proceeds into what appears to be legitimate funds.

Body

Globalization impact money laundering: --

- Rapid developments in financial information, technology and communication allow money to move anywhere in the world with speed and ease. This makes the task of combating money-laundering more urgent than ever.
- The deeper "dirty money" gets into the international banking system, the more difficult it is to identify its origin. Because of the clandestine nature of money-laundering, it is difficult to estimate the total amount of money that goes through the laundry cycle.
- There have been a number of developments in the international financial system that have made the three F's-finding, freezing and forfeiting of criminally derived income and assets-all the more difficult.

The recent policy efforts by the Government of India to tackle the problem—

At global level:-

- **The Vienna Convention:** This convention laid down the groundwork for efforts to combat money laundering by obliging the member states to criminalize the laundering of money from drug trafficking. It promotes international cooperation in investigations and makes extradition between member states applicable to money laundering.

- **The financial action task force (FATF):** Indian is a full-fledged member of FATF. It will help India to build the capacity to fight terrorism and trace terrorist money and to successfully investigate and prosecute money laundering and terrorist financing offences.
- **Basel Committee's Statement of Principles:** It seeks to deny the banking system to those involved in money laundering by the application of the four basic principles namely, identifying the customer, compliance with the laws, cooperation with Law Enforcement Agencies and adherence to the Statement.

At national level:-

- **Prevention of Money-laundering Act, 2002** amended in 2005, 2009, 2012, and 2018: The Act and Rules impose obligation on banking companies, financial institutions, and intermediaries to verify identity of clients, maintain records and furnish information in prescribed form. It seeks to
 - Prevent and control money laundering
 - Confiscate and seize the property obtained from the laundered money; and
 - Deal with any other issue connected with money laundering in India.
- **Financial Intelligence Unit – India (FIU-IND):** FIU-IND is a central agency of a Government of India, that: receives financial information pursuant to country's anti-money laundering laws; analyses and processes such information; and disseminates the information to appropriate national and international authorities, to support anti-money laundering efforts.
- **The Black money (undisclosed foreign income and assets) and Imposition of Tax Act, 2015:** To deal with the menace of the black money existing in the form of undisclosed foreign income and assets by setting out the procedure for dealing with such income and assets.
- **Benami Transactions (Prohibition) Amendment Bill, 2015:** It aims to expand the definition of Benami Transactions and specifies the penalty to be imposed on a person entering into a Benami transaction.
- **Anti-money laundering/counter financing of terrorism (AML/CFT) – guidelines for general insurers, 2013:** Each insurance company has to establish and implement policies, procedures, and internal controls/audit in its AML/CFT program. Insurers are also required to maintain records of their transactions under these guidelines.

Way forward

- Make common people more aware about the problem- The poor and illiterate people, instead of going through lengthy paper work transactions in Banks, prefer the Hawala system which needs to be stopped.
- Fulfilling the purpose of KYC Norms by doing proper KYC.
- Establishment of comprehensive enforcement agencies
- Promote cashless digital transaction.