



Money Laundering Issue in India

For Prelims: [Supreme Court](#), [Money Laundering](#), [Prevention of Money Laundering Act, 2002](#), [Enforcement Directorate](#), [Enforcement Case Information Report](#)

For Mains: [Legal and Regulatory framework in India to combat Money Laundering](#), [Prevention of Money-Laundering Act \(PMLA\)](#), Supreme Court Judgement and its Implications

[Source: TH](#)

Why in News?

A report submitted by the **Finance Minister** in the **Rajya Sabha** reveals that the [Enforcement Directorate \(ED\)](#) has taken up **5,892 cases under [Prevention of Money Laundering Act \(PMLA\), 2002](#)** since 2015 but secured **only 15 convictions**.

- Also, in another development the **Supreme Court** held that **ED must follow the rule of law**, urged **fast-track courts** for PMLA cases, and called for **cryptocurrency regulation** to prevent misuse without banning it.

What is Money Laundering?

- **About:** It is the process of **disguising illegal proceeds** from criminal activities (e.g., **drug trafficking, smuggling, arms trade, embezzlement**) to make them **appear legitimate, enabling criminals to enjoy profits without detection**.
 - It involves **changing the source, form, or location** of funds to avoid scrutiny.
- **3 Key Stages:** Money laundering involves **placement** (introducing illicit funds), **layering** (disguising their origin), and **integration** (making them appear legitimate).
- **Key Methods:** Key methods include **structuring/ smurfing** (splitting large cash into smaller), **trade-based laundering**, **shell companies**, and **real estate investments**.

What are the Key Reasons for Rising Money Laundering Cases in India?

- **Legal and Enforcement Gaps:** Misuse of **Section 5 of PMLA** (property attachment without registered offence) and **delays in prosecution** reduce effectiveness.
- **Complex Laundering Techniques:** Use of **digital currencies/ [cryptocurrencies](#)**, **fintech**, and **cross-border mechanisms** make detection difficult.
 - In the Rs 260 crore global cyber fraud case, the ED found that the funds were converted into cryptocurrencies like Bitcoin and USDT, which were then laundered through hawala operators and individuals in the UAE.
- **Shadow Economy & Cash-Based Sectors:** High informal sector presence and lax regulation in **real estate, jewellery, and luxury goods**.
- **Weak Global Cooperation:** Despite [Double Taxation Avoidance Agreements \(DTAAs\)](#) with

85+ countries, limited information sharing hampers investigation.

What are the Key Consequences of Money Laundering?

- **Fueling Organised Crime & Terrorism:** Laundered funds **sustain criminal networks, drug/human trafficking and terror financing.**
- **Erosion of Public Trust:** Encourages **corruption and weakens democratic institutions.**
- **Impact on Vulnerable Groups:** Diverts public funds meant for welfare, widening **socio-economic inequality.**
- **Economic Distortion:** Undermines monetary policy, creates **capital flow volatility**, inflates **real estate prices**, deters **FDI**, and causes **financial instability.**

Laundromat

- A “**laundromat**” refers to a complex web of **banking channels, shell firms, and offshore accounts** used to clean illicit funds. The term originated from US crime syndicates using laundromats as fronts for laundering.

What is the Prevention of Money Laundering Act (PMLA), 2002?

- **About: PMLA, 2002** (enforced in **2005**) was enacted to **prevent money laundering** and **provide for the confiscation of property** derived from such activities.
 - It targets laundering linked to crimes like **drug trafficking, smuggling, and terror financing.**
 - Enacted under **Article 253** of the Constitution to fulfill international commitments.
- **Key Provisions of PMLA:**
 - **Attachment, Seizure & Confiscation:** The Act empowers authorities to **attach, seize, and confiscate** property derived from crime.
 - These actions are overseen by an **Adjudicating Authority** and require the existence of a **scheduled offence** (offence against the state).
 - **Initiation of Proceedings & ECIR:** Proceedings can be initiated based on an **ECIR (Enforcement Case Information Report)** filed by the **ED** & **no FIR is required.**
 - The ECIR acts as the starting point for investigation under PMLA.
 - The **ED derives its powers under PMLA, 2002** from various **sections (3, 4, 5, 16, 17 etc)** to **investigate, attach, seize, and prosecute offenses related to money laundering.**
 - **Bail Conditions (Section 45):** The accused must prima facie prove innocence and assure the court of no likelihood of reoffending to secure bail.
 - **Institutional Mechanisms: Financial Intelligence Unit (FIU-IND) receives and analyses suspicious transaction reports** from banks and financial institutions.
 - The **Appellate Tribunal** hears appeals against orders passed by the Adjudicating Authority.
 - **Recent Amendments Related to PMLA: 2019** amendment to PMLA, introduced of **Rule 3A**, allowing **Special Courts** to notify claimants for **confiscated property** after charges are framed.
 - The **2023** amendment expanded **disclosure obligations** for **NGOs** and redefined **Politically Exposed Persons (PEPs)** to include prominent **foreign officials**, aligning with **FATF** standards.
 - **Global Cooperation:** India has signed **DTAAs** with over **85 countries** for:
 - **Facilitating exchange of financial and tax-related information.**
 - **Enabling tracing of offshore accounts and investments.**
 - **Preventing tax evasion and illegal fund transfers.**

Key Judicial Cases Related ED

- In ***P. Chidambaram vs. ED, 2019, case*** Supreme Court (SC) held that **concealing the illegal source of money** impacts the **financial system** and threatens the **sovereignty and integrity** of the nation.
- In ***Vir Bhadra Singh vs. ED, 2017 case***, SC reiterated that **FIR is not essential** as ECIR is enough to proceed.
- In ***Vijay Madanlal Chaudhury vs. Union of India, 2022*** case, SC held that **registration of a scheduled offence is mandatory for prosecution (Sec 3)**, but **not for property attachment (Sec 5)**
 - This provision is often **misused** against dissenting voices or political opponents.

What Measures Should be Taken to Tackle the Issue Money Laundering?

- **Strict Compliance with FATF Norms:** Authorities must align enforcement with **Financial Action Task Force (FATF) recommendations**, ensuring **transparency, accountability**, and **checks against misuse**.
- **Independent & Fair Investigations:** Enforcement agencies should act **independently**, free from **political bias**, ensuring **genuine cases are prioritized** and rights of individuals protected.
- **Strengthening Evidence Collection & Coordination:** Improve **financial intelligence** mechanisms, inter-agency coordination (ED, FIU, Income Tax Dept.), and use of **digital forensics** to increase **conviction rates**.
- **Effective Use of DTAA Mechanisms:** Enhance **data exchange protocols** and **real-time cooperation** with foreign counterparts to track **illicit financial flows** and plug **treaty loopholes**.
- **Judicial Oversight & Safeguards:** Ensure greater **judicial scrutiny** in attachment and prosecution processes under PMLA to **prevent arbitrary action** and uphold **due process of law**.

Conclusion

Money laundering is a **grave threat** to India's **financial stability** and **national security**. While the **PMLA** offers a strong legal framework, its **implementation** is marred by **delays, misuse**, and **low conviction rates**. Combating this menace requires **legal reforms**, enhanced **international cooperation**, and strengthened **institutional accountability**.

Drishti Mains Question:

Discuss India's institutional and legal measures to combat money laundering. What are the key challenges and the way forward?

UPSC Civil Services Examination, Previous Year Questions (PYQs)

Mains

- Q1.** Discuss how emerging technologies and globalisation contribute to money laundering. Elaborate measures to tackle the problem of money laundering both at national and international levels. (2021)
- Q2.** Money laundering poses a serious threat to a country's economic sovereignty. What is its significance for India and what steps are required to be taken to control this menace? (2013)
- Q3.** India's proximity to the two of the world's biggest illicit opium-growing states has enhanced her internal security concerns. Explain the linkages between drug trafficking and other illicit activities such as gunrunning, money laundering and human trafficking. What counter-measures should be taken to prevent the same? (2018)

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