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IMPACT OF MONEY LAUNDERY ON INDIAN ECONOMY AND BUSINESS

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ABSTRACT :

Money laundering is the process of moving money through the economy in such a way as to prove the legitimate source of black money. Fraudulent hard cash money can be moved between people and businesses without the aid of the financial sector, although in fact billions of dollars of money is actually laundered through financial institutions.

It's an excuse by corrupt government and individual criminals to conceal their illicit sources of income and take advantage of it without disclosing their source. The story of AI Capone who made illegal gains through launderettes gave us the term "money laundering ".

Money laundering is concealing financial assets that are created as a result of an illegal activity. With the advent of internet banking and virtual currencies, criminals can easily send and withdraw money without being caught.

In other words, it is the process criminals use to "wash" their tainted money so that it " is " clean. Often today, it is defined by Government regulators (e. g., United States Office of the Comptroller of the Currency) to include any financial transaction that creates an asset, or a value, because of an illegal act.

The purpose of prescribing Anti-Money Laundering Guidelines is to prevent the system of Authorized Money Changers (AMCs) involved in the purchase and/ or sale of foreign currency notes/Travelers cheques from being used for money laundering.

The trustworthiness of banking and financial systems is highly interlinked with the legal, professional, and ethical framework against which it operates and so the International organizations and regulators started creating international standards and best practices to address money laundering problems jointly across the world. All countries concerned, banks and financial institutions should develop and implement a system to prevent anti-social elements from using banking channels for money laundering. It is an essential part of risk management in banks to safeguard the confidence and authenticity of banking systems.

INTRODUCTION

Anti-Money Laundering (AML) is the collection of laws, laws enforcement mechanisms, processes and regulations in place to prevent money obtained illegally from entering the financial system. Anti-Money Laundering affects a range of crimes that include corruption and tax fraud to market manipulation and illicit trade and financing of terrorism as well as countering efforts to disguise such activities as the source of money. Because most criminals and terrorists rely very heavily on laundered money for its illegal purposes, there are broad-based consequences of having effective anti-money laundering mechanisms in place.

The process of laundering large amounts of dirty money (i. e. money acquired from serious crimes (drugs trafficking, terrorist activity)) to look clean money (legitimate) Money laundering refers to the practice of hiding the origin of money acquired from illegal sources and turning it into clean money so as to avoid prosecution, conviction, and confiscation of criminal funds.
Generally speaking, AML screening software should be able to identify suspicious transactions using a static, as well as a dynamic, set of rules. Some systems also incorporate the use of artificial intelligence into the transaction monitoring process to streamline and optimize the process
Apart from that the solution should also be able to handle data from third parties e. g. lists compiled by governments.

On the other hand, the rise in online payment modes at the bank level as well as adopting internet solutions are some of the factors that are anticipated to propel the market growth in the near future. The proliferation of stringent regulations coupled with compliance with anti-money laundering rules drives market growth in the global area. However, the high initial cost and expense aspects are expected to limit market growth as they may deter businesses from embracing these technologies.

LITERATURE REVIEW

Money laundering is an organized crime which is a prime source for funding terrorism.
Money is also laundered using the method of Round Tripping – the black money is transferred to the tax-haven countries from India. Then a company from that country will send that money back to India in the form of 'foreign investment'. Best example of this is Mauritius, Singapore among others.
The book of Anti Money Laundering, highlights the steps of transforming the proceeds of crime and corruption into legitimate asset. The focus is on how the law deals in money laundering with terrorism financing when governing the financial system.
Vandana Ajay kumar in the paper titled "Money Laundering: Concept, Significance and its impact" concluded that Money Laundering is global problem and must attract global concerns. Without international cooperation money laundering cannot be controlled. The criminals outsmart the enforcing agencies and deploy a team of experts like chartered accountants, attorneys, bankers mafia, to disguise their illicit money and masquerade it as legitimate income.
Kishore Jagirdar (2008) observed under article "money laundering in India-an overview" that generally there are two objectives of money laundering and also explained the role played by prevention of money laundering act 2002
Paridhi Saxena (2015) describes money laundering process as a process that is being used to disguise the proceeds from illegal origin. It also focuses on the special steps taken for the prevention taken by Indian Initiatives. She arrived at the various problems as why the situation of money laundering is getting worst such as due to lack of awareness about the problem, non-fulfilment of the aim of KYC norms, the widespread act of smuggling and lack f comprehensive enforcement agencies.

The objective of the Act

- To prevent money laundering.
- To provide for confiscation of property derived from, involved in, money laundering.
- For matters connected therewith or incidental thereto

RESEARCH METHODOLOGY

Thorough research has been conducted on the data and statistics using secondary research methods such as journals, articles, and verified online sources. The impact factors have been sourced from published press conferences, books, and newspapers. A sample of cases has been analyzed to gain insight into the impact factors and precautionary methods implemented in relevant situations. In-depth interviews and case studies are employed as qualitative methods to comprehend the motivations, tactics, and strategies of money launderers, along with the challenges encountered by law enforcement and regulators. Quantitative methods, such as statistical analysis of financial data, can be utilized to identify patterns, trends, and indicators of money laundering activity

LIMITATIONS

- Complexity of the Financial System:
- Ingenuity of Money Launderers
- Difficulty in Proof:
- Lack of Standardization

DATA ANALYSIS & INTERPRETATION

5.1 ABOUT THE ANALYSIS OF THE STUDY

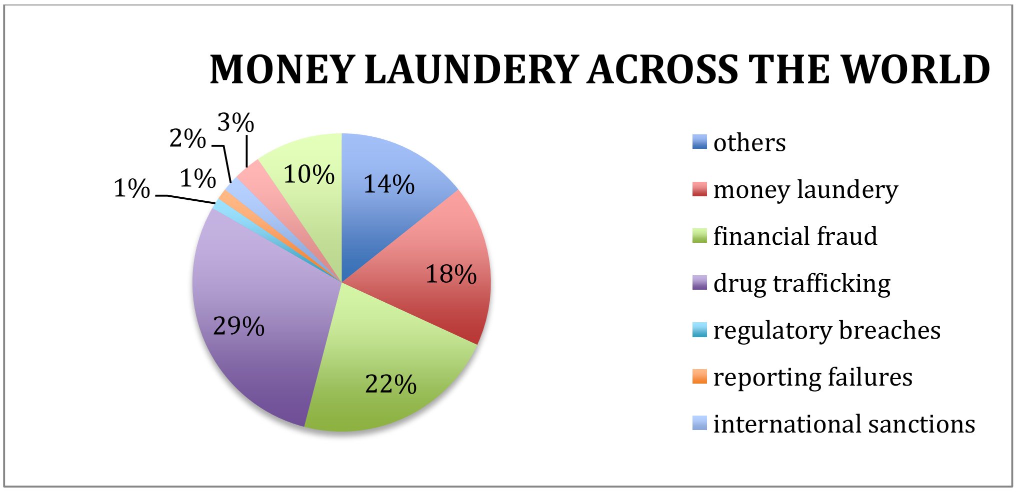

Fig 5.1.1 MONEY LAUNDERY ACROSS THE WORLD

INTERPRETATION

29% Drug Trafficking: This indicates that a significant portion (almost a third) of the money being laundered originates from the illegal drug trade. This highlights the massive scale of the global drug market and the immense profits generated, which criminals then attempt to integrate into the legitimate financial system. Drug trafficking is a major driver of money laundering worldwide.

10% Financial Fraud: This suggests that a notable portion of laundered money comes from various forms of financial fraud.

14% Other: This category encompasses various other predicate offenses (the underlying criminal activity that generates the dirty money) that lead to money laundering.

18% Money Laundering (as a predicate offense): This is an interesting data point. It suggests that in some instances, the act of money laundering itself can become a predicate offense for further money laundering.

22% AML Compliance Failure: This indicates a significant issue within the financial system. AML (Anti-Money Laundering) compliance failures by financial institutions and other obligated entities contribute substantially to the success of money laundering efforts. These failures can include weaknesses in customer due diligence (CDD), inadequate transaction monitoring, insufficient reporting of suspicious activities, and overall ineffective AML programs

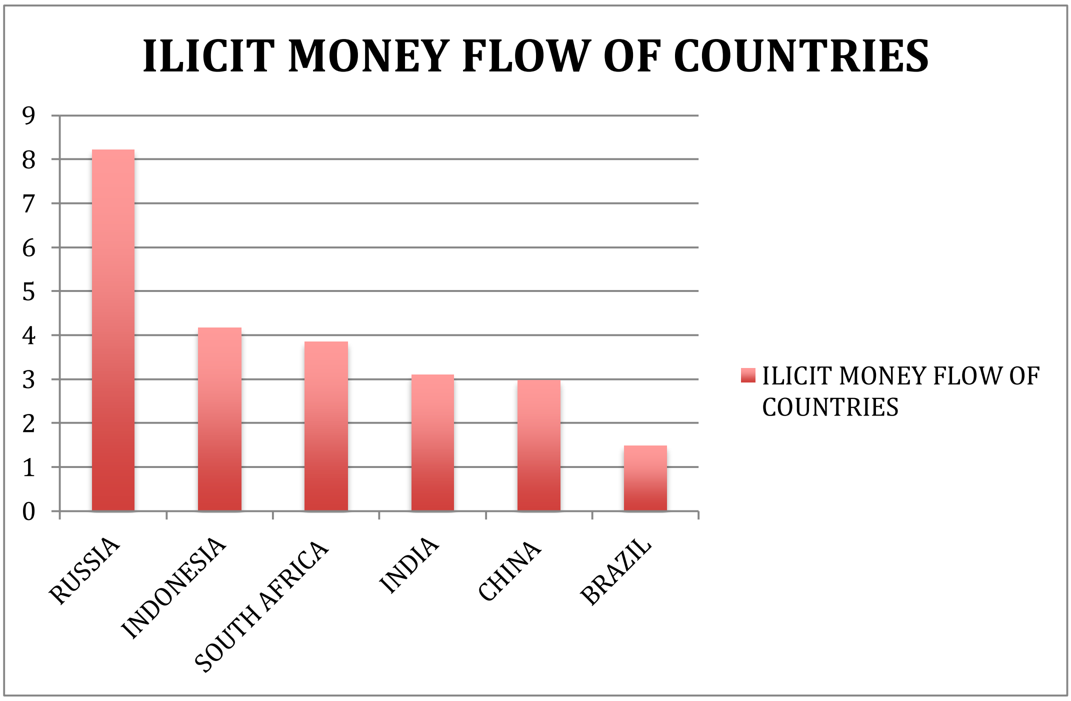

Fig 5.1.2 ILICIT MONEY FLOW OF COUNTRIES

INTERPRETATION

The gradual erosion of black money held in Swiss Banks by Indians is a direct consequence of the actions taken by the Government of India regarding bringing the money back to India, a very important agenda in the Narendra Modi led BJP Government. The alleged stashing of wealth by Indians in Swiss banks has been a matter of great debate in India. The cumulative illicit money moving out of the country over a ten-year period from 2003 to 2012 has risen to USD 439.59 billion, as per the latest estimates released by the Global Financial Integrity (GFI) ranking her 3rd. globally, with Russia topping with USD 122.86 billion followed by China with USD 249.57 billion. The Washington-based research and advocacy group further said that the illicit fund outflows from India accounts for nearly 10 % of illegal capital that moved out of all developing and emerging nations in 2012

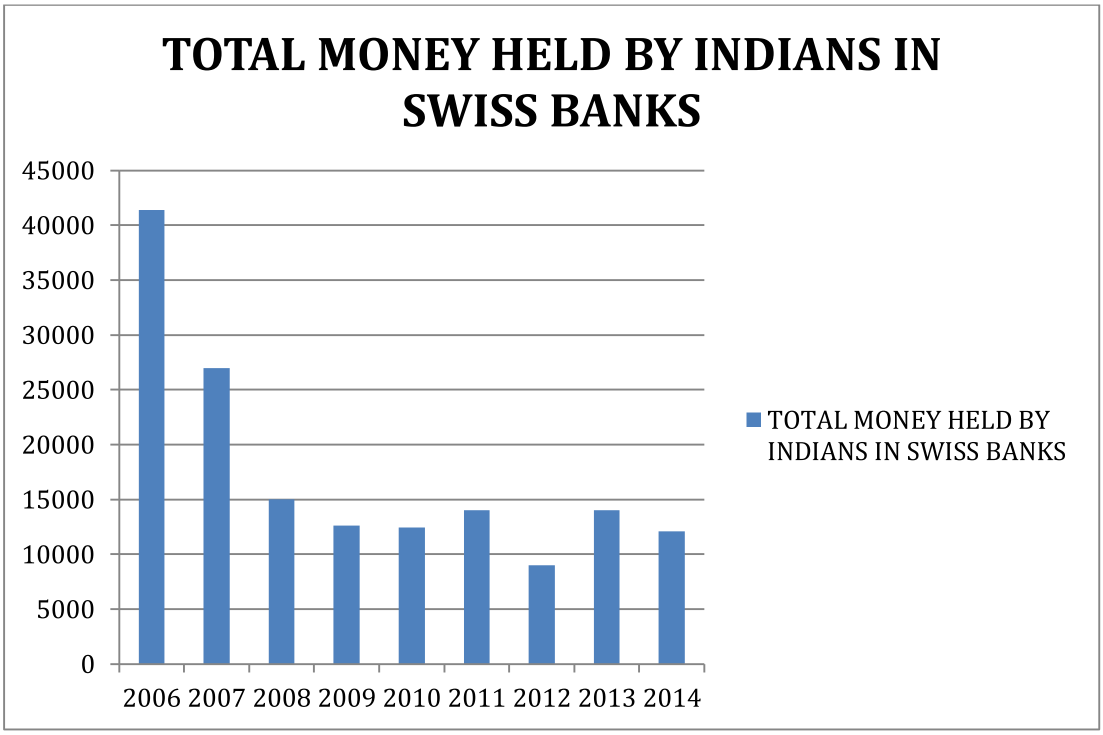

Fig 5.1.3 TOTAL MONEY ELD BY INDIANS IN SWISS BANKS

INTERPRETATION

According to White Paper on Black Money in India report, published in May 2012, Swiss National Bank estimates that the total amount of deposits in all Swiss banks, at the end of 2010, by citizens of India were sr. 92.95 billion, (US$2.1 billion). The Swiss Ministry of External Affairs has confirmed these figures upon request for information by the Indian Ministry of External Affairs. This amount is about 700 fold less than the alleged $1.4 trillion in some media reports The Indian government has been pushing the Swiss authorities for a long time to share information on the suspected tax evaders, while Switzerland has shared some details in cases where India has been able to provide some independent evidence of suspected tax evasion by Indian clients of Swiss banks. Committing full support to India’s fight against the black money menace, Switzerland had said its Parliament would soon consider changes in laws to look into the possibility of sharing

FINDINGS

A lack of understanding regarding the severity of money laundering crimes leads the impoverished and uneducated to favor the Hawala system over traditional banking, as it involves less bureaucratic hassle, minimal documentation, lower fees, and offers anonymity. Additionally, banks are becoming increasingly lenient due to heightened competition in the financial sector, which inadvertently facilitates the illicit activities of money launderers.

Furthermore, the complicity of financial institution employees undermines the effectiveness of measures designed to verify the legitimacy of funds, monitor account activities, and identify suspicious transactions. The absence of cohesive enforcement agencies exacerbates the issue, as money laundering operations have expanded beyond singular jurisdictions, with various law enforcement bodies in India addressing money laundering, terrorism, and economic crimes in isolation.

Moreover, the prevalence of smuggling through numerous black market channels in India allows consumers to purchase goods at lower prices, as black market operators evade customs duties through cash transactions. Lastly, the stringent financial secrecy laws in tax haven countries encourage money launderers to establish anonymous accounts, further complicating efforts to combat these crimes.

CONCLUSION

Money laundering is a global problem that requires global attention and cooperation in order to be effectively controlled. Criminals often employ a team of experts, including chartered accountants, attorneys, and bankers, to disguise their illicit money as legitimate income, making it challenging for enforcing agencies to combat the issue. Finance ministries, central banks, financial institutions, and financial regulators worldwide need to maintain their focus on combating financial abuse, particularly money laundering, and strengthen their efforts in this regard. Cooperation with the law and the government is crucial in addressing money laundering, and it requires collective action from both citizens and lawmakers. The government's implementation of demonetization was a significant step in curbing the flow of black money, as it rendered specific denomination currency illegal and required the exchange or return of any illegal money through the Reserve Bank of India. While demonetization was a positive move, it is evident that the nation still has a long journey ahead before eradicating corruption entirely. Implementing stricter laws and imposing fines or arrests for bribery attempts are essential measures to combat money laundering, along with the need for clear monitoring and closing of existing loopholes that facilitate such illegal activities. Continual efforts to revise and strengthen laws are necessary to ensure that the country's growth is not impeded by financial misconduct, and individuals should remain vigilant and report any illicit practices to contribute to the solution. Addressing the issue of money laundering will contribute to restoring balance to both financial and social aspects of society.

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