

# Impact of Money Laundering Cases on Indian Economy and Business

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**Abstract:-** There is a significant rise in the cases of money laundering since the last decade, hampering India's economic activities. It has become necessary to curb these activities with stringent rules and regulations imposing heavy duty fine in case of guiltiness. These activities not only affect a single entity but affect the whole country's reputation and economic situation impacting Gross Domestic Product, operational activities, reserves and other elements as it involves a huge sum of amount being pilferage. It also serves the evil purposes like terrorism, intentional hackings of the systems. This paper aims to bring out the economical impacts of the recent instances like Punjab National Bank case - Nirav Modi, Kingfisher Airlines – Vijay Mallya, Commonwealth Games scandal – government bureaucrats; and the implications to prevent such activities in the future. It describes the various measures undertaken by Government of India to reduce the aftermaths of money laundering on the economy.

## ➤ *Need for Study*

The paper aims make residents aware about the laws, regulations and respective punishments relating to Money laundering Act in India. It will let us know the loopholes in the act. Also, the research will help us to find out the relationship between the money laundering activities and the stages involved in the process. This research will help students and student committees, academicians, judges and lawyers and also all those keen to learn about money laundering in India. The research would focus on the reasons for money laundering after giving clear cut guidelines, and why do people still continue to practice it and how it affects country's economy and businesses at large.

**Keywords:-** LoU (Letter of Undertakings), Money Laundering, Restructuring, SWIFT code.

## I. INTRODUCTION

Money laundering is a process of circulating money in an economy in a way that showcases the legitimate source of black money [1]. Fraudulent hard cash money may be circulated without the aid of the financial sector although in reality billions of dollars of money is laundered through financial institutions. Corrupt officials and individual criminals use it to hide their illegitimate sources of income and take advantage without exposing their source. Money Laundering has a direct link with organized crime because it helps to amass enormous profits through international frauds, trafficking. Gangster Al Capone, who made illegitimate gains through laundrettes, resulted in deriving the term "money laundering".

Majority of the nations that are focussing on reducing crimes involving money laundering should focus on forming an independent authority to deal with such cases and convert the findings into policies, rules and regulations. From the licit point of view money laundering is a 'predicate offences' as defined u/s 2(1) (p) of Prevention of Money Laundering Act, 2002. Cash transactions are mostly used for laundering money as they simplify the disguise of the true ownership and source of money. There is continuous quest for high profits and the growth into diversified areas for criminal activity.

## ➤ *Process of Money Laundering:*

Money laundering is a single process however, its steps can be divided into three distinct stages namely, placement, layering and integration stage.

**Placement Stage:** It is the stage in which the money launderer holding the money generated from criminal activities introduces the illegal funds into the financial system by breaking up large amount of cash into substantial sums which are deposited directly into an account of a bank or by purchasing a series of financial instruments such as Bank Drafts, Cheques, which are then collected and deposited into multiple accounts across different places.

**Layering Stage:** At this stage, the fraudster engages money in a series of continuous transactions or movements of funds within an economy through financial or banking system, by way of numerous accounts, so as to hide the original source and to distance it from the illegitimate sources. The Money Launderer may use various channels for movement of funds, like a series of Bank Accounts, sometimes spread across the globe, especially in those jurisdictions which do not co-operate in anti- Money Laundering investigations.

**Integration stage:** Having successfully processed his criminal profits through the first two stages of Money Laundering, the Launderer then moves to this third stage in which the funds reach the legitimate economy, after getting inseparably mixed with the legitimate money earned through legal sources of income. The Money Launderer might then choose to invest the funds into real estate, business ventures & luxury assets, etc.

## ➤ *International response to tackle Money Laundering:*

In order to tackle the money laundering, the Financial Action Task Force on money laundering (FATF) was established by the G-7 Summit in Paris in 1989 to develop a coordinated international response. One of the first tasks of the FATF was to develop Recommendations which set out the measures national governments should take to

implement effective anti-money laundering programmes. The Forty Recommendations and Nine Special Recommendations of FATF provide a complete set of counter measures against Money Laundering covering the criminal justice system and law enforcement, the financial system and its regulation, and international co-operation. These recommendations have been recognized, endorsed, or adopted by many international bodies as the international standards for combating money laundering.

➤ *Steps have been taken by the Government of India to tackle the menace of Money Laundering:*

Government of India in order to tackle the menace of Money Laundering has always been part of the global efforts. India is signatory to the following UN Conventions, which deals with Anti Money Laundering / Countering the Financing of Terrorism:

- International Convention for the Suppression of the Financing of Terrorism (1999)
- UN Convention against Transnational Organized Crime, UN Convention against Corruption (2003)

❖ *Objectives*

- To understand the impact of Money Laundering on the economy
- To analyse the steps taken by Government to curb money laundering

## II. RESEARCH METHODOLOGY

The data and statistics have been studied thoroughly through the secondary research methods like journals, articles and verified online sources. All the impact factors have been taken from published press conferences, books and newspapers. A sample of few cases has been taken to understand the impact factors and precautionary methods undertaken in relevant cases.

## III. LITERATURE REVIEW

Anand Singh (2017), in his 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.

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 of comprehensive enforcement agencies.

Vijay Kumar Singh (2014) discusses various problems and loopholes while implementing Anti Money Laundering Laws in India. His paper elaborates money laundering with national and international context. He highlights some of the techniques which are used for money laundering such as

Hawala route that was progressed in India, before the foundation of western banking practices which is now a major remittance system used in the world. Another technique he mentioned is about structuring deposits which is also called as smurfing. He suggested that open securities market and insurance sector are some of the new areas of operations of money laundering. He also suggested that financial confidentiality on offshore is a problem and the federations are reluctant to trade off with their financial confidentiality and stability. It is therefore become necessary to build a balance between financial confidentiality and this confidentiality turning to a haven of money-laundering. He concluded that laundering of money seems to most people to be victimless crime, but it is necessary to educate and inform people about the crime and instil a sense of being alert among them.

Money Laundering guide for India analyses the word money laundering to find the loopholes of prevention of money laundering act and what could be possible situations for that problems. The research was being carried out with a view to make public aware about the law and respective punishment relating to money laundering in India. The paper highlights on various methods used to launder money known as typologies or tools such as retail business, wholesale trade, manufacturing units, charity shows, lottery tickets and property. It recommends that the anti-money laundering prevention act should be applied to all the crimes committed to cover a broad potential of money laundering as presently in India it applies only to terrorism, drug offences, and a series of crime. Also the author recommends that new bill should include the definition of activities like acquisition, concealment and possession.

## IV. ANALYSIS OF DATA

### A. Punjab National Bank case

A money laundering case worth Rs 2.81 billion was filed against Nirav Modi and Mehul Choksi in 2018 [2]. Following this complaint, Goldman Sachs stated in its report that India's economic growth would hit to 7.6% from 8% in the year 2019. The consequences of this case reflected that there was an increase in the bad loans and almost 65% had to be written off using the tax payer's money. It demonstrated that the recapitalisation of banks won't be enough to sustain the prevailing conditions of drowning Indian economy. A clumsy image to rating agencies would mean affecting global investments, trade and current account deficits, thereby deteriorating the fiscal health of the country. The cascading effect would imply weakening of rupee. In view of this scam, banks shifted their focus towards the compliance of rules and regulations in the corporate sector. The government focussed on following things:

- For a loan of Rs 50 crore and above, disclosing of passport details were made mandatory and if classified as Non Performing Asset, it will be examined [3]
- Capital infusion of Rs 55,250 crore for restructuring
- Merger of PSBs to boost the economy [4]

- Core banking solutions to integrate with reconciliation of SWIFT transactions for issuing LoUs
- Enactment of guidelines issued by RBI to avoid the skimming of digital cards and publish the list of wilful defaulters
- Implementation of S4A, that is, Scheme for Sustainable Structuring of Stressed Assets

Possible ways to curb money laundering in banks

- Introduction of Blockchain into the system to verify the details every time an official signs in
- Bank employees should be trained and be aware of consequences of such severe offence
- Both internal and external audits should be done at branch, district and country level offices

#### B. INX Media case

Enforcement Directorate (ED) registered a case against INX media under violation of Foreign Exchange Management Act in 2007. INX Media was alleged to have received foreign investments of Rs 307 crore from companies based in Mauritius during the period of UPA government. High profile government officials were involved and booked under Foreign Investment Promotion Board [5]. The proceedings reflected that bureaucratic power is often misused to grow business and display positive figures in financial statements. This instance put a strain on other Indian companies for encouraging FDIs due to following of complex legal rules and regulations.

Ways to avoid such cases in future:

- Stringent rules for FDI and disclosure of all required documents along with the intention of investment
- Regular audit of all bureaucratic leaders and their properties, companies to avoid illegal theft of money

#### C. Kingfisher Airlines case

Enforcement Directorate filed a case of money laundering against the liquor tycoon Vijay Mallya as he allegedly sent abroad approximately ₹900 crore (US\$130 million) which loaned to his airline. Various Indian banks had given him a loan of about Rs 9,000 crore, which he has allegedly routed to gain a majority stake. He escaped from India and has been living in a self-imposed exile in Britain since March 2016. He was also named in the Panama Paradise Papers and Panama Papers as he leaked sensitive documents relating to investments done offshore and was also declared as a "proclaimed offender by PMLA court.

Possible ways to avoid such cases in future:

- Persons with dual citizenship should be monitored.
- System should be streamlined and strengthened thereby checking domestic laws.

#### D. Commonwealth Games scam

A pilferage of Rs 70,000 crore, one of the major scams witnessed by Delhi in 2010 was of Commonwealth games [6]. The accused were booked under sections of Prevention of Corruption Act as the scandal involved cheating and criminal conspiracy. Due to this money

laundering and corruption act, India lost its reputation in front of the world and was banned from Olympics, impacting the future tournaments of Indian players.

Possible ways to avoid such cases:

- Regular auditing of income and expenses for an international game tournaments
- Background check of the officials to handle the responsibility

## V. CONCLUSION

- A rise in scams concluded to the failures due to intensive loopholes in Prevention of Money laundering Act, 2002 which was a major step taken by the government of India for locating and avoiding fraudulent activities involving money. One of the most prominent reasons for the failure is the corruption among bureaucrats as they acted as backbone of corruption mechanisms.
- The PMLA 2002 serves as an umbrella for Indian financial institutions like RBI, IRDA, SEBI, thereby involving and applying to all financial intermediaries, banks, insurance companies and mutual funds. Financial Intelligence Unit India (FIU IND) is the agency that monitors the AML and regulates over the compliance followed by all financial Intermediaries and institutions.
- For an efficient economic growth there is a need to curb money laundering activities in financial sector institutions as it would reduce the productivity in the economy by diverting resources and discouraging corruption and money laundering which slows economic growth and have the capability to distort the economy's external sector that is international trade and capital flows .
- Money laundering through Offshore Financial Centres (OFCs) impairs the economic development of a nation for a long term and hence strategies should be chalked out by developing countries to limit the offences.

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