



INDIA'S FINANCIAL IRREGULARITIES: MONEY LAUNDERING AND SYSTEMIC ISSUES

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October 25, 2020

(Views expressed in the brief are those of the author, and do not represent those of ISSI)



In its aggressive pursuit to push Pakistan to Financial Action Task Force's (FATF) blacklist, India neglected to secure its own end first. The recent reports¹ released on 20th September, 2020 by US treasury department's watchdog, Financial Crimes Enforcement Network (FinCEN) highlight financially suspicious activities of various banks across the globe. FinCEN has red flagged transactions of around \$2 trillion as "Suspicious Activity Reports" (SARs) between 2010-2017.²

While working on these documents, BuzzFeed and International Consortium of Investigative Journalists (ICIJ) have shared a chunk of this data publicly. The released data highlights that Indian banks received \$482,181,226 while sending \$406,278,962 out of the country in 406 transactional activities during 1999 to 2017.³ The BuzzFeed report⁴ further indicates that these transactions were used in various illegal activities including funding for drug cartels and financing terrorism. A recent

¹ "FinCEN Files: Explore More Than \$13b As It Sloshes Across the World," *ICIJ*, September 20, 2020, last modified September 20, 2020, <https://www.icij.org/investigations/fincen-files/explore-the-fincen-files-data/>.

² Ibid.

³ Ibid.

⁴ "Secret Documents Show How Criminals Use Famous Banks To Finance Terror And Death," *BuzzFeed News*, September 20, 2020, last modified September 20, 2020, <https://www.buzzfeednews.com/article/jasonleopold/fincen-files-financial-scandal-criminal-networks>.

UN report on terrorism indicating the increased presence of terrorist in Kerala and Karnataka⁵ only lends credence to this claim.

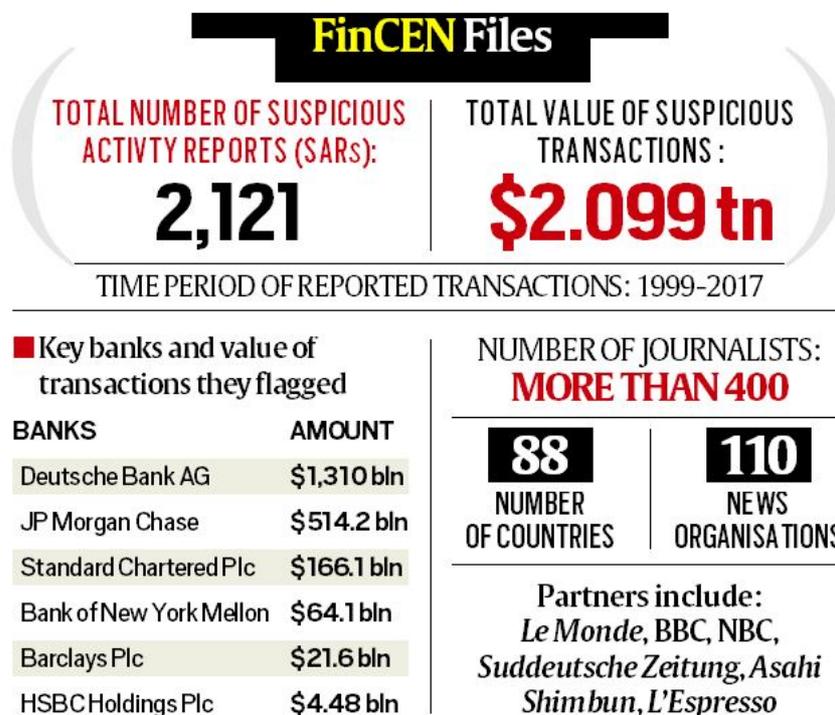


Image Source: *Indian Express* September 23, 2020.

Banks and other financial institutions file SARs for the purpose of reporting suspicious activity to the US authorities, FinCEN is a case in point. SARs are highly confidential and are filed when a transaction is made between parties with no direct or apparent connection to each other. For example, a diamond firm paying an IT firm for buying car parts, or in case of money transactions to conflict areas, off-shore safe havens or money flowing to and from Politically Exposed Persons (PEPs). It is important to note that SARs themselves are not incriminating. However, they are filed to alert law enforcement agencies and financial regulators about the suspicious activities

It is not the first time that India has hit the headlines for its financial malversation. Previously, India came into limelight for its Offshore Leaks 2013, Swiss Leaks 2015, Panama Papers 2016, and Paradise Papers 2017 for fraudulent money flows. Indicating the involvement of 44 Indian banks from the public and private sector in money laundering,⁶ FinCEN files are another blatant proof of India's systemic issues when it comes to financial regularities.

⁵ Bharti Jain, "Terror Group IS Has Strong Presence in Indian States: UN Report | India News - *Times of India*, July 25, 2020, last modified July 25, 2020, <https://timesofindia.indiatimes.com/india/terror-group-is-has-strong-presence-in-indian-states-un-report/articleshow/77170591.cms>.

⁶ "FinCEN files."

The Indian Express investigation about FinCEN has made alarming revelations including a \$3 million fraud in Indian Premiere League (IPL).⁷ It also unravels how \$14.46 million were transferred from a Seychelles based Shell company to a subsidiary of Adani conglomerate.⁸ The report further indicates that these transactions looked suspicious owing to their “high round-dollar amounts” (figures rounded off to exactly hundred or thousand 5000, 60,000).⁹ Other money transfers flagged by FinCEN involve a prominent healthcare and hospital entity, luxury car dealers, a diamond firm, a steel firm and many others. The following figure shows 406 transactions, flagged by FinCEN, flowing to and from Indian banks to various parts of the world:



Image Source: *ICIJ official website September 20, 2020.*

⁷ Jay Mazoomdaar, "FinCEN Files — Bank Reported Fraud, UK Link of an IPL Team Sponsor," *The Indian Express*, September 23, 2020, last modified September 23, 2020, <https://indianexpress.com/article/express-exclusive/fincen-files-wells-fargo-bank-ipl-team-sponsor-dream-cricket-kings-xi-punjab-6603921/>.

⁸ Ritu Sarin, "FinCEN Files — In Alert on Shell Firms, NY Bank Flags Transfers to Adani from Seychelles," *The Indian Express*, September 23, 2020, last modified September 23, 2020, <https://indianexpress.com/article/express-exclusive/fincen-files-in-alert>

⁹ "Alleged Indian Money Laundering Case & FATF's Role?," *Daily Times*, September 23, 2020, last modified September 30, 2020, <https://dailytimes.com.pk/672591/alleged-indian-money-laundering-case-fatfs-role/>.

In India, the Financial Intelligence Unit-India (FIU-IND) is responsible for doing the same task as FinCEN. Formulated in 2004, the FIU-IND receives, analyzes and disseminates information about suspicious financial transactions.¹⁰ Under the Prevention of Money Laundering Act (PMLA), FIU-IND can have Cash Transaction Reports (CTRs) and Suspicious Transaction Reports (STRs) from public and private sectors. These reports are submitted to various institutions like the Enforcement Directorate for further processing.¹¹ However, it is pertinent to note that despite the recommendations of FATF, an independent inter-governmental body responsible for developing policies to curb money laundering and terrorist funding, Indian financial regularity rules leave a lot to be desired when it comes to evaluating and monitoring cash flows to and from PEPs. Even the PMLA remains muted when it comes to Politically Exposed Persons. Moreover, these revelations also raise questions about the credibility and efficacy of Indian Investigative Agencies as to what extent were they aware of these suspicious financial transactions? Did the Reserve Bank of India, the regulator of banking sector in India, had any clue of such activities? If yes, did it raise a flag on these transactions? If no, then why not?

Furthermore, the document revealed by Buzzfeed indicates that this money was used in terror facilitation and financing. In India's case, it is tantamount to economic terrorism. Until now, India's role is the least examined when it comes to monitoring powerful nation-states in sponsoring terrorism. Recently, the upcoming FATF review of India, scheduled on Sept-Oct 2020, has been postponed in view of the coronavirus pandemic and is now set to take place in the early 2021. Against the backdrop of these recent money laundering revelations, India is in hot water. Therefore, it becomes incumbent upon FATF to not only re-examine India's current status, but also to identify the existing loopholes in Indian anti-money laundering practices and policies to ensure a financially safer world.

¹⁰ Ritu Sarin, "Swiss Leaks, Panama Papers, Now SARs: Bank Reports That Alert Law-enforcement Agencies," *The Indian Express*, September 23, 2020, last modified September 23, 2020, <https://indianexpress.com/article/explained/fincen-files-swiss-leaks-panama-papers-now-sars-bank-reports-that-alert-law-enforcement-agencies-6603949/>.

¹¹ Ibid.