BHARAT SCHOOL OF BANKING

Money Laundering

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Laundering means **concealing/hiding** the **origins** of **money,** that are obtained through **illegal** means, violating the **laws** of **land**. It often involves transfers to/from **foreign banks** or **legitimate businesses** to hide the illegal nature of the money, and make it appear as obtained form **legitimate source**.

In broad sense, **Money Laundering** is the process of converting **Black Money** into **White Money**.

Civil or Criminal Offense?

Often we talk about **Black Money** that are stashed abroad, mainly to avoid high **taxes** of the land. These money could have **legitimate** or **illegitimate** origin.

If these are achieved through **legitimate** sources, but to avoid taxes, are stored in foreign countries, then we simply call these as **Black Money** (not considered as **Money Laundering**). This is a case of **civil offense**.

But in **Money Laundering**, the **Black Money** must involve a predicate **crime**, such as the **violation** of **IPC**, etc, and is considered as **criminal offense**.

Stages of Money Laundering

Money Laundering involves three distinct **stages**, as follows -

1. Placement

Illegitimate money / **Dirty** Money is collected and **placed** into a **legitimate financial institution**, generally in the form of **cash** (a way to hide trace). This stage is known as **Placement** of Illegitimate money.

2. Layering

Layering is the stage, where the **illegitimate** money is processed through several **financial**

transactions to change its **form** and hide its **trace**, so that it is difficult to follow and find its source.

It may consist of -

- Bank to bank transfer
- Wire transfer between different accounts, possibly in different names and in different countries
- Changing the nature of currency
- Purchasing other instruments, or assets to change the form of money, etc.

3. Integration

In this stage, the **illegitimate money** returns to the mainstream **economy** as a **legitimate** one. This may involve a final **bank transfer** to the account of the business, where the **launderer** wants to invest. In this stage, the **legitimate-**looking money is difficult to trace back to its **illegitimate source**.

Prevention of Money Laundering Act, 2002 (PMLA)

The PMLA, 2002 is the principal framework in **India** to combat **money laundering** cases. It **defines** money laundering offence and provides for the **freezing, seizure** and **confiscation** of the proceeds of **crime**.

Some features -

- **RBI, SEBI** and **IRDA** have been brought under the **PMLA**, making the provision of this act to be applicable to all the **financial institutions** in India, including banks, MFs, Insurance companies, etc.
- The **monitoring agency** of **Anti-Money Laundering** activities in India is the **Financial Intelligence Unit (FIU-IND)**. It is an independent body reporting directly to the **Economic Intelligence Council (EIC),** headed by the **Finance Minister**.
- Punishment includes **imprisonment** up to **3 - 7 years**, with **fine** up to **Rs. 5 lakh**.

Banks' Obligations

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- To follow the **KYC norms** properly
- Maintain **records** for - **nature** and **value** of the transaction, **single** or **series** of transactions, keep record for **10 years**, etc.
- Verify and maintain the **records** of **identity** of all **clients,** etc.