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## Banking on Integrity: Anti-Money Laundering Laws and Compliance in India

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*Received 29 July 2025; Accepted 29 August 2025; Published 02 September 2025*

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*This article discusses the legal requirements for Anti-Money Laundering (AML) in India, with a focus on the banking industry. Being such a crucial part of the financial system, banks are highly vulnerable to the risks of money laundering. The act guiding most of India's AML efforts is PMLA 2002, with additional help from the RBI, the ED, and the FIU-IND. This article analyses standards that include Know Your Customer (KYC), customer due diligence, monitoring transactions, and what compliance officers do in banks. The country's participation in international standards and groups, especially with FATF and the Egmont Group, is investigated to learn about its AML practices on a global scale. Special attention is given to the PNB and Yes Bank-DHFL scams, which highlight important weaknesses in the system and suggest that stronger controls are needed. Moreover, it talks about small and cooperative banks, which generally have low levels of technology and resources, and often struggle to comply with AML regulations. Layering, handling cross-border activities, dealing with shell companies, as well as cryptocurrencies, are now seen as new risks that call for flexible adjustments by regulators. This article concludes by highlighting how AI and machine learning can make AML detection and enforcement more effective. It calls for improved cooperation among agencies, a proper balance in protecting privacy, and ongoing judicial checks to confirm that AML measures comply with the law and get results.*

**Keywords:** PMLA, KYC, ED, banks.

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## INTRODUCTION

Money laundering refers to how people illegally hide how they have generated that money, so that it seems as though the money is from legal sources. Usually, this process includes placing the illegal funds into banks (placement), running several confusing transactions (layering), and putting the funds back into the markets for use (integration).

Anti-money laundering matters for banks because the financial system in India runs through the banks, and they are especially vulnerable to money laundering. Strong measures against financial crimes are necessary to protect the reputation of financial institutions, stop terrorism from being financed, and meet international rules and conventions. Several tough KYC measures and regulations have already been introduced by the Reserve Bank of India (RBI) to curb money laundering.

India's desire to fight money laundering can be seen in its membership of the Financial Action Task Force (FATF) since 2010.<sup>1</sup> FATF acknowledged in its latest report that India meets most of its requirements and is making serious efforts to stop money laundering and terrorist financing. Even so, the report urged India to strengthen oversight in specific non-financial sectors and improve the pace of prosecuting those accused of money laundering.

## LEGAL FRAMEWORK GOVERNING AML IN INDIA

**Prevention of Money Laundering Act (PMLA) 2002:**<sup>2</sup> In 2002, the Prevention of Money Laundering Act (PMLA) was passed and is the foundation for India's legal framework against money laundering. It is intended to block money laundering and seize property that has been used in money laundering activities.

Key provisions include:

According to Section 3<sup>3</sup>, Money laundering is about concealing, possessing, acquiring, or using the funds for criminal activities and is considered guilty of the offence of money laundering. The section is generally wide to cover not only the actual launderer but also other persons who have had a hand in the process by assisting, facilitating, or conspiring. This also

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<sup>1</sup> 'India's Anti-Money Laundering Laws: Key Insights for Compliance' (*Maheshwari & Co Blog*, 09 December 2024) <<https://www.maheshwariandco.com/blog/anti-money-laundering-laws/>> accessed 28 May 2025

<sup>2</sup> Prevention of Money Laundering Act 2002

<sup>3</sup> Prevention of Money Laundering Act 2002, s 3

makes sure that all the people involved in the act of laundering illicit wealth are covered under this law.

The punishment for the offences of money laundering is prescribed in Section 4<sup>4</sup>. An individual who is found guilty under Section 3 is likely to serve strict imprisonment, resulting in a sentence between three and seven years. But on the other hand, when the predicate offence is dealt with under the Narcotic Drugs and Psychotropic Substances Act 1985,<sup>5</sup> then the sentence may stretch up to ten years. This ranking form of punishment is an indication of how serious the crime of money laundering is, and more so when it is associated with drug-related crimes.

Section 5<sup>6</sup> allows the director or a duly authorised officer the power to provisionally attach property that is suspected of being involved in money laundering to ensure that tainted assets are not dissipated. Such temporary attachment may be for 180 days, and the purpose of such attachment is to avoid concealment or transfer of such property. Nonetheless, such attachment is to be succeeded by a filing of a complaint with the Adjudicating Authority and within 30 days, bringing a novel procedural safeguard to it.

Sections 6 and 43<sup>7</sup> explain how the adjudication of offences under the Act and their trial in special courts will occur. Under section 6, an adjudicating authority or quasi-judicial body is established to determine whether the attached or seized property is involved in the act of money laundering. The Authority consists of a chairperson and two members who have expertise in law, finance, accountancy, or administration. It is an important measure in guaranteeing due process before final deprivation of property, hence balancing procedural fairness and enforcement of law.

Finally, through Section 43, the Central Government may form Special Courts with the consultation of the Chief Justice of the respective High Court to ensure the expeditious speed of conducting an offence under the PMLA. These Special Courts can both exercise their jurisdiction in trying the offence of money laundering as well as the conjoined scheduled

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<sup>4</sup> Prevention of Money Laundering Act 2002, s 4

<sup>5</sup> Narcotic Drugs and Psychotropic Substances Act 1985

<sup>6</sup> Prevention of Money Laundering Act 2002, s 5

<sup>7</sup> Prevention of Money Laundering Act 2002, ss 6 and 43

(predicate) offence. With the constitution of Special Courts, complicated financial crimes are tried effectively and by trained judges who have the relevant expertise in that field.

## **FUNCTIONS OF THE ENFORCEMENT DIRECTORATE (ED)**

It is the Enforcement Directorate (ED) that primarily enforces the PMLA. It operates under the Department of Revenue, Ministry of Finance, and plays a key role in anti-money laundering. Its main functions are:

**Investigation:** One of its main purposes is to investigate cases of money laundering. This includes investigations based on Suspicious Transaction Reports (STRs), complaints, or intelligence inputs that suggest that criminal proceeds may be laundered. The ED can duly call people, record their statements, and gather documentary-based evidence during its investigation.

**Provisional Attachment:** The provisional attachment of the property is another important role of the ED. Section 5 provides that in case the agency is satisfied that any property in the proceeds of crime is likely to be concealed, transferred, or otherwise dealt with in a manner that may prejudice any proceeding, then the agency may, by order, attach that property and continue the order up to 180 days. This helps in protecting the assets, and thus they are not dissipated before a case has concluded. The ED will then have to table its findings before the Adjudicating Authority and confirm such attachment.

In addition, the ED has the power to lodge complaints and prosecute offences before Special Courts under section 44<sup>8</sup>. After the investigation is concluded and enough evidence has been collected, the Directorate files a complaint (akin to a charge sheet in ordinary criminal proceedings) and carries out the prosecution. This involves presenting witnesses, cross-examination, and convictions under the Act. The ED, therefore, not only acts as an investigative body, but it is also a prosecution agency when it comes to cases of money laundering.

Also, the ED contributes significantly to domestic and international inter-agency cooperation. In India, it collaborates with the Financial Intelligence Unit -India (FIU-IND), Central Bureau of Investigation (CBI), Income Tax Department, and local police to exchange

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<sup>8</sup> Prevention of Money Laundering Act 2002, s 44

information and organise enforcement activity. On an international level, the ED can communicate with foreign enforcement agencies, usually by Mutual Legal Assistance Treaties (MLATs), to request and receive information about finances and legal premises abroad, as well as to trace the assets and to extradite economic offenders who have fled the state.

## **RESERVE BANK OF INDIA PUBLISHED GUIDELINES FOR KYC/AML NORMS**

Reserve Bank of India (RBI) is one of the law enforcement agencies in India, which issues the Master Direction KYC, 2016, that establishes the norms of customer identification, due diligence, and transaction monitoring. These instructions apply to all regulated entities, such as banks, non-banking financial companies, and payment entities, in striving to guard against misuse of the economic system to engage in money laundering or terrorist financing.

One of the core requirements is the Customer Acceptance Policy (CAP) that outlaws anonymous or fictitious accounts and puts in place risk-based due diligence. Institutions need to know the purpose and nature of the business relationship, conduct customer identity and address verification through proper documents, bearers of the business, and beneficial owners, under the Customer Due Diligence norms. Foreign clients or politically exposed persons represent high risks, and increased due diligence is applied.

The guidelines require the constant surveillance of transactions that may be suspicious. Banks are required to submit Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) to FIU-IND when needed. It is also ensured by the RBI that a Principal Officer and a Designated Director are appointed. As a measure to adjust to changing technology, the RBI has allowed the use of digital and video-based KYC and struck the right balance of financial inclusion and regulatory safety. Overall, the KYC/AML standards proposed by the RBI are an organised, risk-sensitive framework of identification and prevention of financial crimes.

## **CUSTOMER DUE DILIGENCE**

Customer Due Diligence (CDD) is the mechanism of verifying the identity of clients of banks and financial institutions and evaluating the risk they could present to the financial system regarding money laundering or even financing terrorists. It is the process of gathering and

verifying personal information, as well as financial information, beneficial ownership (when it exists), and tracking the transactions to detect unusual activity. CDD forms part of the essence of Know Your Customer (KYC) compliance and is an essential practice in terms of ensuring that the integrity of the financial system remains intact.

**The KYC process relies heavily on customer due diligence, which consists of:**

The CDD process starts with the identification of the customer, followed by the verification of the customer. The banks and other financial institutions must acquire evidence of their identities in the form of an officially recognised document like the Aadhaar, PAN, passport, or voter ID. This is to make sure that the customer is an actual person or business and to verify that they are genuine. This is essential in the avoidance of anonymous or fake account creation, which is usually applied to facilitate money laundering.

Verification of beneficial ownership is a very important element of CDD, particularly where companies, trusts, and partnerships are involved. It entails discovering the true identity of a natural person(s) behind the ownership, control, or beneficiary of the account or transaction. In case a company opens an account, the bank should trace and verify a person (or persons) who has a controlling interest. This measure will aid in avoiding the use of legal entities as the front of illegal businesses, as the ownership structure becomes transparent.

It is important that one should be able to comprehend the motive and description of the business relationship. When opening an account, the banks are obliged to take information about what the account shall be used for and the nature of transactions that shall occur. This helps the institution to develop a customer risk profile and establish control accordingly. As an illustration, there would be a great difference in the anticipated activity in a savings account and that of a corporate current account, and this must be reflected in monitoring.

CDD also requires monitoring of transactions that occur during the life of the banking relationship. Banks must regularly exercise the review of account activity with due regard to observed transactions staying on the profile known to the bank and the reported source of funds. In case of an inconsistent or odd transaction that has no justifiable explanation, the bank must further look into the case, and where there is a need, refer it to the Financial Intelligence Unit- India (FIU-IND).

## OTHER RELATED LAWS AND INSTITUTIONS

**The Foreign Exchange Management Act 1999:**<sup>9</sup> Foreign exchange transactions within India come under FEMA, which ensures that export and import payments are easy. The RBI is granted the authority to watch and regulate foreign exchange activities to stop them from being exploited for money laundering.

**Income Tax Act and Benami Transactions (Prohibition) Act:** The Income Tax Act 1961<sup>10</sup> is of great help in deterring money laundering as it aims at discouraging tax evasion, which is a common antecedent to money laundering. Sections 68<sup>11</sup>, 69<sup>12</sup>, and 69A<sup>13</sup> make the Income Tax Department authoritative to assess and penalise the undocumented income, unexplained wealth, and dubious cash holdings. Such inquiries under this Act are normally followed by the trail of illicit money, which is reported to enforcement bodies such as the Enforcement Directorate (ED) that may take further action, possibly under the PMLA. The Income Tax Act is one of the primary pillars of the financial crime control area in India.

The Benami Transactions (Prohibition) Act 1988<sup>14</sup> prevents transactions where someone's property is bought by someone else to hide money illegally obtained.<sup>15</sup> Transactions in which property is registered with the name of another person, but in reality, it is under the financial control of another person, are dealt with under this act. These arrangements are mostly employed to facilitate beneficial ownership and black money laundering. The Act authorises the authorities to seize and attach benami properties as well as imposes a nominal penalty of up to seven years of imprisonment and a substantial number of fines on individuals. The Act contributes to India in its overall AML framework by ensuring that the money laundering process of layering and integration is mitigated, helping boost the transparency of property ownership.

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<sup>9</sup> Foreign Exchange Management Act 1999

<sup>10</sup> Income Tax Act 1961

<sup>11</sup> Income Tax Act 1961, s 68

<sup>12</sup> Income Tax Act 1961, s 69

<sup>13</sup> Income Tax Act 1961, s 69A

<sup>14</sup> Benami Transactions (Prohibition) Act 1988

<sup>15</sup> Sumit Gupta and Anupam Pandey, 'Benami Transactions in India: A Historical and Legal Perspective' (Lexology, 09 November 2023) <<https://www.lexology.com/library/detail.aspx?g=576d7105-88af-4f9e-b5d9-b577443cded0>> accessed 28 May 2025

## **FINANCIAL INTELLIGENCE UNIT – INDIA IS THE GOVERNMENT BODY IN CHARGE OF FIGHTING MONEY LAUNDERING**

It is the central agency that collects, analyses, and disseminates financial intelligence about suspicious transactions. It was created by the Ministry of Finance in 2004. It is central to the Indian AML/CFT system, where both financial institutions and the enforcement agencies communicate with each other.

Banks and other entities report Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) to FIU-IND. It uses FINnet and AI-based solutions to find red flags and disseminates intelligence to the Enforcement Directorate (ED), CBI, and so on.

It also provides compliance directions, tracks PMLA requirements, and liaises with other countries regarding money laundering and terror financing through the Egmont Group, which increases the capacity to fight money laundering and terror financing in India.

## **SEBI AND THE MINISTRY OF FINANCE'S FUNCTIONS IN THE MARKETS**

According to SEBI guidelines, stockbrokers and mutual funds are required to comply with AML. It provides recommendations that these entities follow for strong AML procedures. The Ministry of Finance is in charge of AML policies and works with several agencies to act together against money laundering.

**Global AML Standards and India's Commitments:** In 1989, the Financial Action Task Force (FATF) was created to set and support policies that fight money laundering, terrorist financing, and similar threats to the world's financial systems.

- Countries can fight these threats effectively with the help of a set of 40 Recommendations from the FATF.
- The Recommendations are organised by several vital areas.<sup>16</sup>
- Developing national policies and methods to bring together agencies fighting money laundering and terrorist financing.

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<sup>16</sup> 'FATF Recommendations' (Financial Action Task Force) <<https://www.fatf-gafi.org/en/topics/fatf-recommendations.html>> accessed 28 May 2025



Lawmakers should work to stop money laundering by making it illegal and by allowing the seizure of those assets. It is now a criminal offence to provide money for terrorism, and measures exist to control funds that might pay for making weapons of mass destruction. Actions to Stop Illicit Activity: Requiring financial institutions to follow customer due diligence and keep records. Legal persons and structures must be transparent so that they cannot be misused. Permission for authorities to handle cases of money laundering and terrorist financing. International Cooperation means helping countries cooperate by exchanging legal information and helping each other in investigations.

### INDIA'S EVALUATION BY FATF

In 2010, India joined the FATF and has been making efforts to bring its AML and CFT rules into line with those set by other countries. The Mutual Evaluation carried out during 2023-24 checked India's compliance with its Recommendations. With its last evaluation in June 2024, the FATF in Singapore placed India in the regular follow-up category and gave India the same distinction, shared with just four G20 countries.<sup>17</sup> It reveals that India has achieved excellent success in efforts to address money laundering and terrorist financing.

According to the evaluation, India met or mostly followed 37 out of 40 of the FATF Recommendations, which represents strong technical compliance.<sup>18</sup> Even so, the FATF report pointed out some parts that require improvement.

India performed adequately in investigating and prosecuting cases of money laundering, but, limited by constitutional questions and slow courts, it faces challenges in making convictions. According to FATF, India was deemed to comply partially with Recommendation 8, which relates to NPOs being vulnerable to terrorist financing. The FATF advised India to deal with NPOs by applying a simple and informative process.

Concerns about efficient trials have prompted India's government to form special courts and hire additional prosecutors.

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<sup>17</sup> Ministry of Finance, 'FATF adopts Mutual Evaluation Report of India in its June 2024 Plenary held in Singapore' (*Press Information Bureau*, 28 June 2024)

<<https://www.pib.gov.in/PressReleaseIframePage.aspx?PRID=2029297>> accessed 28 May 2025

<sup>18</sup> Rohit Mittal, 'FATF's New Findings on AML/CFT Compliance in India' (*LexisNexis Risk Solutions*) <<https://risk.lexisnexis.com/insights-resources/article/fatf-new-findings-aml-cft-compliance-india>> accessed 28 May 2025

## COMPLIANCE WITH INTERNATIONAL OBLIGATIONS

**The Basel AML Index:** Each year, the Basel AML Index publishes a listing of nations by how much they are considered at risk for money laundering and facilitating terrorist activities. The analysis covers several aspects, including the quality of AML/CFT policies, how corrupt the country is, its degree of financial transparency, and how much it respects standards from other countries. The results in the Basel AML Index represent India's attempt to keep improving its AML/CFT system.

**Egmont Group:** The Egmont Group connects FIUs around the world and promotes the sharing of information among members in the fight to stop money laundering and terrorist financing, including FIU-IND. By being a member of the Egmont Group, FIU-IND can securely share information with other countries' organisations, improving India's efforts to find and stop illegal funding.

## BANK COMPLIANCE MECHANISMS

**Role of Compliance Officers in Banks:** Compliance Officers in banks hold a very significant position regarding compliance with the anti-money laundering laws and the regulatory guidelines. Typically, a senior official is the Principal Officer as laid down in the Prevention of Money Laundering Act and is responsible for implementing KYC norms, monitoring of Customer Due Diligence and filing of Suspicious Transaction Reports (STRs) and Cash Transaction Reports (CTRs) with robustness to the Financial Intelligence Unit – India (FIU-IND).

They likewise engage in internal training sessions to keep the staff abreast of new AML requirements, perform compliance audits, and help the management to reduce its legal and reputational risks. One of their responsibilities lies in implementing the risk-based approach, where they identify risky customers and transactions and review them closely.

Also, the Compliance Officer will act in a position to coordinate with regulators such as the RBI, ED, and FIU-IND with regard to queries and responses in case of audits and regulatory inspections. As the world goes digital and embraces digital banking solutions, they have more roles to play, managing the adoption of AML technology services, including transaction tracking systems and the use of artificial intelligence tools. Essentially, the

Compliance Officer is expected to help the bank in resisting financial crimes and duly comply with both the domestic AML laws and the international standards.

## INTERNAL CONTROL AND MONITORING

Internal controls and monitoring are central to the bank's AML compliance framework. They assist in the identification, evaluation, and reduction of money laundering risks through monitoring of all transactions with regard to the customer profiles and marking suspicious transactions. An important element of this is reporting Suspicious Transaction Reports (STRs) on transactions that do not have any likely economic explanation, or where there is a perceived connection with criminal activity, and Cash Transaction Reports (CTRs) on cash transactions above ₹10 lakh on any one given day.

Banks are also required to maintain records on KYC and transaction data for at least ten years to support investigations and audits by the regulatory bodies. Such controls are also enhanced by frequent compliance reviews and independent audits to assess the levels of effectiveness of AML processes. The classification of the customers based on risk is applied, and additional monitoring can be applied to the high-risk groups, such as politically exposed people or non-residents.

More and more banks are using automated tools for monitoring and systems based on AI to identify the patterns of suspicion and mitigate human errors. Cumulatively, these internal controls are the initial shields against financial crimes and a guarantee of the perpetuity of the AML responsibilities.

## CASE STUDIES AND ENFORCEMENT ACTIONS

**The Nirav Modi & Mehul Choksi PNB Scam:**<sup>19</sup> In 2018, Punjab National Bank (PNB) detected a fraud of ₹14,000 crore. According to the court, PNB officials at its Brady House branch in Mumbai issued Letters of Undertaking without the proper authorisation. Jeweller Nirav Modi and his uncle Mehul Choksi got overseas credit from other banks in India by using Letters of Undertakings (LoUs) without proper guarantees. Fraud continued for a number of years because no one spotted the errors in internal controls. Nirav Modi and

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<sup>19</sup> 'Punjab National Bank Scam: How Mehul Choksi, Nirav Modi Siphoned Off Crores' *NDTV* (14 April 2025) <<https://www.ndtv.com/india-news/explained-the-punjab-national-bank-scam-that-shook-banking-system-8163134>> accessed 28 May 2025

Mehul Choksi escaped from India before the scam was revealed, which made international law enforcement seek their extradition.

**Rana Kapoor, Gopal, and Douchi Wadhawan were charged with the Yes Bank-DHFL Scam.**<sup>20</sup> That year, the Yes Bank scandal began when it was discovered that Rana Kapoor, founder of Yes Bank, was connected to the Wadhawa brothers, promoters of DHFL. The investigators found that Yes Bank gave loans to DHFL and others in exchange for kickbacks. Due to inadequate checks, significant shoddy loans resulted in many assets not fulfilling their potential. Rana Kapoor and the Wadhawan brothers were taken into custody by the Enforcement Directorate for money laundering and bad management of financial actions.

## JUDICIAL INTERPRETATION AND CASE LAW

The functions of the judiciary have helped to explain and carry out the provisions of the Prevention of Money Laundering Act (PMLA).

**Vijay Madanlal Choudhary v In the Union of India verdict (2022):**<sup>21</sup> The Court confirmed that Sections 5 (asset seizure), 17 (authority to search and seize), 45 (rules for granting bail), and 50 (powers of authorities in summonses, production of evidence, and participation in cases) are within PMLA's zone of constitutional validity. The court mentioned that the PMLA was designed to address all aspects of money laundering and related crimes.

**Union of India v Kanhaiya Prasad (2024):**<sup>22</sup> The Union of India took the case against the Supreme Court, making it clear that granting bail under Section 45 of the PMLA depends on both conditions being satisfied. The Court believed that the High Court wrongly granted bail without properly considering the required principles set out by law.

**Rajasthan High Court directive (2025):** The judges at the Rajasthan High Court have ordered actions to stop using criminal law in civil matters and improve financial supervision. The High Court said that all cash exchanges of ₹2 lakh or higher in property matters need to be

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<sup>20</sup> Omkar Gokhale, 'Yes Bank-DHFL money laundering case: Bombay HC grants bail to Wadhawan brothers, cites long incarceration' *The Indian Express* (13 February 2025) <<https://indianexpress.com/article/cities/mumbai/yes-bank-dhfl-money-laundering-bombay-hc-bail-wadhawan-brothers-9834555>> accessed 19 June 2025

<sup>21</sup> *Vijay Madanlal Choudhary v Union of India* (2022) 6 SCC 382

<sup>22</sup> *Union of India v Kanhaiya Prasad* (2025) INSC 210

reported to the Income Tax Department, aimed at stopping financial crimes and tax evasion.<sup>23</sup>.

## CHALLENGES IN AML COMPLIANCE

**Complexity of Layering and Cross-Border Transactions:** Usually, money launderers use layers of transactions to hide the true source of their money. Transacting with other countries is more difficult due to the many and changing laws in different nations. The variety in rules countries use makes it easier for criminals to conduct illegal activities and move money overseas, making it hard for enforcement. Digital payment systems expanding quickly, such as the Unified Payments Interface (UPI), make it easier for criminals to hide and pose more challenges during monitoring. India applied to the Financial Action Task Force (FATF) seeking a reduction in compliance for international payments made from its domestic systems.

**Compliance Burden on Small and Cooperative Banks:** Cooperative banks and regional rural banks usually do not have the needed resources and technology to carry out strong AML procedures. Following all the regulations costs business owners in technology, extra staff training, and frequent audits. Often, these institutions find it difficult to get access to the full range of advanced analytics tools required for successful transaction monitoring. As a result, they may be exposed to risks of money laundering.

**Use of Shell Companies and Digital Channels:** An increased number of shell companies, which are companies that exist but do not do business, creates a major problem in AML compliance. They allow individuals to hide who owns the assets they control. Digital advances such as cryptocurrencies and online banking have introduced more methods for money launderers. Criminals can use digital currencies for dark web activities, which makes it much harder for police to identify and stop their criminal transactions.

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<sup>23</sup> Nitesh Kumar, 'HC warns against rubber stamp FIRs, tells courts to flag over Rs 2L transactions to IT Dept' *Times of India* (27 May 2025) <<https://timesofindia.indiatimes.com/city/jaipur/hc-warns-against-rubber-stamp-firs-tells-courts-to-flag-over-rs-2l-transactions-to-it-dept/articleshow/121421500.cms>> accessed 28 May 2025

## THE WAY FORWARD

In a bid to enhance how effective they are at AML techniques, Indian banks can turn to AI and ML technology. These instruments are meant to analyse vast amounts of data and flag out-of-the-ordinary money laundering activity. For example, FINnet 2.0, created by the FIU-IND, utilises artificial intelligence to assist in scoring suspicious transactions and enhance the processing of financial intelligence.<sup>24</sup>

Good AML enforcement requires co-operation by all of the key regulators, e.g., Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI), Enforcement Directorate (ED), and Financial Intelligence Unit – India (FIU-IND). Working together in work groups and exchanging databases makes it possible to share recent information and to participate in quick and synchronised efforts to counter money laundering.

RBI offers a secure and safe ‘Regulatory Sandbox’ to test new AML solutions of fintech players under monitoring. It allows companies to develop new technology and abide by consumer protection policies and laws that already exist.<sup>25</sup>

Since anti-money laundering (AML) work relies on the process of collecting and constantly monitoring personal information, it is necessary to ensure people’s privacy. In the K.S. Puttaswamy judgment,<sup>26</sup> the Supreme Court of India cited the right to privacy as a fundamental right. The Court determined that any measure of intrusion on the privacy should not be unlawful, unnecessary, or out of proportion. Thus, AML systems should have an integrated set of data protection protocols to guarantee compliance with requirements on individual privacy, on the one hand, and prevention of financial crimes, on the other hand.

People should be made aware of AML rules, and corporations should embrace good practices that help prevent financial crimes. According to the Ministry of Corporate Affairs, widely trusted and effective corporate management measures help decrease the risk of fraud in the market. Campaigns and training courses can better explain the requirements and improve how to follow them.

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<sup>24</sup> ‘Financial Intelligence Unit arms itself with AI, ML tools to check money laundering’ *The Economic Times* (05 May 2024) <<https://economictimes.indiatimes.com/tech/technology/financial-intelligence-unit-arms-itself-with-ai-ml-tools-to-check-money-laundering/articleshow/109860949.cms>> accessed 28 May 2025

<sup>25</sup> *Ibid*

<sup>26</sup> *Justice K. S. Puttaswamy (Retd.) & Anr v Union of India & Ors* (2017) 10 SCC 1

## CONCLUSION

In 2025, India will have an advanced and flexible AML framework, signalling the nation's strong commitment to securing its financial system. Led by the Prevention of Money Laundering Act (PMLA), 2002 and the actions of major regulatory organisations such as the Reserve Bank of India (RBI), Securities and Exchange Board of India (SEBI) and the Financial Intelligence Unit – India (FIU-IND), India has achieved much in tackling money laundering problems.

The use of AI and ML has helped financial institutions detect suspicious activities as soon as they occur. As a result, new AI-based technologies are being created to monitor financial dealings, which increases both the efficiency and reliability of identifying anything suspicious.

Numerous improvements have been made in the coordination of different agencies. Recently, the RBI and FIU-IND signed a Memorandum of Understanding to collaborate on tackling money laundering and terror financing. Thanks to the agreement, exchange of information, shared oversight, and skill improvements are possible, aiming to improve adherence to the PMLA and match global measures against money laundering and terror financing.

Notwithstanding these developments, there are still serious problems. Some of the most recent risks that have emerged are connected to the increasing complexity of the consolidation of different initiatives, working with transactions across a cross-border situation, and the rapid development of digital payment options. Due to insufficient resources, many small banks and cooperatives have a hard time handling every aspect of compliance. Still, combining efforts to stop AML with the protection of personal privacy is a complicated matter. The way courts interpret the law has impacted the world of AML. Important decisions on bail, the burden of proof, and rights of the accused have made it clear that AML enforcement does not violate the Indian Constitution.