

Money Laundering – How is it Done?

Chiranjiv Kumar

Money Laundering, in simple words, is converting your black or “dirty” money (money obtained from illegal activities like drug dealing) into white money. In India, RBI has given certain guidelines to prevent money laundering still the amount of money laundered each year is huge.

Money laundering involves 3 steps, motive is to make the money hard to trace/non-traceable

Placement: It is the first step where launderer deposits black money in a number of small proportions with various banks. This is the most risky step as RBI keeps a close eye on transactions above Rs. 10 Lakhs.

Layering: In this step motive is to make money as hard as possible to trace. To do that, launderer carries out a series of complex transactions like withdrawing and depositing frequently, purchasing high value items, purchasing forex etc.

Integration: This is the final stage of Money laundering. Here creation of white money takes place. Launderer give loans by creating anonymous companies where right to secrecy need to be maintained, issuing fake import-export invoices, and sending money to someone outside the country with legitimate bank account and then withdrawing later.

To make it more difficult to trace, launderer follows different forms of integration, some of which are:

Investing in a business where there is difficult to distinguish between legitimate and illegitimate money. Such businesses are generally cash intensive. For e.g.: **Strip Clubs and Casinos**.

In spite of issuing fake invoices, launderer may **over-value or under-value invoices**.

By investing in trusts in tax haven countries. As there is no need to disclose details about the owner of money.

Money is deposited in tax haven countries and then invested back as a **foreign direct investment**.

By playing in Casino, **launderer buys huge number of chips**, plays just to show and then cashes the chips taking payment in cheque which he deposits into bank stating it as a Gambling winning amount.

If a company has no rule to pay its employee through bank then money can be laundered by **paying black money as a Salary**.

RBI is taking steps to prevent Money Laundering practices. One of the recent steps taken was imposing fines of Rs 5 crore on Axis Bank, Rs 4.5 crore on HDFC Bank and Rs 1 crore on ICICI Bank for violation of anti-money laundering guidelines after inquiring into charges levelled by an online portal Cobrapost. Although the investigation didn't reveal any prima facie evidence, fines were imposed on the basis of individual bank's reply and information submitted along with.

As per the statement of **Financial Action Task Force (FATF)** which is an inter-governmental body that sets standards and promotes policies to combat money laundering and terrorist financing for countries across the world “At its June, 2013 Plenary meeting, the FATF decided that India had reached a satisfactory level of compliance with all of the core and key recommendations and could be removed from the regular follow-up process and its outreach programme to provide guidance to the financial sector on the suspicious transaction reporting obligations and engaging in extensive compliance monitoring, and has brought several of the

Designated Non-Financial Businesses and Professions (DNFBPs) within the scope of its preventive Anti-money laundering measures.”