

recently expanded to include insurance companies. Gazette notification No. G.S.R. 717 (E), dated 14 December 2005, empowered the Insurance Regulatory and Development Authority (IRDA), based in the southern city of Hyderabad, to give effect to PMLA in the insurance sector. A senior IRDA official said that under Rule 3 of the PMLA, "IRDA issued guidelines on the anti-money laundering programme for insurers on 31 March 2006, stipulating the requirements of CTR [currency transaction reporting] and STR [suspicious transaction reporting] to the FIU."

Under these guidelines, insurance companies are not allowed to remit any premium in cash that is above US\$1,110. If a person tries to subvert the system by entering into a series of small transactions that aggregate to US\$22,222 or above, they must also be reported to the FIU. The guidelines also oblige all policyholders to provide their Permanent Account Numbers (PAN - the unique 10 digit alphanumeric identifier issued by the Income Tax Office) and income details to insurers. High-volume transactions out of line with a customer's financial profile should now be flagged, as should policies assigned to third parties not related to him or her.

"IRDA views life insurance policies as a more vulnerable vehicle of money laundering compared to non-life insurance," the *Hindu Business Line News Service* reported in March 2006, "and it is framing the anti-money laundering regulation in accordance to the code prescribed by the International Association of Insurance Supervisors (IAIS), which represents the regulators and supervisors of 180 jurisdictions in more than 130 countries."

Local vulnerabilities

India, according to the most recent US State Department International Narcotics Control Strategy Report (USINCSR), is also a major drugs transit country. Widespread tax evasion also contributes to the country's vulnerability to money laundering. The report says that a large portions of the illegal proceeds are laundered through the alternative remittance system called 'hawala' or 'hundi', estimated at anywhere between 30% and 40% of the formal market, which in 2004-2005 amounted to US\$20.5 billion. The growing Indian diamond trade has also been increasingly important in providing counter-valuation, a method of balancing the books in external hawala transactions. Invoice manipulation - inaccurately reflecting the value

of goods sold on the invoice - is pervasive and is used extensively both to avoid customs duties and taxes and to launder illicit proceeds through trade-based money laundering. The report adds that terrorist financing in India, as elsewhere in the subcontinent, is linked to the hawala system.

However **Agarwal** disagrees: "Hawala has been reduced to a small channel of money laundering, mainly making money by trading in foreign exchange and survives due to the savings on the transaction cost, taxes and time." With the convertibility of Rupee on trade and current account and possibly in the near future even on the capital account, he says, the government has been able to reduce tremendously the size and the number of hawala transactions.

Indian financial entities based in other countries are also discussed in the USINCSR. It notes that although India does not have an offshore financial centre, it does license Offshore Banking Units (OBUs). These operations must be predominantly (at least 60%) owned by individuals of Indian nationality or origin who reside overseas. OBUs are susceptible to money laundering activities, in part due to lack of stringent transaction monitoring adds the report.

An RBI communiqué of Feb 2002 touched on the subject, saying that: "While examining the applications made by Indian banks for setting up representative offices/ branches/ subsidiaries outside India, the RBI would consider the supervisory comfort and robustness of their systems for Know Your Customer and anti-money laundering."

Future work

The Indian authorities face a massive task, says Agarwal: professions vulnerable to money laundering in India are many and varied; they include bankers, lawyers, car dealers, real estates builders, and accountants. As for the sources of dirty money, apart from the traditional activities of racketeering, kidnapping, gambling (which is illegal across India), smuggling of alcohol, tobacco and medicines, armed robbery, counterfeiting and bogus invoicing, tax evasion and misappropriation of public funds, he says that new markets in smuggling illegal labour and refugees, computer piracy, in arms trafficking, in stolen cars, in works of art and antiquities, in protected species and human organs are all flourishing.

However predicate offences for money laundering under the PMLA are far more limited. Notable