A CRITICAL STUDY ON THE ROLE OF CORPORATE GOVERNANCE IN PREVENTING MONEY LAUNDERING AND FINANCIAL CRIMES IN INDIA

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ABSTRACT

This research paper critically analyses how corporate governance can ensure that there is prevention of money laundering and financial crimes in the fast-changing economic environment in India. Although the country has a strong legislative system, such as the Prevention of Money Laundering Act (PMLA), 2002, and the Companies Act, 2013, the country is still experiencing high-profile financial scandals, which point to a serious implementation gap. This research is supposed to examine the complex connection between the anti-money laundering (AML) efficacy and the corporate governance mechanisms. It uses a research methodology of doctrinal analysis of statutory provisions, regulatory framework, judicial pronouncements, and case studies such as the Satyam, PNB-Nirav Modi, and IL&FS scams. The literature review shows that there is a general agreement that governance is theoretically important, but that there is a fundamental lack of integration in practice, marked by inertia in enforcement, regulatory dispersion, and ineffective compliance cultures. The fact is that the shortcomings in the systems of corporate governance directly contribute to financial crimes. The paper answers major research questions related to the effectiveness of the current legislation, the role of the regulatory authorities, and the challenges of the digital breakthrough. The results suggest that these structural vulnerabilities, which include board passivity, auditor complicity, and extensive use of shell entities, have a debilitating effect on the financial integrity of India. The paper wraps up by suggesting a combination of policies, better regulatory cooperation, and greater whistleblower safeguards to address the gap between the governance and the AML sector, and take further steps in protecting India against economic crime.

Keywords: Corporate Governance, Money Laundering, PMLA, SEBI LODR, Financial Crimes, FATF, White-Collar Crime, Related Party Transactions.

I. Introduction

The convergence of corporate governance and financial crime prevention is one of the most urgent problems of economic sovereignty in India. In a world characterized by the globalization of finance and digital creativity, sound governance is the initial line of defense against money laundering, which harms the integrity of the market, destroys people, and promotes other, more grave offenses. The topicality of the discussed issue can be eloquently demonstrated by a list of disastrous corporate scandals that happened in 2009 with Satyam Computer Services fraud as the first in a row and the Punjab National Bank (PNB) and Infrastructure Leasing and Financial Services (IL&FS) scandals as the latest ones, each revealing an extremely weak layer of the control and internal controls and unethical leadership.[1]

The history of this problem is based on the economic boom in India after liberalization, which, on the one hand, brought about unprecedented growth, and on the other hand, left new disadvantages. The legislative reaction, especially the Prevention of Money Laundering Act (PMLA), 2002, and the Companies Act, 2013, put in place a broad framework on paper.[2] This development is greatly recorded in the scholarly literature, where Kumar and Sharma (2015) emphasize the differences in the quality of governance, whereas Venugopal and Krishnan (2019) draw a correlation between a good governance structure and an effective response to AML.[3] Yet, there is another major issue: such strong laws did not translate into practical deterrence, as can be seen with the increasing number of enforcement cases and insignificant conviction rates. The key research question is: What are the gaps in corporate governance systems that support the provision of money laundering and other financial crimes in India, and what coordinated reforms can improve the resilience?

The gap in the existing literature is identified in this research since, although many studies have been conducted to investigate the issue of corporate governance and AML separately[4], there are still few studies in which both issues have been reviewed simultaneously to determine their

[1] "Prevention of Money Laundering Act (PMLA)," ByJus, May 11, 2023, https://byjus.com/free-ias prep/prevention-of-money-laundering-act-pmla/ (last visited on September 10, 2025).
[2] "India's measures to combat money laundering and terrorist financing," FATF, September 19, 2024, https://www.fatf-gafi.org/en/publications/Mutualevaluations/India-MER-2024.html (last visited on April 21, 2025).
[3] "Top 15 Banking Frauds in India [Types, Trends & Prevention]," KYCHub, March 7, 2025, https://www.kychub.com/blog/top-banking-frauds-in-india/ (last visited on April 21, 2025).
[4] "Understanding the Prevention of Money Laundering Act (PMLA) 2002," Lexology, April 19, 2023, https://www.lexology.com/library/detail.aspx?g=d9a877a7-f7eb-4914-8a64-f05af852f93a (last visited on April 21, 2025).

symbiotic failure in the Indian context.[5] First instance cases and enforcement statistics indicate that the issue is not the deficiency of regulations but rather the ineffectiveness of the enforcement process, which includes regulatory arbitrage, overloaded courts, and a compliance formalism culture.[6] The proposed research project is national as it will be based on the Indian financial ecosystem, though the lessons can be applied to other emerging economies around the world. This paper aims to close this gap in the academic and practical literature by critically assessing the current legal and institutional mechanisms and outlining a unified governance-AML policy framework that suits the unique Indian challenges.[7]

Statement of the Problem

India possesses a formidable legislative arsenal anchored by the Prevention of Money Laundering Act 2002 alongside stringent SEBI regulations yet enforcement hurdles remain obstinate. Data from the Enforcement Directorate reveals a high volume of registered cases that contrasts sharply with a historically low conviction rate. Investigators struggle to establish the requisite proceeds of crime trail within labyrinthine corporate structures. The fundamental issue lies in the reduction of corporate governance mechanisms to mere tick-box compliance exercises rather than functioning as the intended first line of defense. Management frequently bypasses independent directors while utilizing opaque related party transactions to siphon funds. This research dissects these systemic failures to understand why governance structures crumble under pressure and identifies methods to fortify them.

Objectives and Methodology

- Critically evaluate the interplay between corporate governance mechanisms and financial crime prevention in India.

- Analyze the effectiveness of the Companies Act 2013 and the Prevention of Money

[5] "Saradha Group financial scandal," Wikipedia, March 6, 2025, https://en.wikipedia.org/wiki/Saradha_Group_financial_scandal (last visited on April 21, 2025).
[6] 4"India: A Deep Dive into SEBI and Related Legislation Amid Insider Trading and Market Manipulation Investigations," Global Investigations Review, https://globalinvestigationsreview.com/guide/the-guide-international enforcement-of-the-securities-laws/third-edition/article/india-deep-dive-sebi-and-related-legislation-amid-insider trading-and-market-manipulation-investigations (last visited on April 21, 2025).
[7] "FATF Mutual Evaluation Report 2024," Vision IAS, October 22, 2024, https://visionias.in/current affairs/monthly-magazine/2024-10-17/security/fatf-mutual-evaluation-report-2024 (last visited on April 21, 2025).

Laundering Act 2002 in fixing accountability on corporate officers.

- Examine judicial trends during 2024 to 2025 and key regulatory amendments that reshape the compliance landscape.
- Propose a unified Governance and AML framework suited to Indian corporations.

The methodology adopted is doctrinal and analytical, relying on primary statutes, regulatory circulars from SEBI and RBI, and judicial pronouncements from the Supreme Court of India and High Courts.

II. Literature Review

The literature regarding corporate governance in India has changed considerably, and it has come to realize that it plays a very crucial role in the provision of financial integrity. Initial studies by Kumar and Sharma (2015) have shown empirically that there is a significant difference in the quality of governance in listed companies, and remarkably, the lack of transparency in family-owned companies is alarming.[8] This formed a general relationship between financial transparency and the independence of boards. In more detail, Shah et al. (2018) have made a comparative evaluation of BRICS countries, having revealed that the regulatory institutions of India were seemingly strong in legislative terms but were fraught with serious gaps in enforcement, which were the main catalysts of financial fraud.[9]

There is an entire body of literature exploring the intersection of governance and AML. Venugopal and Krishnan (2019) investigated the interface of governance mechanisms with AML protocols and discovered that organizations with strong structures showed much more compliance with the requirements of PMLA. Their study revealed that the board composition and independence of the audit team were strongly related to the effective implementation of AML.[10] Nonetheless, Chopra (2022) presented an opposing argument and unveiled the structural constraints of independent directors. In his analysis of 200 cases of corporate fraud, he concluded that independent directors did not recognize the existence of irregularities in 78

[8] Ravi Kumar & Arun K. Sharma, "Corporate Governance Practices and Financial Transparency: Empirical Evidence from Indian Listed Companies," 18 J. Corp. Gov. 145, 146 (2015).
[9] Rajiv Shah et al., "Corporate Governance Frameworks in BRICS Nations: A Comparative Analysis," 22 Int'l J. Mgmt. Stud. 78, 80 (2018).
[10] K.R. Venugopal & Smitha Krishnan, "Corporate Governance Mechanisms as Enablers of Anti-Money Laundering Compliance," 24 J. Fin. Crime 156, 159 (2019).

cases, citing the information asymmetry and the processes of appointing the promoters as the major barriers.[11]

At the regulatory level, Jaiswal and Banerjee (2020) conducted a study focusing on the Listing Obligations and Disclosure Requirements (LODR) Regulations issued by SEBI, revealing that there is a gradual shift in the direction towards international standards, but there are still significant implementation issues (mid-sized businesses, in particular).[12] Another important area is the performance of enforcement agencies. According to Chatterjee (2018), alarming procedural bottlenecks were identified, and during the period of 2005-2017, approximately 3,000 PMLA cases were proven, with only 50 convictions in the country; judicial capacity factors were a strong limitation.[13]

Moreover, the research on the typologies of financial crime, including that of Pratik Mehrotra & Rajdeep Singh (2023), points out the dynamic nature of the threat, and the trade-based money laundering and the real estate industry become particularly susceptible. The literature agrees when indicating that there are three issues: the theoretical-comprehensive character of the laws, their practical-inadequate implementation, and the cultural-tolerance of the failures of the governance. This overview is a confirmation that the academic interpretation of the constituents is profound, but there is no comprehensive, end-focused literature that incorporates the principles of corporate governance directly into the AML struggle, which this paper aims to fill.[14]

III. Conceptual Framework

To gain an insight into the interplay between corporate governance and anti-money laundering, it is imperative to transcend the statutory expressions to look at the theoretical foundations of corporate control. This discussion would involve the exploration of the underlying theories that explain how power relations in a company generate the chances of financial misconduct.

[11] Anil Chopra, "Independent Directors and Financial Crime Prevention: Structural Limitations and Reform Pathways," 28 Indian J. Corp. Gov. 220, 223 (2022).
[12] Neha Jaiswal & Priya Banerjee, "Evolution of SEBI Governance Norms: Impact Assessment of LODR Amendments," 25 Corp. L.J. India 112, 115 (2020).
[13] Debarati Chatterjee, "Enforcement Effectiveness under PMLA: Statistical Analysis and Procedural Bottlenecks," 25 J. Fin. Crime Prev. 89, 92 (2018).
[14] Pratik Mehrotra & Rajdeep Singh, "Structural Impediments to Corporate Governance in India: Promoter Dominance and Its Implications," 31 Indian Bus. L.J. 178, 181 (2023).

Information Asymmetry Problem and Agency Theory: The fundamental challenge of corporate financial crime is the traditional agency issue that was initially modelled by Jensen and Meckling in 1976[15]. In the modern corporations, there are divisions of ownership among the shareholders and the control among the management. Managers are agents who have critical information and operational authority which shareholders as principals do not have. Money laundering environments present an inherent information asymmetry that is used by unscrupulous management to drain money or to use an account of a company to launder criminal proceeds. A CEO may also authorize a deal with a shell company of a relative at high prices and the shareholders will only get the final financial statement. Corporate governance can minimize this asymmetry by requiring disclosure and independent audits and stringent disclosures. Inadequacy of governance mechanism reinvents the corporate veil into a veil of crime.

The Stewardship Theory and the Reality: The theory of stewardship holds that managers are innate trust worthy stewards who have the motivation to work in the best interest of the organization. The history of financial crimes in India since the Harshad Mehta scam to the fold of Kingfisher Airlines goes against this optimism. The reality is closer to the managerial hegemony theory[16] in which a charismatic CEO or a promoter has taken over the board making the oversight ineffective. The need to make profits or enrich oneself is the victim of AML compliance in such environments.

The Gatekeeper Strategy: The contemporary regulatory theory considers corporate governance institutions[17] which are the Board of Directors and the Audit Committee as gatekeepers. They play the role of police to market access so as to maintain the integrity of financial information. The red flags that must be identified by these gatekeepers in an AML setting include high-value cash transactions or transactions with high-risk jurisdictions. Complex ownership structures which are used to hide the ultimate beneficial owner also require questioning. Unsuccessful money laundering activities are often premeditated by failure by these gatekeepers.

[15] Michael C. Jensen & William H. Meckling, Theory of the Firm: Managerial Behavior, Agency Costs and Ownership Structure, 3 J. Fin. Econ. 305, 308 (1976).
[16] James D. Westphal & Edward J. Zajac, Who Shall Govern? CEO/Board Power, Demographic Similarity, and New Director Selection, 40 Admin. Sci. Q. 60 (1995).
[17] Reinier H. Kraakman et al., The Anatomy of Corporate Law: A Comparative and Functional Approach 293-95 (3d ed. 2017).

IV. Legal and Regulatory Framework

The system of financial crime prevention in India is based on a threefold framework that consists of the Prevention of Money laundering Act and the Companies Act and SEBI laws. This section examines these statutes with amendments until 2025.

The Prevention of Money Laundering Act (PMLA), 2002[18]

The PMLA is the foundation of the AML regime in India, which meditates the laundering of funds gained because of the planned offenses. One of the controversial points is the Section 50 that gives the officers of the Enforcement Directorate officers[19] the power to summon people and take statements. However, contrary to the police officers, ED officials do not have the constitutional protection against self-incrimination in the form that makes such statements admissible in court. In 2024 and 2025, several issues regarding the possible abuse of this provision were heard in the Supreme Court. Critics believe that it technically allows custodial confessions in the pretext of an inquiry. The judiciary however argues that proceedings under PMLA are not criminal purs pegs until a prosecution complaint has been lodged therefore supporting Section 50. This stance leaves a huge burden on the directors of corporations since one misstatement in an ED summons could be the first piece of evidence against them that would require the highest order of legal governance of the corporation.

Development of proceeds of crime: Under the same section, 2(1)(u), courts have treated the meaning of proceeds of crime very broadly. Originally applied to property which was the direct result of a criminal act it is currently applied to property which resulted from the criminal act or is the value of property. The totality of transactions doctrine 2025 actually arose out of a landmark case in which Pradeep Nirankarnath Sharma[20] was involved when the Supreme Court narrowed down on the monetary limits on PMLA crimes. The Court stated that thresholds are to be evaluated with reference to totality of transactions as opposed to individual sums that close gaps whereby offenders have been organizing transactions in such a way that they cannot be detected.

[18] Prevention of Money Laundering Act, No. 15 of 2003, India Code (2002), § 2(1)(u).
[19] Id. § 50.
[20] Pradeep Nirankarnath Sharma v. Directorate of Enforcement, Crim. App. No. 4287/2025 (S.C. Nov. 15, 2025) (India).

Strict Liability and Bail Rigors (Section 45): The constitutionality of the twin conditions of bail in Section 45 was held in Vijay Madanlal Choudhary v. Union of India[21] prerequisites courts to be content that there are reasonable grounds to suspect that the accused is innocent and he will not repeat an offense under bail. This subtle change happened in 2025 through such cases such as Arun Pati Tripathi v. Directorate of Enforcement[22] in which Supreme Court decided that the accused cannot be held in custody indefinitely in case the cognizance order of a predicate offense has been discharged. The extension into complaints invoked after July 2024 of Section 223 of the Bharatiya Nagarik Suraksha Sanhita[23] added procedural protection allowing the accused a right to be heard prior to cognizance being taken.

Corporate Liability (Section 70): specifically touches on crimes committed by companies[24] where it is believed that all individuals in charge and answerable to the company to the acts of the conducting business at the time of the committance is guilty. This clause lifts the veil of incorporation under which the directors and top management cannot bury themselves behind corporate legal entity.

The Companies Act, 2013

The Companies Act, 2013[25] Act was a change of management in corporations to corporate governance with clauses that enhance AML practices. Section 245 came up with class action suits[26] in emulation of US securities laws that gave shareholders the authority to initiate an action against directors and auditors because of fraudulent practices. This is however a slumbering provision that has had minimal admitted suits as of 2025 since there are high filing requirements and a non-culture of litigating by retail investors. The sharing of corporate governance oversight through the activation of the Section 245 may effectively transform shareholders into watchdogs.

Section 177: This section requires the Audit Committee[27] to oversee financial reporting processes which serve as the first line of defence to manipulation. The committee should comprise at least three directors of which majority are independent directors. They are also

[21] Vijay Madanlal Choudhary v. Union of India, (2022) 6 SCC 1, ¶ 245.
[22] Arun Pati Tripathi v. Directorate of Enforcement, (2025) SCC OnLine SC 892, ¶ 18.
[23] Bharatiya Nagarik Suraksha Sanhita, 2023, No. 45 of 2023, India Code, § 223.
[24] Prevention of Money Laundering Act, No. 15 of 2003, India Code (2002), § 70.
[25] Companies Act, 2013, No. 18 of 2013, India Code (2013).
[26] Id. § 245.
[27] Id. § 177.

involved in the assessment of the internal financial control and risk management systems. Nevertheless, audit committees tend to place a lot of trust on the management information and this undermines the oversight in the instance where falsification of data may occur unless scepticism is practiced by the professional auditors.

The judicial review of auditors escalated to the 2023 decision of the Supreme Court supporting Section 140(5)[28] of the Companies Act. Rezaudin, the Court ruled that auditors who conduct their activities in a fraudulent way may be debarred five years ago that resignation does not relieve them of liability. The 2025 ABG Shipyard fallout reinforced this as regulators moved to ban audit firms failing to red-flag fund diversion establishing that auditors have a public interest duty to act as bloodhounds when fraud is patent.

Critique: In practice, audit committees often rely heavily on information provided by management. If management presents falsified data (as in Satyam), the committee's oversight is compromised unless they exercise professional skepticism.

Section 143(12)[29]: Auditors must report fraud directly to the Central Government if they have reason to believe an offense is being committed against the company by its officers or employees. This provision aims to break the nexus between corrupt management and compliant auditors although a reporting gap exists for frauds below the threshold of one crore rupees.

Significant Beneficial Ownership (SBO): Section 90 read with the Companies (Significant Beneficial Owners) Rules 2018[30] mandates identification of individuals holding significant beneficial ownership of ten percent or more. This measure is crucial for preventing the use of complex multi-layered structures to hide true owners of illicit assets though verification remains a challenge for many reporting entities.[31]

SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015[32]

For listed entities, SEBI LODR sets the gold standard. The regulations have been progressively

[28] Union of India v. Deloitte Haskins & Sells LLP, (2023) 9 SCC 742, ¶ 56.
[29] Companies Act, 2013, No. 18 of 2013, India Code, § 143(12).
[30] Id. § 90; Companies (Significant Beneficial Owners) Rules, 2018, GSR 547(E) (June 14, 2018) (India).
[31] Fin. Action Task Force, Anti-Money Laundering and Counter-Terrorist Financing Measures: India, Mutual Evaluation Report, ¶ 3.12 (June 2024), available at https://www.fatfgafi.org/en/publications/Mutualevaluations/India-MER-2024.html.
[32] Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, SEBI/LAD-NRO/GN/2015-16/013 (Sept. 2, 2015) (India).

tightened to address governance gaps exposed by recent scams.

Regulation 17: SEBI LODR sets the gold standard for listed entities with regulations progressively tightened to address governance gaps. Regulation 17 mandates[33] an optimum combination of executive and non-executive directors including an independent woman director for top listed entities. Separation of Chairperson and Managing Director roles was proposed to reduce power concentration though implementation has faced delays.

Related Party Transactions (RPTs) - 2024 and 2025 amendments focussed on related party transactions as modestly used money laundering vehicles. Related party was widened to mean individuals who make up promoter group regardless of shareholding. SEBI has introduced a purpose and effect test that may be used to understand whether a transaction is a related party transaction to ensure that business may not seek to evade the rules by using elaborate structures to do the same. The Fifth Amendment provisions notifies in late 2025[34], that a transaction made by a subsidiary must be approved by the audit committee of the listed entity when the value is more than ten percent of the turnover of the subsidiary that closes the subsidiary loop through which dirty money is transferred.

V. The Regulatory Ecosystem: RBI, FIU-IND, AND FATF

Although the legislative mechanism forms the requirement of compliance the operational effectiveness of the anti-money laundering framework in India lays on the foundation of a three-part regulatory ecosystem. It is this institutional structure which serves as the circulatory system of financial integrity on how the statutory purpose of the PMLA and the Companies Act is sent to the action intelligence and enforcement. The superposition of the reserve bank of India as a regulator, the financial intelligence unit -India as the intelligence body and the financial action task force as the international standard-setter characterizes the current borders of corporate governance in the banking industry.

The Reserve Bank of India: From Rule-Maker to Risk-Supervisor

The key gate controller to the formal financial system is the reserve bank of India whose role is to ensure that illegal money is not introduced into the banking system. The guiding document

[33] Id. reg. 17.
[34] Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) (Fifth Amendment) Regulations, 2025, SEBI/LAD-NRO/GN/2025/178 (Nov. 12, 2025) (India).

to this role is the Master Direction - Know Your Customer Direction 2016[35] that has experienced an extensive reformation up to 2025 to abreast with changes in financial crimes. The new model of RBI has been serving as a risk-based supervision framework as opposed to a compliance model which was based on rules. This paradigm requires that the regulated parties that include both banks Non-Banking Financial Companies and payment system operators should not only accumulate the identity documents but should also actively determine the risk profile of their customers. The focus of the central bank is the identification of Beneficial Owner that forces financial institutions to lift the veil of incorporation and determine the natural persons who are ultimately in control of a corporate client. This is a very important necessity in lifting the veils of shell companies that are usually helpful in hiding the source of finances. The RBI has been very strict with governance lapses especially in the fintech and digital payments industry in the recent years. In 2024, the action the regulatory authorities took to penalize the major payments banks[36] due to continued non-observance of the norms KYC marked the beginning of the watershed. These interventions highlighted that regulatory hygiene can never be an option in business innovation. The RBI has also increased the squeeze on mule accounts on which cybercrime proceeds are layered by increasing due diligence on account reflecting high transactions velocity and low average balances. This direct accountability of the Board and the Audit Committee of financial institutions through the enforcement of these lapses by the RBI has also substantially helped the inclusion of AML compliance as a part of the fiduciary responsibilities in the corporate governance.

Financial Intelligence Unit – India (FIU-IND): The Intelligence Nerve Center

The Financial Intelligence Unit-India serves as the national nodal agency and thus is in an exclusive position in the nexus of the financial sector and law enforcement. As compared to a police agency the FIU-IND does not perform physical arrests instead they run millions of financial data points so as to create actionable intelligence. It mainly uses the Suspicious Transaction Report[37] that the reporting entities are expected to submit within seven days after the completion of establishing that a transaction is dubious. The FIU-IND interprets such reports with the help of sophisticated data analytics to observe complex layers of layering and

[35] Reserve Bank of India, Master Direction – Know Your Customer (KYC) Direction, 2016, RBI/DBR/2016-17/18 (updated Feb. 25, 2025), available at https://www.rbi.org.in.
[36] Reserve Bank of India, Press Release: RBI imposes Monetary Penalty on Paytm Payments Bank Limited (Mar. 11, 2024), available at https://www.rbi.org.in/Scripts/BS_PressReleaseDisplay.aspx?prid=57324.
[37] Prevention of Money Laundering (Maintenance of Records) Rules, 2005, GSR 717(E), r. 3 (July 1, 2005) (India).

integration and eventually spreads such intelligence to the enforcement agencies such as the Enforcement Directorate and the Central Bureau of Investigation. This is an intelligence-driven strategy to make sure that the investigations are proactive as opposed to responsive. The FIU-IND is bound to increase its jurisdiction in the 2024-2025 by including the Virtual Digital Assets sector[38] under the scope of the PMLA. It was acknowledged that cryptocurrencies had become a favourite method of money laundering the government required all crypto exchange and wallet providers to registration with the FIU-IND as reporting entities. This action subjected offshore transactions that lie within a regulatory grey area into the Indian legal jurisdiction. The introduction of registration and reporting requirements on this digital platforming the FIU-IND has successfully sealed a gigantic loophole in the financial system such that the anonymity offered by blockchain technologies cannot be used to avoid corporate governance practices.

The FATF Mutual Evaluation 2024: Global Benchmarking and Strategic Gaps

The 2024 Financial Action Task Force is a Medical Evaluation Report[39], which was a tense stress test on the organizational determination and corporate governance in India. The assessment included India in the regular follow-up category one which shared only by few G20 countries who recognized high degree of the technical compliance with FATF Recommendations. The international watchdog praised Indian strong legislations especially effectiveness of the Jan Dhan- Aadhaar- Mobile trinity[40] education that has strengthened the financial inclusion and minimized the use of the cash economy decreased the space to carry out secret illicit transactions. The report also confirmed the effectiveness of the confiscation regime in India that has a considerable worth of assets attached by the Enforcement Directorate that is reflected against the enormity of the predicate crimes. The FATF assessment however also shed light on structural gaps that need policy intervention. The challenge of the judicial system in terms of court delays in sentencing money laundering crimes was one of the main issues. Investigation and attachment phases are strong but slows the conviction rate hence discourages the deterrent effect of the law. In addition to this, report also indicated the necessity of continued risk based policy toward Non-Profit Organization sector with the aim of preventing the abuse of terrorist financing without constraining the legitimate mode of

[38] Ministry of Finance, Notification GSR 221(E): Virtual Digital Assets Reporting Entities (Mar. 7, 2023) (India).
[39] Fin. Action Task Force, supra note 33, at Executive Summary.
[40] Id. ¶ 2.5.

operation in the civil society. More importantly the FATF made Designated Non-Financial Businesses and Professions[41] like real estate agents dealers in precious metals and accountants as continued weak links. The report called upon India to impose stringent corporate governance and reporting regulations of banking to these areas that hinted at that the future frontier of AML reform is to regulate these non-financial gatekeepers.

VI. Case Studies

In order to comprehend how the theoretical issues mentioned in the paper were applied in practice, it is necessary to examine some examples of situations when corporate governance failed to serve as one of the factors supporting financial crimes.

The IL&FS Crisis 2018: The Shadow Banking Black Hole

The failure of the Infrastructure Leasing and Financial Services[42] as a huge Non-Banking Financial Company is a classic case study of the way that complex corporate structures conceal bankruptcy and launder money. The number of 347 subsidiaries joint ventures and associate companies[43] were running mazes in IL&FS. This was not an accident but a design to hide fund flows. The operations of the Serious Fraud Investigation Office have found that the Committee of Directors loaned funds to third parties who had no creditworthy background. These were borrowers, who reverted some loan into IL&FS Employee Welfare Trust or to the companies owned by the key managerial cadres in a typical quid pro quo. Failure to govern the situation was demonstrated because the Risk Management Committee was purely on paper. Even independent directors such as great personalities could not wonder why the loans were being evergreened through the issuance of new loans to pay old ones before classification as Non-Performing Asset. External control, the existence of credit rating and agencies, whose ratings were AAA up to the day of default, underlines the failure of external control systems.

The DHFL Scam (2019-2020): The "Bandra Books" Conspiracy

This happened with the Dewan Housing Finance Corporation Ltd case[44] of the Wadhawan

[41] Id. ¶ 4.8; see also Fin. Action Task Force, International Standards on Combating Money Laundering, Recommendation 22 (updated Oct. 2023).
[42] Ministry of Corporate Affairs, Serious Fraud Investigation Office, Interim Investigation Report on IL&FS Group, at 12-18 (Dec. 2018).
[43] Id. at 8.
[44] Directorate of Enforcement, Prosecution Complaint No. ECIR/11/2019, at ¶ 15-22 (filed June 20, 2020) (DHFL Money Laundering Case).

brothers, who were found to have been selling off large proportions of public funds approximated to be thirty-four thousand crores, through shell companies. In one of the forensic audits made by KPMG[45], it was found that DHFL had a parallel set of accounts called the Bandra Books that harbored illicit transactions. The firm made massive payment of loans to shell companies associated with promoters. These entities were neither business ventures nor had any commencing business and were only established to drain money to buy real estates in both Mumbai and other countries. The assets seized by the Enforcement Directorate under the PMLA are worth billions indicating that the Audit Committee was utterly ineffective in ensuring that the manner in which the money was used was verified. There was also implication of statutory auditors because they failed to realize the presence of the fake project loan accounts in the number of thousands.

The Karvy Stock Broking Case 2019: Breach of Trust

In IL&FS as well as DHFL, credit frauds were committed whereas in the Karvy scandal[46], there was the violation of fiduciary trust. Karvy as a top stockbroker has guaranteed securities in the accounts of clients in demat accounts without their approval to borrow loans on its own real estate property Karvy Realty. This was a direct contravention of the SEBI circulars that required the fund separation of client funds and securities. Internal auditors did not notify this giant commingling of assets when the Board of Karvy, dominated by promoters, considered client assets their own piggy bank.

Recent Developments 2024-2025: The Rise of Fintech Frauds

In the post 2023 era, there was a trend towards online financial crimes. As of 2024, it was also found that dozens of fintech payment aggregators had lax KYC requirements enabling thousands of mule accounts to be performed. Such accounts were accumulated with cybercrime funds. Massive fines imposed by the RBI on Paytm Payments Bank in 2024 when the bank continued to fail on KYC standards indicated that oversight leniency towards lax governance in the fintech industry had ended.

[45] KPMG, Forensic Audit Report: Dewan Housing Finance Corporation Ltd., at 45-67 (May 2019) (on file with National Company Law Tribunal).
[46] Securities and Exchange Board of India, Order No. WTM/AB/EFD-2/DRA-2/NOV/2019 (Nov. 22, 2019) (Karvy Stock Broking Ltd.).

The ABG Shipyard Fraud

The ABG Shipyard fraud[47] involving twenty-two thousand eight hundred forty-two crores occurred between 2012 and 2017 but the first complaint was filed by the State Bank of India only in 2019 with the CBI booking the case in 2022. This delay of nearly five years allowed the layering stage of money laundering to be completed and evidence destroyed. A forensic audit by Ernst and Young[48] in 2019 revealed that funds were diverted to ninety-eight related companies. Yet statutory auditors between 2012 and 2017 issued clean or qualified reports without raising alarm on fraud. The breakdown here involved not just corporate governance but also consortium governance where multiple lenders waited for others to act creating a vacuum of responsibility.

VII. Critical Analysis

The efficacy of corporate governance in preventing financial crimes remains uneven despite the existence of a comprehensive regulatory framework. Several persistent gaps undermine the system's effectiveness.

The Tick-Box Compliance Culture: A major critique of the Indian corporate sector centers on the prevalence of form over substance. Companies frequently treat governance as a mere checklist involving the appointment of independent directors and holding requisite meetings without substantive engagement. Boards in many financial fraud cases have been found largely passive while rubber-stamping decisions made by promoter-CEOs. The presence of independent directors has rarely deterred determined fraudsters which raises serious questions regarding their true independence and the quality of information provided by management.

The Promoter Raj Phenomenon: Indian companies are characterized by concentrated promoter shareholding unlike Western counterparts where ownership is often dispersed. This structure creates a unique agency problem framed as majority versus minority rather than management versus shareholder. Promoters frequently view the company as their personal fiefdom. Independent directors serving at the pleasure of shareholders who are effectively promoters often lack the spine to dissent. Recent tussles in large conglomerates such as the

[47] Central Bureau of Investigation, FIR No. RC 52(A)/2019 (Feb. 12, 2022) (ABG Shipyard Ltd. Bank Fraud Case).
[48] Ernst & Young LLP, Forensic Investigation Report: ABG Shipyard Ltd., at 78-95 (Mar. 2019) (submitted to State Bank of India).

Tata-Mistry saga or the Raymond family dispute highlight how promoter interests overshadow established corporate governance norms.

Regulatory Arbitrage and Shell Companies: The use of shell companies remains the primary modus operandi for money laundering in India. The Ministry of Corporate Affairs struck off over three lakh eighty thousand shell companies[49] post-demonetization yet new entities proliferate. These companies generate bogus invoices for trade-based money laundering or hold benami assets. The core challenge lies in corporate governance norms primarily applying to active listed companies while shell entities operate in regulatory shadows until interacting with the formal financial system.

Enforcement Bottlenecks: Conviction rates remain historically low at less than one percent[50] as of 2023 data despite the Prevention of Money Laundering Act granting the Enforcement Directorate draconian powers. Judicial backlogs mean trials take decades which dilutes the deterrent effect of the law. The 2025 Supreme Court ruling emphasizing the totality of transactions represents a welcome step toward catching structured laundering but the governance framework lacks the teeth of swift punishment without faster trial conclusions.

VIII. Recommendations

India's corporate governance landscape exhibits a compliance paradox where the de jure framework is robust yet de facto implementation remains fragmented. Bridging this gap necessitates a multi-dimensional reform agenda moving beyond traditional regulation toward smarter incentives and technological integration.

Unified Corporate Governance & AML Policy Framework

Anti-money laundering is currently treated as a siloed compliance function divorced from strategic board oversight. This tick-box approach must be dismantled in favor of an integrated governance model. SEBI should mandate that the Management Discussion and Analysis section of the Annual Report explicitly address financial crime risks borrowing from Integrated Reporting principles. The Board must disclose the efficacy of internal controls rather than just their existence. This disclosure should include a Financial Integrity Statement signed by the

[49] Ministry of Corporate Affairs, Press Release: Government Strikes off 3.79 Lakh Shell Companies (Dec. 31, 2019), available at https://www.mca.gov.in.
[50] Government of India, Ministry of Finance, supra note 16.

Chairperson and Audit Committee Chair certifying that a Money Laundering Risk Assessment has been conducted for supply chains and related party networks.

The "Chief Risk Officer" (CRO) Independence

The Chief Risk Officer in many Indian firms reports to the CFO or CEO creating a conflict of interest when financial targets clash with compliance protocols. A statutory amendment to the Companies Act 2013 is recommended mandating that the CRO for top 500 listed entities report directly to the Risk Management Committee of the Board. Dismissal should require RMC approval mirroring protections granted to Internal Auditors and insulating the risk function from management pressure.

Strengthening the "Independent" in Independent Directors

Gaps remain in the operational capacity of Independent Directors to detect fraud despite strides made by the Uday Kotak Committee[51]. India should adopt the UK Corporate Governance Code's[52] concept of a Senior Independent Director or Lead Independent Director. An LID should be statutorily appointed in companies where the Chairperson is non-executive but related to the promoter. The LID should be empowered to convene meetings of IDs without management presence and possess authority to hire external forensic investigators funded by a dedicated Governance Corpus if financial irregularities are suspected.

Specialized AML Training:

SEBI currently mandates generic familiarization programs. A mandatory Financial Crime Certification is proposed for all Audit Committee members of banking and NBFC boards. This certification overseen by the National Institute of Securities Markets should cover advanced typologies such as trade-based money laundering and crypto-asset risks.

Beneficial Ownership Transparency: The "Glass House" Protocol

Corporate ownership opacity facilitates money laundering significantly. Enforcement of the Companies (Significant Beneficial Owners) Rules 2018 is hampered by the lack of a public

[51]Securities and Exchange Board of India, Report of the Committee on Corporate Governance (Oct. 5, 2017), available at https://www.sebi.gov.in/reports/reports/oct-2017/report-of-the-committee-on-corporate-governance_36177.html.
[52] Financial Reporting Council, The UK Corporate Governance Code, Provision 12 (July 2024) (U.K.).

verification mechanism. The Ministry of Corporate Affairs should make data on Significant Beneficial Owners publicly searchable following the precedent of the UK's Persons with Significant Control register[53]. A public registry would allow civil society and investors to identify conflicts of interest that regulators might miss. India should also pilot blockchain-based Distributed Ledger Technology for shareholder registers of unlisted subsidiaries to prevent backdated transfers hiding beneficial ownership.

Incentivizing Whistleblowers: From Protection to Reward

India's current whistleblower mechanism is purely protective shielding whistleblowers from victimization without offering positive incentives. A transition to a reward-based regime similar to the US Dodd-Frank Act[54] is necessary. We recommend a statutory Whistleblower Reward Fund financed by penalties levied on non-compliant firms. Whistleblowers providing original information leading to recovery exceeding five crores should be entitled to a percentage of the recovered amount. SEBI should also commission an encrypted National Whistleblower Portal to allow anonymous reporting directly to the regulator bypassing compromised internal mechanisms.

Structural Reforms in Auditing: Breaking the Oligopoly

Recurrence of clean audit reports in collapsing companies necessitates rethinking the auditor's role. SEBI should mandate Joint Audits for all Nifty 50 companies ensuring at least one auditor is a non-Big 4 domestic firm to reduce familiarity risk. Clawback provisions for audit fees are recommended building on the Supreme Court's judgment in Union of India v. Deloitte[55]. Auditors liable for negligence should return audit fees to the Investor Education and Protection Fund if a company is found guilty of financial fraud within three years of a clean report.

Special Financial Crime Courts: Reducing the Justice Deficit

The deterrence effect of laws like PMLA is diluted by judicial delays. The government should notify the constitution of exclusive Special Courts for PMLA and corporate fraud cases in major financial centers. These courts should be staffed by judges with specialized training in

[53] Companies Act 2006 (UK), c. 46, Part 21A (Register of People with Significant Control).
[54] Dodd-Frank Wall Street Reform and Consumer Protection Act, Pub. L. No. 111-203, § 922, 124 Stat. 1376, 1848 (2010) (codified at 15 U.S.C. § 78u-6).
[55] Union of India v. Deloitte Haskins & Sells LLP, 2023 SCC OnLine SC 557.

forensic accounting and cyber law. Fast-track procedures for economic offenses should be introduced by amending the Civil Procedure Code and BNSS to prevent procedural delays.

Institutional Stewardship

Institutional investors holding significant stakes in India Inc often remain passive. SEBI's Stewardship Code should be mandatory for all institutional investors managing assets over five hundred crores. They must be required to vote on all shareholder resolutions and publicly disclose the rationale for voting decisions forcing a stand against dubious transactions.

Technology Integration

Regulators should encourage banks and large corporates to adopt API-based integration for continuous transaction monitoring moving from post-mortem audits to real-time surveillance. AI models can analyze payment flows to flag structuring or payments to high-risk jurisdictions instantly rather than waiting for quarterly audits.

IX. Conclusion

This research paper has suggested that the proliferation of money laundering and financial crimes in India is not a failure on the legislative front but a failure on the governance front. The legal framework in the country is mostly exhaustive, and it is in tandem with the international standards. Its potential is, however, not yet realised because it has a severe lack of touch with reality on the ground in terms of passive boards, disjointed regulators, speedy judiciary, and a culture that tends to put profit over values. The evidence of big scams indicates that there is a similarity of oversight failure, collusion, and systemic blindness to red flags. The regulatory environment, which is full of competent authorities, lacks coordination and is overwhelmed by the size and complexities of modern financial crimes. As a result, there is delayed punishment and low deterrence.

Moving forward requires a paradigm shift between the siloed and the synergistic approach. The proposed recommendations are not only additive but transformative, since they suggest a unified approach in policy-making, better regulatory coordination, empowered whistleblowers, and specialized courts. They are looking to embed anti-money laundering into the core of the corporate governance framework, ensuring all directors, auditors, and compliance officers are front-line protectors of financial integrity. This governance-AML gap can not only guarantee

India a secure future in its economy but also help it become a global leader in combating financial crime. Future studies may quantitatively assess the effectiveness of these suggested reforms and investigate the peculiarities of such regulation of the appearance of new technologies as decentralized finance and artificial intelligence in the framework of AML.