
CRIME MEETS CODE: SHELL COMPANIES, MONEY LAUNDERING, AND TECHNOLOGY

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ABSTRACT

Money laundering, the process of disguising illegally obtained wealth as legitimate funds, when coupled with shell companies—entities with no active business transactions, employees, or substantive existence—poses a significant threat to global financial systems. This practice results in the loss of taxes, corruption of public institutions, and the collapse of economic entities. With an estimated USD 2 trillion funnelled through such channels annually, the global financial system faces mounting strain. In India, shell companies have been pivotal in enabling high-profile scams like the 2G and coal scams. While advancements in technologies like artificial intelligence (AI) and blockchain have aided in combating shell companies, these tools are increasingly exploited to create more elusive structures, exacerbating the issue. With insufficient legal safeguards in India, the threat persists. This study employs a qualitative research approach, integrating case studies of major shell company scams and evaluating the dual role of emerging technologies in combating and facilitating money laundering. It critically examines regulatory frameworks to identify gaps and proposes actionable interventions, including anomaly detection systems, blockchain-enabled transparency, AI-driven KYC protocols, and harmonised international data-sharing frameworks. Furthermore, the research highlights the urgency for legal reforms tailored to India's unique challenges, such as stricter definitions of shell companies and enhanced enforcement mechanisms. These strategies aim to mitigate misuse, contribute to financial stability, and provide a blueprint for integrating emerging technologies and legal reforms effectively, offering solutions that can serve as global benchmarks.

Keywords: Shell companies, Money Laundering, Technological solutions, Regulatory Framework.

INTRODUCTION

Shell companies now dominate financial crime, whether the objective is tax avoidance or funding of terrorism. Examples of the scams perpetrated by Nirav Modi and DHFL illustrate how shell entities use opaque group structures and, often, apparent loopholes in the law to stay under the radar. Sometimes, they even employ technology to achieve the goal. Attempts to control illegal financial practices in India have been lacking because of the absence of a clear legal definition of a shell company and weak cooperation among agencies implementing the laws.

This research deals with how technology could have a twofold utility- both enabling and deterring shell companies' misuse. Using the method of case studies, this reveals significant failings in the structure of the regulatory framework in India and tries to estimate how the international standards recommended by the Financial Action Task Force (FATF) are viable for India in the present scenario. Further, the paper has dealt with the application of artificial intelligence in detecting malpractices and blockchain as enhancing transparency.

This data shows there is a pressing need for special reforms to fill regulatory lacunae and fortify India's capability to combat the use of shell companies in money laundering. Some of the beneficial recommendations include agency coordination, adaptation to advanced technologies, and synchronisation of national legislation with global best practices to maintain openness and transparency of financial systems.

METHODOLOGY

A qualitative approach was employed in this research to study the use of shell companies in financial crimes like tax evasion or money laundering. This research also deals with the fact as to whether the legal rules in India are competent enough to tackle these problems. For this purpose, case studies of some high-profile cases like that of Nirav Modi and DHFL were studied as secondary sources. The analysis was done to establish how shell companies use complex ownership structures and international deals for purposes of concealment.

The research further indicates the potential for using AI-developed tools in detecting anomalies and blockchain technology to enhance transparency. The data employed comes from reports provided by the government, research studies by academia, and updates from regulatory

sources with the intent of finding prevalent warning signs, including shared living space or strange transaction behaviour.

The purpose of this study is to provide practical recommendations for the betterment of India's regulatory system. This can be achieved by integrating technology and increasing cooperation among diverse agencies. Our objective is to suggest practical measures that can help fight the abuse of shell companies and ensure tighter financial control.

CURRENT LANDSCAPE: SHELL COMPANIES AND THEIR ROLE IN FINANCIAL CRIME

In 2016, a leak of unprecedented data from Mossack Fonseca, the world's fourth-largest offshore law firm, exposed 11.5 million confidential documents. Dubbed the "Panama Papers," this treasure trove of information exposed the inner workings of many offshore entities and shell companies. The files leaked implicated many powerful personalities, such as politicians and celebrities, who allegedly established offshore companies to hide assets to avoid taxes and undertake other suspicious fiscal activities. According to estimates by the International Monetary Fund (IMF), worldwide, \$15 trillion is allocated in a shell company or companies, based on which, the sheer scale of these entities in financial systems is contextualized¹.

This international expose showed how the function of shell companies facilitates such activity. These entities are characterized by an absence of employees, material assets, and actual physical presence and mainly exist to disguise ownership and mask illegal financial activity. Legitimate purposes exist for establishing these kinds of entities; startups often create them in order to obtain investment, for instance. But in reality, most are misused to conduct unlawful activities such as tax evasion and money laundering². Shell companies have been linked to financing terrorist groups like Hezbollah, which used them to smuggle cigarettes in North Carolina, and Viktor Bout, an infamous arms trafficker who utilized at least 12 American shell companies to conceal his activities³. According to the World Bank, 70% of major corruption

¹ 'The Rise of Phantom FDI in Global Tax Havens – IMF F&D' (IMF) <<https://www.imf.org/en/Publications/fandd/issues/2019/09/the-rise-of-phantom-FDI-in-tax-havens-damgaard>> accessed 21 January 2025.

² JC Sharman, 'Shopping for Anonymous Shell Companies: An Audit Study of Anonymity and Crime in the International Financial System' (2010) 24 The Journal of Economic Perspectives 127.

³ 'Terrorism, Inc.: How Shell Companies Aid Terrorism, Crime, and Corruption' <<https://www.opensocietyfoundations.org/publications/terrorism-inc-how-shell-companies-aid-terrorism-crime-and-corruption>> accessed 21 January 2025.

cases over the last 30 years involved the use of corporate entities like shell companies to disguise ownership and facilitate crimes. The United Nations Office on Drugs and Crime, reported that the money laundered globally every year corresponds to 2-5% of the world's GDP, that is, \$800 billion–\$2 trillion, with an annual amount of about \$1.6 trillion attributed to shell companies⁴.

The rise of shell companies in India highlights their growing use in financial crimes. In March 2012, after stricter income tax regulations were announced by then-Finance Minister Pranab Mukherjee, over 3,000 companies were registered in Kolkata within two weeks. Reports show that the West Bengal Registrar of Companies recorded 16,477 new private limited companies that financial year⁵, a surge driven by efforts to bypass the new tax laws before they took effect. Kolkata, a known hub for "accommodation entry" operators, became the epicentre of this activity due to its well-established networks facilitating the creation of shell companies at minimal cost. Many of these entities existed solely to launder illicit funds, layering transactions to obscure their origins and provide a legal front for black money. Forming a shell company is relatively simple, particularly in places like Delaware, the British Virgin Islands, and Panama, where strict secrecy laws protect the identities of beneficial owners. According to the IMF, over 85% of global phantom investments are concentrated in ten major tax havens, including Luxembourg, Singapore, Hong Kong SAR, the Netherlands, and the Cayman Islands. Luxembourg, with a population of 600,000, hosts \$4 trillion in Foreign Direct Investments (FDI) —\$6.6 million per person. These legal structures enable individuals to obscure ownership and financial flows through layers of anonymity. To further hide the real beneficiaries, for example, fictitious directors or nominee shareholders may be chosen, giving such organizations even more opacity⁶.

A high-profile 2022 money laundering case in Kolkata revealed how shell companies facilitate the laundering of illicit funds. The investigation involved a close associate of a former TMC leader, both implicated in the school recruitment scam. Authorities uncovered ₹50 crore in cash, luxury assets, and foreign currency from Mukherjee's properties. Further findings revealed at

⁴ 'The Rise of Phantom FDI in Global Tax Havens – IMF F&D' (n 1).

⁵ Avinash Celestine, 'Rise of Shell Companies: Why Tax Authorities Continue to Wage a Battle with Them' *The Economic Times* (28 September 2014) <<https://economictimes.indiatimes.com/news/company/corporate-trends/rise-of-shell-companies-why-tax-authorities-continue-to-wage-a-battle-with-them/articleshow/43650542.cms?from=mdr>> accessed 21 January 2025.

⁶ 'Games Shell Companies and Tax Havens Play' (12 February 2023) <<https://www.fortuneindia.com/macro/games-shell-companies-and-tax-havens-play/111745>> accessed 21 January 2025.

least 14 shell companies, several registered to Mukherjee's home, were central to the scheme. While these entities appeared legitimate on paper, their real purpose was to channel illicit funds into the formal economy. Kolkata's lower costs for establishing shell companies make it a hotspot for such operations. According to reports, operators were charging a commission of as little as 2%, while places like Delhi stood at 8% and Bengaluru, at 10%. This economic advantage, with no stringent monitoring mechanisms in place, further helped the shadow economy thrive in the city⁷.

The modus operandi of these shell companies often involved routing funds through multiple layers of transactions to obscure the source. Better data is needed to map and analyze \$40 trillion in global FDI, as phantom investments often disguise themselves as legitimate financial flows⁸. For example, money moved across a chain of companies with each layer providing plausible deniability to the previous one. Investigators highlighted gaps in enforcement that allowed such entities to operate with minimal scrutiny, as financial audits rarely extended beyond the third tier of these convoluted transactions.

ILLUSTRATIVE EXAMPLES: SHELL COMPANIES IN FINANCIAL CRIMES

I. 2G Spectrum Scam

At the core of the 2G spectrum scam was the distribution of telecom licenses at low costs, causing major financial losses to the government. Shell companies played a major role in hiding the fraudster's profits. Kickbacks of ₹200 crore were routed through multiple companies to reach the accused official under the guise of loan repayments. Initially, fictitious companies in Kolkata transferred the money to Sapphire Media & Infrastructure Pvt Ltd, which forwarded it to Anjugam Films Pvt Ltd and then to Kalaingar TV. From Kalaingar TV, the funds were sent to Cineyug Films via intermediaries like Kusegaon Fruits and Vegetables Ltd. The latter, ostensibly an agriculture firm, showed no further bank activity, indicating it was created solely to facilitate the transaction⁹. The offenders were able to conceal the kickbacks since it was

⁷ 'An Insider's View of the Seedy Underbelly of Kolkata's Money-Laundering Racket - CNBC TV18' (CNBCTV18, 7 August 2022) <<https://www.cnbctv18.com/india/arpita-mukherjee-paftha-chatterjee-shell-companies-money-laundering-14399802.htm>> accessed 21 January 2025.

⁸ Carl Pacini and others, 'The Role of Shell Entities in Fraud and Other Financial Crimes' (2018) 34 Managerial Auditing Journal 247.

⁹ 'Shell Corporations Used to Funnel Cash in 2G Scam: ED' <<https://www.newindianexpress.com/nation/2014/Apr/26/shell-corporations-used-to-funnel-cash-in-2g-scam-ed-604777.html>> accessed 21 January 2025.

impossible for authorities to track the flow of funds through this web of transactions.

II. Nirav Modi Scam

Another well-known instance of how shell companies can be used to carry out financial crime is the Nirav Modi scam. Nirav Modi set up a sophisticated web of fictitious companies throughout multiple countries such as the United Arab Emirates, Hong Kong, British Virgin Islands, Barbados and so on. These layers of shell corporations were shuffled so that they never came through either the source or the destination of dirty money. For example, Nirav's money from these shell companies often passed into accounts controlled by his sister in Barbados, through Dubai-based Fineclassic FZE. Such accounts passed funds into US-based accounts, then further into Nirav's foreign trusts like The Ithaca Trust. Then, through these trusts, money was used to buy real estate worth millions of dollars¹⁰.

III. DHFL Scam

Shell companies enable financial fraud vividly. In the DHFL scam, the Wadhawan brothers misused over ₹11,000 crore through 87 shell companies with no business activity. Weak regulatory oversight allowed loans worth ₹29,000 crores to be funnelled into these companies without proper checks. The scam also involved a fake digital branch within DHFL to transfer funds and misuse the PMAY scheme, creating dummy borrowers to claim ₹1,880 crore in subsidies¹¹.

IV. Resurgence f Satyam Scam

The Satyam scam, which shocked India in 2009, resurfaced when authorities uncovered 114 businesses operating from a single office in Hyderabad's Jubilee Hills. These companies were linked to the family of B. Ramalinga Raju, the prime accused in the Satyam Scam.

While it is not illegal for multiple companies to share an address, these entities appeared to exist only on paper, operating under the names of Raju's family members. Authorities found no

¹⁰ 'Nirav Modi Created 3 Layers of Shell Companies to Dupe PNB' (*India Today*, 12 March 2019) <<https://www.indiatoday.in/india/story/nirav-modi-created-3-layers-of-shell-companies-to-dupe-pnb-1476564-2019-03-12>> accessed 21 January 2025.

¹¹ Business Standard, 'DHFL Scam Decoded: Fake Borrowers, Shell Companies, and Billions Lost' (16 May 2024) <https://www.business-standard.com/finance/personal-finance/dhfl-scam-decoded-fake-borrowers-shell-companies-and-billions-lost-124051600923_1.html> accessed 21 January 2025.

legitimate activities and discovered that the firms were used to place assets and shield them from recovery efforts, despite minimal financial activity¹².

DUAL ROLE OF TECHNOLOGY: ENABLING AND COMBATING SHELL COMPANIES

I. Weaponized Innovation: How Technology Enables Shell Company Misuse

Technology can often be said to be a dual-wielded knife, while it can be used for legitimate purposes, fraudsters can also use it for their leverage. For shell companies, technology only plays a secondary role since their primary concealment comes from legal and financial structures and it thus aids shell companies in multiple ways by helping them mask their act and not leave back traces.

Complex digital technologies have replaced traditional paper trails and intricate documentation, which streamline the process of concealment like never before. To the core of this change lies decentralized currency like Bitcoin, which makes transactions more encrypted than it ever was. These transactions also happen instantly using automated software allowing for multiple layers of transactions in order to conceal the original source. This also enables easy and anonymous cross-border transactions.

Another significant development is the usage of digital identity, that is, to use cutting edge software to produce realistic virtual presences which allows them to function fully online maintaining a professional appearance.

In addition, secure communication technology allows shell companies to communicate with each other without the risk of being exposed. This is well demonstrated by the case surrounding Nirav Modi where his organization started using secure servers that were located in the United Arab Emirates for encrypted messages and fraud cooperation across other jurisdictions. Another example of this technological intricacy, which makes it tough to trace back the digital footprints' source, is the application of VPNs and proxy servers hiding IP addresses along with location data. The dark web amplifies these tools by providing counterfeit documents along with stolen identities. It is the amalgamation of secret locations, covert communications, and

¹² 'Satyam Scam | Ramalinga Raju: 1 Room, 114 Shell Companies: Satyam's Raju Makes a Comeback in Hyderabad' <<https://economictimes.indiatimes.com/news/politics-and-nation/1-room-114-shell-companies-shocker-from-satyam-raju-kin-in-hyderabad/articleshow/65146870.cms?from=mdr>> accessed 21 January 2025.

illegal digital tools that have made it more challenging for the authorities than at any other time to verify and monitor what shell companies are doing¹³.

While technology has significantly enhanced the ability of shell companies to obscure illegal acts, it also serves as a formidable weapon in the fight against such practices. Governments, financial institutions, and regulatory authorities are increasingly deploying advanced technological solutions to detect and prevent money laundering.

II. Tech as a Shield: Leveraging Advanced Tools to Combat Financial Crimes

Artificial intelligence is one of the tools that can transform the way one tackles financial crimes, especially if the system has become too complicated for manual handling. Imagine having AI build elaborate data structures and networks to follow the trail of money, meaning essentially mapping where it's going and why. No matter how sophisticated a criminal may be, they inevitably leave behind traces. Shell companies don't escape either; they tend to leave behind traces or "fingerprints" of subtle anomalies, which often signal possible money laundering.

For example, a shell company normally hides the true beneficiary behind a fictitious identity. AI can check for the identities of directors or owners and raise a flag where it cannot be made out. Most of the transactions with such companies have no obvious purpose or reference to actual goods or services. These companies are seldom active. Even more suspicious are patterns such as a luxury goods company repeatedly transacting with a livestock producer or numerous small transactions just under the radar to avoid detection thresholds.

The sheer volume of data that financial institutions or corporate registries hold can feel overwhelming, but AI thrives on this. It identifies patterns that human eyes would miss, flagging suspicious transaction behaviours as a major red flag¹⁴. Another telltale sign of shell companies is their shared attributes—things like a common owner, mismatched ownership (e.g., a famous lawyer owning an agricultural firm), or even the same address being used for multiple registrations. AI can connect these dots, uncovering hidden relationships that suggest

¹³ 'The SAR Activity Review' (2004) issue 7 accessed 21 January 2025.

¹⁴ Charanjit Singh and Wangwei Lin, 'Can Artificial Intelligence, RegTech and CharityTech Provide Effective Solutions for Anti-Money Laundering and Counter-Terror Financing Initiatives in Charitable Fundraising' (2020) 24 Journal of Money Laundering Control 464.

money laundering activities¹⁵. And it doesn't stop there. AI can monitor real-time transactions to catch anomalies as they happen, while machine learning systems can analyze historical data to continuously improve detection capabilities¹⁶.

But how will AI map all these details? One of the solutions is for it to create "Profile Graphs"¹⁷. Profile graph includes multiple details like name, phone number, address, nature of business etc that have been obtained from different sources. Then, with the help of Natural language processing, it can differentiate between unclear and inconsistent data. Natural language processing is a field of artificial intelligence that bridges the gap between human communication and computer understanding and thus makes it possible for machines to process vast amounts of unstructured text data efficiently. Along with this, pattern matching is undertaken to analyze behaviour and defect risks, while also screening entities against watchlists. Another solution, meanwhile, is to create "Social Data Structures"¹⁸. Social structures are networks or webs indicating how different organizations and companies are connected to one another. Imagine a neighbourhood where multiple households purchase from a single grocery store, this is a simple social structure. In the context of larger corporations, this network could indicate how companies and individuals are connected to one another via transactions, shared addresses, common ownership and so on. This assists in making links by drawing a line between points, which can then show patterns. For instance, a common address across many shell companies. While profile graphs primarily aim at gathering and studying data on individual entities, social structures stress the bonds among multiple entities and their interactions.

Finally, technology, especially AI, is changing the identification and prevention of financial crimes. It does this by making hard processes automatic and studying large amounts of data to find hidden patterns. From tracking dubious transactions to drawing relationships in networks,

¹⁵ 'Combating Illicit Financing by Anonymous Shell Companies — FBI' <<https://www.fbi.gov/news/testimony/combating-illicit-financing-by-anonymous-shell-companies>> accessed 21 January 2025.

¹⁶ 'The Role of Technology in Combating Money Laundering and Financial Crime' <<https://fpt-is.com/en/insights/the-role-of-technology-in-combating-money-laundering-and-financial-crime/>> accessed 21 January 2025.

¹⁷ Yukta Shaivi Ujoodha and Kahyahthri Suppiah, 'Mitigating Money Laundering through Technological and Regulatory Strategies' (2023) 389 E3S Web of Conferences 09031.

¹⁸ José-de-Jesús Rocha-Salazar, María-Jesús Segovia-Vargas and María-del-Mar Camacho-Miñano, 'Detection of Shell Companies in Financial Institutions Using Dynamic Social Network' (2022) 207 Expert Systems with Applications 117981.

AI gives a strong structure for fighting against financial fraud.

REGULATING SHADOWS: LEGAL AND POLICY RESPONSES TO SHELL COMPANIES

One of the biggest challenges in regulating shell companies is the lack of a clear definition of what a shell company is. A parliamentary standing committee examined this issue and questioned the Ministry of Corporate Affairs (MCA) on how they would identify shell companies in the absence of a statutory definition¹⁹. In response, the MCA referred to a definition provided by the Organisation for Economic Co-operation and Development (OECD), which defines a shell company as a firm that is formally registered, incorporated, or legally organized in an economy but does not conduct any operations in that economy other than in a pass-through capacity. Given the growing incidence of white-collar crimes via shell companies, having an unambiguous definition should be one of the MCA's priorities.

However, the absence of a clear definition has not deterred the MCA from taking action against shell companies. In June 2017, the Securities and Exchange Board of India was informed of 331 listed companies by the MCA, which directed that these companies be placed in Stage IV of Graded Surveillance as they were "suspected shell companies"²⁰. Additionally, in the past five years, over 2,30,000 companies have been struck off by the Registrar of Companies (RoC)²¹ under Section 248 of the Companies Act, 2013, which empowers the RoC to remove the names of companies that failed to comply with requirements related to the commencement of business within a specified period following incorporation.

Several laws address the issue of shell companies. The Companies (Restriction on Number of Layers) Rules, 2017 limits companies to two layers of subsidiaries, countering fund diversion through such entities. The Prevention Of Money Laundering Act, of 2002 targets the concept of "placement, layering, and integration"²² of illicit money, which shell companies thrive on.

¹⁹ 'Black Money: Parliamentary Panel Asks Government to Define "shell Companies" in Companies Act - The Economic Times' <<https://economictimes.indiatimes.com/news/economy/policy/parliamentary-panel-asks-government-to-define-shell-companies-in-companies-act/articleshow/63253972.cms?from=mdr>> accessed 21 January 2025.

²⁰ Business Standard, 'Sebi Crackdown on Trading in 331 Shell Companies Blocks Investors' Rs 9,000 Cr' (9 August 2017) <https://www.business-standard.com/article/markets/sebi-whip-on-shell-firms-blocks-investors-rs-9-000-cr-117080801469_1.html> accessed 21 January 2025.

²¹ Lok Sabha, 'Lok Sabha Un-Starred Question No 183'.

²² Placement, layering, and integration are the three stages of money laundering: placement introduces illicit funds into the financial system, layering obscures their origin through complex transactions, and integration

The Central Board of Direct Taxes' Place of Effective Management Guidelines help identify companies incorporating and retaining money abroad while primarily operating in India. The Benami Transactions (Prohibition) Amendment Act, of 2016 prohibits any financial transaction done where consideration of the property has been made by a different person than the person under whose name the property has actually been transferred. Rule 25B of the Companies (Incorporation) Rules, 2014 empowers the RoC to verify office addresses, addressing false registrations. While these laws create a regulatory framework, effective enforcement remains a challenge²³.

The government is working to curb the menace of shell companies. In 2017, the Prime Minister's Office established a task force under the joint chairmanship of the Revenue Secretary and Secretary, MCA, to systematically reduce and stop illegal money laundering operations facilitated by shell companies. Despite this task force striking down over 2 lakh shell companies since 2017, the Union Government stated it has no data on offshore accounts held by Indians, raising doubts about the effectiveness of these actions²⁴.

India is a signatory to the OECD-G20 Action Plan on Base Erosion and Profit Sharing, aimed at addressing profit shifting²⁵. The MCA's primary role appears limited to the clean-up of shell companies, with plans for another round of striking off such entities from the official register.

The FATF has also urged nations to ensure mechanisms (registry, company, or existing approach) are in place to certify a company's actual location, either immediately or soon after, through a competent authority²⁶.

Despite progress in striking off shell companies and introducing regulatory measures, challenges like unclear definitions, enforcement gaps, and limited global data-sharing persist.

reinserts the funds into the economy as seemingly legitimate assets, completing the cycle of disguising illegal proceeds.

²³ 'Shell Companies In India: Future Challenges in Regulation'

<<https://www.primedatabase.com/article/2019/Article--Rajiv%20Luthra%20&%20Sahil%20Arora.pdf>> accessed 21 January 2025.

²⁴ 'Union Govt "Has No Data" on Indians' Offshore Shell Companies – But Task Force Running Since 2017' (*The Wire*) <<https://thewire.in/government/union-govt-says-it-has-no-data-on-offshore-shell-companies-owned-by-indians>> accessed 21 January 2025.

²⁵ 'Action Plan on Base Erosion and Profit Shifting | OECD' <https://www.oecd.org/en/publications/action-plan-on-base-erosion-and-profit-shifting_9789264202719-en.html> accessed 21 January 2025.

²⁶ 'Best Practices on Beneficial Ownership for Legal Persons' <<https://www.fatf-gafi.org/en/publications/Methodsandtrends/Best-practices-beneficial-ownership-legal-persons.html>> accessed 21 January 2025.

Strengthening implementation and aligning with global best practices is essential to effectively curb the misuse of shell companies.

STRATEGIC TAKEAWAYS: RECOMMENDATIONS FOR ADDRESSING SHELL COMPANY MISUSE

Shell companies are at the heart of financial crimes, used to launder money, evade taxes, and commit fraud. Cases like the Nirav Modi scam and the DHFL case show how such entities cover their illegal financial activities with complex ownership structures, fictitious identities, and cross-border transactions. The most critical issue is the lack of an explicit, legally defined concept of shell companies. This makes control implementation difficult and provides openings for weaknesses to be exploited. Furthermore, the poor coordination among agencies decreases the country's ability to deal with their improper use even further.

Although technology is sometimes abused by shell companies, it also has the capability to fight back against them. Instruments such as anomaly detection systems based on artificial intelligence can help discover invisible financial links, identify questionable activities, and oversee monetary dealings instantaneously. If combined with stronger legal structures, technology could do much to bolster India's control over shell companies. Financial institutions should integrate AI-driven transaction monitoring, anomaly detection, and risk-scoring models to proactively identify suspicious activities. By leveraging machine learning algorithms and network analysis, banks can track hidden connections between shell companies and detect unusual financial patterns in real-time. Examples are Danske Bank, which has integrated an AI tool 'Quantexa'²⁷, while HSBC partnered with Google Cloud, for AI based transaction monitoring²⁸.

One of the first steps towards regulating shell companies should be creating a statutory definition to ensure clarity and improve enforcement. The Enforcement Directorate, the Central Board of Direct Taxes, and the Serious Fraud Investigation Office must work together by

²⁷ 'Danske Bank Fights Money Laundering with AI | Computer Weekly' (*ComputerWeekly.com*) <<https://www.computerweekly.com/news/252493737/Danske-Bank-fights-money-laundering-with-AI>> accessed 26 February 2025.

²⁸ 'How HSBC Fights Money Launderers with Artificial Intelligence' (*Google Cloud Blog*) <<https://cloud.google.com/blog/topics/financial-services/how-hsbc-fights-money-launderers-with-artificial-intelligence>> accessed 26 February 2025.

sharing information on central platforms like MCA 21 for tracking high-risk entities²⁹. Routine checks along with linking bank records to transaction histories can help in tracking suspicious money trails. Globally, India needs to catch up with FATF guidelines to make it easier to share financial and ownership information across country borders. Furthermore, being an integral part of global actions like G20's Base Erosion and Profit Shifting (BEPS) Action Plan, the nation will be better placed and more capable of countering financial crimes that occur offshore.

India must also look at global best practices, where several countries have implemented well-framed regulations backed by AI-driven solutions to combat the misuse of shell companies. In the United States, the Financial Crimes Enforcement Network (FinCEN)³⁰ has introduced Geographic Targeting Orders (GTO), which require real estate firms to identify the true owners behind companies purchasing luxury properties in all-cash deals. This prevents the usage of shell companies to launder money through real estate. Additionally, the Corporate Transparency Act³¹ mandates that companies should disclose their beneficial owners, closing loopholes that previously allowed shell companies to conceal the true beneficiary³². Meanwhile, the European Union (EU) recently introduced the "EU Artificial Intelligence Act (AI Act)" which establishes strict guidelines for AI applications in fraud prevention and anti-money laundering (AML) systems. The Act ensures that AI-driven AML solutions, such as behavioural risk scoring and graph neural networks (GNNs), are responsibly deployed to identify suspicious transactions and expose shell companies. It also mandates AI-powered KYC processes and blockchain-based financial transparency, allowing regulators to track the flow of illicit funds. These global campaigns underscore the significance of strict ownership disclosure, cross-border data sharing, and AI-driven monitoring. To effectively tackle financial crime, India can improve real-time tracking and AI-powered KYC verification.

²⁹ Alwyn Furtado, 'Direct Tax Audit of Shell Companies' [2018] Journal Of Government Audits and Accounts <<https://cag.gov.in/uploads/journal/journal-en-january-2018/text-audit.html>> accessed 21 January 2025.

³⁰ 'The Role of Domestic Shell Companies in Financial Crime and Money Laundering: Limited Liability Companies' <https://www.fincen.gov/sites/default/files/shared/LLCAssessment_FINAL.pdf> accessed 26 February 2025.

³¹ 'New US Law Cracks down on Shell Companies to Combat Corruption' *The Economic Times* (10 January 2021) <<https://economictimes.indiatimes.com/news/international/business/new-us-law-cracks-down-on-shell-companies-to-combat-corruption/articleshow/80201223.cms?from=mdr>> accessed 26 February 2025.

³² 'FinCEN Targets Shell Companies Purchasing Luxury Properties in Seven Major Metropolitan Areas' (*FinCEN.gov*, 22 August 2017) <<https://www.fincen.gov/news/news-releases/fincen-targets-shell-companies-purchasing-luxury-properties-seven-major>> accessed 26 February 2025.

If India leverages more effective rules, enhanced organization, the finest technology and global alliance, it will be well-placed to make considerable progress in curbing the malpractices related to shell companies while cutting down their misuse.

CONCLUSION

Shell companies are a growing worldwide problem. The easier it is to start businesses, the more shell companies there will be unless there are strong rules and laws in place to prevent them. In India, nearly 2 lakh new companies have been incorporated in the fiscal year 2023–24³³, and numerous large corporations hold their headquarters base; they have begun taking action against these shell companies by initiating a task force under the Companies Act of 2013. Even so, despite these efforts, wrong use of technology along with no enforcement continues to weaken the efficacy of their efforts.

This research emphasizes the immediate need to define shell companies in accordance with Indian law. This would be a fundamental step for enforcing stronger regulations. The paper further stresses enhancing cooperation between governmental bodies to upgrade supervision, make data-sharing processes more efficient and remove isolationism. What is very interesting is that technology has an essential role to play in fighting shell companies - it may just shift the game by employing tools like real-time surveillance, anomaly detection, and advanced data analysis - all of these can help break down the complex networks these entities create.

In the worldwide field, it is important for India to have more involvement with organizations like the FATF and BEPS Action Plan from G20. This would be critical in handling international financial crimes. The proposed solution needs certain alterations in law, better coordination between agencies, using advanced operational methods and worldwide collaboration. These steps aim to reduce the misuse of shell companies and enhance clarity in matters of finance.

³³ 'India Sees Incorporation of 1.85 Lakh Companies in 2023-24 - The Economic Times' <<https://economictimes.indiatimes.com/news/company/corporate-trends/india-sees-incorporation-of-1-85-lakh-companies-in-2023-24/articleshow/109853309.cms?from=mdr>> accessed 21 January 2025.

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