



OVERVIEW

India is the fastest growing major economy in the world, with experts forecasting the country to become a top three global economic power in the next decade or two. The country is vulnerable to illicit financial activity due to an underdeveloped and poorly enforced financial crime legislative and regulatory regime that has not kept up with the rapid growth of the economy. Widespread corruption in both the public and private sectors has been a key characteristic that has undermined the state's fight against financial crime.

India underwent its first and only FATF Mutual Evaluation assessment in late 2009, resulting in a Mutual Evaluation Report (MER) in June 2010. A number of follow-up reports have been published since, the most recent of which was released in June 2013. The steps addressed in this report were enough to remove India from the FATF follow-up process, imposed following the 2010 MER. Some of the key areas India successfully addressed included implementing confiscation measures for proceeds of money laundering and terrorist financing and incorporating a number of Designated Non-Financial Businesses and Professions (DNFBPs) within the AML and CTF measures. Regardless, the extent to which these measures are truly enforced raises concerns. The next Mutual Evaluation is expected to take place in November 2023.



Bribery & Corruption

Corruption and bribery remain a pervasive problem across India, tarnishing both the public and private sectors at all levels, including in public procurement, the judiciary, and in the allocation of business licenses. In the most recent Transparency International Corruption Perceptions Index, India was rated 40 out of 100 (where 100 is very clean) and was ranked as 85th out of 180 countries that were scored, highlighting the extent of the problem. Though the Modi government has called for a "zero tolerance" approach towards fighting bribery and corruption in India, legislative frameworks have not been effective in truly addressing this issue.



High



Money Laundering

The US State Department has identified India as a 'major money laundering country.' Cash-based money laundering continues to be a risk given the country's persistent reliance on cash for transactions of varying sizes. Hawala, an unregulated, informal method of cash transfer, is used extensively and is often linked to money laundering. Trade, real estate, and the gems, precious metals, and jewellery sectors are noted as particularly vulnerable to money laundering in India.



High



Fraud

Fraud is a key risk in the banking, financial services, and insurance sectors in India, a byproduct of the growth of the country's financial industry. As the population moves towards digital transactions, fraud has become an increasing risk, including with regards to cryptocurrency which has resulted in a proliferation of crypto-related scams.



High/Medium



Cybercrime

The Data Security Council of India has identified cybercrime as the most serious man-made risk to the economy. Phishing is a particularly pervasive form of cyber crime in India, with the country being one of the top five globally attacked most often by phishing campaigns in 2022. Additionally, India faces some of the world's worst rates of sextortion, a cybercrime where the cyber criminal threatens to distribute private or sexually explicit images and videos of a victim if the victim does not give them the money or sexual favour they demand.



High/Medium



Terrorist Financing

India is especially vulnerable to terrorist financing given the domestic nature of the threat, namely that there is state sponsorship and financing of terrorism from neighbouring Pakistan, localised domestic insurgencies, and pan-India type of operatives, such as the Indian Mujahideen. Politics has long been exploited by terrorist groups, whereby a cycle of extortion in the private sector and government institutions, in turn funds these organised groups. Non-governmental organisations (NGOs) and charities in India have also been used as fronts for terrorist organisations to fund attacks both domestically and abroad.



High





Drugs & Arms Trafficking

India's geographical proximity to the Golden Crescent and the Golden Triangle, large regions of opium production, and the Bay of Bengal and the Arabian Sea, have made India particularly vulnerable to drug trafficking as the transit routes often cut directly across the country. Increasingly, traffickers are using cryptocurrency on the dark web to conduct transactions, circumventing oversight. India is a documented source, transit, and destination country for illicit arms, particularly small arms and light weapons. The illicit drug network and arms market have a symbiotic relationship as insurgent groups in the region often manufacture drugs to be either smuggled or taxed from the drug traffickers, the profits of which are then used to purchase illicit arms from abroad.



Modern Slavery & Human Trafficking

The Global Slavery Index, published in 2023, reported that there are at least 11 million victims of modern slavery in India. Over half of the victims of MSHT are in forced labour in factories, farms, and quarries. Due to few opportunities for formal employment, the informal employment sector is vast and the withholding of wages, abuse, and debt bondage is not unusual. Products that are at risk of being produced through forced labour in India include bricks, garments, carpets, and rice. Children in India have increasingly become victims to sexual exploitation, particularly as a result of the lockdowns during the COVID-19 pandemic. Organ trafficking is a further risk in the country and is closely tied to human trafficking.



Environmental Crime

India is a significant source country for illicit animals and animal products, particularly pangolins, rhino horns, and Bengal tigers. The Global Organised Crime Index gave India a criminality score of 8.0 in relation to fauna crimes, a notably high rating, and one that lands it in the seventh spot globally. Given India's growing population, deforestation has accelerated in order to clear land for residents, agriculture, and infrastructure development. India is also the third largest consumer of illegal timber, according to the aforementioned index.



Tax Crime & Financial Secrecy

Tax evasion is an extensive problem across India, largely due to a combination of high tax rates, corruption in the public sector, and inefficient tax authorities. Trade misinvoicing has been identified by Global Financial Integrity as the "most frequently utilised mechanism facilitating measurable illicit financial flows" in India. India was implicated in the 2015 Swiss Leaks and was ranked 16th out of 100 countries with regards to the value of offshore wealth held by HSBC customers in Geneva. Approximately \$492 million and \$1.2 billion in tax revenue was believed to have been lost out on by the government.



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