News

India Enlists Financial Institutions in Campaign Against Shell Companies

October 27, 2017 By Valentina Pasquali Email

The financial services industry is playing an increasingly pivotal role in the Indian government's campaign to tackle tax evasion and other financial crime by seizing undeclared assets and illicit funds.

Last month, India's Finance Ministry blocked the bank accounts of nearly 210,000 firms already blacklisted for having no apparent business purpose or commercial activity that would justify their financial flows. The Ministry of Corporate Affairs, or MCA, disqualified roughly 55,000 directors associated with the shell companies.

Indian financial institutions have also been asked to assist by providing law enforcement agencies with account and transactional information on both the targeted firms and their corporate directors. At least 13 lenders have responded by sharing data on 5800 companies as of Oct. 6, the MCA said.

The supply of information comes as the government in Delhi attempts to assess just how much money tax evaders may have funneled through financial institutions since a pair of high-denomination rupee notes was ordered withdrawn from circulation in November 2016, forcing holders to deposit them or lose them.

Nearly all of the retired banknotes ended up in bank accounts in the 11 months that followed, auguring well for Prime Minister Narendra Modi's plan to bring off-book cash transactions into the licit economy, Amit Kumar, president of AAA International Security Consultants in McLean, Virginia said, citing data from India's central bank.

"More than $26 billion is currently under the government's scanner as more than $30 billion-worth of black money was expected to be deposited in banks as a result of demonetization," Kumar told *ACAMS moneylaundering.com* in an email.

The data shows that from the launch of "demonetization" last November until their blacklisting in July, the 5,800 entities on which data has been supplied deposited nearly $700 million in over 13,000 accounts and withdrew almost as much, the MCA said.

Most of the companies kept a small balance and engaged in almost no activity before demonetization and again after the withdrawals.

A handful held more than 100 bank accounts each, and one maintained at least 2,134 accounts.

Reviews by regulatory agencies and independent auditors appear to indicate that the firms served two roles, Vikram Babbar, a partner in the fraud investigation and dispute services practice at EY in Mumbai wrote in an email.

"The shell companies were used as 'fronts' for placing money during the time of demonetization or for layering transactions for funds transfer. … Or they were being used for making foreign remittances of black money through potential fake trade transactions in the banking system."

Based on the data from the Finance Ministry, India's financial markets regulator, the Securities and Exchange Board of India, or SEBI, restricted trades of 331 publicly listed firms in August and ordered individual exchanges to take action. The Bombay Stock Exchange followed by delisting 200 companies.

Demonetization has generated controversy in India, where most transactions take place in cash.

According to Babbar, Indian regulators, law enforcement agents and financial institutions are currently focused on auditing the financial operations of the nearly 210,000 firms suspected of operating as shell companies.

Bank of Baroda, Canara Bank, Dena Bank, IDBI Bank and IDFC Bank are among the 13 lenders that have supplied information on the suspicious companies, the *Indian Express* reported Oct. 7.

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