

Sanjay Malhotra: Address - Private Sector Collaborative Forum of the Financial Action Task Force

Address by Mr Sanjay Malhotra, Governor of the Reserve Bank of India, at the Private Sector Collaborative Forum of the Financial Action Task Force (FATF), Mumbai, 26 March 2025.

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It is a pleasure to be here at the Private Sector Collaborative Forum (PSCF) 2025 of the Financial Action Task Force. I am happy to note that this is the first time that the forum is being held in India. I thank FATF for giving us this opportunity. In my previous role as the Secretary in the Department of Revenue, Ministry of Finance, Government of India, I had the opportunity of being closely associated with the FATF during our mutual evaluation last year.

About FATF

Financial Action Task Force (FATF), the standard setting body for illicit financing has come a long way since its establishment in 1989. Over the years, it has evolved from an organisation with only 16 members to a global forum with 40 members. Through the FATF-styled regional bodies¹, its reach is even wider. The standards developed by FATF are used by over 200 jurisdictions to combat money laundering (ML), terrorism financing (TF) and proliferation financing. The implementation of the standards has played an important role in strengthening the global financial system and making the world a safer place.

India's Mutual Evaluation by FATF

India accords immense importance to Anti-Money Laundering (AML) and Countering the Financing of Terrorism (CFT). Last year, India underwent the mutual evaluation by the FATF. India was placed in the 'regular follow-up' category, a distinction shared by only a few other G20 countries². This is a recognition of our effective AML and CFT framework. It demonstrates our commitment to AML and CFT. This is a result of many years of building and continuously improving and strengthening the financial system of our country.

This was possible due to the collaborative efforts of all stakeholders, led by the Government of India including financial entities and designated non-financial businesses and professions in the private and public sector, regulators, and the state governments. The private sector plays a vital role in keeping the financial systems secure. Their role in implementing due diligence procedures, conducting robust risk assessments, monitoring transactions, and reporting suspicious activities is critical for preventing the abuse of the financial system. They identify suspicious activities and help government agencies in destroying illicit financial networks.

Strong public-private partnerships form the bedrock for safeguarding the integrity of the financial system. In India, we recognize the importance of close cooperation between public and private sector stakeholders in achieving these goals. Reserve Bank of India,

as the regulator and supervisor of a large segment of the financial system in India has diligently and consistently worked towards building and ensuring implementation of a strong AML and CFT framework in this segment of the financial system, in line with FATF recommendations. The Reserve Bank has taken several initiatives to enhance cooperation and coordination with various stakeholders. Similarly, the Financial Intelligence Unit (FIU)-India has also set up FPAC³, a public-private cooperation forum for facilitating closer interaction and collaboration. It has also supported the setting up of ARIFAC⁴ - a cross sectoral forum for the private sector reporting entities to collaborate among themselves.

It is a result of these collaborative efforts that we have been able to build and demonstrate a robust and resilient AML and CFT framework. I compliment all the stakeholders, especially, the regulated entities in the financial sector as well as the designated non-financial businesses and professions for the successful mutual evaluation.

However, as all of you are aware, the threats from money laundering and terror financing to the national and global financial systems are continuously evolving and becoming more sophisticated. This is primarily due to technological advancements. In order to effectively counter these threats, we need to continue the close cooperation among various stakeholders - government agencies, financial entities in both the public and private sectors, civil society, and others.

The mutual evaluation process was rigorous and detailed. While providing us with valuable insights into our strengths, it has highlighted some areas of improvement in our AML-CFT framework. We are determined to further strengthen our financial system to deter and combat illicit financial activities taking into consideration the recommendations made during the evaluation. We will continue to strive for continuous improvement in this regard.

Some thoughts on the Agenda for PSCF 2025

I am told that yesterday's sessions were very engaging and produced lively discussions. Looking at the agenda for today and tomorrow, I am confident that the deliberations on contemporary topics such as evolving AML-CFT landscape, financial inclusion & humanitarian channels, risk-based approach to supervision, digitalization & information sharing, beneficial ownership and countering of proliferation financing, will also be exciting. Let me outline some of my thoughts for the forum on these areas.

First, while we all continue to make our financial systems safe and secure against money laundering and terror financing, we as policy makers need to be mindful that our measures are not over-zealous and do not stifle legitimate activities and investments. You would appreciate that multiple laws and rules, each with their own level of granularity cast a high level of burden of compliance on the regulated financial service providers. This is relevant in the context of AML-CFT too. Therefore, we need to have laws and regulations which, with surgical precision, target only the illegitimate and illicit, rather than use them as blunt tools which unintentionally hurt even the honest.

Similarly, even while implementing the legal framework and regulations, we need to keep in mind the impact on persons and businesses. Risk-based approach is

recommended in this regard. But let us keep in mind that this is only a step forward in reducing compliance burden. Let us appreciate that it is not the ultimate solution, as any risk-based approach is not perfect; it would have false positives and false negatives. We need to continuously refine and improve our risk assessment models to make them robust.

To make these improvements, we need to improve the quality of our data and harness emerging technologies. This will help improve screening of transactions and detection of suspicious activities thereby reducing false positives and false negatives. Considering the evolving landscape in the area of money laundering resulting from changing customer behaviour and evolving products and services, we need to continuously augment AML risk assessment framework and make appropriate system enhancements on a regular basis after assessing the impact of ML and other risks. The focus has to also be on understanding the latest trends and developments in the financial world that can be exploited by criminals and accordingly develop tools and enabling frameworks that will allow us to detect suspicious transactions and activities early and take pre-emptive action. With the adoption of new technological tools and models, I am sure that AML-CFT risk assessments can be further fine-tuned. I would urge you all to discuss and share best practices in identification, mitigation and supervision of AML-CFT risks. This will not only help to reduce compliance burden on the Regulated Entities but also result in optimal allocation of supervisory resources.

While India has made remarkable progress in financial inclusion, we need to ensure that we continue to widen and deepen it. The discussions on FATF standards to promote financial inclusion need to find answers to the challenge of aligning financial inclusion and financial integrity, especially for the developing economies. It must be ensured that regulations do not create unintended barriers to financial inclusion. We need to be mindful of customer rights and convenience while fulfilling the due diligence requirements. I am happy to note that the amendments to Recommendation 1 and its interpretive note under the Mexican presidency intend to foster and promote financial inclusion without compromising on financial integrity. Similar approach is needed to extend access of financial channels for supporting humanitarian aid.

In recent years, digitalisation has been increasingly applied to customer onboarding and customer due diligence (CDD) processes. India has made huge strides in this regard too. The digital KYC and video KYC are shining examples of this. The Central KYC Records Registry (CKYCR) with more than one billion records is another example, which has the potential of ushering in a new era of customer onboarding by making it easier and seamless not only for customers but also for regulated entities to perform customer identification and due diligence. I am told there is a separate session to deliberate on the state of play of technical solutions in customer due diligence area. The discussions could be helpful in further enhancing the capability and utility of CKYCR manifold.

Further, during the process of CDD, reporting entities collect a large amount of data from the customers. Moreover, there are requirements of sharing of information with Financial Intelligence Units, law enforcement agencies and data registries leading to concerns regarding data protection and sharing of information without consent. India

has recently enacted a law for Digital Personal Data Protection. Exchange of experiences from different jurisdictions will help us in better implementing the law in our country.

Another important area which needs discussion is the travel rule. In today's world, fast payment systems are revolutionizing financial access and deepening financial inclusion. Developing countries like India have made huge progress in making digital payments accessible, affordable, and convenient. While card networks have helped developed economies in improving payment systems, fast payment systems have assisted Emerging Market and Developing Economies (EMDEs) leapfrog in this area. We have also enabled cross border payments using fast payment systems with a few countries. We will continue to work towards fulfilling our commitment to the effective implementation of the next phase of G20 roadmap towards inclusive cross-border payments by 2027. In this context, the ongoing discussions on FATF Recommendation 16 (R.16), known as the travel rule, assume importance. To meet the G20 objective of making cross-border payments faster, cheaper, more transparent and more inclusive, while maintaining their safety and security, it would be desirable to make the travel rule technology-neutral.

Lastly, discussions regarding combating proliferation financing and sanctions evasion need to answer questions related to identification of products and services which are most vulnerable to exploitation and the mitigation of the risks related to such products. This forum can discuss the best practices as well as challenges in this regard.

Conclusion

To conclude, I would like to stress that through our collaborative efforts, we can safeguard the trust that underpins the global financial framework. Together, let us continue to collaborate and innovate in building a financial ecosystem that is not only safe and secure but also fast, convenient, accessible and affordable. Let us build financial systems that not only thwart the attempts of money laundering, terror financing and proliferation financing, but also support financial inclusion, encourage innovation, and facilitate economic growth. In the end, I wish the forum very fruitful and productive deliberations.

Thank you.

¹ In addition to its own 40 members, FATF is also supported by nine FATF-styled regional bodies (FSRBs).

² <https://pib.gov.in/PressReleaselframePage.aspx?PRID=2056773>

³ FIU-India Initiative for Partnership in AML/CFT (FPAC), a public-private partnership (PPP) framework, was launched in January 2022, to facilitate collaboration between FIU-India and other stakeholders in the AML/CFT domain.

⁴ Alliance of Reporting Entities in India for AML/CFT (ARIFAC) is a private-private partnership initiative amongst reporting entities in India belonging to multiple sectors to

facilitate information sharing, development of knowledge products, training programmes and certifications.