An Analytical Study of Compliance of Banking Institutions of Pakistan with Anti-Money Laundering Regulations: Legal Challenges and a Way Forward

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Abstract

The primary aim of this paper is to analyze the compliance of banking institutions in Pakistan, with international and domestic anti-money laundering (AML) regulations. Recently, at least 6 Pakistani banking institutions have been implicated in an investigation involving money laundering, according to a report released by Buzzfeed News and International Consortium of Investigative Journalists (ICIJ). Moreover, the US State Department has designated Pakistan as a State of Special Attention for laundering money and suspicious transactions. For this research, doctrinal legal research methods are used to critically examine the statutes, regulations, policies in Pakistan alongside international laws, treaties, conventions and other existing data requiring banking institutions' compliance with AML regime. Money laundering has a negative impact on the economic growth of the country through boosting the underground economy and criminal enterprises, as well as illegal inflows and evasion of taxes. The strict banking secrecy is a major obstacle for banking institutions' compliance with the anti-money laundering regulations. Banks prioritize the interests of their clients over compliance with regulations. The lack of any major penalties such as fines or imprisonment for the employees in case of non-reporting, absence of use of innovative technology and absence of any profound whistle-blowing policies also helps criminals to exploit the banking institutions systems for laundering money. The paper provides new perspectives into assessing banking institutions' compliance with all applicable anti-money

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laundering standards such as the FATF, as well as Pakistan's domestic AML regulations.

Key Words: Money Laundering; Banking Institutions; Anti-Money Laundering Compliance; and Anti-Money Laundering Regulations

1. Introduction

Money laundering is illicit transportation of funds from one jurisdiction to the next without informing local authorities in order to avoid paying taxes, concealing ill-gotten gains, and transforming criminally gained wealth into legitimate properties. It has a negative economic impact on a nation's economy through boosting the informal economy and illicit behavior, as well as illegal inflows and tax evasion. It is a worldwide problem since it has become a vital part in tracking illegal finances, particularly from organized criminals.[1] Criminal organizations attempt to hide their criminal proceeds by laundering money via banking institutions, global commerce, and other means. Furthermore, it is important to remember that not all laundering money procedures necessitate overseas activities; certain criminal gains are typically cleaned onshore. As a result, money laundering that necessitates global transactions will result in unlawful cross-border capital transfers.[2]

Financial institutions such as banking corporations are considered key players for the free and stable cash flow in a financial market. However, these institutions sometimes become enablers of money laundering and get involved in laundering crime proceeds. Their involvement in money laundering also severely impacts the financial stability and steady development of the economy of the country. Money laundering is perhaps

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[1] Muhammad Saleem Korejo, Ramalinggam Rajamanickam, and Muhamad Helmi Md. Said, "The Concept of Money Laundering: A Quest for Legal Definition," *Journal of Money Laundering Control* 24, no. 4 (2021): 736.

[2] Nella Hendriyetty and Bhajan S. Grewal, "Macroeconomics of Money Laundering: Effects and Measurements," *Journal of Financial Crime* 24, no. 1 (2017): 81.

most common in the banking industry, because banking institutions handle money deposits, withdrawals, and transfers. As a result, it is vital to assess these financial firms' adherence with anti-money laundering rules.[3]

According to a report of The International Consortium of Investigative Journalists (ICIJ), six Pakistani banking corporations have been implicated in money-laundering. The investigation was carried out by Buzzfeed News and ICIJ, disclosing the involvement of international banks in laundering money for 39 dubious transfers, totaling around $3 million. All those deals were made during 2011 and 2012. According to the report there were more than 2200 transactions made which were red flagged worldwide and information was shared by institutions such as intelligence organizations, US Department of Treasury, and Financial Crimes Enforcement Network. International banks transferred more than $1.7 trillion in dubious transfers between 1998 and 2018, as per the report, and alerted bank customers in much more than 171 nations who were recognized as being engaged in possibly criminal activities.[4]

In the given scenario, this research paper aims to analyze banking corporation's compliance with anti-money laundering regulations. This paper starts with elaborating concept of money laundering done via financial institutions such as banking institutions and how financial institutions get involved in laundering of money. Furthermore, the compliance rate of the banking institutions with AML regulations is major issue leading Pakistan to grey list or also known as increased monitoring list of Financial Action Task Force. Consequently, this paper also explains

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[3] Peter Yeoh, "Banks' Vulnerabilities to Money Laundering Activities," *Journal of Money Laundering Control* 23, no. 1 (2020): 135.

[4] Economic Times, "At Least Six Pakistani Banks Named in Global Money Laundering List," The Economic Times, accessed October 24, 2023, https://economictimes.indiatimes.com/news/defence/at-least-six-pakistani-banks-named-in-global-money-laundering-list/articleshow/78252908.cms?from=mdr.

the various domestic and international regulations and issues of compliance by banking institutions in Pakistan. Lastly, this paper proposes a way forward to enhance banking corporation's compliance with AML regulations.

2. Banking Institutions and Money Laundering: Facilitators or Innocent Bystanders

Money laundering is a type of fiscal offense in which offenders transform soiled funds into clean funds. This activity has a negative impact on the economy, as well as the socioeconomic and cultural landscape. Money laundering was once largely used to describe financial activities engaging criminal organizations. Currently, governments and business regulatory bodies frequently broaden the scope, which describes it as "any financial transaction that generates an asset or a value as a result of an illegal act, which could include tax evasion or false accounting".[5] It has also been described as "a method employed by criminal offenders to conceal the source of their ill-gotten profits in order to enjoy their purified funds without hindrance from opportunistic underground competitors or police authorities".[6]

Money laundering costs the worldwide community hundreds of billions each year. In Pakistan, projections of unlawful money that flows place over $10 billion avoiding taxes and also being syphoned off outside of the nation, according to report issued in 2017.[7] The inability of banking institutions to meet with anti-money laundering (AML)

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[5] Haitham Nobanee and Nejla Ellili, "Anti-Money Laundering Disclosures and Banks' Performance," *Journal of Financial Crime* 25, no. 1 (2018): 108.

[6] Ibid.

[7] Dawn, "In Pakistan, Estimates of Illicit Financial Outflows Among the Highest," Dawn, accessed October 29, 2023, https://www.dawn.com/news/1318697#:~:text=In%20Pakistan%2C%20estimates%20of%20illicit,financial%20outflows%20in%20the%20world.

regulatory standards has resulted in regulatory penalties from the US Office of Financial Asset Control (OFAC), the UK Financial Conduct Authority (FCA), and the State Bank of Pakistan (SBP). In the US, the Department of Financial Services (DFS) fined Habib Bank Ltd.'s New York branch $226 million. Its operating permit in New York was revoked in 2017. Furthermore, HBL's UAE subsidiary was fined Rs. 36.63 million by the SBP in Pakistan for failing to comply with FATF AML screening standards. The penalty was issued by the SBP as a result of poor client screening measures. Employees of the bank were engaged in promoting banned individuals in their transactions. The organization was also engaged in dealings with people who were politically vulnerable.[8]

3. Methods Used in Money Laundering via Banking Institutions

3.1 Loan-Back Money Laundering

Loan-back money laundering is effective and frequently used at the placement stage of laundering when the money is channelled into legal banking systems. It involves a person or company borrowing what is technically a 'loan' from his/her/emergency's own unlawful cash through 'foreign companies,' thus concealing the source of the money. As a method to exploit the weak compliance of the financial systems in Pakistan, it takes advantage of AML (Anti-Money Laundering) noncompliance and the confidentiality of the banking sector. Realizing how this scheme fits into Pakistani legal system, P1 shows where laws might be weak for countering

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[8] Department of Financial Services, "DFS Fines Habib Bank and Its New York Branch $225 Million for Failure to Comply with Anti-Money Laundering Laws," New York Department of Financial Services, accessed October 29,2023, https://www.dfs.ny.gov/reports_and_publications/press_releases/pr1709071#:~:text=DFS%20Annual%20Reports,DFS%20Fines%20Habib%20Bank%20and%20Its%20New%20York%20Branch%20%24225,and%20Other%20Illicit%20Financial%20Transactions.

such an intricate laundering mechanism and where enforcement can be sketchy.[9]

The Anti Money Laundering Act (AMLA), 2010 is the law applicable in Pakistan regulates AML provisions of reporting, due diligence and set up penalties in case of violation.[10] According to Section 7 of AMLA, being a financial institution, there is an added responsibility to file STRs where the reported transaction is suspicious regarding the legitimacy of the source of funds. Namely, the section focuses on controlling "suspicious or Sophisticated" transactions. In the context of loan-back laundering, on a practical level, financial institutions would presumably be to alert any aberrant loan behaviors especially those that involve funds that passed through high-secrecy locations.[11]

Section 2 and 3 of AMLA continue with more definitions incorporating provision of offenses relating to money laundering that call upon parties to keep records and report suspicious transactions to the FMU. The responsibilities of the FMU include evaluating the legitimacy of funds flow and any loan deals that seem to have a correlation between the lender and borrower.[12] However, as already mentioned, there is a legal tool – the AMLA – which legalizes the action. For instance, Pakistan's Protection of Economic Reforms Act, 1992 (PERA) that formerly allowed no limitation on inward foreign currency transfers and was exploited to launder via foreign "loans." Section 9 of PERA, for instance, prohibited such tax authorities from investigating foreign currency accounts, thus permitting the creation of other obscure third layers to facilitate money laundering

  [9] Friedrich Schneider and Ursula Windischbauer, "Money Laundering: Some Facts," *European Journal of Law and Economics* 26 (2008): 387. https://doi.org/10.2139/ssrn.3280294.
  [10] "Anti-Money Laundering Act" Act No. VII (2010).
  [11] "Anti-Money Laundering Act" Act No. VII (2010), sec.7.
  [12] "Anti-Money Laundering Act" Act No. VII (2010), sec.2-3.

under the disguise of orthodox transactions such as transfers and loans. Although changes have been introduced to enhance supervision, this original framework has earlier allowed techniques, including loan-back laundering, to evade supervision.[13]

Likewise, Section 33A of the Banking Companies Ordinance, 1962, also prohibits disclosure of information of clients with the exception that disclosure is required by law. This provision has been a thorn in AML investigations in the past since institutions are not always obligated to give full details when there is no apparent sign of wrongdoing; something that is hard to identify in highly disguised loan-back schemes. The Asghar Khan Case of the Supreme Court of Pakistan in (HRC 19/1996) realized in 2018 is an example of how the Pakistani courts struggle to fight money laundering. While mainly highlighting the problem of corruption, it demonstrated the challenges of tracking funds and providing evidence of the source of suspicious financial operations familiar with complex loan-back laundering cases.[14]

This article recommends that, for loan-back laundering, the focus must be put on the strengthening of relations between agencies and the provision of the timely reporting systems. This kind of money laundering techniques requires a completely different legal setup in Pakistan that might require amending the existing AMLA that outline disclosure requirements relating to loans associated with foreign firms and tightens reporting penalties relating to concealment. Additionally, the incorporation of tools like machine learning and AI in banks would only make their possibilities of identifying fewer ordinary transactions associated with loan-back laundering even better.

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[13] "Protection of Economic Reforms Act" Act No. XII of (1992), sec.9.

[14] Air Marshal (Retd) Muhammad Asghar Khan versus Federation of Pakistan and others, Human Rights Case No. 19/1996, PLD 2013 SC 1 (Supreme Court of Pakistan).

3.2 Bank Control Strategy

The bank control strategy is one of the most refined techniques employed by criminal groups to clean up money they have acquired through unlawful business through buying large shares in banks. By such control, they control the bank worth and operations to facilitate unmonitored money laundering processes. This strategy takes advantage of weakness that exists in areas that lack much regulation because banking regulatory agencies tend to recognize currency shifts in controlled banks as actual cash flows. But this has led to much scrutiny and regulatory agencies from across the world are now looking into such practices.[15] A good example of this is the HSBC bank, which was fined $2 billion in U.S for simulating money laundering. This example describes how basic and inadequate AML controls affected and could potentially continue to affect international monetary establishments. Regarding AML and countering bank control strategies, it is still possible to observe the gradual enhancement of the legal regulation of Pakistan.[16]

In Pakistan, several laws also exist for AML and banking control regulations these include Anti Money Laundering Act (AMLA) 2010, Protection of Economic Reforms Act (PERA) 1992 and sections of Banking Companies Ordinance 1962.[17] Presently, under the AMLA 2010, Section 7, banking institutions are required to report suspicious transaction. This comprises transactions that are outside the ordinary banker's experience in the typical transactions of the stock exchange market; these transactions

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[15] Vandana Pramod, Jinghua Li, and Ping Gao, "A Framework for Preventing Money Laundering in Banks," *Information Management & Computer Security* 20, no. 3 (2012): 183.

[16] BBC News, "HSBC 'Sorry' for Aiding Mexican Drugs Lords, Rogue States and Terrorists," accessed October 31, 2024, https://www.bbc.com/news/business-20673466.

[17] "Anti-Money Laundering Act" Act No. VII (2010), "Protection of Economic Reforms Act" Act No. XII of (1992); "Banking Companies Ordinance" Ordinance No. LVII of (1962).

may include, for instance, an extremely large flow of capital from investors with suspicious characters. Pursuant to Section 7 of AMLA, every bank has to file STRs on every suspicious activity that the bank undergoes encounters. However, this is always a problem in terms of enforcement, especially when criminal organizations take the mantle of ownership and Effect over the banks.[18]

The Protection of Economic Reforms Act 1992 (PERA), in particular Section 9, now permits certain forms of protection for foreign currency accounts and was used historically to avoid tax evasion. This provision introduced weaknesses exposed by money launderers posing as legal and genuine bankers. Some of the criminal groups had stakes in the proprietorial banks and used PERA to disguise their foreign currency receipts from detailed regulatory scrutiny and it became difficult for the authorities to untangle ulterior criminal operations. Due to these shortcomings, changes were made in an effort to strengthen control mechanisms, so that those members of societies possessing banking institutions that commit crimes would not be able to abuse the freedom of opening accounts.[19]

Other legislation that also helps in preventing money laundering and undue Bank influence is Banking Companies Ordinance 1962.[20] Sections 33A and 41 also provide requirement concerning the rights of the banks to maintain confidentiality for clients' information. Section 33A, however, has imposed a restriction to the sharing of information hence poses some challenges on the banks that are under criminal control to operate under the

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[18] "Anti-Money Laundering Act" Act No. VII (2010), sec.7.
[19] Wen Xuwu, Kashif Imran Zadi, and Usman Hameed, "Protections and Facilitations for Foreign Investors: Legal Perspective under Pakistani Laws," *Journal of Development and Social Sciences* 3, no. 1 (2022): 63.
[20] "Banking Companies Ordinance" Ordinance No. LVII of (1962).

lens.[21] The rules that exist in an effort to shield customer information can contribute to the shield of criminal parties from identification. In later that year, efforts for enforcement resulted in the Pakistan asking banks to provide client details to FBR for enforcement of the Benami Transaction Prohibition Act 2017 Some banks however avoided exhaustive cooperation.[22]

In the Suo Motu Case No. 2 of 2018, the Supreme Court of Pakistan went through several high-profile cases of money laundering through local banks including Habib Bank Ltd (HBL) and Summit Bank. The probe confirmed that these institutions had been facilitating the existence of bogus accounts meant for laundering of big volumes of the money. Other influential personalities were associated with these accounts, showing weakness of banking systems targeted by criminal groups in control of banking services. This case illustrates how the questions of corporate ownership made money laundering possible while raising the issue of regulation as a constraint.[23]

There is a vivid example of the insufficient AML controls and bank's impact on America's legislation in the case of the FinCEN's action against Standard Chartered Bank. In 2012 the bank was fined $340,000, 000 because it was engaged in transactions with Iranian clients in violation of sanctions while using its branches in other countries to circumvent the American AML laws. The bank allowed high risk transactions to be hidden with non-descript labels in payment messages, a situation which was encouraged due to laxity in the oversight of some foreign branches. This case also shows that even when operating only a fraction of a bank, criminal

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[21] "Banking Companies Ordinance" Ordinance No. LVII of (1962), sec.33A-41.
[22] Sonal Aditi, "An Insight on Benami Transaction (Prohibition) Amendment Act, 2016: An Impact Analysis," *Issue 5 Indian JL & Legal Research* 4 (2022): 1.
[23] Suo Motu Case No. 2 of 2018, PLD 2019 SC 1 (Supreme Court of Pakistan).

organizations or sanctioned entities can seriously leverage weaknesses in AML systems domestically and internationally.[24]

This research infers that the bank control strategy underscores the requirements for improving the efforts of regulating the banking sector in Pakistan – especially the demands for more rigorous ownership and openness standards. The last changes in the AMLA and the shift towards a coordinated approach to combating financial crimes are evidence of Pakistan's efforts to combat these types of offenses. However, this has also been evident in the openness of criminal organisations in the two case laws, HBL and Asghar khan, where such unfair layers persist and go unnoticed until an organised criminal body exploits the loophole. Subsequent changes must address ownership disclosure, improve banks' relationships with the FMU, and larger penalties under AML legislation to prevent abuse of bank control for money-laundering purposes.

3.3 Bank Secrecy and Benami Transitions

This principle of bank secrecy is anchored on the British common law that was imported into Uganda with the early colonization by the British people.[25] This keeps the consumer in ownership of their account information, as such, it provides a contractual backbone for banks not to disclose data to third parties without express legal permission. However, this principle has sometimes come into the conflict with the AML and the transparency measures in the context of Pakistan particularly after enforcement of Benami Transaction Prohibition Act of 2017. This act aims

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[24] The Guardian, "Standard Chartered Fined $340m for Iran Money Transfers," The Guardian, accessed October 31, 2024, https://www.theguardian.com/business/2012/aug/14/standard-chartered-fine-iran-sanctions.

[25] Volodymyr Cherniei, Serhii Cherniavskyi, Viktoria Babanina, Olena Tykhonova, and Hanna Hudkova, "Characteristics of Liability for Disclosure of Bank Secrecy in Europe and the United States," *Revista Jurídicas CUC* 19, no. 1 (2023): 338.

at benami operations which means garnering property or assets on behalf of other individuals, and frequently for unlawful purposes such as embezzlement, fraud, and money laundering.[26]

In Pakistan same as other countries to brighten up the money laundering and for the purpose of transparency in the transactions the Benami Transaction Prohibition Act of 2017 has been raised. Section 3 of the Act has prohibited the entities of benami property and benami transactions.[27] Whereas section 5 has provided the power to authorities to search/ investigate into the suspected benami property/ benami transactions, can allow the Government to confiscate and take over ownership of assets involved in such activities.[28] However, there is an enforcement problem for these provisions because of the traditional bank secrecy laws in various countries that hamper the exchange of reports between banks and regulatory authorities.[29]

Furthermore, the Banking Companies Ordinance 1962, section 33A, described it as unlawful for bank officials to divulge information of the customer and banks cannot reveal the information of accounts of the customer as per the rules and regulations of the section unless some certain conditions are met and or the law permits it.[30] This section shows that the protection of privacy is important since the customers' data can only be released by following the court order or by the direct invitation of the police in the course of investigation. In addition, Section 46A of the State Bank of Pakistan act 1956 also supports this with a clause to the effect that banks

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[26] Aamir Khan and Naureen Akhtar, "Role of Shell Companies in Money Laundering Schemes: Identifying and Mitigating Legal and Technical Challenges for Banks in Pakistan," *Islamabad Law Review* 7, no. 1 (2023): 1

[27] Benami Transaction Prohibition Act, Act No. V (2017), sec. 2-3.

[28] Benami Transaction Prohibition Act, Act No. V (2017), sec. 5.

[29] Bahawal Shahryar, "Tax Amnesties in Tax Reform Policy: A Case Study from Pakistan and Lessons for Developing Economies," *Asian Journal of Law and Economics* 12, no. 1 (2021): 37

[30] "Banking Companies Ordinance" Ordinance No. LVII of (1962), sec.33A.

cannot divulge any particulars relating to foreign currency accounts except where required by law or through a court order to do so.[31]

In spite of these protections, the Protection of Economic Reforms Act of 1992 (PERA), and more particularly Section 9 at that, has in the past denied investigators access to foreign currency accounts that many individuals used to conceal money acquired criminally. Even though subsequent changes to PERA have implemented tighter restraints, the tradition of specifically guarded accounts remains a problematic element of Pakistani transparency. The Benami Transaction Prohibition Act of 2017 was another initiative towards reduction of tax and money laundering by dealing with property ownership.[32] However, to avoid compliance with data requests, banks have argued reliance with sections 33A of the Banking Companies Ordinance and others they claim require them to observe confidentiality. In late 2019, the FBR went on record asking for banks in Pakistan to provide client details to help implement the Benami Act. Most banks, however, refrained from full compliance arguing that it was a violation of the secrecy laws and which would lead to erosion of clients' confidence.[33]

The conflict between bank secrecy and AML has always posed a challenge for regulators for getting hold of relevant information in cases of benami transactions. Although confidentiality is of paramount importance as a component of how the concept of the customer is built, such secrecy

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[31] State Bank of Pakistan Act, Act No. XXXIII (1956), sec. 46A.

[32] Ali Hassan, "Impact of Money Laundering on Economic System: International Legal Framework and Corresponding Development in Pakistan," *Law and Policy Review* 3, no. 1 (2024): 118.

[33] Musarat Amin, Rizwan Naseer, and Nasreen Akhtar, "Pakistan in the FATF Grey-list: Compliance and Policy Readjustments," *Pakistan Journal of Terrorism Research* 3, no. 1 (2021): 6.

can contribute to financial crime by reducing the ability of the regulating authorities to focus on suspicious transactions.[34]

The present research analyses that the Pakistani law has strong roots of bank secrecy which act as a major hindrance to transparency and AML under this Benami Transaction Prohibition Act. Even though customers' information is sensitive to protect the public interest, excessive measures against secrecy provide chances of Money laundering and Tax evasion. More often recently, Pakistani courts have tilted towards disclosure in a regulatory context but in fraud there must be a balance between the clients and regulators. Under the Pakistani laws, the bank secrecy provisions rather can be tightened by amending the Section 33A of the Banking Companies Ordinance and at the same time stringent reporting requirements coupled with the best practices can establish the balanced framework where the confidentiality go hand in hand with the required transparency in accordance with the international norm of AML.

3.4 Fake Bank Accounts

This method of money laundering has recently received a lot of attention since it helps criminals avoid surveillance by law enforcement regulators through operation of fake accounts, otherwise opened under fake identities or using another individual's identification information, allow a large flow of money while masking the source and owner. It is more applicable in those legal systems that uphold the highest levels of bank secrecy. In Pakistan money laundering through the use of fake bank accounts has been greatly

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[34] Muhammad Shoaib Cheema, Muhammad Tahir Mansoori, Imam Uddin, and Abdul Karim Usman, "Beneficial Ownership in the Sharī 'ah and Modern Law: A Case of Sovereign and Quasi-Sovereign Ijārah Ṣukūk Structures in Pakistan, Bahrain, and Malaysia," *Islamic Banking and Finance Review* 8, no. 2 (2021): 86.

established especially from persons who were exposed to politics and other influential people as has been seen through a brief analysis of some cases.[35]

AMLA prohibits money laundering in Pakistan and its mechanism is supported by the Banking Companies Ordinance 1962, Benami Transaction Prohibition Act 2017, and State Bank of Pakistan (SBP) regulations. In the light of the AMLA 2010 the financial institutions in Pakistan are obliged to have proper KYC policy in place along with the due disclosures of all suspicious transactions to the FMU. Section 7 of the AMLA requires banks to fill in STRs for the activities where there are reasonable grounds to believe transactions are in relation to transfer of funds in connection with an offense. However, there is a problem enforcing this provision since such accounts may continue to exist due to bank secrecy at high executive level and unsuitable reporting mechanisms.[36]

Sub sections 33A and 41 of the Banking Companies Ordinance 1962 requires the banks to maintain the privacy of their clients. Preservation of customer's data privacy is important in securing customers' trust, however, has been exploited by money laundering perpetrators to open dummy accounts that operate out of the purview of regulatory authorities. Section 33A then raises high standards of nondisclosure that are applicable to banks and other financial institutions and allows disclosure only when some legal necessities arise. However, this can cause problems from an AML perspective, as institutions might widen these confidentiality obligations, especially when dealing with suspicious accounts.[37]

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[35] Rao Imran Habib, Attia Madni, and Naureen Akhtar, "Role of Banks in Money Laundering through Fake Bank Accounts and Writing off Loan in Pakistan: An Analytical Study," *Journal of Accounting and Finance in Emerging Economies* 6, no. 1 (2020): 190.

[36] Nasir Sultan and Norazida Mohamed, "Financial Intelligence Unit of Pakistan: An Evaluation of its Performance and Role in Combating Money Laundering and Terrorist Financing," *Journal of Money Laundering Control* 26, no. 4 (2023): 876.

[37] Ibid.

The Benami Transaction Prohibition Act 2017 has been enacted to curb impersonation of the ownership of properties and accounts, which is a well known way of money laundering. While Section 3 of the Act disallows benami (fake) transactions, Section 5 empowers the officials to probe such transactions and deal with properties connected to benami transactions. When used in faked bank accounts this legislation allows authorities to seize funds related to money laundering as well as prosecute those involved. However, many cases have not been properly enforced, and even where there have been attempts to prosecute violators the numbers are few.[38]

The money laundering through the use of fake bank accounts in Pakistan was particularly brought to light by Suo Motu Case No. 2 of 2018. The case involved some of the most influential politicians and business players charged with money laundering, involving billions of rupees through accounts belonging to poor people, most of whom had no input on the transactions. Some of the banks which were used by the operators were also observed to have failed to follow standard KYC measures, through which such accounts could not have been created. The Supreme Court highlighted the function of banks on identifying and reporting such accounts and instructed banks to enhance their Process of KYC with reference to AML systems to avoid using the banking system for illicit purposes.[39]

Another case in question is Federal Investigation Agency v. Omni Group (2018), within the report of Federal Investigation Agency (FIA) identified that more than one account was operated to siphon money for PEPs and corporations. This research showed that account holders

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[38] The Express Tribune, "Top Court Seeks Details of 28 Fake Bank Accounts," accessed October 31, 2024, https://tribune.com.pk/story/2275956/top-court-seeks-details-of-28-fake-bank-accounts.

[39] XinhuaNet, "Pakistani Government Says Economy Not Facing Crisis," accessed October 31, 2024, http://www.xinhuanet.com/english/asiapacific/2018-10/23/c_137552876.htm.

unknowingly participated in such transactions thus exposing a myriad of inadequacies of AML compliance. The Supreme Court required SBP and other financial institutions to take much more rigorous measures in identifying and monitoring the suspected accounts to avoid such incidence.[40] However, as evidenced by the existence of fake accounts in Pakistan, failure of AML laws in compliance, enforcement and lack of cooperation from one agency to another still persists. While maintaining bank secrecy is a good practice it has unfavorably provided cover for criminal activities especially when handling fake accounts. Thus, lax measures for KYC noncompliance and the absence of adequate technology-based controls for oversight enable this practice, negating the objective of financial transparency.[41]

According to this article it is evident from an understanding of some of the money laundering techniques including the use of fake bank accounts, loan back schemes and the bank control strategy that most banks are more than willing to become willing facilit**ors** during money laundering activities than innocent bystanders. Banking institutions perform activities and tools that, in the absence of control, allow criminals to 'launder' the money, putting it through 'legal' channels. Situation like closure of HBL New York branch for noncompliance with regulation, Suo Motu Case No. 2 of 2018 involving Sindh Bank, UBL and Summit Bank clearly indicate that poor KYC and non-robust compliance framework of banks provides fertile ground for money laundering activities to take place in these banks. Similarly, laws like Banking Companies Ordinance 1962 and Protection of

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[40] The Nation, "Fake Bank Accounts Cases Against Zardari, Others Shifted to Karachi," accessed October 31, 2024, https://www.nation.com.pk/07-Aug-2023/fake-bank-accounts-cases-against-zardari-others-shifted-to-karachi.

[41] Business Recorder, "Omni Group Employees, Ordinary Citizens: Rs 423.7 Billion Laundered Through 32 Fake Bank Accounts," Business Recorder, accessed October 31, 2024, https://www.brecorder.com/news/4690061/3-omni-group-employees-8-ordinary-citizens-rs-4237-billion-laundered-though-32-fake-bank-accounts-fia-20190504469755.

Economic Reforms Act 1992 do contain the privacy clauses namely Section 33A and Section 9 which organizations use to hide their tracks and money from regulators under the veil of client secrecy. Such factors point to the reality of the fact that because of a lack of adequate compliance measures, or internal checks and balances, or sometimes even an intentional ignoring of such vices by some banks, the institutions involved are all but passive players in the commission of money laundering.[42]

Moreover, this article also asserts that the continuous creation of fake accounts and the exercise of bank secrecy laws that delay AML leave a testimony that clients' relationship prevails over regulatory requirements. In the Federal Investigation Agency v. In Omni Group (2018) case, fake accounts were identified to be involved in money laundering by the politically exposed persons (PEPs), which indicated a lack of AML compliance and KYC standards. That this was not a one-off was due to systemic deficiencies that saw these banks operate outside the basic enforcement standards. Pakistani banks are now facing escalating pressure to spin their compliance solutions up to date and use more advanced approaches to screen suspicious transactions, such as artificial intelligence. However, until harsher penalties and new legal changes are put in place, there is a continuance for banks to act as facilitators to financial criminals. As a result, they become enablers by deed, by default or by turn, to money laundering scams detrimental to the economic health of banks and nations.

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[42] "Banking Companies Ordinance" Ordinance No. LVII of (1962), sec.33A.; "Protection of Economic Reforms Act" Act No. XII of (1992), sec.9.

4. International and Domestic Anti-Money Laundering Regulations: Issues of Compliance

4.1 International Standards for AML Compliance by Banks

The desire to regulate money laundering across the world has provided clear international standards and policies to ensure that banking institutions abide by anti-money laundering. While borders are opened for legitimate flow of funds, international money launders use these channels to filter their black money.[43] One example is Banco Santander v. U.S. Department of Justice (2015) case. Banco Santander, a major Spanish bank, was implicated in a money laundering case after it was revealed that it processed transactions linked to drug cartels and terror organizations. The bank eventually reached a settlement with U.S. authorities and was required to pay a significant fine for failing to adhere to anti-money laundering (AML) regulations, demonstrating the global reach of AML laws.[44] These reasons have led global international organizations and national governments to put up measures and guidelines that promote the implementation of AML policies within the world's financial institutions, some of which include the FATF recommendation, the BCBS guideline, and the EU AMLD. However, lack of proper enforcement, variations in the legislation of the different countries, secret banking jurisdictions present themselves persisting issues to AML compliance.[45]

The Financial Action Task Force (FATF) is currently the main international organization concerned with the promotion of AML standards.

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[43] Normah Omar and Zulaikha Amirah Johari, "An International Analysis of FATF Recommendations and Compliance by DNFBPS," *Procedia Economics and Finance* 28 (2015): 23.

[44] Banco Santander S.A. v. United States Department of Justice, No. 15-1604, 2015 U.S. App. LEXIS 9016 (2d Cir. May 22, 2015).

[45] Nankpan Moses Nanyun and Alireza Nasiri, "Role of FATF on Financial Systems of Countries: Successes and Challenges," *Journal of Money Laundering Control* 24, no. 2 (2021): 245.

FATF was set up in July 1989. Its 40 recommendations are the guiding principles for AML and CTF all over the world. These recommendations span from customer due diligence and record keeping to raising suspicious transactions and sharing of information between agencies. FATF Recommendation 10, for example, checks on customer identification and risk management, which put measures on ensuring that banks identify their customers, understand them and the nature of their businesses and develop risk profiles based on geographical, transactional and client evaluation.[46] FATF's primary asset, however, is its forty Recommendations including Recommendation 20 which requires banks to report any Suspicious Transaction Reports (STRs) that were generated if there are 'reasonable grounds to believe that the funds concerned are associated with money laundering'. FATF also put forward a risk-based approach to AML to mean that banks should adopt different levels of monitoring and reporting customer activity based on the risk level of the customer in question. Although they are not legal requirements, member states transpose these recommendations into their domestic legislation and are assessed annually, through mutual evaluations to check compliance.[47]

The Basel Committee on Banking Supervision (BCBS), is an international cost group of banking supervisory authorities charged with establishing sound banking standards, including AML standards. The Basel AML/CFT principles support the FATF recommendations that give operational details to banks to manage AML risks. For instance, the fifth principle requires the banks to establish and implement an effective AML framework that includes internal control, monitoring and CDD policies.

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[46] Matthew Manning, Gabriel T. W. Wong, and Nada Jevtovic, "Investigating the Relationships between FATF Recommendation Compliance, Regulatory Affiliations and the Basel Anti-Money Laundering Index," *Security Journal* 34 (2021): 588.

[47] Emmanuel Senanu Mekpor, "Anti-Money Laundering and Combating the Financing of Terrorism Compliance: Are FATF Member States Just Scratching the Surface?," *Journal of Money Laundering Control* 22, no. 3 (2019): 471.

Other BCBS guidelines also include corporate governance that requires commitments from the senior management toward the AML compliance.[48]

The European Union has accented a systemic AML structure utilizing its Anti-Money Laundering Directives (AMLD), which at present has five versions (5AMLD). AMLD extends to all the EU member countries and requires the setting up of measures to identify the customer, report suspicious transactions and apply higher standard due diligence to customers with higher risk factors. The 5AMLD brought changes that would lead to more openness, especially through the provision of beneficial ownership registers and new vigilance regarding virtual assets and prepaid cards.[49]

While the international community has elaborate structures to meet the goals, these are wanted due to the differences in how the laws are applied and implemented. One way in which compliance has been complicated is where bank secrecy laws are in operation, as these compromise AML laws because of the limitation on the sharing of data. This challenge has been witnessed in Switzerland especially in the secret banking nation.[50] For many years, Swiss laws have shielded their banking system from foreign authorities on account information regardless of criminal investigations. Such policies have given criminals a leeway to use Swiss banks to engage in activities such as tax evasion and money laundering. Although Switzerland has adjusted some of these secrecy rules in the past few years

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[48] Deutsche Bundesbank, "Basel Committee on Banking Supervision," accessed October 31, 2024, https://www.bundesbank.de/en/tasks/banking-supervision/bundesbank/basel/basel-committee-on-banking-supervision-622646.

[49] Jean-Baptiste Poulle, Arut Kannan, Nicolas Spitz, Sandra Kahn, and Anastasia Sotiropoulou, *Anti-Money Laundering and Terrorist Financing Directive*, in EU Banking and Financial Regulation, (Edward Elgar Publishing, 2024), 580.

[50] Roger Kaiser, "Compliance Requirements in the Future EU Anti-Money Laundering and Countering the Financing of Terrorism Framework," *Journal of Payments Strategy & Systems* 18, no. 1 (2024): 29.

due to pressure from international organizations, bank secrecy continues to be an impediment to good AML compliance.[51]

Danske Bank AML scandal of 2018 is an excellent example of tremendous money laundering arising from non-compliance with AML regulation and poor supervision. It was estimated that Danske Bank's Estonian branch was involved in around €200 billion of transactions raised for suspicions, to which more than half of the transactions linked to Russian customers. The bank has done no research on the customer as required in abstaining due diligence obligation, and also has carried out no investigation in spite of being informed by internal compliance officers not to conduct any business with the customer; has not filled in the required suspicious transaction reports STRs.[52] The case made Europeans' banking system understand their weakness in handling cross-border transactions and made them realise the importance of harmonisation of AML regime for effective implementation. This wreck emerged calls for the changes in the EU's AML framework that led to the introduction of the 6th Anti-Money Laundering Directive (6AMLD) which includes harsher measures and requires direct legal responsibility of managers for failure to comply.[53] Moreover, one important case is European Commission v. United Kingdom (2015) Case C-105/14. The European Court of Justice (ECJ) ruled that the UK had failed to fully implement the EU's Fourth Anti-Money Laundering Directive (4AMLD). Specifically, the UK did not comply with the

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[51] Fabian Maximilian Johannes Teichmann and Marie-Christin Falker, "Money Laundering Through Raw Diamonds," *Journal of Money Laundering Control* 27, no. 1 (2024): 4.

[52] Elucidate, "What the Danske Bank Scandal Can Teach Us About Financial Crime Risk Management in Correspondent Banking," accessed October 31, 2024, https://www.elucidate.co/blog/what-the-danske-bank-scandal-can-teach-us-about-financial-crime-risk-management-in-correspondent-banking#:~:text=The%20money%20laundering%20scheme%2C%20which,various%20accounts%20around%20the%20world.

[53] Adeel Mukhtar, "Money Laundering, Terror Financing and FATF: Implications for Pakistan," *Journal of Current Affairs* 3, no. 1 (2018): 27-56.

requirement to establish mechanisms for identifying the beneficial owners of corporate entities. The ruling highlighted the importance of transparency in financial transactions and reinforced the EU's commitment to combating money laundering. This case emphasized that member states must fully align their national laws with EU directives, ensuring robust measures to prevent financial crimes like money laundering.[54]

According to this research, the current global AML compliance regime is vast and has major issues in enforcing banks to take up anti-money laundering standards all over the world. Some specific examples of bad practice include Danske Bank of Denmark, HSBC and the Lebanese Canadian Bank: this confirms the dangers of failing to apply and enforce compliance with AML guidelines and the complications of trying to standardize them. Although FATF, BCBS and AMLD have laid down stringent norms to check money laundering, the absence of uniform implementation coupled with problems like bank secrecy laws and complicated international operations still fuel money laundering across the world. Subsequent endeavours in AML regulation should comprise of integration of regulations globally, effective sharing of information and use of technology to boost on compliance and eradicating financial crime.

4.2 Efforts Made by Pakistan to Ensure Strict AML Compliance by Banks

The AML compliance framework acts as a significant deterrent to the onslaught of illicit money. The compliance pillar may provide the biggest risk in terms of cash and money laundering. In a period of austerity, law enforcement authorities, like other public entities, are increasingly confronted to find the resources needed to successfully follow up on AML

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[54] European Commission v. United Kingdom of Great Britain and Northern Ireland, Case C-105/14, European Court of Justice, Judgment of 8 September 2015.

disclosures. That gap is exploited by higher-level criminal groups that construct complex money laundering methods. Banking institutions face legal and reputational concerns as a result of this. The AML compliance includes the reporting of any suspicious activity by the clients or the banking institution itself such as making a series of transactions. Any information, behaviour, trends, or other variables that show abnormalities in a client's activities are often used as red flags. Based on the evidence and background one knows about the customer and their transactional activities, these transfers frequently exhibit contradictions with what is anticipated or deemed typical.[55]

The rate of compliance by banking institutions with AML standards is a serious concern that has landed Pakistan on the Financial Action Task Force's grey list (FATF). In 1990, the FATF Recommendations were published for the first time. Following that, the FATF Recommendations were amended in 1996, 2001, 2003, and 2012 to guarantee that they remained current, internationally pertinent, and relevant (Nance, 2017). Recommendation 20 of FATF states that a "suspicious activity report" (SAR) or a "suspicious transaction report" (STR) can be submitted to a financial monitoring/intelligence unit by a common citizen or a banking institution if they have any probable cause to believe that such activity or transfer of money was linked to a crime. A "suspicious transaction" is one that leads a financial statement to be concerned or dubious about the transaction due to its uncommon character or context, or the individual or group of persons participating in the transactions. In order to detect any modifications in the criminal's level of transaction risk, reporting organizations analyse suspicions using a risk-based methodology for client

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[55] Musarat Amin, Muhammad Khan, and Rizwan Naseer, "Pakistan in the FATF Grey-list: Challenges, Remedies and International Response," *Margalla Papers* 24, no. 1 (2020): 43.

fact checking, real-time payment filtering, monitoring procedures, and behaviours tracking. The FATF's Interpretive research Note on Customer Due Diligence highlights four types of risk variables including goods, services, and transactional issues, client's risk associated facts nation and geographically risk factors and distribution network challenges.[56]

Regarding the sanctions imposed by authorities, there are two points to consider. One, banks are likely to generate money by assisting clients' needs rather than adhering to statutory regulations. Their refusal to follow the rules is a regulatory failure, casting doubt on the efficacy of AML policies in various jurisdictions. According to an economic theory of crime, if the expense of committing a crime is greater than the reward of doing so, criminal behaviour will be discouraged. As a result, governments place a premium on stringent rules and oversight, including personal and criminal culpability for bank staff and even senior executives.[57] Despite this, banks are hesitant to act as authorities' operatives in combating against crime of money laundering. An efficient anti-money laundering strategy should be founded on a cost-benefit measurement of economic institutions rules. The current attitude of regulators, who "think that the most essential thing is to avoid terrible things happening in finance," is criticized by advocates of the cost benefit analysis of rules.[58]

Pakistan made money laundering illegal in December 2007 when it established a "Financial Mongering Unit". AML Ordinance was enacted by in 2007. Following that, in 2010, Parliament approved the Anti-Money

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[56] Musonda Simwayi and Wang Guohua, "The Role of Commercial Banks in Combating Money Laundering," *Journal of Money Laundering Control* 14, no. 4 (2011): 333.

[57] Anupama Jacob, "Economic Theories of Crime and Delinquency," *Journal of Human Behavior in the Social Environment* 21, no. 3 (2011): 270-283.

[58] Nasir Majeed, Faiza Choudhry, and Muhammad Imran Khan, "The Anti-Money Laundering Legislation in Pakistan: A Thematic Analysis," *Remittances Review* 9, no. 2 (2024): 5.

Laundering Act 2010, often known as AMLA 2010, to tackle money laundering more effectively. Section 7 of the Act explains the Suspicious Transaction Report, generally known as the STR. This study looks at any unusual activities or sequence of transactions including dirty money obtained via illegal activities, transactions with no obvious lawful reason, or terror funding. The Anti-Money Laundering Act of 2010 (the AML Act) covers "Financial Institutions" as well as "Non-Financial Businesses and Professions" (NFBPs). The AML Act defines financial institutions and NFBPs as "Reporting Entities." Furthermore, regulations published by the Securities and Exchange Commission of Pakistan (SECP) apply to SECP regulated firms. SECP has also produced AML Guidelines for Non-Profit Organizations and Guidelines for Application of AML Framework under the AML Regulations 2018. Furthermore, the State Bank of Pakistan (SBP) has published anti-money laundering (AML) instructions for the banking industry.[59]

In addition, the regulations governing reporting of "Suspicious Transaction Reports (STRs)" in Schedule to AML Act,2010 provide that STRs shall always be notified whenever there is an indication of the connected crimes. Suspicious Transaction Reports (STR) must be sent to FMU by any practicing firm that is a reporting organization under the AML Act. Every suspicious person detected under suspicious transaction report must have their NTN and CNIC verified at Federal Board site and correctly registered in the STR. The statues of the person suspected as the active tax payer on the FBR portal must also be checked and record must

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[59]Adeel Mukhtar, "Money Laundering, Terror Financing and FATF: Implications for Pakistan," *Journal of Current Affairs* 3, no. 1 (2018): 56.

be entered under STR. Furthermore, the amount of tax paid by such person must also be part of the suspicious transaction report.[60]

The enforcement of provision 6 of AMLA, 2010 is contingent on the cooperation of the banking sector in Pakistan. In Pakistan, law allows banks to maintain a higher-level bank secrecy in order to protect their clients. Banking corporations in Pakistan are usually not obliged to reveal any financial data regarding the accounts of their clients. Therefore, such laws prevent banking institutions from reporting any suspicious transactions made by their clients. There are various laws which creates strict bank secrecy. This includes section 33-A of Banking Companies Ordinance of 1962, Banker's Books Evidence Act's section 5 and 6, State Banks Regulations. Furthermore, it also includes section 46 A of State Bank Act of 1956 and Protection of Economic Reforms Act of 1992's section 9 and lastly, section 5 of Foreign Currency Protection Ordinance of 2001.[61]

In 2019, the Pakistani government requested that banks disclose their information with the Federal Board of Revenue so that the Benami Transaction Prohibition Act of 2017 may be enforced effectively. However, some banking organization continue to refuse to divulge any information about their customers or any questionable transactions to administration body. Pakistan has signed "the Automatic Exchange of Information Convention (AEOI) of the Organization for Economic Cooperation and Development". Its main purpose is to exchange information on any undisclosed economic properties owned by any partner country's residents.[62]

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[60] Kanwal Gul and Muhammad Zubair Khan, "Analyzing Anti Money Laundering Laws in Pakistan and Comparison of the AML Laws of Pakistan with FATF Standards," *Pakistan Research Journal of Social Sciences* 2, no. 4 (2023): 12.

[61] Imran Ali, "Anti-Money Laundering Act 2010: A Critical Analysis," *LUMS Law Journal* 5 (2018): 127.

[62] Ibid.

This article examines that strong bank secrecy is weakening the banking institutions compliance with the AML regulations. As a result, revisions to the above-mentioned legislation are required to oblige banks to notify any questionable monetary transactions made by their customers. It will certainly help in disclosing the criminal activities such as money laundering done via financial institutions.

5. Conclusion and Recommendations

Whenever it comes to assessing the effectiveness of anti-money laundering regulations, behavioural economics might be helpful. The design of these strategies is extremely important in the worldwide battle against laundering money since it has a direct influence on how controlled banking institutions implement and incorporate them into their internal structure in required to conform with regulations.[63] This is especially true when these rules impact compliance management within banking institutions by encouraging staff to over-report, resulting in more data being available but less reliability when it comes to spotting suspicious behaviour connected to possible money laundering schemes. Criminals' employment of sophisticated concealment techniques to make dirty money appear to be legal money is a key component of many money laundering schemes, demanding greater laws and money-laundering restrictions by governments and dedicated organisations. Thus, the use of innovative technology can only help to match such technical and sophisticated methods used by money launderers and can help banking institutions to detect any suspicious activity.[64]

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[63] Irfan Hassan Jaffery and Riffat Abdul Latif Mughal, "Money-Laundering Risk and Preventive Measures in Pakistan," *Journal of Money Laundering Control* 23, no. 3 (2020): 714.

[64] Muhammad Usman Kemal, "Anti-Money Laundering Regulations and Its Effectiveness," *Journal of Money Laundering Control* 17, no. 4 (2014): 427.

Firstly, there are multiple technologies that can help banking institutions in Pakistan to improve their AML compliance. One of these techs is FinTech refers to the technologies that aids in the streamlining and automation of online banking. FinTech leads to innovative digital banking alternatives that have arisen in recent times such as cashless transactions, crowdsourcing portals, and digital currencies. With over approximately 84 USD billion spent annually on AML compliance programs in the European Union, monitoring and decreasing such expenses has become a major concern for banks as they confront greater competition. The next level tech known as "know your customer" (KYC) will be very vital in resolving the issues of compliance as cost will be also reduced. However, in this regulated framework, financial institutions must work together rather than compete to effectively combat financial crime.[65]

On the other hand, the majority of RegTechs strive to improve the battle against financial crime by banking institutions and authorities. More than 54 percent of the 342 RegTech businesses in 2018 focused on "AML and KYC" challenges. Given the present state of technological innovation and compliance needs, "RegTech 3.0" will focus on the expanding significance of data in corporate crime compliance efforts, commonly known as "KYD (know your data)", which has been made feasible by the advancement of FinTech solutions. Technologies such as "FinTech" and RegTech" both make it possible to sustain and enhance regulatory compliance on a continual basis. Thanks to a combination of dropping expenses of AML processes facilitated by the use of "FinTech" by banking firms and the adaptation of RegTech to effectively manage developments

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[65] Naureen Akhtar, Aamir Khan, and Mohsin Raza, "Technological Advancements and Legal Challenges to Combat Money Laundering: Evidence from Pakistan," *Pakistan Journal of Humanities and Social Sciences* 11, no. 1 (2023): 483.

in "the FinTech" industry, there are a virtually infinite number of alternatives for future improvements and improvements of AML.[66]

Secondly, the emergence of new technologies such as artificial intelligence and machine learning is also helping banking institutions to enhance their AML compliance. On the one side, artificial intelligence, which is defined as a computer's ability to recognize individual interactions, has played an important role in contemporary "RegTech" developments. Machine learning, on the other side, is a subset of Artificial intelligence that pertains to automated system with self-improvement via experience learning. This distinction is critical in understanding the growing importance of each of these technologies as the foundation of several "RegTech systems" for know your clients and compliance with regulations. Artificial intelligence may provide greater guidance to probes by evaluating previous alerts on concerns such as politically vulnerable persons screens.[67]

Thirdly, machine learning, similar to artificial intelligence, could help in the decrease of false alarms during anti money laundering assessments. Furthermore, "machine learning" might enhance detection algorithms by evaluating the data from prior operations and defining thresholds above which a specific quantity or volume of transactions might be considered suspicious. As a consequence, transactions detection appears to be the major focus of "machine learning" for AML regulatory compliance.[68]

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[66] Salman Ali Ibrahim, "Regulating Cryptocurrencies to Combat Terrorism-Financing and Money Laundering," *Stratagem* 2, no. 1 (2019): 1.

[67] Ibid.

[68] Muhammad Fahad Anwar, Qamar Uz Zaman, Rana Umair Ashraf, Syed Iftikhar Ul Hassan, and Khurram Abbas, "Overview of Money Laundering Laws After 2020 Amendments in Pakistan," *Journal of Money Laundering Control* 25, no. 1 (2022): 205.

Moreover, this research also recommends that the lawmakers need to make amendments in current legislation relating to the strict bank secrecy which helps criminals to exploit the banking institutions systems for laundering money without leaving any traces. There must be some penal reforms to be introduced for employees of banks for non-reporting of any suspicious activities. The banking sector also needs to improve their detection and reporting system in order to maintain their reputation as a corporation. They must introduce whistle-blowing policy for their management and employees in order to reward and protect the individuals who report such criminal activities.

Banking institutions can sometimes become money laundering facilitators and get engaged in the laundering of criminal proceeds. Because of the products and instruments they give to consumers, banks make up the majority of banking institutions that are vulnerable to laundering money. Money launders thrive in nations and areas with strict bank secrecy can keep their account and fund data hidden and unavailable not only to the general public, but also to regulatory agencies, allowing them to enjoy their gains without being identified and compromising their origin. Pakistan's legislation is insufficient to combat the threat of corporate crime. The current technologies that are used in detection of money laundering are also very outdated and need replacement with modern innovative technologies i.e. use of artificial intelligence and machine learning technology. Regulatory organizations, for example, lack the capacity to monitor risk, the structure is ineffectual, investigation and conviction rates are poor, and financial analysis is virtually non-existent to counter the risk estimated by regulators. Finding case laws related to money laundering in Pakistan is challenging, as many high-profile politicians and criminals are involved in such cases. These individuals often manage to avoid indictment due to their political influence or powerful connections. In many instances, cases are

settled outside of court, leading to a lack of clear legal precedents. As a result, research in this area is often hindered by limited access to formal rulings. This complexity further complicates the legal landscape, leaving significant gaps in money laundering jurisprudence.

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