

Role of Shell Companies in Money Laundering Schemes: Identifying and Mitigating Legal and Technical Challenges for Banks in Pakistan

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Abstract

The integrity of the financial system is significantly jeopardized by money laundering both in Pakistan and abroad. Shell companies are non-trading corporations without a physical location, ongoing business activities, or staff members. While they are often established for legitimate reasons, such as holding assets or managing investments, their lack of transparency and complex ownership structures make them vulnerable to exploitation for money laundering purposes. This article explores the role of shell companies in money laundering and provides insights into how banks in Pakistan can identify and mitigate the associated risks to ensure compliance with anti-money laundering (AML) regulations. It investigates how shell companies engage in money laundering schemes by exploiting loopholes in the legal frameworks in developing countries like Pakistan where banking institutions have weaker compliance rates with the regulatory frameworks. To address this issue, a qualitative doctrinal research methodology, based on documentary analysis is employed. Accordingly, this paper critically examines the national statutes, regulations, and policies in Pakistan, and other existing data relating to role of shell companies in money laundering schemes. The analysis concludes that by adopting a proactive and collaborative approach, banks and regulatory authorities in Pakistan can effectively combat financial crimes and threats posed by the shell companies to safeguard the integrity of the financial system.

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1. Introduction

Criminals, particularly money launderers who wish to create the idea that their money came from legal sources, sometimes use shell companies, which are also popularly referred to as ghost corporations and during the course of the last several years, companies and government agencies have made measures to cut down on crimes of this nature.¹ A corporation is considered to be a "shell" if it does not have any employees, assets used in operations, or physical premises. These businesses are purposefully set up to disguise ownership information from other companies, law enforcement, and the general public, enabling fraudsters to conceal illicit cash, get around AML requirements, and evade paying taxes. While there may be legitimate justifications for setting up a shell company, such as a startup using it as a means of raising capital, most of the time, they are utilized for illegal activities.² Shell companies, with their opaque structures, can be pivotal facilitators of money laundering schemes.

Money laundering and shell corporations are related concepts. On behalf of their consumers, shell companies accept financial payments. Simply said, it indicates that large sums of cash are laundered and deposited into their business account. Then, using fake invoices, the shell company transfers the money to money-launderers' accounts and eventually legitimizes the funds. Such businesses are typically established in nations with laxer legal systems or less restrictive jurisdiction. Additionally, shell companies frequently handle a large number of transactions, maintaining

¹ Milind Tiwari, Adrian Gepp and Kuldeep Kumar, "A Review of Money Laundering Literature: The State of Research in Key Areas," *Pacific Accounting Review* 32, no. 2 (2020): 278, doi:10.1108/PAR.06-2019-0065.

² Brigitte Unger and Elena Madalina Busuioc, *The Scale and Impacts of Money Laundering*, (UK: Edward Elgar Publishing., 2007), 47.

anonymity which makes it challenging for law enforcement bodies to identify the real source of the money. Due to their secretive regulations that provide advantages to foreign investors to lure capital, the United Kingdom and various other European nations, including Luxembourg, Austria, Denmark, Sweden, Switzerland, the Netherlands, Jersey, Ireland, and Germany, are said to be the best locations for shell companies. For instance, Germany does not tax the overseas revenue of companies that are not residents. Similar to this, Ireland provides reduced tax rates on investments to multinational corporations.³

Numerous leaks have revealed the names of wealthy Pakistanis, including politicians, former military personnel, judges, and government officials who owned shell companies to conceal their wealth. In 2016, the Panama Papers were made public, and they exposed the extent to which shell businesses were being utilized all across the world to launder money. Leaked documents revealed that shell companies were established in a number of low-regulatory jurisdictions, such as the British Virgin Islands and the Cayman Islands, with many of these enterprises linked to well-known politicians and their families. Shell companies pose a serious threat to anti-money laundering efforts.⁴ Due to the leak, international tax authorities were able to collect about \$500 million and pursue several criminal cases against the involved businesses and individuals. Some estimates place the annual cost of the United States' use of shell corporations at around \$70 billion. Businesses must be aware of the AML risk that shell

³ Ping He, "A Typological Study on Money Laundering," *Journal of Money Laundering Control* 13, no. 1 (2010): 23, DOI: 10.1108/13685201011010182.

⁴ Nicholas Vail, "Cracking Shells: The Panama Papers & Looking to The European Union's Anti-Money Laundering Directive as a Framework for Implementing a Multilateral Agreement to Combat the Harmful Effects of Shell Companies," *Texas A&M Law Review* 5, no. 1 (2018): 133, doi:10.37419/LR.5.11.4.

companies provide and spot customers trying to use them to launder money given the gravity of the danger to the legitimate financial system.⁵

In Pakistan, getting information on beneficial ownership was historically the biggest obstacle, making it impossible to conclude even a single inquiry. However, each state is now required to disclose information about beneficial ownership under an amendment to Financial Action Task Force (FATF) Recommendation 24.⁶ Accordingly, Pakistan is also under an obligation to take essential measures and collaborate closely with the international community to align its anti-money laundering and counterterrorism financing (AML/TF) regime with best practices throughout the world.⁷

Therefore, the primary aim of this research is to determine role of shell companies in money laundering schemes as well as the legal and technical challenges Pakistani banks encounter in recognizing and combating such financial crimes. The paper also seeks to investigate feasible plans of action and answers that can lessen these challenges and maintain the credibility of Pakistan's financial system. By fulfilling these objectives, this research aspires to help readers gain a better knowledge of Pakistani banks' potential and problems in the fight against money laundering and terrorist funding.

2. Role of Shell Companies in Money Laundering Schemes

By creating a shroud of anonymity that makes it challenging to identify the genuine beneficiaries of illegal activities, shell corporations play a crucial

⁵ "Shell Companies and Money Laundering," | Comply Advantage accessed April 29, 2023. <https://complyadvantage.com/insights/shell-companies-money-laundering/>.

⁶ "Financial Action Task Force (FATF) Recommendation" (2012), rec. 24.

⁷ Financial Action Task Force, "Guidance on Beneficial Ownership of Legal Persons." Home, Accessed April 29, 2023. <https://www.fatf-gafi.org/en/publications/Fatfrecommendations/Guidance-Beneficial-Ownership-Legal-Persons.html>.

part in money laundering operations. Numerous tactics are employed for this purpose, most common among those are discussed below.

2.1. Offshore Accounts and Transfer of Funds

Criminals can transfer illicit funds across borders undetected by creating bank accounts in the names of fictitious companies. The genuine identities of the people participating in the money laundering process can be concealed via the employment of shell corporations. Criminals can keep some anonymity and evade discovery by forming a shell corporation in a country with loose corporate transparency rules. In offshore countries with high levels of secrecy and little oversight, many shell businesses are registered. These places make it simpler for criminals to create and run shell businesses, transfer funds across accounts, and avoid being caught by the police.⁸

Offshore accounts are financial accounts that a person or business opens in another nation. These accounts can be used for unlawful acts like money laundering or tax evasion, although they are frequently used for legal objectives like foreign commercial transactions or tax optimization. Transferring money between offshore accounts is one method that might be utilized for unethical purposes using offshore accounts. Through a series of transactions that are designed to conceal the true origin of the cash, money can be moved from one offshore account to another. The final objective is to give the impression that the money is genuine. It is feasible to stay out of paying taxes if one uses accounts in foreign countries. It is possible for an individual or a firm to avoid paying taxes in their home country by moving money to an offshore account in a nation that has low or no taxes, then opening the account in that country. Offshore accounts can also be used to

⁸ Jason C Sharman. "Shopping for Anonymous Shell Companies: An Audit Study of Anonymity and Crime in the International Financial System," *Journal of Economic Perspectives* 24, no. 4 (2010): 138, doi:10.1257/jep.24.4.127.

conceal the proceeds of illicit activity. For instance, a drug dealer may move money earned from the sale of narcotics to an offshore account so that it may be kept there and out of the reach of police authorities.⁹

The Panama Papers case is one such instance involving offshore accounts in Pakistan.¹⁰ Several prominent Pakistanis, including the then-Prime Minister Nawaz Sharif and his family, were found to have set up offshore companies and accounts in tax havens to hold their wealth.¹¹ It was revealed through a massive document leak from the Panamanian law firm Mossack Fonseca in 2016. Opposition parties in Pakistan claimed that the Sharif family had used these offshore accounts to engage in money laundering and corruption. The Pakistani Supreme Court took note of the situation and opened an investigation. According to the investigation, the Sharif family established offshore businesses in the British Virgin Islands and sent these businesses millions of dollars from Pakistan. These offshore accounts are thought to have been used to launder money that was allegedly gained via corruption and bribes from numerous government contracts.¹²

Similar to this, the Axact affair involved allegations that a Pakistani IT firm by the name of Axact ran a bogus diploma mill and used offshore accounts in Dubai and the US to launder millions of dollars. Several people, including the CEO of Axact, were apprehended and found guilty in the case.¹³ Another instance is the Bahria Town case, which involves

⁹ María-Jesús Segovia-Vargas, "Detection of Shell Companies in Financial Institutions Using Dynamic Social Network," *Expert Systems with Applications* 207 (2022): 9. doi.org/10.1016/j.eswa.2022.117981.

¹⁰ Imran Khan versus Muhammad Nawaz Sharif, PLD 265 (Supreme Court 2017).

¹¹ Syed Abdul Siraj, and Anbreen Waheed, "Framing of Panama Leaks in Pakistan's Leading Newspapers," *Pakistan Journal of Criminology* 11, no. 1 (2019): 84-100. DOI:10.17051/ilkonline.2021.05.778.

¹² Zahra Dsouza, "The Panama Papers Verdict and Political Accountability in Pakistan," South Asia@LSE, Accessed May 02, 2023. <https://blogs.lse.ac.uk/southasia/2017/05/09/the-panama-papers-verdict-and-political-accountability-in-pakistan/>.

¹³ Nasir Sultan, Norazida Mohamed, Muhammad Adnan Bashir, and Muhammad Farhan Bashir, "The Anti-Money Laundering and Counter Financing of Terrorism Policy

accusations of corruption and money laundering against the CEO of the Pakistani real estate firm Bahria Town. The CEO was accused of establishing offshore businesses and accounts in Dubai and the British Virgin Islands in order to launder funds earned via bribery and corruption. The CEO agreed to pay a fine and give the Pakistani government ownership of some of his assets as part of the settlement of the lawsuit.¹⁴

The researcher analyses offshore accounts may be utilized to aid illicit operations in a number of different ways. Governments and law enforcement organizations frequently demand increased openness in international financial transactions, including the disclosure of offshore accounts and the flow of money between them, in order to prevent illegal crimes. In order to properly investigate and punish people who participate in unlawful operations involving offshore accounts and the movement of cash, law enforcement authorities must cooperate internationally.

2.2. Concealment of Ownership of Assets

Shell corporations may be an important strategy for hiding asset ownership. Criminals might lessen their chance of being caught by concealing their ownership and control of assets by utilizing nominees or bearer shares. These corporations can be established in jurisdictions with liberal corporate disclosure rules or tax restrictions, allowing people or entities to disguise their true ownership of assets. These companies exist solely on paper and have no actual commercial activity. Holding assets like real estate or financial accounts in the name of the fake business rather than the real owner is one method shell businesses may be used to hide ownership of

in Pakistan: Is it Truly Combating or Just a High-Level Desk Work Bureaucracy?" *Journal of Public Affairs* 22, no. 4 (2022): e2731, doi.org/10.1002/pa.2731.

¹⁴ Federal Investigation Agency & others. Versus Axact (Pvt) Ltd, PLD 854 (Sindh High Court 2015).

assets. Because of this, it is challenging for law enforcement officials or other interested parties to determine who really owns the assets.¹⁵

Through the use of nominee directors or shareholders, shell companies can also be used to hide the ownership of assets. In this case, a nominee director or shareholder who has been chosen to serve on behalf of the real owner of the assets may own or control the shell corporation. By doing this, the real owner may continue to control the assets while maintaining their anonymity. The real ownership of assets can also be masked via the use of shell companies in conjunction with other financial arrangements, such as trusts. The employment of many shell companies in a convoluted web of corporate structures can sometimes make it even harder to determine who really owns the assets.¹⁶

In the Omni Group case, it was claimed that the Pakistani conglomerate's owners had used offshore companies and accounts in Dubai and the UK to launder billions of rupees. According to reports, the money was collected through fraud and bribes from several government contracts. In order to hide the real owner of the assets at issue, a sophisticated network of shell corporations and other financial structures were utilized in the case.¹⁷

This article asserts that for law enforcement organizations and governments all around the world, the use of shell companies to hide asset ownership presents a serious difficulty. The disclosure of beneficial ownership information as well as the implementation of measures to track

¹⁵ Bonnie Buchanan, "Money Laundering—A Global Obstacle," *Research in International Business and Finance* 18, no. 1 (2004): 121, doi: 10.1016/j.ribaf.2004.02.001.

¹⁶ Graham Stack, "Baltic Shells: On the Mechanics of Trade-Based Money-Laundering in The Former Soviet Space," *Journal of Money Laundering Control* 18, no. 1 (2015): 93, DOI: 10.1108/JMLC-10-2013-0040.

¹⁷ Shamrez Ali, Sundus Waqar, and Muhammad Haris, "The Nexus between Political & Institutional Corruption Events with the Stock Market: A Study of Pakistan," *Journal of Finance and Economics Research* 4, no. 1 (2019): 69, DOI: 10.20547/jfer1904105.

and report unusual financial activities are just a few of the steps that governments and law enforcement organizations have taken to increase transparency and accountability in financial deals in order to combat this problem.

2.3. Invoice Fraud

For items or services that were never delivered, false invoices might be made using shell companies. Criminals might pass off the transit of illegal cash as legitimate company costs by exaggerating the value of these transactions or just making them up. Invoice fraud can also be carried out through shell corporations. This kind of fraud entails a shell firm producing phoney invoices that are then presented to another corporation for payment. The shell corporation may present as a reliable vendor or supplier, but in reality, it is merely there to make false invoices and has no actual business activities.¹⁸

The company that gets the fraudulent invoices could not recognize them as such and would pay them without checking them, which would result in a loss of money. Due to the fact that the invoices may seem genuine and may be processed alongside authentic invoices, this form of fraud might be challenging to spot. Fraudulent invoices can be used to dodge taxes, launder money, or steal money from businesses. In rare circumstances, it may be possible to further hide the real ownership of the companies involved by employing many shell corporations in a convoluted network of corporate structures.¹⁹

Corporations frequently engage in these kinds of operations in Pakistan. In the instance of M/s TMC (Pvt.) Ltd., it was claimed that the CEO of the Pakistani security services provider utilized a network of front

¹⁸ J. D., Agarwal and Aman Agarwal, "Money Laundering: The Real Estate Bubble," *Finance India* 22, no. 1 (2008): 57, doi.org/10.2139/ssrn.3768297.

¹⁹ Jason Sharman, "Tackling Shell Companies: Limiting the Opportunities to Hide Proceeds of Corruption," *U4 Brief* 2012, no. 10 (2012).

businesses to perpetrate invoicing fraud. According to reports, the CEO prepared fictitious invoices for security services that were never rendered and presented them to several businesses for payment. The monies were subsequently moved to the shell companies under the CEO's and his cohorts' control. The CEO and many of his associates were arrested and found guilty when the Federal inquiry Agency (FIA) discovered the scam and began an inquiry. The episode brought to light the hazards of invoicing fraud in Pakistan as well as the utilization of shell organizations in such schemes, as well as the significance of solid internal controls and meticulous due diligence procedures.²⁰

The former chief executive officer of the Pakistani brokerage firm KASB Securities is accused of invoicing fraud by creating a shell company in a case that has made headlines. It has come to light that the CEO is the one who submitted a fake invoice to KASB Securities for payment, claiming to have rendered services that were never done. After the CEO's shell company, which was controlled by the CEO, received the funds, they were transferred there. These examples serve to underscore the critical need for increased transparency in the ownership of companies and the actions of financial institutions in Pakistan.²¹

3. Identifying Legal and Technical Challenges for Banks in Pakistan

3.1. Legal Challenges

Banks in Pakistan that work with shell companies face a number of challenges. In order to safeguard banking institutions and their legitimate customers, it is crucial to recognize challenges including legal ambiguities

²⁰ Aamir Khan, and Naureen Akhtar, "Legal, Administrative and Judicial Framework in Pakistan to Combat Tax Evasion and Money Laundering: An Analytical Study," *Review of Politics and Public Policy in Emerging Economies* 3, no. 1 (2021): 74, doi.org/10.26710/rope.v3i1.1761.

²¹ Dawn News, "Ex-Director Laundered Money through KASB Bank: BIPL," *Dawn*, May 04, 2023. <https://www.dawn.com/news/1222913>.

and technical difficulties. As shell companies are used for hiding the true owners and beneficiaries of the offshore accounts and assets, therefore, it is essential to analyzed the law relating to the concealment of ownership.

3.1.1. Companies Act, 2017

The Companies Act, 2017 in Pakistan ushered in a wide array of reforms meant to streamline corporate governance, enhance transparency, and ensure a robust regulatory framework for corporate entities operating in the country. One such salient feature of the Act is the emphasis on the disclosure of beneficial ownership. Companies are required under Section 453 of the Companies Act of 2017 to provide information about their beneficial owners. According to the provision, each company is required to keep a register of who really owns its shares in compliance with the regulations established by Pakistan's Securities and Exchange Commission (SECP).²² The names and other information about the company's beneficial owners, such as their national identity card or passport numbers, as well as the kind and degree of their beneficial ownership of the company's shares, must be included in the register.²³

The Companies Act, 2017 of Pakistan has instituted penalties for non-compliance with the beneficial ownership disclosure requirements. Specifically, under Section 452 (2), a person who either fails to provide the required beneficial ownership information or provides false data faces consequences as the company will not register a transfer of shares in their name.²⁴ In further strictness, Section 452 (3) states that non-disclosure or false information provision regarding one's status as a beneficial owner is a punishable offense.²⁵ Upon conviction, this can lead to a fine up to PKR 1

²² "The State Bank of Pakistan Act," Pub. L. No. XXXIII (1956), sec. 17.

²³ Munir Ahmad Zia, Rana Zamin Abbas, and Noman Arshed, "Money Laundering and Terror Financing: Issues and Challenges in Pakistan," *Journal of Money Laundering Control* 25, no. 1 (2022): 193, doi.org/10.1108/JMLC-11-2020-0126.

²⁴ "Companies Act," Act No. XIX (2017), sec. 453 (2).

²⁵ Ibid, sec. 452 (3).

million. Companies too are held accountable. As per Section 452 (4), companies that don't maintain, update, or provide accurate beneficial ownership details, or officers of such companies, are subjected to a level 2 penalty on the standard scale.²⁶ Furthermore, Section 453 imposes a daily fine of PKR 10,000 on any substantial shareholder or officer of a listed company who neglects to provide the company with the necessary notice about their beneficial ownership status within the given time frame.²⁷ These stringent measures underscore the Act's commitment to enhancing corporate transparency and accountability. Nevertheless, the true effectiveness of these provisions rests on their consistent enforcement, particularly by key regulatory bodies like the Securities and Exchange Commission of Pakistan (SECP).

The Companies Act of 2017 includes a provision for beneficial ownership declarations, which is a step in the direction of more accountability and transparency in company ownership; nonetheless, there are significant considerations that could restrict the effectiveness of this provision. One of the issues is that the Act excludes from the definition of beneficial ownership anyone who directly or indirectly possesses or control more than 10% of the company's shares or voting rights. This is a concern for several reasons.²⁸ This might mean that other persons or groups with the potential to have a significant effect on the way the company is managed, such as those in crucial management roles or those with the authority to control the firm through contracts, are excluded. People or groups may try to disguise their true ownership or control of the company by abusing this restriction and using it to their advantage.²⁹

²⁶ "Companies Act," Act No. XIX (2017), sec. 452 (4).

²⁷ Ibid, sec. 453.

²⁸ Afrasiab Ahmed Rana, "Scope and Objective of IOSCO Principles and Effectiveness in Pakistan," *Available at SSRN* 3683464 (2020).

²⁹ Adeel Mukhtar, "Money laundering, Terror Financing and FATF: Implications for Pakistan" *Journal of Current Affairs* 3, no. 1 (2018): 55.

In instances in which there are grounds for suspecting that money laundering, fraud, or other criminal acts are being engaged in, the Securities and Exchange Commission of Pakistan (SECP) has been granted the authority to investigate a company's ownership, control, or beneficial ownership of the business in question. Section 552 of the Companies Act of 2017 is where you'll find this newfound authority. This clause is connected with the measures to counter financing of terrorism (CFT) and anti-money laundering (AML), which brings Pakistan's regulatory system into accordance with global norms.³⁰ The provision places a focus on taking a proactive approach to combating unlawful activities, such as the misuse of shell corporations for nefarious purposes, by providing the SECP with the ability to promptly evaluate organizations that are suspected of being involved in financial crime. This exploitation of shell corporations for nefarious purposes is one example of an illegal activity. The introduction of such a provision lends assistance to Pakistan's efforts to clamp down on financial crimes by giving regulatory authorities the ability to take swift and decisive action against anybody who may be involved in money laundering or other illicit financial practices. This can help Pakistan better combat financial crimes. Another benefit is the provision's ability to operate as a disincentive against the use of businesses for illegal purposes. For anyone considering using shell firms for illicit purposes, just being aware that the SECP has the power to examine ownership structures and carry out in-depth investigations serves as a deterrent.³¹ This deterrent impact can help reduce the frequency of such behaviors and encourage more ethical and proper business behavior.³²

³⁰ "Companies Act," Act No. XIX (2017), sec. 552.

³¹ Fatima Wahla, "Theory and Practice of Corporate Governance: An Analysis of the Agency Problems in Pakistan," *LUMS LJ* 5 (2018): 19.

³² Yaseen Ullah, "Corporate Governance and Firm Financial Performance: Empirical Evidence from Pakistan Stock Exchange" *International Journal of Management Research and Emerging Sciences* 12, no. 1 (2022): 823, DOI:10.2139/ssrn.2551636.

Financial irregularities can be addressed through the use of Section 552 of the Companies Act of 2017, but this provision also creates a number of issues that must be properly explored. Finding a middle ground between putting an end to illegal actions and ensuring that due process is followed is a necessary first step.³³ The SECP must have the capacity to conduct investigations, but it is equally crucial that this authority be employed in line with the safeguards established by law to avoid the abuse of power. To keep investigations honest and reliable, it is critical that due process rights be protected. The rule's subjective "reasonable grounds" provision might lead to confusion. Without a precise definition, there might be arguments about whether or not the inquiry requirement has been met, leading to potential legal ambiguities and complications. Concerns over personal privacy remain a major drawback. Even if the goal of the law is to prevent financial irregularities, investigations may nonetheless infringe the private rights of individuals and corporations. Striking a balance between the need for efficient inquiry and robust privacy protection protections is crucial to ensuring that legitimate rights are not infringed upon unduly.³⁴

A further issue is that the Act does not include provisions for the verification of the information that is submitted to the register of beneficial ownership. Because of this, it may become easy for individuals or groups to register information that is false or deceptive and to conceal their true ownership or control of the organization. In addition, the Act does not demand the publication of information regarding beneficial ownership of partnerships or any other information regarding unincorporated entities. Because of this, it would be feasible for individuals or groups to conceal the assets over which they have ownership or control by making use of these

³³ "Companies Act," Act No. XIX (2017), sec. 552.

³⁴ Kashif Arif, Che Ruhana Isa, and Mohd Zulkhairi bin Mustapha, "A Review of the Corporate Governance Structure of Pakistan," *JISR Management and Social Sciences & Economics* 21, no. 2 (2023): 42, DOI:10.31384/jisrmsse/2023.21.2.3.

arrangements. The last point, but certainly not the least, is that the incapacity of the regulatory authorities to enforce compliance with the regulation may possibly hamper the efficacy of the disclosure duty.³⁵

The researcher contends that though the provision for beneficial ownership declaration that was included in the Companies Act, 2017, is a step in the right direction towards increased accountability and transparency in corporate ownership in Pakistan, there are certain concerns that need to be overcome in order to ensure that the provision would be effective.

3.1.2. Anti-Money Laundering Act, 2010

Banks in Pakistan confront many of the same regulatory hurdles with shell companies as their international peers, notably with regards to meeting anti-money laundering (AML) requirements. Pakistan approved the Anti-Money Laundering Act (AMLA) in 2010 with the goal of ending money laundering and increasing financial sector transparency. However, the financial industry may have difficulties in implementing and staying in compliance with this regulation.³⁶

The lack of a definition or mechanism for identifying a "Shell Company" under the Anti-Money Laundering Act of 2010 is a significant issue. Although the term is often used derogatorily to denote companies without significant assets or ongoing commercial activity, this is not always the case. Legitimate businesses may also have very limited or no activity for a variety of reasons. It might be confusing for financial institutions to tell the two apart. Defining and identifying shell companies in a financial and regulatory setting is difficult. Even though many terms in finance have established definitions, the term "Shell Company" is still up for discussion

³⁵ Qamar Uz Zaman, Kinza Aish, Waheed Akhter, and Syed Anees Haider Zaidi, "Exploring the Role of Corruption and Money Laundering (ML) On Banking Profitability and Stability: A Study of Pakistan and Malaysia," *Journal of Money Laundering Control* 24, no. 3 (2021): 534, doi:10.1108/JMLC.07-2020-0082.

³⁶ "Anti-Money Laundering Act," Act No. VII (2010).

in a number of legal systems. Inconsistencies in how these things are seen and handled are often the result of a lack of a shared understanding. Another issue that adds difficulty is distinguishing between legitimate and malicious software programs. Criminal activities including fraud, tax evasion, and money laundering may find shell firms to be particularly useful covert operations. While shell companies have legitimate uses including holding assets, facilitating mergers, and piloting new company ideas, they may also be exploited for illegal purposes.³⁷

The public's perspective and the consequences for regulation are likewise impacted by these issues. Banks run the risk of serious regulatory punishment if they unwittingly work with criminal shell companies. Overidentification, on the other side, might lead to false positives and turn off real businesses. Since shell businesses have such a bad connotation, even unintended links can do substantial damage to a bank's reputation, making this balancing act all the more challenging. Essentially, banks have to strike a balance between fostering genuine business connections and guarding against threats. This uncertainty about "shell company" need both precise regulatory guidance and stringent due diligence checks.³⁸

Secondly, the issue of doing adequate investigation and verifying the identities of customers is an essential component of the contemporary banking system, particularly when considering the role of shell companies. As part of the regulatory criteria that must be met, financial institutions such as banks are expected to comply with the Know Your Customer and Customer Due Diligence processes. The goal of these standards is to put a halt to unlawful activities like money laundering, sponsoring terrorism, and

³⁷ 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): 708. DOI:10.1108/JMLC.02-2020-0016.

³⁸ Nasir Sultan, Norazida Mohamed, and Dildar Hussain, "Tax Amnesty Schemes, Anti-Money Laundering Regulations and Customer Due Diligence by Financial Institutes: An Evaluation of the Implementation Issues in Pakistan," *Qualitative Research in Financial Markets* 15, no. 3 (2023): 548, DOI:10.1108/QRFM.02-2022-0022.

others by requiring banks to verify the identities of the customers they do business with.³⁹ According to Section 5 of the Anti-Money Laundering Act of 2010, all banks and money changers are required to preserve records of their customers' transactions and report any suspicious activity to the Financial Monitoring Unit (FMU) of the State Bank of Pakistan.⁴⁰ The law also requires non-financial businesses and professions, such as solicitors, accountants, and real estate agents, to do client due diligence and report suspicious transactions to the FMU.

Despite the fact that this provision is a step in the right direction towards preventing money laundering and the financing of terrorism, there are some issues that could put a damper on its effectiveness. One issue is that the Act does not provide sufficient clarity about the characteristics of effective consumer due diligence methods. Because of this, the regulation can be applied inconsistently by different types of financial institutions, which would make it much simpler for criminals to take advantage of vulnerabilities in the system.⁴¹ Uncertainty over the point at which the FMU is notified of potentially suspicious transactions is another issue that must be addressed. Because they might attract the attention of regulators, financial institutions might be hesitant to report transactions that are less significant than the threshold. As a consequence of this, potentially suspicious transactions may not be reported, which makes it much easier for criminals to engage in unlawful behaviour. In addition, the Act does not levy any penalties or other punishments against financial institutions that

³⁹ Amir Alam, Imran Ahmad Sajid, and Sajjad Hussain, "Money Laundering as an Organized Crime: The Legal and Institutional Measures for Controlling Money Laundering in Pakistan," *Journal of Social Sciences Review* 2, no. 1 (2022): 15 DOI: <https://doi.org/10.54183/jssr.v2i1.29>.

⁴⁰ "Anti-Money Laundering Act," Act No. VII (2010), sec. 5.

⁴¹ 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): 478, doi: <https://doi.org/10.52131/pjhss.2023.1101.0365>.

are due to comply with the obligations of Section 5 for continued monitoring, client due diligence, and reporting. It is possible that the provisions of the Act will have less of an impact because there are no mechanisms available to enforce them.⁴²

One key example is the Panama Papers. This major international scandal revolved around the leak of 11.5 million files from the database of the world's fourth-largest offshore law firm, Mossack Fonseca. The documents revealed detailed information on more than 214,000 offshore companies, including the identities of shareholders and directors. The scandal highlighted the challenges banks face in identifying the real owners behind shell companies.⁴³ Over two hundred Pakistanis have been discovered as having offshore enterprises as a result of the Panama Papers. These Pakistanis include businessmen, media outlets, judges (one of whom is currently serving and one of whom has retired), and, most controversially, politicians and their families.⁴⁴

In addition, Section 6 stipulates that specified non-financial companies and professions, such as attorneys, accountants, real estate agents, and dealers in precious metals and stones, comply with the requirements for customer due diligence and report suspicious transactions to the FMU. This includes the businesses and professions that deal in precious metals and stones.⁴⁵

Nevertheless, there are a few concerns that require the attention of legislative bodies. Due to a lack of resources and the ability to do so, the regulatory authorities are unable to ensure that the provisions of the Act are adhered to, which is one of the problems. As a result, the law could not be

⁴² Muhammad Qadeer, Shabnam Gul, and M. F. Asghar, "Money Laundering and Power Politics in Pakistan," *Global Legal* (2021): 47. Doi;10.31703/glsr.2022 (VII-I).

⁴³ Ibid.

⁴⁴ Najma Minhas, "The Panama Papers and Pakistan: Beyond Nawaz Sharif," *The Diplomat*, May 05, 2023. <https://thediplomat.com/2016/04/the-panama-papers-and-pakistan-beyond-nawaz-sharif/>.

⁴⁵ "Anti-Money Laundering Act," Act No. VII (2010), sec. 6.

applied properly, which might make it simpler for people or organizations to participate in money-laundering or terrorist funding operations. Additionally, it's possible that not all instances of money laundering or terrorist financing will be caught by the Act's requirements for customer due diligence and reporting of suspicious transactions. For the purpose of concealing their illegal activities, criminals may employ sophisticated techniques, making it challenging for financial institutions and other businesses to identify suspicious transactions. In other cases, businesses could be reluctant to disclose suspicious transactions out of concern for their reputation or for losing revenue. Under reporting of unusual transactions might happen as a result, which would make the requirements of the Act less effective.⁴⁶

The researcher states that despite the fact that the Anti-Money Laundering Act of 2010 provides a legislative framework for the prevention of money laundering and the funding of terrorist organizations in Pakistan, there are several difficulties that need to be rectified in order to guarantee that the law is effective. In this context, "issues" refers to things like increasing the capacity and resources of regulatory bodies, improving the effectiveness of customer due diligence and reporting requirements, and addressing the reluctance of companies to disclose suspicious transactions.

3.1.3. Benami Transactions (Prohibition) Act, 2017

Benami Transactions (Prohibition) Act of 2017 is another significant piece of legislation in this area. Benami transactions, which occur when property is owned by one person, but another person pays the consideration for the property, are forbidden by law in Pakistan. According to the Act, a "benami transaction" is any transaction in which property is given to or retained by

⁴⁶ Amir Alam, Imran Ahmad Sajid, and Sajjad Hussain, "Money Laundering as an Organized Crime: The Legal and Institutional Measures for Controlling Money Laundering in Pakistan," *Journal of Social Sciences Review* 2, no. 1 (2022): 16. DOI: <https://doi.org/10.54183/jssr.v2i1.29>.

a person while another person provides or pays the consideration for the property. The Act stipulates that a variety of parties, such as banks, other financial institutions, and officers of the Federal Board of Revenue, are obligated to report information on benami transactions to the appropriate government authorities.⁴⁷

According to Section 2, a "benami transaction" is one in which a person possesses property or transfers property to another person while another person supplies or makes payment for the property. This type of transaction is illegal in the United States. The term "beneficial owner" is defined as the person who pays the consideration for the property, and the term "*benamidar*" is defined as the person in whose name the property is retained or transferred. Both of these terms are defined under the clause. Despite the fact that the term "benami transaction" and other related terms are defined in Section 2 of Pakistan's Benami Transactions (Prohibition) Act, 2017, there are some issues that could compromise the efficacy of the law.⁴⁸ A significant source of worry is the possibility that individuals or businesses would employ complex methods in order to conceal the beneficial ownership of property in order to get around the limits imposed by the Act. Because individuals can conceal their ownership of property by using trusts or other legal arrangements, benami transactions can be difficult to identify and prosecute.

Another problem is that the Act does not specify how much evidence must be shown to prove beneficial ownership. Proving that a transaction contains benami places the burden of proof on the prosecution, which may be challenging if there is inadequate evidence or if the real owner of the property is being concealed. Furthermore, assets held in the name of a

⁴⁷ Aamir Khan, and Naureen Akhtar, "A Critical Appraisal of Tax Evasion as Predicate Offence for Money Laundering," *Pakistan Journal of Multidisciplinary Innovation* 1, no. 1 (2022): 42, doi: <https://doi.org/10.59075/pjmi.v1i1.32>.

⁴⁸ "Pakistan's Benami Transactions (Prohibition) Act," Act No. V (2017), sec. 2.

benamidar who a party to the benami transaction is not cannot be seized under the Act. People who have done nothing wrong could lose their possessions as a result of the actions of others.⁴⁹

The researcher observes that even if "benami transaction" and associated phrases are defined in Section 2 of Pakistan's Benami Transactions (Prohibition) Act, 2017, there are some concerns that need to be handled in order to guarantee that the Act is functional.⁵⁰ These challenges include eliminating the possibility for the requirements of the Act to be circumvented, providing more clarity about who bears the burden of proof when showing beneficial ownership, and ensuring that the provisions of the Act do not have an unjust impact on innocent parties.

In addition, Section 3 of the Act details the fines and seizure of assets that are to be enforced in the case of benami transactions, which are explicitly forbidden by the Act. Penalties for engaging in a benami transaction or aiding and abetting another to engage in a benami transaction, include up to seven years in prison and a fine of up to twenty-five percent of the fair market value of the benami property. Benami transactions might be difficult to detect and prove, which is an issue. When individuals or businesses employ sophisticated methods to conceal their ownership of property, it can be challenging to establish beneficial ownership and prove that a transaction is benami. There is also the possibility that the provisions of the Act will be abused for malicious reasons, which is another problem. If the Act were to be exploited to target political opponents or settle grudges, its efficacy in banning benami transactions may be compromised.⁵¹

⁴⁹ Muhammad Subtain Raza, Qi Zhan, and Sana Rubab, "Role of Money Mules in Money Laundering and Financial Crimes a Discussion through Case Studies," *Journal of Financial Crime* 27, no. 3 (2020): 923. doi:10.1108/jfc.04-2020-0051.

⁵⁰ "Pakistan's Benami Transactions (Prohibition) Act," Act No. V (2017), sec. 2.

⁵¹ Imran Ali, "Anti-Money Laundering Act 2010: A Critical Analysis," *LUMS LJ* 5 (2018): 127.

The use of front companies to launder money is a significant challenge for financial institutions in Pakistan. If the real owners of assets cannot be positively recognized, then financial institutions in Pakistan may have a difficult time complying with the requirements of the Companies Act of 2017,⁵² the Anti-Money Laundering Act,⁵³ and the Benami Transactions (Prohibition) Act of 2017.⁵⁴ Additionally, it might be challenging for banks in Pakistan to comply with the regulatory requirements specified in the Companies Act of 2017.⁵⁵ Companies are required to reveal the identity of any persons or organizations that possess, either directly or indirectly, more than 10% of the company's shares or voting rights, in accordance with the Companies Act of 2017. This obligation applies to companies, both public and private. However, using shell companies can make it difficult to determine who actually owns what. This is because the true beneficial owners of assets may be obscured by complex ownership structures. It is possible that this will make it more difficult to recover stuff that has been stolen.

In a manner that is analogous to this, the Anti-Money Laundering Act of 2010 mandates that banks and other financial institutions must keep records of the transactions that are carried out by their customers and must notify the Financial Monitoring Unit (FMU) of the State Bank of Pakistan of any activity that may raise suspicions. In addition, this law mandates that financial institutions must report any activity that may raise concerns to the Federal Bureau of Investigation.⁵⁶ This is due to the fact that the ownership of assets can be concealed through the use of sophisticated ownership structures. The Benami Transactions (Prohibition) Act, 2017, also prohibits the use of shell corporations for the purpose of money laundering; however,

⁵² "Companies Act," Act No. XIX (2017).

⁵³ "Anti-Money Laundering Act," Act No. VII (2010).

⁵⁴ "Pakistan's Benami Transactions (Prohibition) Act," Act No. V (2017).

⁵⁵ "Companies Act," Act No. XIX (2017).

⁵⁶ "Anti-Money Laundering Act," Act No. VII (2010).

its effectiveness may be limited due to the difficulties associated with detecting and proving benami transactions, as well as a lack of resources and the competence of regulatory bodies to execute the law.

3.2. Technical Challenges

The use of shell companies to launder money in Pakistan presents a number of technological issues for the country's banking system.

3.2.1. Identifying the True Beneficial Owners

One of the primary challenges is that it may be extremely challenging to identify the true beneficial owners of assets that are held through shell companies. Shell companies sometimes employ convoluted ownership arrangements that make it hard to identify the true owners and controllers of the business. Due diligence obligations under the 2010 Anti-Money Laundering Act and reporting suspicious transactions to regulatory authorities may become challenging for banks as a result.

The beneficial owners of assets may be determined using a variety of techniques, however there are certain difficulties and restrictions with these techniques. The intricacy of corporate ownership systems is one difficulty. Shell businesses frequently disguise the beneficial owners of assets by using complicated ownership arrangements, which can make it challenging for banks to undertake thorough customer due diligence and locate beneficial owners. Banks may need to make investments in cutting-edge technical solutions and skills in order to analyze vast volumes of data and find patterns of behavior that might be signs of money laundering or financing for terrorism. The use of front businesses to hide the real beneficial owners of the assets is one illustration of how intricate the ownership structure of the shell companies employed in this case was. To hide the ownership of a sugar mill, for instance, Lucky International was utilized as a front business. Tariq Sultan was said to be the real beneficial

owner of Lucky International, however it was later discovered that Tariq Sultan was really a front for a politician with connections to the Omni Group.⁵⁷

The lack of openness in some countries is another problem. Beneficial owners may reside in nations without open ownership laws or with laws that exempt businesses from disclosing information about their beneficial owners. Because of this, it may be challenging for banks to locate and confirm the beneficial owners of assets held through shell companies in certain countries. The British Virgin Islands (BVI) are one example of an offshore tax haven. The BVI offers a high level of secrecy and anonymity for beneficial owners and has a large number of offshore companies established there. Because of this, it is challenging for banks and regulatory agencies to determine who really owns assets held by companies with BVI registrations. Similar to this, it was discovered that a number of well-known people and organizations utilized offshore tax havens, such Panama and the Seychelles, to hide the ownership of assets and evade paying taxes. It was challenging for regulatory authorities to spot and stop money laundering and terrorist financing operations in these jurisdictions due to the absence of openness and disclosure requirements.⁵⁸

Banks may also incur time and expense in determining the beneficial owners of assets held by shell companies. Investigations into clients' ownership structures may involve extensive resources, including as specialized people, modern technology, and access to third-party vendors of services, which may not be accessible to all banks or be within their budgets. Axact, a business that was said to be offering phoney credentials

⁵⁷ 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): 709, doi:10.1108/JMLC.02-2020-0016.

⁵⁸ Syed Sheheryar Ali Kazmi, and Muhammad Hashim, "E-Banking in Pakistan: Issues and Challenges," *International Journal of Academic Research in Business and Social Sciences* 5, no. 3 (2015): 50. doi:10.6007/IJARBS/v5-i3/1498.

and degrees online, was the subject of an inquiry by Pakistan's Federal inquiry Agency (FIA) in 2015. According to the inquiry, Axtact built up a network of fictitious institutions and universities and used a sophisticated web of shell companies to launder millions of dollars.⁵⁹

To locate the beneficial owners of the assets held by the shell companies utilized in the fraud, the investigation into Axtact required tremendous resources and knowledge. Over 330 shell companies had to have their ownership structures tracked down, and the people and organizations behind them had to be found. In order to track the flow of money across borders, it was necessary to conduct in-depth investigations into the bank accounts and financial dealings of the shell companies and their owners. This collaboration with foreign authorities also needed in-depth research.⁶⁰

The researcher analyses despite the fact that finding the real beneficial owners of assets held by shell companies is essential for preventing money laundering and terrorist financing, these efforts face a number of obstacles. Banks, regulatory agencies, and other stakeholders will need to work together to make investments in cutting-edge technical solutions, increase the transparency of business ownership structures, and set up efficient channels for information exchange and privacy protection in order to address these difficulties.

3.2.2. Lack of Access to Information and Tracking and Monitoring Issues

Additionally, because transactions and assets are frequently moved between various nations and jurisdictions, the use of shell companies for money

⁵⁹ Abdullahi Y Shehu, "The Asian Alternative Remittance Systems and Money Laundering," *Journal of Money Laundering Control* 7, no. 2 (2004): 176, doi:org/10.1108/13685200410809896.

⁶⁰ Muhammad Usman Kemal, "Anti-Money Laundering Regulations and Its Effectiveness," *Journal of Money Laundering Control* 17, no. 4 (2014): 416-427. doi:10.1108/JMLC.06-2013-0022.

laundering is frequently a global problem. This can make it challenging for banks in Pakistan to follow and keep tabs on these transactions, particularly if they lack access to data and information from other nations.⁶¹ One challenge is getting information, especially when the beneficial owners are in another country. If banks are based in nations without transparent ownership regimes or that do not compel corporations to disclose information about beneficial owners, they may not have access to information about the beneficial owners of assets held via shell companies. Due to this, it may be challenging for banks to adhere to legal requirements for anti-money laundering and counter-terrorist financing. Monitoring and keeping track of money transactions is another challenge. Transactions must be tracked and monitored by banks in order to spot suspicious behavior and alert regulatory authorities. The employment of sophisticated money laundering methods, such as layering and structuring, however, can occasionally make it challenging to identify the source and final destination of cash. Banks may find it challenging to detect and stop money laundering and terrorist funding operations as a result.⁶²

To locate the beneficial owners of the assets held by the shell companies utilized in the fraud, the investigation into Axta required tremendous resources and knowledge. Over 330 shell companies had to have their ownership structures tracked down, and the people and organizations behind them had to be found. In order to track the flow of money across borders, it was necessary to conduct in-depth investigations into the bank accounts and financial dealings of the shell companies and

⁶¹ Syed Azhar Hussain Shah, Syed Akhter Hussain Shah, and Sajawal Khan, "Governance of Money Laundering: An Application of The Principal-Agent Model," *The Pakistan Development Review* (2006): 1121, doi: <https://doi.org/10.30541/v45i4Ipp>.

⁶² Ibid.

their owners. This collaboration with foreign authorities also needed in-depth research.⁶³

Although some of the beneficial owners were based in other countries, like the United Arab Emirates (UAE), where they had established offshore businesses and bank accounts, this complicated the investigation. Due to the strong bank secrecy regulations in the UAE, it can be challenging to learn who the real owners are of the assets that corporations and bank accounts there hold. The investigators found it challenging to locate the genuine beneficial owners of the assets housed by the shell companies and follow the flow of money because they lacked access to information from the UAE authorities. As a result, the inquiry was delayed, and it was made clear how difficult it may be for banks and regulatory agencies in Pakistan to determine the true owners of assets held through shell companies if those owners are situated in nations with stringent bank secrecy laws and regulations.⁶⁴

3.2.3. Lack of Use of Technology

Another difficulty Pakistani banks encounter in identifying and blocking money laundering and terrorist financing operations is the lack of technological adoption. Lack of contemporary technology infrastructure and instruments for financial transaction monitoring is one issue. The manual techniques used by many banks in Pakistan to monitor financial transactions can be time-consuming and error-prone. This can make it

⁶³ Bala Shanmugam, "Hawala and Money Laundering: A Malaysian Perspective," *Journal of Money Laundering Control* 8, no. 1 (2005): 39, doi.org/10.1108/1368520051062118.

⁶⁴ Shamshad Akhtar, "Pakistan: Changing Risk Management Paradigm—Perspective of The Regulator," *In ACCA Conference-CFOs: The Opportunities and Challenges Ahead, Karachi*, (2007): 8, doi.org/10.3390/ijfs8030042.

challenging for banks to spot suspicious behavior and promptly and effectively report it to regulatory authorities.⁶⁵

Lack of funding for cutting-edge analytical tools and technologies like artificial intelligence (AI) and machine learning (ML) is another issue. Banks may use these technologies to analyze massive volumes of data and spot trends and abnormalities that could be signs of money laundering or terrorism funding. However, these technologies are still not widely used in Pakistan, and many banks might not have the funds or the know-how to put them into practice.⁶⁶

Additionally, because cryptocurrencies and other digital assets are decentralized and challenging to monitor, their use poses a significant challenge for banks in Pakistan. Banks might not have the technological resources and instruments required to identify and monitor transactions involving digital assets, making it challenging to stop money laundering and the funding of terrorism. The State Bank of Pakistan (SBP) has released recommendations for banks and other financial institutions on the usage of cryptocurrencies in order to solve this issue. According to the instructions, banks must undertake more due diligence on clients who engage in cryptocurrency transactions and notify the SBP's Financial Monitoring Unit (FMU) of any suspect activities.⁶⁷

Banks and regulatory bodies in Pakistan may not be able to adequately monitor cryptocurrency transactions due to a lack of technological infrastructure and experience. The necessity for staff education and training, as well as investments in cutting-edge technology

⁶⁵ Saad Siddique Bajwa, "A Comparative Analysis of Anti-Money Laundering Law in the United Kingdom and Pakistan," *Available at SSRN 2372983* (2013). doi:10.2139/ssrn.2372983.

⁶⁶ Ibid.

⁶⁷ Zaheer Iqbal Cheema, and Muhammad Arshad Cheema, "Anti-Money Laundering Regime in Pakistan; Deficiencies and a Way Forward," *Law and Policy Review* 1, no. 2 (2022). DOI: <https://doi.org/10.32350/lpr.12.01>.

infrastructure and tools, is made clear by this. These things will enable the staff members recognize and stop financial crimes using cryptocurrency.

4. Mitigating Legal and Technical Challenges for Banks in Pakistan

The legal and regulatory environment may be strengthened in Pakistan by the regulatory authorities to increase business ownership structure transparency and stop the use of shell companies for money laundering and terrorism funding. This might involve amending already-existing rules and regulations or enacting new ones that mandate that businesses reveal information about their beneficial owners and set up serious consequences for violations. To monitor financial transactions and spot suspicious behaviour in real-time, banks and regulatory agencies can invest in cutting-edge technical solutions like artificial intelligence and machine learning. This might entail collaborating with tech companies or forming internal teams to create and apply cutting-edge analytical tools and technologies.

In order to meet the issues posed by shell businesses, the banks should also concentrate on developing the skills and capabilities of their personnel. To assist its personnel in identifying and preventing financial crimes, banks and regulatory bodies can train them and enhance their capability. This might entail giving staff-members access to information and tools to assist them carry out their responsibilities efficiently, as well as educating and training them on the most recent trends and methods for money laundering and terrorist funding. In order to spot and stop money laundering and terrorist financing operations that may entail cross-border transactions, banks and regulatory agencies can also collaborate internationally and share information. This might entail exchanging information and intelligence on shady activity with other regulatory bodies and law enforcement organizations.

Banks in Pakistan must overcome both legal and technological obstacles, which calls for a thorough and coordinated strategy involving

many different parties. Banks and regulatory agencies in Pakistan may successfully combat financial crimes and protect the integrity of the financial system by taking a proactive and cooperative approach.

5. Conclusion

In conclusion, the integrity of Pakistan's financial system is seriously threatened by the use of shell corporations in money-laundering activities. Banks in Pakistan are faced with substantial obstacles including money laundering and financing terrorism. It is challenging for banks to recognize and stop financial crimes because of the use of shell companies, invoicing fraud, and other complex methods. Legal and technological barriers, such as informational gaps, challenges with tracking and monitoring, a lack of openness in some nations, and a refusal to employ technology, further complicate the situation. In order to find a solution to these problems, banks in Pakistan need to implement a comprehensive and well-coordinated plan that involves a number of parties, including regulatory bodies, IT companies, and other stakeholders. By implementing strategies such as tightening the legal and regulatory framework, investing in technological solutions at the cutting edge, building capacity and training programs, cooperating internationally and sharing information, and launching public awareness campaigns, financial institutions are able to identify and stop activities related to money laundering and the financing of terrorist organizations. By taking a proactive and collaborative approach, banks in Pakistan have a better chance of protecting the interests of their customers and other stakeholders, as well as keeping the integrity of the country's financial system intact.
