

# Money Laundering Through Cryptocurrencies

Iulia Oana Florea<sup>1</sup>  
Maria Nitu<sup>2</sup>

## *Abstract*

*The aim of this paper is to illustrate the economic fraud and organized crime do not only work with cash or conventional currencies, but also depend on cryptocurrencies. We will analyze the money laundering process and how cryptocurrencies were integrated in this process and how the law enforcement and government agencies react to this new form of currency.*

*Cryptocurrencies phase out the need for intermediary institutions and enable financial transactions directly between peers. Owing to the transparency provided by blockchain, cryptocurrencies have been preferred by the darknet and other organised criminals.*

*Cryptocurrencies are an emerging form of money that first was born from the creation of Bitcoin in 2009. This type of solely digital currency was meant to be a major rival of the government-backed fiat currency responsibility of the central banking system. The paper contributes to current debates and discussions on cryptocurrencies by introducing new legislation to discourage them from being used in money laundering. This article is a research paper covering cryptocurrencies and their function in moneylaundering.*

*Keywords: Organized crime, Cryptocurrency, Criminal group, Financial fraud, Fraud*

*JEL Classification: K420*

## **Introduction**

Cryptocurrencies are a cohort of emerging electronic currencies that were created in 2009. The first crypto-currency, Bitcoin, was developed by Satoshi Nakamoto, a nickname for a person or a group of persons whose identity is still unidentified. Over the last decade, Bitcoin and other crypto currencies have transformed the financial world by establishing a sustainable currency that isn't backed by any law and permits authenticated, secret transfers (Swartz, 2014). Through definition, cryptocurrency allows direct peer-to - peer transfers and removes the need for a bank or other broker to allow financial transactions (Peters, 2015). Such transparency has helped the black market to grow as cryptocurrencies have rendered it possible for individuals to participate in illicit financial transactions, in certain instances, it is difficult to control (Heilman, 2016). While Bitcoin and the

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<sup>1</sup> University of Economic Studies in Bucharest, oana.stefanescu@stud.ase.ro

<sup>2</sup> University of Economic Studies in Bucharest, nitumaria2@gmail.com

blockchain were previously assumed to be untraceable, latest techniques by both the FBI and other government agencies have enables users, government bodies, and others to "monitor" and "reveal" many crypto users on the blockchain.

Cryptocurrencies, for the major aspect, are seen as a contestant of the conventional currency backed by financial institutions. Even so, due to the fact that cryptocurrencies are not supported by any federal agency, the financial basis of cryptocurrencies is unidentified and fluctuates significantly (Iwamura, 2014). Nevertheless, both the scientific community and the financial markets remain uncertain as to whether blockchain is a monetary unit (such as the US dollar), a real worth store (such as gold) or a mixture from both (Hayes, 2017).

### **Review of the scientific literature**

Cryptocurrencies are a new type of "digital" currency that was first generated with the advent of Bitcoin by Satoshi Nakamoto in 2009. More simply, cryptocurrency is a code sequence documented on an open shared database that allows direct peer-to - peer interchange with no middle organization. The software used for cryptocurrencies is encoded and checked on the "blockchain" - a large network of computer systems capable of verifying every database money transfer. Whereas the blockchain is official, it is extremely difficult to identify an entity or a corporation for a specific transaction on the blockchain. While some crypto exchanges, such as those documented by Bitcoin, Litecoin and Dash, are difficult but can be traced, other crypto exchanges, such as Monero and Zcash, hide every single entry, making financial transactions impossible to detect and define (Deepika, 2017).

Over the past couple of years, to escape regulators, offenders have reshaped the cycle of money laundering via cryptocurrencies. In the run-up to this modern era of foreign trade, traffickers were pressured to move and cover their illicit assets into the central banking mechanism. As a result, various governments have been able to indirectly regulate money laundering by imposing tighter laws and fines on banks and financial institutions, making it increasingly difficult to move illegal funds (Gao, 2009).

From the other side, due to the fact that cryptocurrencies do not require financial institutions, cryptocurrencies completely bypass the financial sector (Brenig et al., 2015). Once every transaction is inserted into the ledger, it is documented anonymously. Throughout the conventional financial structure, for example, deposits are utilized where money is transferred or removed on behalf of the account holder by the central government or by the acts of the representatives with the consent of the governing body. The quantity of funds on each account is confidential and the legitimacy of all exchanges is verified by the banking system

or the control agency.

Even so, with cryptocurrencies, clients do not have accounts in the conventional sense. For cryptocurrencies, each component (or coin) of each cryptocurrency is controlled by a series of access keys that defines each coin. The owner of the coin gets a private key, which then marks the person as the rightful owner of the money (Reid, 2011). A trade containing a number of units can not take effect unless all private and public keys are used and authenticated. The shared collection of keys helps the society to monitor the movement and investment of all units as an external step to avoid double spending. As such, users are not expected to give private details to engage in money transfers.

With cryptocurrency, all you need to move and transfer money from one country to another is an internet connection. Since there is no central authority to regulate transactions, the money can easily be transferred among countries inside the cryptocurrency system. As the block chain technology is collected by peers, every node would have had to be dissociated to trigger the system to fail. This layout allows the system to be adaptable to outside disruptions, making it easier to transfer illicit funds more easily (Levi, 2015).

One form of conduct that assists in the system of money laundering is the act of tax avoidance. The act of tax evasion is characterized as the creation of profits outside the tax jurisdiction of an entity or the movement of funds to a "tax haven" where profit is not taxed or paid very little (Marian, 2013). This fraud threatens the royalties that countries earn, with tens of billions in non-reported tax losses. The development of cryptocurrency has been presented as the greatest tax haven.

In past years, policymakers from across the world have started to work with each other in an attempt to eliminate these tax havens. As worldwide law prevents nations from attacking money directly within these tax havens, authorities have put growing pressure on financial institutions to move cash from one territory to another.

Cryptocurrency is really a special type of virtual money. Digital currencies originated from the invention of the internet to conduct transactions on the Web. Digital currencies accurately reflect the exchange rates approved by central banks in the context that they will have third parties to verify transactions and deliver each cryptocurrency.

The first serious effort made by the US government to control virtual currencies was the trial of e-gold in 2007. E-gold was supported by gold and other precious metals to encourage trades by trading in precious metals. Even so, it was found that the company that supported e-gold had authorised money transfers that fully endorsed illegitimate activity and other activities related to money laundering.

As e-gold allowed a central authority to sanction all transfers, the government could effectively gather data and monitor payments. The company first objected to the US Government's allegations by implying that it cannot be targeted because it was not a cash-producing company. Even then, the congress was able to demonstrate that e-gold had not obtained a permit from the government to transmit money. The Government interpreted the legislation as being subject to the rules and regulations regulating the movement of funds by any agency or individual that transferred money, whether or not this was a fiat back currency.

This situation was essential because it set the benchmark that allows the state to target companies dealing with digital currencies, such as cryptocurrencies, for the first time.

After all, unlike e-gold, virtual currencies could not be effectively evaluated or brought to trial as cryptocurrencies are decentralized. In principle, cryptocurrencies have the ability to disrupt the national currency and to create a situation where the market is not explicitly governed or supervised by the government. For this possibility, some countries, including India and China, have tough rules against digital currencies (Filippi, 2014). However, countries such as Japan have enacted laws and regulations that are specifically accepted cryptocurrencies as a legal source of currency (Chohan, 2017). Even so, most governments are just starting to discuss legislation and other routes that could potentially influence and even regulate the use of Bitcoin.

### **Results and discussion**

Through the use of digital currencies as a shell company, there is no ruling party financial institution to approach. As a result, crooked companies and illegal organisations will turn their revenues into cryptocurrencies and then move these assets anywhere in the world to escape tax authorities. This increased protection helps the money laundering system because it enables unlawful companies to enhance full access and control over all the revenue they generate.

The usage of cryptocurrency in the money laundering cycle is expected to have broad consequences for economies around the world. Throughout experience, money trafficking has also been a big problem for governments. As the emergence of the central banking structure, money laundering has bypassed structured financial restrictions through positioning, stratification and convergence. Cryptocurrency is closely linked to money laundering because of its anonymity. Through the usage of cryptocurrency in the money laundering process, criminal groups are able to funnel funds more effectively to escape prosecution by the authorities.

## Conclusion

While the price of Bitcoin and other cryptocurrencies fluctuates greatly, over years they have emerged to be more reliable and embraced. If the use of digital currency in the money laundering method is not much farther discussed, the immoral use of digital currency could ultimately undermine the stability of the international economy. The alternative to the unlawful use of cryptocurrencies lies in the regulation and court proceedings of money laundering if it is found, and in the close oversight of cryptocurrency on its own, such as popular anti-money laundering restrictions such as your customer's knowledge and other protective methods that would help prevent this innovative type of currency from becoming used for immoral and sometimes criminal activities.

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