The new engine of cybercrime

The anonymity built into crypto technology enables cybercriminals to convert this asset into traditional currency without the fear of being traced

SRINIVASA RAO
SHRAVAN PRABHU

Cryptocurrencies (Crypto) are digital currencies that use cryptographic protocol which helps in regulating creation of new units and verifies the exchange of funds.

While Bitcoin, created by Satoshi Nakamoto, was the first and the most popular crypto, today, hundreds of cryptos have come into existence. Cryptocurrencies use blockchain technology to create a decentralised ledger of transactions across a peer-to-peer network. Users can transact without needing a central clearing authority. This digital asset is based on a network that is distributed across a large number of computers. Due to crypto's decentralised structure, the government and regulators have no control over it. This blockchain based public ledger is used as a record keeping system to maintain the user's identities in secure but pseudonymous form, along with the respective crypto balances and all the transactions between the network participants.

As the understanding of blockchain technology evolved, it became apparent that this public ledger could be used by the authorities to mine information. Cryptos gained a reputation for being an anonymous form of payment, although cryptocurrency wallets are pseudonymous and therefore are not traceable to the real user.

As cryptocurrencies are not regulated by financial institutions or regulators as these are decentralised and are on independent online environments, it makes them more accessible to people and hence increases cryptocurrencies risk for cybercrimes. Besides hacking and stealing from trading platforms, tactics such as ransomware attacks and extortion are used to steal cryptocurrencies. The anonymity/pseudonymity built into this technology enables cybercriminals in converting this asset into traditional currency without the fear of being traced.

Crypto jacking

Besides ransomware attacks, several other cybercrimes have gained momentum in recent times especially in the Covid times and crypto jacking, where a perpetrator uses someone else's computer to mine cryptocurrency, hacking of crypto trading platforms, where trading platforms are compromised to steal funds from users, DDoS extortion, where cybercriminals blackmail organizations into paying in Bitcoins in order to avoid their business and services getting disrupted by a DDoS attack, etc.

Authorities on alert Globally, governments are working to establish regulations to combat use of cryptocurrencies as a haven for cyber criminals. GETTY IMAGES/ISTOCKPHOTO

As of December 2021, El Salvador was the only country in the world to allow Bitcoin as legal tender for monetary transactions. In the rest of the world, cryptocurrency regulation varies by jurisdiction.

Countries like China, Egypt and a few others have banned purchasing, trading, and exchange of cryptocurrencies. While in India, cryptocurrency has not been given a legal status with taxing the profits from trading, they are currently neither regulated nor prohibited. The government intends to levy a 30% tax on income generated from cryptocurrency transactions and exchanges and a 1% at source of all transactions (TDS).

Ban by RBI, reversal by SC

Since 2013, the Reserve Bank of India (RBI) has been issuing circulars with regards to the use of virtual currencies where warnings were issued to the users, traders, and holders of cryptocurrencies about the risks involved with regards to financial, legal, security related, etc. In 2018-19, RBI and the Ministry of Finance drafted a scheme to ban cryptocurrency. Circulars were issued to banks, NBFCs and payment system providers to prohibit them from providing services to cryptocurrency exchanges. This ban was reversed by the Supreme Court of India in March 2020.

At present, India does not have any legislation for regulating cryptocurrencies. However, The Cryptocurrency and Regulation of Official Digital Currency Bill, 2021 has been proposed and is expected to be introduced in the winter session of the Parliament in 2022. This bill will be the first step towards regulating cryptocurrency and the blockchain industry. The proposed bill seeks to prohibit all private cryptocurrencies in India. However, it allows for certain exceptions to promote the underlying technology of cryptocurrencies and their uses. The RBI announced its intent to come out with an official digital currency which will be based on blockchain technology. This proposed bill will give RBI the authority to issue and regulate the "Digital Rupee" and will be a legal tender.

Once introduced, a user will not need a bank account for transacting the Digital Rupee. It will be transferred directly to the other user's digital wallet.

Cryptocurrency is not a legal tender in the United States of America. However, cryptocurrency exchanges are legal. The US Securities and Exchange Commission (SEC) and the Commodities Futures Trading Commission (CFTC) will be regulating cryptocurrency with legislations that are expected by the Fall of 2022. Countries such as Canada, Singapore, UK, EU, etc. are all looking at coming up with regulations governing the exchange and use of cryptocurrency.

Globally, governments are working to establish regulations and controls to combat the use of cryptocurrencies as a haven for cyber criminals and to secure both end users and organisations. However, as all new technologies evolve over time, so will the legislation and regulations around them.

With the decentralised nature of blockchain technology, it needs to be seen on how well it will be regulated on a global platform.

The authors are leader and partner- Cyber Security, Nangia Andersen LLP, a business consulting firm