

# BITCOIN FORM OF HAWALA: ECONOMY

**News:** Trading in Bitcoin in India is refined way of doing Hawala business: Supreme Court

## WHAT'S IN THE NEWS?

The Supreme Court flagged unregulated Bitcoin trading in India as akin to digital Hawala, raising concerns over its misuse for money laundering due to lack of legal framework. Despite taxation, India still lacks clear cryptocurrency legislation, creating regulatory uncertainty.

### Supreme Court's Concern

- The Supreme Court of India has expressed strong concern over the unregulated nature of Bitcoin trading in the country.
- It compared the usage of Bitcoin to a "refined form of Hawala," implying that digital currencies may be misused for illegal cross-border transactions, money laundering, and tax evasion.
- The court's observation reflects the urgent need for a regulatory framework governing digital assets in India.

### What is Bitcoin?

- Bitcoin is a type of cryptocurrency, i.e., a digital or virtual currency that uses cryptography for secure transactions.
- It is decentralized and operates without a central bank or government authority.
- Transactions are recorded on a blockchain, a secure, immutable, and publicly accessible distributed ledger.
- Features:
  - Pseudonymity (not completely anonymous)
  - Finite supply (capped at 21 million Bitcoins)

- Peer-to-peer verification without intermediaries

### Blockchain Technology Explained

- Blockchain is a decentralized database system that stores records across multiple computers (nodes).
- Every transaction is time-stamped and linked to the previous one, forming a secure chain of data blocks.
- Consensus Mechanisms like Proof of Work (PoW) or Proof of Stake (PoS) are used to validate transactions.
- This prevents fraud, tampering, and double-spending.

### Key Concerns Related to Bitcoin in India

- Lack of Regulation: Despite judicial and public pressure, India does not yet have a dedicated law governing cryptocurrencies.
- Potential for Misuse:
  - Lack of KYC (Know Your Customer) and AML (Anti-Money Laundering) enforcement makes Bitcoin attractive for illegal purposes.
  - Its pseudonymous nature enables money laundering, terror financing, and other illicit activities.
- Threat to Financial Integrity:
  - Widespread crypto use without oversight could undermine efforts to control black money.
  - It can weaken capital control mechanisms, posing challenges to monetary policy.

### India's Legal and Regulatory Approach So Far

- No Ban, No Legal Backing:

- India has neither formally banned nor officially legalized cryptocurrencies.
- 2018 RBI Ban:
  - The Reserve Bank of India barred banks from facilitating crypto transactions citing macroeconomic risks.
- 2020 Supreme Court Judgment:
  - SC struck down RBI's 2018 ban, allowing crypto trading again.
- 2022 Taxation Policy:
  - Government imposed a 30% tax on income from virtual digital assets (VDAs).
  - Introduced 1% TDS on every transaction, leading to a decline in trading volumes in India.
- Regulatory Uncertainty continues, creating confusion among investors and platforms.

### What is Hawala?

- Hawala is an informal money transfer system operating outside traditional banking channels.
- It is based on trust and involves no formal documentation.
- Often used for money laundering, terror financing, and tax evasion due to its untraceable nature.

### How Bitcoin Resembles Hawala?

- Anonymity:
  - Both systems rely on non-traceable transactions, making it difficult for regulators to track.
- Cross-Border Transactions:

- Just like Hawala, Bitcoin allows instant international transfers without moving actual currency across borders.
- Settlement can be done locally after a crypto transfer, mirroring Hawala logic.
- Speed and Cost:
  - Bitcoin transactions are quick and low-cost, making it ideal for those who want to bypass traditional remittance methods.
- No Formal Channels:
  - Like Hawala, Bitcoin wallets can function without bank involvement, creating parallel financial networks.

### Way Ahead – What India Should Do

- Comprehensive Legislation:
  - Enact a dedicated Cryptocurrency Regulation Law that defines VDAs, exchanges, wallets, and user obligations.
  - Include KYC/AML norms, compliance requirements, and penalties for violations.
- Institutional Strengthening:
  - Empower financial intelligence units (e.g., FIU-IND) to detect suspicious crypto transactions.
  - Integrate crypto monitoring tools with banking systems.
- International Cooperation:
  - Work with global bodies like the Financial Action Task Force (FATF) and G20 to create shared standards for cross-border crypto governance.
- Balanced Regulation:

- Create a framework that encourages innovation and fintech development while addressing security and compliance risks.

This issue highlights the growing need for a legal and regulatory system that can keep pace with technological innovation without compromising on national security and financial stability.

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