

# Virtual Currency (Bitcoin) as a Means of Money Laundering

Ahmad Sahroni<sup>1</sup>, Ahmad Redi<sup>2</sup>  
ahmadsahroni88@gmail.com<sup>1</sup>, redi.ahmad2010@gmail.com<sup>2</sup>

Universitas Borobudur<sup>1,2</sup>

**Abstract.** Virtual money or cryptocurrency has become a hot topic in electronic media discussions lately. Cryptocurrency is a form of intangible commerce that only exists in digital form and can be used in electronic transactions. This study aims to demonstrate that the Act Number 8 of 2010 concerning the Prevention and Eradication of Money Laundering has several weaknesses that can result in criminals disguising illegal funds in Bitcoin. This raises the issue of how to regulate the use of virtual currency Bitcoin to prevent money laundering crimes. To address this question, the research analysis utilizes a normative juridical research approach. The results of the study show a new modus operandi that prioritizes the security, speed, and privacy of Bitcoin's advantages is chosen by criminals to disguise their tracks in the online world. A criminological study analyzes from various factors. Internal factors within a person, external factors that crime is not an inherited factor, but can be learned by people in the surrounding environment, and the advancement of technology and information factors that make it easy for criminals to operate their crimes and escape without being traced.

**Keywords:** Virtual Money, Bitcoin, Money Laundering Crime

## 1. Introducing

The present time can be called the post-information technology era where a new approach has been found in processing, using, and transmitting information. Information is not only a source of knowledge in the educational environment, but also considered a valuable commodity. Information technology has penetrated into all aspects of human life, including the economic sector. [1] With the development of information technology, alternative payment instruments have emerged that are more efficient, secure, fast, and convenient than cash and giral money, both nationally and internationally. This encourages innovations that make payment processes even easier.[2]

Cryptocurrency, as part of the advancement of information technology, has emerged and developed as a new financial instrument. This virtual currency can be used for electronic transactions and also as an investment or trading tool. Nowadays, business transactions can be conducted online without having to go through banks or other third parties. These transactions can be done quickly, securely, and cheaply, and can guarantee the confidentiality of information, even across countries and continents. [3]

Cryptocurrency is a popular electronic tool nowadays. It is a form of virtual money that can be used as an electronic transaction tool. Cryptocurrency is created using cryptography technology, which ensures transaction security by preventing forgery. Cryptography technology

is a technique used to securely transmit information. Therefore, cryptocurrency can be considered a digital commodity that does not require cash and can be used to conduct electronic transactions. [4]

From a legal perspective in Indonesia, the use of cryptocurrency can result in various types of crimes that harm various sectors such as the economy, law, and national security. The emergence of new modes for money laundering crimes is among the adverse effects, as the use of cryptocurrency can potentially be done with digital signatures and fake identities. The aim of this action is to conceal the origin of funds and transaction information, using virtual currency without a physical form that is formed through information technology.

Money laundering is a type of criminal offense that is regulated in specific legislation that has criminal sanctions. This is regulated in legislation that is different from the Criminal Code, both in criminal and non-criminal legislation that have criminal sanctions. [5] The lack of specific regulation on Bitcoin has consequences for Bitcoin users because it is vulnerable to various types of cybercrime such as cracking, hacking, and other cybercrimes. According to the Executive Director of the Communication Department of Bank Indonesia, there is concern about the use of Bitcoin in money laundering and cyberterrorism financing, this could potentially destabilize the financial system and cause harm to the community (Agusman, 2018).[5] The independent institution in Indonesia, PPATK (Center for Financial Transaction Reports and Analysis), has stated that large Bitcoin transactions in Indonesia are suspected to originate from money laundering related to criminal acts such as corruption and terrorism financing. This is a measure taken by PPATK to prevent and fight against money laundering offenses. [6]

Money laundering in Indonesia is governed by the Prevention and Eradication of Money Laundering Crimes Law, No. 8 of 2010. Nevertheless, the use of virtual currency like Bitcoin as a tool for money laundering is not explicitly covered by the law. The use of virtual currencies, including Bitcoin, for money laundering in other countries is a novel risk that should be anticipated and addressed promptly.

Virtual currencies like Liberty Reserve have been utilized in certain instances for the purpose of money laundering, also known as cyber laundering. Liberty Reserve itself is a money transmitting service provider that claims to be the oldest, safest, and most popular online payment system with millions of users worldwide. To transfer money using Liberty Reserve, users only need to provide basic information such as name, address, and date of birth without having to verify their identity. Cash is converted into digital currency available in Liberty Reserve, transfers are made instantly, and then digital currency is converted back to cash. In 2013, the Liberty Reserve case attracted public attention in the United States. [7] Therefore, this research is intended to examine the existence of cryptocurrency in Indonesia as well as ways to prevent money laundering crimes using virtual currencies.

## **2. Discussion**

### **2.1 The Phenomenon of Bitcoin Usage as a Means of Money Laundering**

The utilization of Bitcoin as a virtual currency could be categorized as money laundering when the Bitcoin originates from criminal actions, which is governed by Article 2 of Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering Crimes.

Using Bitcoin as a virtual currency can be considered money laundering if the Bitcoin is obtained from criminal activities, such as drug sales.[8] The process of money laundering is executed by converting Bitcoin into regular currency via a money transmitting service, similar

to what occurred in the case of Liberty Reserve in the United States. The proceeds from the drug circulation/sales will be obtained as Bitcoin from the criminal act of drug sales (criminal process), which then undergoes "laundering" through a financial transaction or investment in a legal business. This "money laundering" is similar to the case that occurred in the United States involving a virtual currency exchange service (Money Transmitting) called "Liberty Reserve". The criminals utilize a money transmitting service to convert their Bitcoin obtained from illegal activities such as drug sales into conventional currency. This process is intended to transform the proceeds of the criminal act, which were initially considered "dirty money," into "clean money." As a result, a money laundering offense has been committed.

Furthermore, according to Article 5(1) of Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering Crimes, anyone who receives or has control over the position, to move, payment, donation, contribution, deposit, exchange, or use of assets that they know or have reasonable suspicion to be derived from criminal activity as described in Article 2(1) may be subject to a maximum prison sentence of five years and a fine of up to Rp 1,000,000,000.00 (one billion rupiahs).

If virtual currency Bitcoin is used for money laundering, anyone who receives or exchanges it, including individuals who receive Bitcoin in the form of donations, grants, or deposits that they know or reasonably suspect is derived from a predicate offense, as well as virtual currency exchange service providers (Bitcoin Exchange Money Transmitting) who facilitate or provide payment, transfer, and exchange (conversion) services for Virtual Currency (Bitcoin) that they know or reasonably suspect is derived from a predicate offense, This refers to the act of converting virtual currency Bitcoin, which is obtained from illegal activities, into clean money in an attempt to conceal or disguise the origin of the funds. This involves separating the proceeds of the illegal activities from their source and attempting to place them into the financial system. This constitutes a money laundering offense as regulated in Article 2 paragraph (1) of Law Number 8 of 2010 concerning Prevention and Eradication of Money Laundering Crime. [9]

## **2.2 Actualization of Regulations on Cryptocurrency (Bitcoin) as a Means of Combating Money Laundering Crime**

To accommodate the increasing number of users and transaction volume of virtual currency Bitcoin in Indonesia, it is essential to develop particular regulations governing the utilization and circulation of this virtual currency in the country. Law No. 7 of 2011 concerning Currency, The first section of Article 21 specifies that any financial transaction conducted within the territory of the Republic of Indonesia, whether it is for payment, settlement of other obligations requiring money, or any other purpose, must use the Rupiah currency. Therefore, it is necessary to establish specific rules to regulate the use of virtual currency Bitcoin in Indonesia.

To keep pace with the increasing number of virtual currency Bitcoin users and transaction values in Indonesia, it is essential to establish specific regulations for the use and circulation of virtual currencies in the country. As per the provision mentioned in Article 21(1) of Law No. 7 of 2011 regarding Currency, the usage of Indonesian Rupiah is mandatory for any transaction made within the Indonesian territory for payment, settling financial obligations, or any other financial transactions. Moreover, Article 33(1) of the same law states that individuals who fail to use Rupiah for transactions stated in Article 21(1) may face up to 1-year imprisonment and a maximum fine of Rp200,000,000. Therefore, any attempt to use virtual currencies like Bitcoin for financial transactions or payments within Indonesia can lead to legal consequences such as imprisonment and a fine.

The current legislation in Indonesia does not include provisions that specifically tackle the prevention and prosecution of virtual currency Bitcoin being used as a means to carry out money laundering activities.[10] Therefore, it is crucial to undertake substantial reforms to the criminal law system in order to cover the use of Bitcoin as a tool for money laundering, as an integral aspect of a comprehensive law enforcement strategy.

One possible solution to address the use of virtual currency Bitcoin as a means of money laundering is to revise Law No. 8 of 2010 on the Prevention and Eradication of Money Laundering. A proposed amendment is to include "conventional currency exchange service to virtual currency Bitcoin (Bitcoin Exchange Money Transmitting) or vice versa" as one of the reporting parties in Article 17 paragraph (1). This requires all Bitcoin Exchange Money Transmitting service providers to comply with the law's provisions, report any suspicious transactions, monitor compliance, and implement the principle of Know Your Customer (KYC). Such measures are crucial for an effective law enforcement policy to combat the use of virtual currency (Bitcoin) for money laundering purposes.

### 3. Conclusion

If virtual currency Bitcoin is obtained from criminal activities as defined in Article 2 of Law Number 8 of 2010 concerning the Prevention and Eradication of Money Laundering Crimes and then used, it can be regarded as a money laundering offense. This offense also includes the receipt or conversion of Bitcoin that comes from criminal activities.

In Indonesia, in order to prevent money laundering crimes that involve virtual currency Bitcoin, it is important to update the legal regulations that govern its use in the country. This includes amending Law Number 8 of 2010, which deals with the prevention and eradication of money laundering crimes, with a particular focus on Article 17 paragraph (1). The regulation should cover all aspects of prevention and eradication of money laundering crimes that involve virtual currency Bitcoin in Indonesia.

### References

- [1] Z. Jia, S. Tiwari, J. Zhou, M. U. Farooq, and Z. Fareed, "Asymmetric nexus between Bitcoin, gold resources and stock market returns: Novel findings from quantile estimates," *Resour. Policy*, vol. 81, no. March, p. 103405, 2023, doi: 10.1016/j.resourpol.2023.103405.
- [2] E. E. Supriyanto, "Opportunities for Implementation of e-Rupiah Policy as Financial Transaction Innovation in The Pandemic Covid-19," in *Global Policy in Handling Covid-19 Pandemic*, 1st ed., A. Tunda and A. Upe, Eds. Kendari: Rumah Bunyi, 2021.
- [3] G. Ndubuisi and C. Urom, "Dependence and risk spillovers among clean cryptocurrencies prices and media environmental attention," *Res. Int. Bus. Financ.*, vol. 65, no. April, p. 101953, 2023, doi: 10.1016/j.ribaf.2023.101953.
- [4] W. Mensi, R. El Khoury, S. R. M. Ali, X. V. Vo, and S. H. Kang, "Quantile dependencies and connectedness between the gold and cryptocurrency markets: Effects of the COVID-19 crisis," *Res. Int. Bus. Financ.*, vol. 65, no. March, p. 101929, 2023, doi: 10.1016/j.ribaf.2023.101929.
- [5] D. Kirimhan, "Importance of anti-money laundering regulations among prosumers for a cybersecure decentralized finance," *J. Bus. Res.*, vol. 157, no. August 2022, p. 113558, 2023, doi: 10.1016/j.jbusres.2022.113558.
- [6] M. R. Lubis, "Law Enforcement Concerning The Crime of Money Laidring Based on Pancasila," *J. Huk. UNISSULA*, vol. 38, no. 1, p. 24, 2022.

- [7] E. A. Akartuna, S. D. Johnson, and A. Thornton, "Preventing the money laundering and terrorist financing risks of emerging technologies: An international policy Delphi study," *Technol. Forecast. Soc. Change*, vol. 179, no. March, p. 121632, 2022, doi: 10.1016/j.techfore.2022.121632.
- [8] J. P. Caulkins and P. Reuter, "How much demand for money laundering services does drug selling create? Identifying the key parameters," *Int. J. Drug Policy*, vol. 103, p. 103652, 2022, doi: 10.1016/j.drugpo.2022.103652.
- [9] Y. Yuhernawa and M. Barthos, "Law Enforcement in Treating the Dark Circulation of Narcotics the Border Area of Indonesia," 2021, doi: 10.4108/eai.6-3-2021.2306452.
- [10] N. Blasco, P. Corredor, and N. Satrústegui, "Is there an expiration effect in the bitcoin market?," *Int. Rev. Econ. Financ.*, vol. 85, no. February, pp. 647–663, 2023, doi: 10.1016/j.iref.2023.02.013.