Should Cryptocurrencies Be Regulated Like Traditional Banks?

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The recent growth of cryptocurrencies has revolutionized world finance, placing it in decentralized options to the traditional banking platform. Although cryptocurrencies hold potential innovation, privacy, and autonomy, they are also potentially very dangerous, with fraud, volatility, money laundering, and consumer exploitation being the most notable examples. With the growth of crypto markets, it has become more evident that regulation is necessary. The cryptocurrencies must be controlled in the manner of conventional banks to safeguard consumers, enhance the stability of the market and minimize the chances of criminal behavior.

Consumer protection is the most extenuating argument in the regulation of cryptocurrencies. Most of the crypto exchanges have little supervision unlike the traditional banks which are obliged to comply with high security, transparency, and accountability standards. In the event of exchanges failing or being hacked, there are usually no established protection measures to the investors. As the crypto markets are growing up, policy reviews and IMF guidance claim that consumer protection (reserves, transparency, disclosure) and limitations on irresponsible marketing are needed (IMF, 2022). The regulation of the digital financial systems by applying the bank-like regulations would diminish consumer vulnerability and increase the trust towards the digital financial systems.

Extreme volatility and systemic risk also need regulation. Such abrupt declines in value will destabilize investors and rest of the sectors of the economy. Old fashioned banks and financial markets are forced to adhere to frameworks which help to reduce systemic risk (capital requirements, stress testing). By proposing the creation of analogous protection to crypto institutions, one would foster stability and decrease the chances of mass financial destabilization.

This would reduce market manipulation, which the existing disjointed regulatory frameworks have been unable to control.

The third reason why cryptocurrencies should be more regulated is that they facilitate criminal acts. A significant number of digital currencies have features, which could enable money laundering and illegal finance unless they are accompanied by robust AML/CFT practices. Recent studies on the adoption of crypto in emerging markets focus on the opportunities of financial inclusion and the threat of AML when regulation is vague (El Hajj, 2024). Provided that crypto platforms that store consumer, funds are subject to the same compliance requirements as banks, the law enforcement and regulators would be in a better place to identify suspicious trends whilst not eliminating legitimate innovation.

The opponents state that the introduction of rules similar to banks conflicts with the decentralization that is the key to the popularity of crypto. Although the issue of regulatory overreach is real, appropriate regulations to safeguard consumers and systemic stability can be accompanied by technological innovation. When implementing regulation, it should not remove decentralized protocols, but it should make sure that the entities that are providing custodial services or are providing financial intermediation to the public have similar obligations as banks.

To summarize, crypto regulation by authorities is the answer to consumer protection, mitigate volatility, and prevent criminal abuse, and responsible innovation. The stakeholders in the industry ought to collaborate with governments and international organizations to establish balanced structures that capture the distinct characteristics of digital assets and the greater good.

References

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