

Crypto, Security and Financial Challenges:



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PAKISTAN has a large and growing crypto user base with estimate ranging from 15-20 million users. It has gained ground as an alternate investment avenue in Pakistan despite years of regulatory uncertainty. On the other side its growing adoption presents serious challenges for Pakistan's efforts to counter terror financing and money laundering. In this regard, Government has taken action under anti money laundering and counter terror financing regime and declared financial transparency as a national priority. Under international scrutiny, the nation has spent years bolstering its anti-money laundering and counterterrorism funding system. However, new hazards brought about by crypto currencies were not anticipated by previous systems. Because they are decentralized and international, there is little control over the flow of money. The core problem lies in identification. Crypto transactions are recorded on public blockchains, but the individuals behind digital wallets remain largely hidden. Without strong identity checks at exchanges and trading platforms, it becomes difficult for authorities to link transactions to real persons. This anonymity is often exploited by criminals and extremist networks. In Pakistan, much of the crypto activity takes place through peer-to-peer platforms and informal brokers. These channels allow users to buy and sell digital assets directly, often using cash or local bank transfers. While convenient, such arrangements weaken traditional monitoring mechanisms and reduce the effectiveness of suspicious transaction reporting. Money laundering through crypto

currency often involves layering and rapid movement of funds. Illicit money can be converted into crypto, transferred across borders within minutes, and later converted back into cash or other assets. For a country like Pakistan, where informal financial practices already exist, this creates a dangerous overlap between old and new illicit systems. Terrorist financing through crypto remains limited in volume, but its potential impact is serious. Terrorist groups do not require large sums of money to operate. Small, discreet transfers can fund propaganda, recruitment, or operational logistics. Crypto currencies provide an additional channel that can be used alongside traditional informal networks.

Pakistan's law-enforcement agencies face significant challenges in addressing these risks.

Investigating crypto-related financial crime requires specialized technical expertise, advanced software, and trained analysts. Resource constraints and limited access to block chain forensic tools make it difficult to track and disrupt illicit crypto flows effectively. For years, Pakistan lacked a comprehensive legal framework to regulate crypto currencies. While warnings and restrictions existed, clear legislation and licensing mechanisms were absent. This uncertainty allowed crypto markets to grow without adequate oversight and limited the state's ability to take decisive action.

A regulated approach offers a more sustainable solution. Licensing crypto exchanges, enforcing strict customer verification, and monitoring high-risk transactions can bring digital asset activity

into the formal economy. Regulation also allows authorities to distinguish between legitimate users and illicit actors. Public awareness is equally important. Many Pakistanis engage with crypto currencies without understanding the legal, financial, or security implications. Educating users about compliance requirements and risks can reduce unintentional misuse and improve overall transparency.

Pakistan stands at a crossroads. Crypto currency is becoming a permanent feature of the global financial system, and ignoring it is no longer an option. The challenge is to harness its economic potential while preventing its misuse for criminal and extremist purposes. The way Pakistan responds will shape not only its digital economy but also its standing in the international financial system. Effective regulation, institutional capacity-building and international cooperation will determine whether crypto becomes a tool for growth—or a new vulnerability in the country's fight against financial crime.