Indian Economy · GS - III

Cryptocurrency-linked payment cards pose challenges for India's foreign exchange management and financial oversight. Discuss the regulatory concerns and suggest measures to strengthen compliance without discouraging legitimate innovation.

EXAM YEAR	PAPER	SUBJECT
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MARKS	WORD LIMIT
10	~150 words

Answer Hint

FEMA compliance, KYC and AML safeguards, cross-border payments, RBI oversight, FIU-IND, payment intermediaries, regulatory coordination, consumer protection, fintech innovation.

Model Answer

Introduction

Cryptocurrency-linked payment cards can enable users to make purchases through digital assets converted into conventional currencies. However, cross-border settlement arrangements may create challenges for India's financial regulation and transaction monitoring.

Key Regulatory Concerns

If domestic purchases are settled through foreign banking systems, regulators may face difficulties tracing the underlying transactions and identifying cross-border fund flows. Such arrangements can raise concerns relating to the Foreign Exchange Management Act (FEMA), customer identification, anti-money-laundering safeguards and tax compliance.

Role of Regulatory Institutions

The Reserve Bank of India regulates payment systems and oversees relevant banking and payment intermediaries. The Financial Intelligence Unit–India (FIU-IND) receives and analyses prescribed financial transaction reports and supports action against money laundering and related financial crimes. Applicable obligations depend on the entities and transactions involved.

Way Forward

India should strengthen information-sharing among regulators, clarify compliance requirements for crypto-linked payment services and enforce proportionate KYC and anti-money-laundering standards. Cross-border cooperation and transparent settlement mechanisms can improve traceability. Clear rules can also provide certainty to legitimate fintech businesses and consumers.

Conclusion

Effective regulation should prevent illicit financial flows while allowing responsible technological innovation. Coordinated oversight and risk-based compliance are essential for a transparent digital payment ecosystem.

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