Crypto crimes rose with adoption—but illegal activity is the exception, not the rule

Article

The news: Growth in legitimate cryptocurrency use last year far outstripped the increase in crypto-related criminal activity, according to a report on crypto crime trends by the blockchain analysis firm **Chainalysis**.

Data dive: Though cryptocurrency-based crime hit an all-time high in 2021, the report concludes that "illicit activity's share of cryptocurrency transaction volume has never been lower."

- Across all cryptos Chainalysis tracked, **total transaction volume grew to $15.8 trillion in 2021**, up more than 550% from 2020.
- **Illicit addresses received $14 billion** in 2021, up from $7.8 billion in 2020. But the increase was just 79%—nearly an order of magnitude lower than overall adoption.
- As of December 2021, **transactions involving illicit addresses represented just 0.15%** of crypto transaction volume in 2021. (Chainalysis added the caveat that this number is preliminary as investigation and review roll into 2022.)

DeFi's growing pains: Stolen funds and scams increased the most in 2021 by transaction volume, per the report, which called DeFi "a big part of the story for both."

- **Crypto theft increased by 516% compared with 2020**: Roughly $3.2 billion worth of cryptos were stolen in 2021. Of that, about $2.2 billion—**72% of the 2021 total**—were stolen through DeFi protocols.
- **Scamming revenues rose 82% in 2021** to $7.8 billion. The report attributed a majority of these to "rug pulls"—a relatively new scam type in which developers build what appear to be legitimate crypto projects and then take the money and run.
- DeFi protocols saw **the most growth by far in use for money laundering, at 1,964%**.
- Chainalysis cautioned that DeFi won't realize its full potential "if the same decentralization that makes it so dynamic also allows for widespread scamming and theft."

Why this matters: Crypto can't become a mainstream tool until it sheds its negative associations.

- Its volatility, its association with the Dark Web, and the anonymity it offers bad actors all add up to an image problem.
- It doesn't help that prominent figures in finance have called it "fool's gold," referred to the sector as "the Wild West," tulipmania, and a cult.

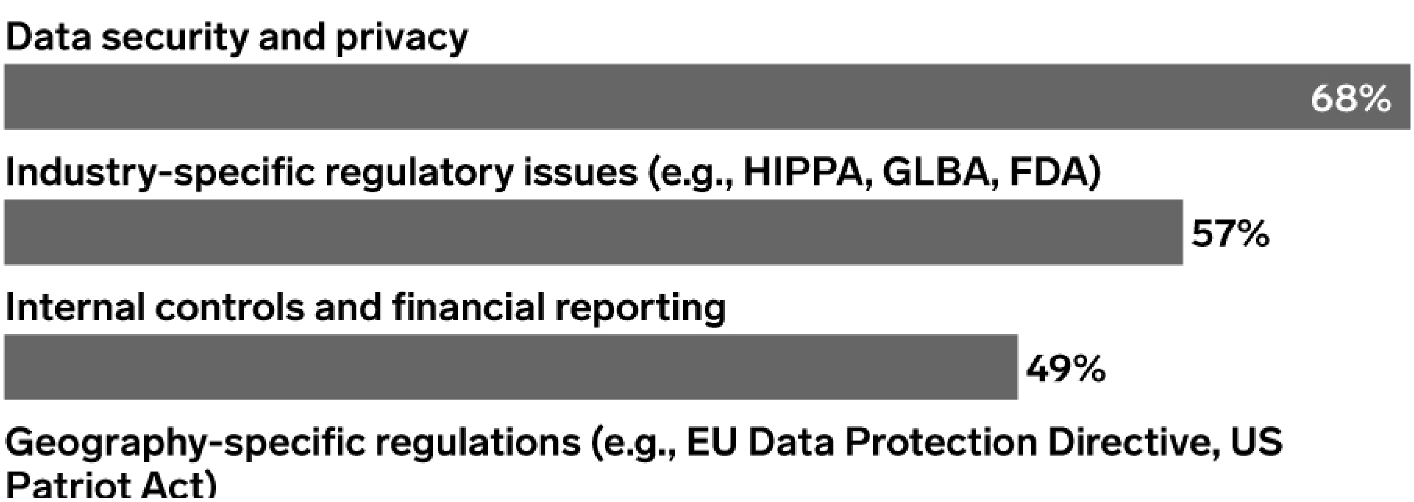
What's the solution? Regulators, regtechs, and the rest of the financial services industry must acknowledge the technology's immaturity and focus on problem-solving to improve the perception of crypto and establish digital trust in the minds of the most skeptical consumers.

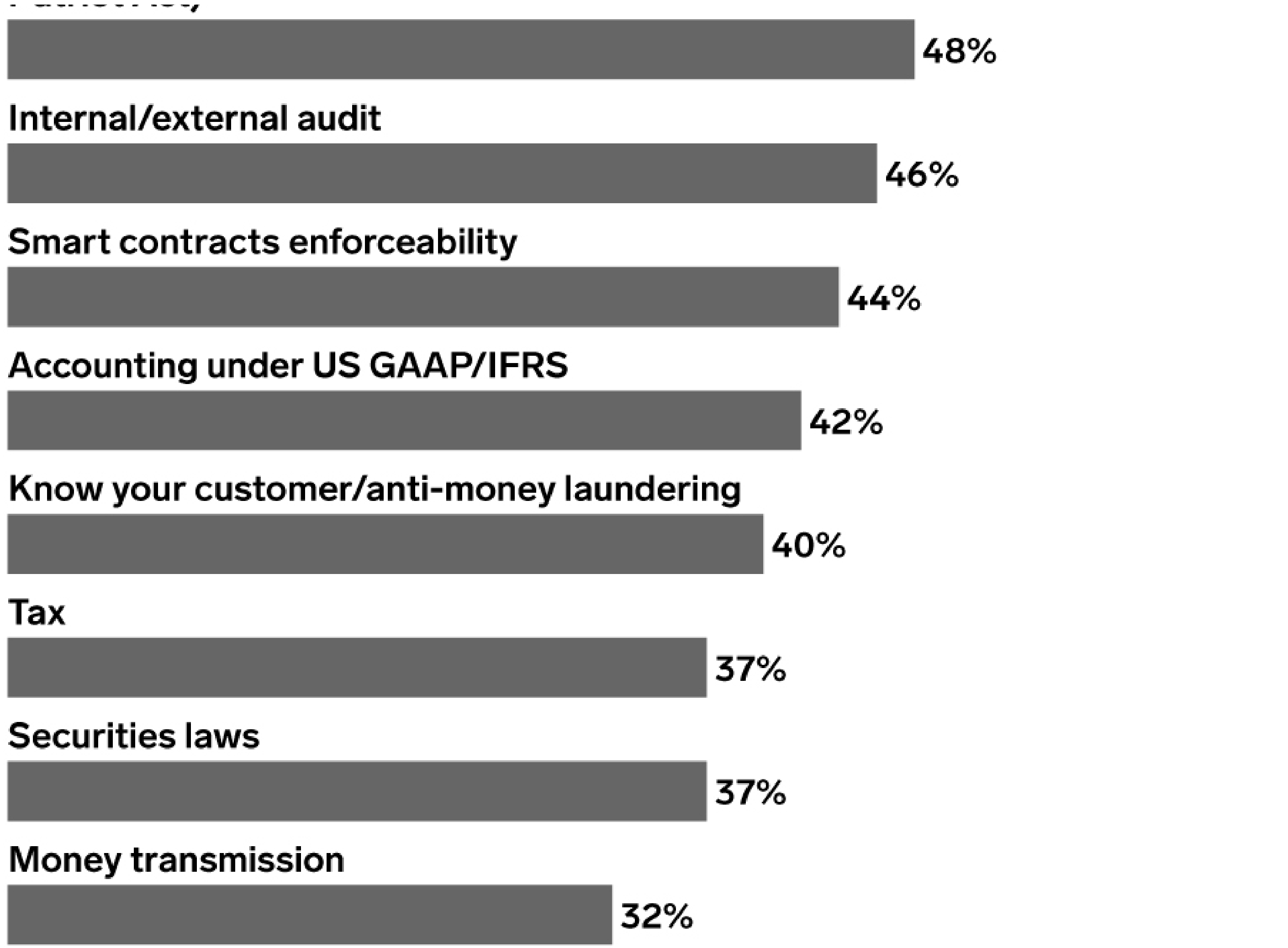
- **Regulation** is progressing in both the EU and the US.
- **Industry self-policing** to enact strict cybersecurity best practices will help. The industry also needs to better educate investors on how to avoid questionable projects.
- This need opens up opportunities for **crypto-specialist regtechs** like **Coinfirm**, Chainalysis, **Notabene**, and **CipherTrace**—and gives larger regtechs an avenue for differentiation, like **ComplyAdvantage's** recent partnership with **Elliptic**.

Transparency, self-policing, and regulatory activity will generate an upward adoption spiral: Firms moving into crypto because it feels safer and more mainstream will generate more trust in the industry, attracting more consumers—which in turn will induce more firms to add crypto services.

Areas of Regulation Most in Need of Change to Facilitate Adoption of Blockchain and Digital Assets According to Financial Services Executives Worldwide, April 2021

% of respondents





Note: n=1,280; respondents could select more than one
Source: Deloitte, "2021 Global Blockchain Survey," Aug 19, 2021

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