

Recent Trend in Crypto Currency in India Vs Global: Issues and Challenges-Overview

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Abstract: A crypto currency is a digital asset designed to work as a medium of exchange that uses cryptography to secure its transactions, to control the creation of additional units, and to verify the transfer of assets. Crypto currencies are a type of digital currencies, alternative currencies and virtual currencies. Crypto currencies use decentralized control as opposed to centralized electronic money and central banking systems. Although the concept of electronic currency dates back to the late 1980s, Bit coin, launched in 2009 by pseudonymous (and still unidentified) developer Satoshi Nakamoto, is the first successful decentralized crypto currency. In short, a crypto currency is a virtual coinage system that functions much like a standard currency, enabling users to provide virtual payment for goods and services free of a central trusted authority. The decentralized control of each crypto currency works through a block chain, which is a public transaction database, functioning as a distributed ledger. Now it is the era of digitization. Currency has also become digital. One of the latest forms of currency is virtual or digital currency and it is called Crypto Currency. In present paper an attempt has been done to understand the concept and issues and challenges of Crypto Currency and its Advantages and Disadvantages with its legal acceptability in different countries. Crypto currencies are used primarily outside existing banking and governmental institutions and are exchanged over the Internet. While these alternative, decentralized modes of exchange are in the early stages of development, they have the unique potential to challenge existing systems of currency and payments. RBI bans Bit coin and other virtual currencies, investors concerned for tax dues.

Keywords: Introduction of crypto currency, Advantages and Disadvantages, Issues and Challenges, Bit coin, Growth of Crypto currencies India Vs Global, countries, exchange.

1. Introduction

A currency means money in any form which is in circulation and is used as a medium of exchange. These are also called legal tender means they cannot be refused as payment for debt and they are centrally controlled Government issued currencies. With the development of computers and internet new form of currency has arisen i.e. "Crypto Currency". Crypto currencies can also be defined as a subset of digital currencies and are also classified as a subset of alternative currencies and virtual currencies.

It has no physical manifestation as dollar, euro, rupee or pound. They are private decentralized alternative currency. A Crypto Currency is a type of digital asset that is associated with the internet that uses cryptography. There is a list of Crypto Currencies. There are over 1384 Crypto Currencies and they are increasing regularly. A new Crypto Currency can be created at any time. The first Crypto Currency was Bit coin which was created in 2009. Nakamoto introduced a new form of digital currency; its main aim was to provide a way of exchange tokens of value online without the need for a central bank. In Bit coin record-keeping is decentralized into a "block chain". In block chain transactions are verified and added to the public ledger. Bit coin mining is the process by which transactions are verified and added to the public ledger, known as the block chain, and also the means through which new bit coin are released. Anyone with access to the internet and suitable hardware can participate in mining. Crypto currencies are digital tokens used to transfer money between individuals' computers, and their peer-to-peer structures enable unanimous transfers. A crypto currency is a type of digital assets designed to work as a medium of exchange like any other normal currencies;

they are designed using cryptography to secure the transactions, to control the creation of additional units, and to verify the transfer of assets. Crypto currencies are digital tokens used to transfer money between individuals' computers, and their peer-to-peer structures enable unanimous transfers. Crypto currencies can also be defined as a subset of digital currencies and are also classified as a subset of alternative currencies and virtual currencies. In crypto currency, the application cryptography is used to secure the transactions and to control the creation of new coins.

2. Indian Scenario: Issues and Challenges

- In India, bit coin trade is carried by unregulated digital exchanges that are 11 in number according to tax department estimates. People are investing in money expecting huge returns as Bit coin registered a price increase from just \$1000 in January 2017 to \$15000 at the end of 2017. But anytime a burst can happen investors will lose their money. As bit coin has entered a bubble phase and speculators have shown big interest in several other crypto variants, the RBI and finance ministry have come with timely warnings against dealing with crypto currencies.
- Risks related with Virtual Currencies: There are two major risks related with virtual currencies, first is that they may be used for money laundering purposes. Second there is the problem of investor's security. Large scale participation investors may lead to loss of their money as virtual currency value undergoes big fluctuations.
- The fundamental stand of the Reserve Bank of India about bit coin and other crypto currencies is that they are not legal tender currencies. They can't be used for payments as usual currencies. Rather they have big risks

Volume 7 Issue 4, April 2018

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without any regulation and support. The RBI has issued warning in three times Ist in December'2013, followed by February'2017 and last on December 5, 2017. The initial caution by the RBI in 2013 describes why investment in virtual currencies like Bit coin is risky.

- All the three warnings provided information to users, holders and traders virtual currencies including bit coins regarding the potential economic, financial, operational, legal, customer protection and security related risks associated in dealing such virtual currencies. Virtual currencies as a medium for payment are not authoresses. The central bank also highlighted absence of regulation of virtual currency trading. No regulatory approvals, registration or authorizations is stated to have been obtained by the entities concerned for carrying on such activities.

3. Advantages of Crypto Currencies

- **Fraud:** Individuals crypto currencies are digital and cannot be counterfeited or reversed arbitrarily by the sender, as with credit card charge-backs.
- **Immediate Settlement:** Purchasing real property typically involves some third parties (Lawyers, Notary), delays, and payment of fees. In many ways, the bit coin/crypto currency block chain is like a large property rights database. Bit coin contracts can be designed and enforced to eliminate or add third party approvals, reference external facts, or be completed at a future date or time for a fraction of the expense and time required to complete traditional asset transfers.
- **Lower Fees:** There aren't usually transaction fees for crypto currency exchanges because the miners are compensated by the network (Side note: This is the case for now). Even though there's no bit coin/crypto currency transaction fee, many expect that most users will engage a third-party service, such as Coin base, creating and maintaining their bit coin wallets. These services act like PayPal does for cash or credit card users, providing the online exchange system for bit coin, and As such, they're likely to charge fees. It's interesting to note that PayPal does not accept or transfer
- Bit coins.
- **Identity Theft:** When you give your credit card to a merchant, you give him or her access to your full credit line, even if the transaction is for a small amount. Credit cards operate on a "pull" basis, where the store initiates the payment and pulls the designated amount from your account. Crypto currency uses a "push" mechanism that allows the crypto currency holder to send exactly what heor she wants to the merchant or recipient with no further information.
- **Access to Everyone:** There are approximately 2.2 billion individuals with access to the Internet or mobile phones who don't currently have access to traditional exchange; these people are primed for the Crypt currency market. Kenya's M-PESA system, a mobile phone-based money transfer, and micro financing service recently announced a bit coin device, with one in three Kenyans now owning a bit coin wallet.
- **Decentralization:** A global network of computers uses block chain technology to jointly manage the database that

records Bit coin transactions. That is, Bit coin is managed by its network, and not any one central authority. Decentralization means the network operates on a user-to-user basis. The forms of mass collaboration this makes possible are just beginning to be investigated.

- **Recognition at universal level:** Since crypto currency is not bound by the exchange rates, interest rates, transactions charges or other charges of any country; therefore it can be used at an international level without experiencing any problems. This, in turn, saves lots of time as well as money on the part of any business which is otherwise spent in transferring money from one country to the other. Crypto currency operates at the universal level and hence makes transactions quite easy.

4. Disadvantages of Crypto Currencies:

- Crypto currencies are stored in digital form and hence are prone to losses due to hacking, loss of password, compromise of access credentials, malware attack etc, Since they are not supported by authorized central registry or agency, the loss of the E-Wallet could result in the permanent loss of the virtual currency held in them.
- Payments by virtual currency such as bit coins, take place on a peer to peer basis as there is no authorized central agency to regulate such payments. Hence, there is no way to settle customer problems, disputes, charge backs etc.
- The crypto currency gets their value from speculation without any backing. Hence, money may be lost from extreme volatility.
- Crypto currency such as bit coins, are traded on exchange platforms that have low legal status. The traders of virtual currency on such platforms are exposed to legal as well as financial risks. Virtual Currency including Bit coin is reportedly used for illicit and illegal activities in several jurisdictions. This may force investors into anti-money laundering and combating the financing of terrorism (AML/CFT) laws.
- Since crypto currency is not regulated by any financial organization; lack of regulatory concerns around crypto currency is its ability to facilitate illicit activity. Crypto currencies are increasingly popular tools for money laundering activities.
- Crypto currencies aren't regulated by national governments and usually exist outside their direct control. They naturally attract tax evaders. Many small employers pay employees in Bit coin and other crypto currencies to avoid liability for payroll taxes and help their workers avoid income tax liability. While online sellers often accepts crypto currencies to avoid sales and income tax liability.

5. Objectives of the Study

- To study the concept of Bit coin as a whole.
- To study the acceptance of Bit coin by different countries.
- To evaluate the challenges of Bit coin.
- To examine the advantages and disadvantages of crypto currencies.
- To study the RBI's stance on crypto currencies in India.
- To give suggestion and conclusion on Crypto currencies.

6. Review of Literature

- With digitalization the use of Crypto Currency is increasing tremendously but surprisingly there are very few researches have been done on the Crypto Currency so far.
- Pandey (2017) discussed about the virtual currency. He elaborated various features of virtual currency as well as has focused on related impact of Bit coin on India.
- K., Tarun & Prakash (2016) held that Block chain is in infancy stage however it can be applied in coming times in sports, games, tourism and others.
- Bhattacharjee & Kaur (2015) concluded that the results attained by Bit coin so far may give rise to new hopes to both consumers and market who seek more freedom in terms of volume and payment.

7. Research Methodology

Secondary data has been used. Data has been collected from various journals, websites and books. Being a new concept data collection is quite difficult and secondary data was not readily available. Acceptability of Bit coin by different countries, now every country is interested to invest more in Bit coin but the countries like USA, China and South Korea are investing more in trading of Bit coin in the year 2017. China and USA have framed rules for Bit coin trading but Japan still has no strict rules on Bit coin trading.

- **India on Bit coin:** Bit coin has gained the interest of investors in India for various reasons such as easy transactions, less legal formalities and its status as money which has no limitations. But Indian Government has not recognized it as a legal tender due to its financial and legal issues. RBI stated that bit coins may pose many security risks in India because there are no regulations. On February 1st 2018 while presenting the budget India's finance minister has announced that the Govt. will take all measures to eliminate the use of these crypto assets in financing illegitimate activities or as part of the payments system.
- **USA on Bit coin:** The price of the Bit coin is determined by US dollars. The United States of America is leading in Bit coin trading with the percentage of participants in of 32% including trade exchanges, wallets, payments and mining setups. The report of Boston Federal reserve has estimated that the users who own Crypto Currency have used the Bit coins for the transaction purposes.
- **China on Bit coin:** The China is the next country close to USA with the percentage of Bit coin traders of 29%. China is technologically savvy country and it has excelled in the field of digital trading. Chinese traders have led a major impact on digital currency development, marketing and trading. Bit coin exchange has increased employment opportunities in China which is a sign of healthy economic development of the country. Some employees are working as full time employees and some are working as part time traders. There is growing consensus that crypto currencies will certainly play a crucial role in the way we deal with money. In April 2017, the total market cap for all crypto currencies, combined, was slightly higher than \$25 Bn. The same market cap shot up by

300% and touched \$100 Bn within 60 days. It is already widely reported that crypto currency as an asset class, is set to outpace all other asset classes in relative growth.

8. The State of Crypto Currency in India

India was a late entrant to crypto adoption. Due to restrictions in foreign currency remittances and allowable overseas investments, Indians often do not get to trade in international financial instruments. During the time when bit coin was picking up pace in China, Indians struggled to transfer money to the overseas bit coin exchanges and thereby missed the Bull Run. However, things changed drastically after the demonetization drive announced by Prime Minister Narendra Modi. This action was meant to curtail counterfeit cash, but it also left many people panicking. In the panic, Indian residents turned to bit coin. Google recently reported that searches from India about Bit coin have reached all-time highs, and the value has too. Once the local exchanges started functioning in India, the Bit coin users got a feasible option to purchase Bit coin using local currency and the adoption of Bit coin started increasing considerably. Owing to the shortage of Bit coin sellers in India, the Indian Bit coin price often ran at a premium of over \$400 from the international market price. India seems to be next in line to legalizing Bit coin, now that the government has agreed to regulate Bit coin. The Indian government has agreed that regulating Bit coin could be beneficial and is currently creating the laws to do so. The Reserve Bank of India is also considering using the block chain technology in banking. In India, the Department of Economic Affairs, Ministry of Finance has constituted an inter-disciplinary committee to examine the existing framework around Crypto currencies and submit a report by July. The committee will not only examine the present scenario of crypto currencies in India and around the globe, but will also suggest measures and means to deal with consumer protection, education and money laundering. As predominant market participants in India are buyers, India exchanges struggled to provide a liquid order book to the buyers. In spite of these shortcomings, the crypto users in India kept increasing at a healthy pace. The regulated financial market participants like stock and commodity brokers, who enjoy major market share of the investing community, are not yet part of this ecosystem. Once favorable regulatory guidelines are framed for crypto currency trading and investment, the growth of crypto currency in India will be exponential and at some point in time might take up a considerable global market share. The superlative performance of altcoin and ICO token performances have made the Indian investors to look beyond bit coin investment. Even though none of the major Indian exchange is offering other crypto currencies and digital assets, Indian investor has started purchasing bit coin and ICO tokens from International exchanges. This trend is going to continue and if the Indian regulators provide favorable guidelines for crypto currency investments and trading, India stands to become one of the fastest growing regions for crypto currencies.

9. Higher Visibility and Adoption

Countries like Japan recently recognized Bit coin as a legal method of payment. Although they treat it as an asset and not as a currency, Japan has seen huge surge in Bit coin demand. In Estonia, government is implementing block chain technology for healthcare, banking services and even governance by allowing its citizens to become 'e-Residents'. Countries like the US, UK, Denmark, Sweden, South Korea, Netherlands, Finland, Canada and Australia have been supportive of Bit coin and crypto currency. Billionaire Mike Novogratz recently revealed that he holds more than 10% of his net worth in crypto currencies like Bit coin and Ethereum.

10. Cryptocurrency: An Instant Global Phenomenon

Despite tremendous progress in economic globalization, the global financial system is still very fragmented, with only a few players having an invitation to sit at the table with the big boys. Block chain technology has tremendous potential to consolidate and, perhaps, even standardize financial markets all over the world. More than 3 Mn people (three times previous estimates) are estimated to be actively using crypto currencies like Bit coin, finds the first global crypto currency benchmarking study by the Cambridge Centre for Alternative Finance. Crypto currencies have enjoyed a tremendous growth in the global markets, with Bit coin and Ethereum leading the pack. Bit coin is, by far, the most famous of these crypto currencies. It is also among the oldest, having first emerged in 2009. The top five biggest currencies, Ethereum, Ripple, Lit coin, Dash, and Monero, now account for 20 percent of the market. Potential geographic markets in which crypto currencies can be leveraged include countries with less developed financial infrastructure (fewer brick and mortar banks), but high smart phone usage. For example, in Kenya, over half of the national GDP is operated by a digital currency (Magee, 2015). The conventional wisdom has been that the number of people using bit coin and other crypto currencies was around 1 Mn people. However, based on newly collected data by The Cambridge Centre of Alternative Finance (CCAF), including the percentage of the estimated 35 million crypto currency "wallets" (software applications that store crypto currencies) that are in active use, the CCAF research team estimates that there at least 3 million people actively using crypto currency today.

11. Conclusion

The government of India, keeping in mind all these facts has appointed an inter-disciplinary committee on crypt currency comprising 9 members including representatives of RBI, SBI, NITI Aayog and department of Financial Services in April 2017. However the committee submitted its recommendations in August 2017. This panel was asked to examine the existing framework on digital/crypto currency in India and globally and to come out with measures for dealing with such crypto currencies, issues relating to consumer protection, money laundering etc. The accounting and taxation treatment of the virtual currencies is to be examined by the committee. The Crypto Currency is still

establishing where it will complete its 10 years the next coming year in 2018. The digital marketers are working on the accepting of this digital currency that can operate worldwide. Ten years since the birth of Bit coin, central banks around the world are increasingly recognizing the potential upsides and downsides of digital currencies. However, based on newly collected data by The Cambridge Centre of Alternative Finance (CCAF), **including the percentage of the estimated 35 million crypto currency "wallets" (software applications that store crypto currencies)** that are in active use, the CCAF research team estimates that there at least 3 million people actively using crypto currency today. As a conclusion, while crypto currencies are promising, one should not ignore the risks associated with them. Many new crypto currencies are highly illiquid and some of the ICOs are outright scams. Specifically, in India, till the time RBI or Government come up with clear guidelines, it is better to play safe. RBI bans Bit coin and other virtual currencies, investors concerned for tax dues.

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