



BITCOINS - EXPLAINED

What is Bitcoin?

- Bitcoin is a form of digital currency, created and held electronically. They aren't printed, like rupees or dollars.
- Satoshi Nakamoto proposed bitcoin, which was an electronic payment system based on mathematical proof.
- Bitcoin is created digitally, by a community of people that anyone can join. Bitcoins are 'mined', using computing power in a distributed network.
- It's the first example of a growing category of money known as crypto currency.

What are its characteristics?

- Bitcoin can be used to buy things electronically. In that sense, it's like conventional money, which are also traded digitally.
- However, bitcoin's most important characteristic, and the thing that makes it different to conventional money, is that it is decentralized.
- No single institution controls the bitcoin network. This puts some people at ease, because it means that a large bank can't control their money.

- The bitcoin protocol, the rules that make bitcoin work say that only 21 million bitcoins can ever be created by miners.
- However, these coins can be divided into smaller parts. The smallest divisible amount is one hundred millionth of a bitcoin and is called a 'Satoshi'.
- Thus, a Bitcoin is decentralized, easy to set up, anonymous, completely transparent, fast, non-repudiable and its transaction fees are miniscule.

How do people use bitcoins?

- Like currency notes, it can be sent from one person to another, but without a central bank or the government attempting to track it.
- The system depends on cryptography to control the creation of the currency.
- Since no authority controls the generation of the coins or tracks them, the system itself is designed in such a way that the network maintains a foolproof system of the record of every transaction as well as tracking issuance of the currency.

Who can you send bitcoins to?

- You can send bitcoins digitally to anyone who has a bitcoin address anywhere in the globe.

- One person could have multiple addresses for different purposes, say personal, business and the like.
- Receivers can get to spend them within minutes of receiving the coins.
- Once given away, like currency, there is no getting them back, unless the receiver decides to give them to you.
- A bitcoin is not printed currency but is a non-repudiable record of every transaction that it has been through. All this is part of a huge ledger called the blockchain.
- One of the reasons that could prompt you to buy a bitcoin today is not so much to use it for payment online but as an investment.
- And unlike traditional currency that is inflationary in nature, the bitcoin is a deflationary currency.
- In other words, if there are only so many bitcoins in use, and the demand for those rises, the value of a bitcoin would, logically, rise.

India and Bitcoin:

Where do you get bitcoins?

- Bitcoins are available in bitcoin exchanges. You could also purchase bitcoins from other users.
- A bitcoin exchange traded fund could be another source in the near future.
- You can become a bitcoin miner by investing in software and hardware.
- More the power of the hardware that helps with encryption technology, higher the probability of your earning bitcoins.
- Unocoin is a Bengaluru-based company that allows users to buy, sell, store or use bitcoins.
- While bitcoin usage is certainly not mainstream, there are said to be more than 500 merchants who accept bitcoins for payment in India.

What is the value of one bitcoin today?

- One bitcoin is worth roughly about \$1,200 now.
- An early investor in Snapchat has been quoted on the Web as saying that by 2030, the value could be as high as \$500,000.

- Concerned over the adverse impact of virtual currencies such as bitcoin on the consumer, the government on April 12, 2017 has set up a committee to look into ways of regulating the fast-growing segment to curb money laundering.
- Bitcoins have been banned in several countries on grounds that these currencies could be used for money laundering or financing terrorism.
- The panel has been asked to suggest measures for dealing with virtual currencies including issues relating to consumer protection and money laundering.
- Since December 2013, the RBI had also cautioned users, holders and traders of virtual currencies, about the potential financial, operational, legal, customer protection and security related risks that they are exposing themselves to.
- The committee has been tasked to submit its report within three months.
