A Study on Cryptocurrencies and its status in India

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Abstract

This paper identified the understanding of crypto currencies including bitcoin and the block chain. Due to the fast developments in bit coins it needed to understand the factors that influence its value formation. At present the value of bitcoin is $7 million of notional value and more than $60 million value changes every day. The current active wallets of cryptocurrency are estimated around 6-11 million. The currency exists in 2009 and was accepted as a legal instrument for making payment by various countries. In June 2011 Wikileaks accept bitcoins for donations. Later it became popular after master card, visa, paypal.

Key words: Crypto currency, Bit coin, Block chain,

Introduction to crypto currency

A crypto currency is a digital asset designed to work as a medium of exchange that uses cryptography to send its transactions. In the current Digital era, cryptocurrency is moving fast led by Bitcoin which was created in 2009 was the first decentralised crypto currency. Bitcoin is followed by Ether, Litecoin etc are all taking the financial storm and influencing the public to invest and buy these currencies.

Government of various countries are much concerned about crypto currency such as Bitcoin. The significant feature of these currencies are payments can be made without the involvement of banks. Customers can transfer the huge sum of money through the digital wallets.

Central bank of various countries like Bank of England and Bank of isreal are trying to launch their own digital currencies. This will help people using the official system which has the benefit of both traditional and crypto currencies.

The traditional system for electronic payments and transfers and security checks on each transaction by banks consumes much time and cost. Whereas the crypto currencies help to
process these transactions much faster and the transactions would be recorded instantly and need not be cleared by Banks instead technology known as Block chain is used.

As stated in the figure below the payer for eg “A” signs the transaction to pay certain sum of money to “B” the transaction is been accurately checked by using /”A” using personal encryption using code as his private key. If the transaction is valid it is added on the block chain. somost of the transactions are recorded in this way.
Source . Secondary data

Government can access and have control of tax evasions and money laundering. Miserably the transaction of block chain is kept out side as a public record which might be possible for the other people to access the the informations. The risk is quite high if the money is been kept in the form of crypto currency. The banks usually safe guard the assets and it will be released on the customers request, similarly the credit cards companies insure them against the fraud if the account is hacked. But in case of crypto currency money is stored in independent digital wallets which can be lost or broken. In such a situation there will be no one to help us.

Cryptocurrency in India

India tops in usage of smart phones, social media etc and financial institutions are digitalizing the transactions very fast. From 2015 India was trading Bitcoin, but it gae a real entry only in November 2016 when government demonetized 86% of paper currency overnight. This was due to people having bulk paper currency of untaxed and black money, were in search of innovative ways for laundering money to avoid government inteference and to avoid paying tax. This paved way to buy Bitcoins to conceal their money so that these transactions would not be under scrutiny by the government.

Another reason for getting into Bitcoin trading was that Indians were in a fear to trust bank and government as at any time their paper currency would become valueless overnight. People lost the trust on the government. People dealing with online transactions found that cryptocurrency were free from banks and government & so these transactions are done through blockchain. This made people encourage bitcoin as swap to government currency.

Though there was steady increase in dealing with bitcoin transactions in India, it was more expensive as compared with rates prevailing in international markets. This was due to lack in mining of Bitcoin and was lacking in generating new Bitcoins. Due to government restrictions on cryptocurrencies, Indians find it difficult to do trading Bitcoins. RBI has taken measures to regulate Bitcoins. RBI warns indians about the risk involved in trading crytocurrency. Due to lack of knowledge about the working of crytocurrency transactions, it has let to fraudulent transactions and loosing the investment made in the same. RBI has set up a committee and Indian government would release a cryptocurrency name ‘LAKSHMI’ to
compete with Bitcoin. If India fails to regulate bitcoin, then this will become an easy way of funding terrorism.

**Review of Literature**

*Alexander D’Alfonso, Peter Langer, Zintis Vandelis (2016)* has concluded in their study that Bitcoin has a very positive and higher expected value as compared with Ethereum which has a better future and in growth path for the next five years. It is also inferred that the blockchain application for fintech shows a positive approach to Ethereum than Bitcoin. The study overall concludes that Bitcoins are regularly performing better than Ethereum. Also, the investment result projects that investment should be made approximately 69% in Bitcoin and 31% in Ethereum in the next five years for maximising the return.

*Dr. Garrick Hileman and Michel Rauchs (2017)* opined in their study that majority of the cryptocurrency mining are carried out by only two countries China and US. The study also reveals that large miners are not concerned with the legal and regulatory risk factors compared to small miners.

**Methodology:**

The secondary data was collected from newspapers and websites. The data regarding the usage of various cryptocurrencies and their comparison is taken from the website.

**Objectives of the study:**

- To understand about the usage of bit coins and its benefits.
- To study about the risk involved in the usage of bitcoins and other crypto currencies.
- To understand about the factors affecting the bitcoins and its risk.

**Analysis & Interpretations**
### Table 1: Cryptocurrencies by Market Capitalisation

<table>
<thead>
<tr>
<th>Cryptocurrency</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bitcoin</td>
<td>35.1</td>
</tr>
<tr>
<td>Ethereum</td>
<td>18.86</td>
</tr>
<tr>
<td>Ripple</td>
<td>10.43</td>
</tr>
<tr>
<td>Bitcoin Cash</td>
<td>6.1</td>
</tr>
<tr>
<td>Cardano</td>
<td>3.18</td>
</tr>
<tr>
<td>Litecoin</td>
<td>1.96</td>
</tr>
<tr>
<td>NEM</td>
<td>1.94</td>
</tr>
<tr>
<td>NEO</td>
<td>1.69</td>
</tr>
<tr>
<td>Others</td>
<td>20.73</td>
</tr>
</tbody>
</table>

Source: Coin Dance, Bitcoin Statistics
From the table it was inferred that 35.1% of the investors are using the bitcoins than other currencies because bitcoin Nivetha. R, SheikYousuf.T (2015) continues to be the most valuable crypto currency. The reasons for the more usage of bitcoins than other crypto currencies are

- No third party interruption
- Purchases are not taxed
- Transaction cost is less.

Table 2 : BITCOIN USAGE BY GENDER

<table>
<thead>
<tr>
<th>GENDER</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>MALE</td>
<td>96.57</td>
</tr>
<tr>
<td>FEMALE</td>
<td>3.43</td>
</tr>
</tbody>
</table>

Source: Coin Dance, Bitcoin Statistics

From the above tables it was fond that 96% of bitcoiners are male and the remaining 3.43% are female because tech industries are mostly dominated by men and moreover the male society is more addicted to gadgets at a younger age itself. There are about 36 men and i women visits to a bitcoin summit (Financial Times  May 1, 2015.)
From the table it was observed that majority of the bitcoin users are in the age group of 25 – 34 years (45.71%) because teenage people are more adventurers and they want to explore new innovations and the bitcoiners who are in the age group of 65 and above use to an extent of 1.19% due to lack of awareness do not want to take risk.
Findings

1. Under market capitalisation, Bitcoin (35.1%) tops the list by the investors followed by etherum (18.86%) and Ripple (10.43%). Cryptocurrency has the advantage of the purchase or transactions not being taxed.

2. It is found that maximum users of Bitcoin are male (96.57%) as compared with female (3.43%). This highlights the merits of bitcoin where there is no processing fees and there is no involvement of third parties in the transactions.

3. From the usage of bitcoin based on age, it is inferred that majority are in the age group of 25-34 years (45.71%) followed by 35-44 years (30.62%). In today’s digital world, youngsters of this age group are more techie savvy and more enthu in investing for best return. This makes them invest in bitcoin which has the top maket price. The least usage are of age group 65 and above (1.19%) which shows the lack of knowledge and awareness towards the usage of cryptocurrency.

Suggestions:

1. RBI has not only issued a cautionary notice to users of virtual currencies against risk. They have also suggested the investors that loss of e-wallets would result in permanent loss of virtual currency.

2. The volatility in the value of such currencies would result in loss to the investors...

Conclusion.

The crypto currencies and bitcoin will increase in India by industrialist and other traders. At present it is too small to be regulated. The rise in the fluctuation of these currencies are based on the following reasons.

- Few countries were already legalised with these types of coins and there will be a bit coin future trading also.

- Another reason is that investing Rs 1 Lakh and making 10% the next day.

Reserve bank of India and finance ministry has issued warning against the use of these types of currencies to investors, traders etc dealing with these may lead to speculation and money laundering at their own risk.
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