

# Cryptocurrency: An Innovative Investment

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**Abstract:** *Other than the paper currency or physical currency, the innovative developments have lead to the emergence of a virtual currency, referred to as cryptocurrency. It can be briefly described as a digital currency in which encryption techniques are used to regulate the generation of units of currency and verify the transfer of funds, operating independently of a central bank. Cryptocurrency made the leap from being an academic concept to (virtual) reality with the creation of Bitcoin in 2009.*

*For crypto currencies to become more widely used, they have to first gain widespread acceptance among consumers. While the number of merchants who accept crypto currencies has steadily increased, they are still very much in the minority. The concept is still unknown to many except for the technologically adept.*

*The study aims at analyzing the future of cryptocurrency, especially Bitcoin in India. It also tries to review it as as Innovative investment alternative alongwith the risk associated with it. The paper provides further scope for analyzing the invasion of digital currency on a continuum basis.*

**Keywords:** *Cryptocurrency, Bitcoin, digital currency, investment.*

## Crypto Currency: An Introduction

A cryptocurrency is a digital currency that is created and managed through the use of secured advanced encryption techniques known as cryptography. It is a form of digital asset which is traded on digital exchanges. The emergence of cryptocurrencies, specially Bitcoin has ignited a debate about its future and has inspired the creation of alternative cryptocurrencies such as Litecoin, Ripple and MintChip.

Bitcoin is a decentralized currency that uses peer-to-peer technology, which enables all functions such as currency issuance, transaction processing and verification to be carried out collectively by the network. Bitcoins are created digitally through a 'mining' process.

## Cryptocurrency Vs Fiat currency

Cryptocurrency is a medium of exchange created and stored electronically, and using encryption techniques to control the creation of monetary units and to verify the transfer of funds. Bitcoin is a digital asset and is commonly referred to with terms like digital currency, digital cash, virtual currency, electronic currency or cryptocurrency.

Unlike paper currencies, Bitcoins cannot be minted, they can only be mined. These characteristics make Bitcoin differ from a fiat currency. Fiat currency issuance is a highly centralized activity supervised by a nation's central bank, such as RBI in India. While the bank regulates the amount of currency issued in accordance with its monetary policy objectives, there is theoretically no upper limit to the amount of such currency issuance.

In addition, local currency deposits are generally insured against bank failures by a government body. Bitcoin, on the other hand, has no such support mechanisms. The value of a Bitcoin is wholly dependent on what investors are willing to pay for it at a point in time, and if a Bitcoin exchange folds up, clients with Bitcoin balances have no recourse to get them back.

## Bitcoin: As an investment in India

"The creation, trading or usage of Virtual Currencies including Bitcoins, as a medium for payment are not authorised by any central bank or monetary authority. No regulatory approvals, registration or authorisation is stated to have been obtained by the entities concerned for carrying on such activities," the central bank had said.

The Reserve Bank of India (RBI) has barred Indian banks from serving Bitcoins & cryptocurrency exchanges. It has clearly stated that Bitcoin cannot be treated as a legal tender. It means that, the virtual currency cannot be used as a means of purchase or medium of exchange. RBI has asked its own regulated entities to stop providing service to individuals or business entities dealing in cryptocurrencies for fiat, i.e. Indian Rupee (INR), though peer-to-peer options are still open.

Despite RBI's reluctance to recognize the cyptocurrency, the interest in Bitcoins in India has not waned, and the decentralized virtual currency that took the world by storm has witnessed a 300 per cent rise in value in just one year.

The investment in cryptoassets can be treated in the same way as an investment in any other highly speculative venture.

### Bitcoin trading in India.

Bitcoin is the first and the most popular of the many cryptocurrencies in the market today. It is based on Blockchain technology. The blockchain is similar to a ledger and it records bitcoin transaction. Bitcoin is one of the first cryptocurrencies and was created in the year 2009. One can obtain Bitcoin either by Mining or by purchasing them on Bitcoin exchange.

Bitcoin mining is the process by which the bitcoin transactions are verified and information about those transactions is stored in the blockchain.

In simple words, it means bitcoins are stored in the Bitcoin wallet. To trade, you need a wallet to store bitcoins and a bitcoin exchange for trading bitcoins.

A bitcoin wallet is a randomly generated string of numbers which consists of two parts: the public key and private key. The public key of the wallet is known to all. But the private key is only for the wallet owner. Only the wallet owner can access the private key, else any holder of private key will have access to all their bitcoins.

Some of the famous bitcoin exchanges are BuyUCoin,

In India one can buy/trade in any cryptocurrency at any trusted cryptocurrency exchange such as BuyUCoin, Zebpay, etc. that offers trade in multi cryptocurrencies with negligible transaction cost.

### Increasing Scrutiny

Bitcoin's main benefits of decentralization and transaction anonymity have also made it a favored currency for a host of illegal activities including money laundering, smuggling, drug peddling, and weapons procurement. This has attracted the attention of powerful regulatory and other government agencies such as the Financial Crimes Enforcement Network (Fin CEN), the SEC, and even the FBI and Department of Homeland Security (DHS) to prevent money laundering and ensure consumer protection.

### The Future

Some of the limitations that cryptocurrencies presently face are a possibility of a computer crash, or a virtual vault being ransacked by a hacker, etc. which may be eradicated through technological advances.

However, their relative complexity compared to conventional currencies will likely attract fewer risk seeker people.

A cryptocurrency that aspires to become part of the mainstream financial system may have to satisfy a wide divergent criteria. It would need to be sound enough to avoid fraud and hacker attacks but easy for consumers to understand and safeguard their interests. It should be able to preserve user anonymity without being means for tax evasion, money laundering activities.

If Bitcoins are legalized in India, at present as they are not the following transformations might occur

- Cryptocurrency such as Bitcoins would fall under the purview of RBI's regulations.
- The investors trading in Bitcoin would be taxed including implementation of GST.
- Any Foreign payments made through Bitcoins, would probably fall under the purview of FEMA.
- Income earned as Returns from investment in Bitcoins would be taxed.

### Conclusion

- Although Bitcoin is yet to become mainstream in India, the underlying technology behind it, the blockchain technology has caught the attention of several Indian banks.
- For cryptocurrencies to become more widely used, they have to first gain widespread acceptance among consumers. However, their relative complexity compared to conventional currencies will likely deter most people, except for the technologically adept.
- The price hikes of bitcoins suggest that this virtual object is largely regarded as a speculative asset rather than as a currency.
- Besides, technological innovations that are associated with bitcoins and other cryptocurrencies may inspire innovation in payment systems and other applications.
- Post demonetisation, with an increase in digital transactions, leading Bitcoin exchanges in India witnessed a rise in user base by up to 250 per cent.

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