



# Cryptocurrency: A future currency or a gimmick ?

## (A pragmatic look at the world of cryptocurrency)

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## Introduction

There has been always a desire among public to break away from the centralized nature of a nations' government distributed currency. There has been a hunger among public to invest in, use and trade with a medium of exchange that is decentralized, not controlled by a single entity and also at the same time safe and secure. Launch of bitcoin in 2009 as the first ever cryptocurrency promises a lot of these desires.

Cryptocurrency is not too hard to get used to and is fairly simple and easy at first glance. It is essentially a currency that is not owned by any central authority like any government so it is desterilized and is not owned by a single entity. it is not a physical currency and is stored on servers and exists online.

It's stored and secured through an encrypted format, hence the name cryptocurrency. Any person may buy any of the cryptocurrencies and they will be the owner of it, after that it can be used almost as a normal currency, like for investing, trading, buying or selling and so on.

One special feature of cryptocurrency is that it's based on block chain technology which only exists online. A block chain is a distributed database that is shared among the nodes of a

computer network. As a database, a block chain stores information electronically in digital format.

So this is the technology used in cryptocurrencies, such as Bitcoin, for maintaining a secure and decentralized record of transactions. Benefits of block chain technology is that it guarantees the fidelity and security of a record of data and generates trust without the need for a trusted third party.

So this was more of technical and factual information but the real attraction that cryptocurrency offers is its decentralized nature, level of ease, investment potential and global reach to name a few but it comes with its own risks, so because cryptocurrencies are not owned by single entity, it is very difficult or next to impossible to track cryptocurrency transactions and thus makes for a safe haven for criminals looking to perform illegal transactions and transfers.

This is the reason crypto has been on headlines on news reports for all the wrong reasons, but the innovative technology, decentralized character and ease of transaction are appeals that are hard to ignore and draws a sizable amount of younger generation wanting to invest and try out something new.

## Risk and benefits

As exciting and potential packed cryptocurrency looks from the introduction part of this article, it still has some hard truths and serious flaws of its own. Let's go over them one by one.

- The lack of centralized authority and no back up or accountability of loss:

With lack of centralization comes lack of backing and no secure way to conform or validate a transaction in a coordinated way. It also means the currency stays really volatile, and within day or hours a person can lose a lot of wealth. The value of digital currencies is dependent entirely upon the value that other owners and investors ascribe to them; this is true across all currencies, digital or fiat.

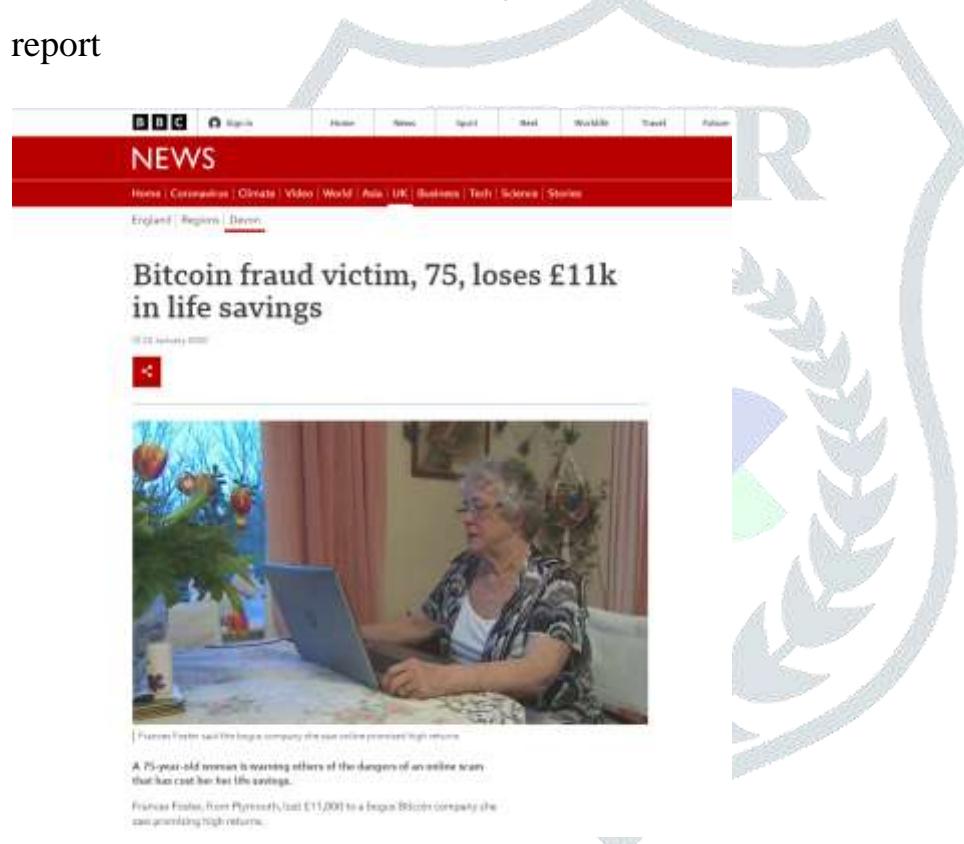
Without a central authority backing the value of a digital currency, investors may be left in the lurch should complications with transactions or ownership arise. Additionally, if

someone forgets keys or password to their account such as a bitcoin account, the monies might get lost forever.

There is also a greater chance of individuals committing tax fraud or money laundering in case of decentralized currency, if they fail to declare all these monies or engage in illegal transactions making tractability difficult.

- The potential for it to become safe haven for illegal transactions:

Cryptocurrencies such as bitcoin have already been recorded to have been used for fraud, criminal activities and illegal transactions. Like the one shown in this news report



This is because some of the cryptocurrency are hard to track and even if an individual not disclosing the transactions or monies, it gets really hard for authorities to investigate and find out.

Then there is the risk of hacking, although difficult but can be achieved and may lead to an innocent investor losing his/her entire investment. And because it is decentralized, there is no legal way to get back a person's stolen money.

Here are some methods and ways scammers may try to use this technology to their advantage

- Scammers may start with random offers from supposed “investment managers.” These scammers can say they can help will one grow money if they are given cryptocurrency someone has. But once a victim log in to the “investment account” the scammers opened, victim will find that they can’t withdraw your money unless you pay fees.
- Some scammers send unsolicited job offers to help recruit cryptocurrency investors, sell cryptocurrency, mine cryptocurrency, or help with converting cash to bitcoin.
- Some scammers list scam jobs on job websites. They’ll promise a job (for a fee), but end up taking your money or personal information.

- Highly volatile and risky nature of investment:

It is already known to us that cryptocurrency is not backed by any foreign reserves or any central authority like a normal currency, therefore changes in market, rate of adoption and even news headlines or future predictions can easily alter the value of cryptocurrency.

Therefore, it is often advised to only invest in cryptocurrency as much as a person can bear to loose in an unfortunate event. This graph shows how doge coin jumped like rocket by just a tweet of Tesla CEO Elon Musk.



That's why in my opinion cryptocurrency investment is only reserved for people who have a big appetite for risk. Also this is not just about one cryptocurrency, even more established cryptocurrency's like bitcoin are subject to volatility and change in value way more than any normal currency.

- Threat of getting banned:

As cryptocurrencies are not recognized a legal tender by most of the nations around the world, they are open to getting banned by countries which are concerned or spooked about a currency that is not regulated and can disrupt the normal money market or economy. Despite its use for buying goods and services, there are still no uniform international laws that regulate Cryptocurrencies.

Some of the nations around the world that are more autocratic and conservative have even gone ahead and banned crypto like china and Egypt. Prior to being banned in china, China was the biggest market for cryptocurrencies, but this ban overnight wiped out the wealth of cryptocurrency owners in china.

Such a risk cannot be ignored by a prudent investor or buyer, that a potential ban could lead to great loss. The question of if crypto banning is right and should it be done is another story or question altogether, so I would reframe from diving into that, but the truth remains that this is one of the ways crypto's future might be threatened.

In India Their government was about to pass a new Crypto bill which would ban all private cryptocurrency buying or holdings but that bill seems to have got delayed and has gone back for re-consideration. So far at the time of writing this article only one country has recognized cryptocurrency as legal money is El Salvador.

Here is a chart of status of legality of cryptocurrency in some of the nations:

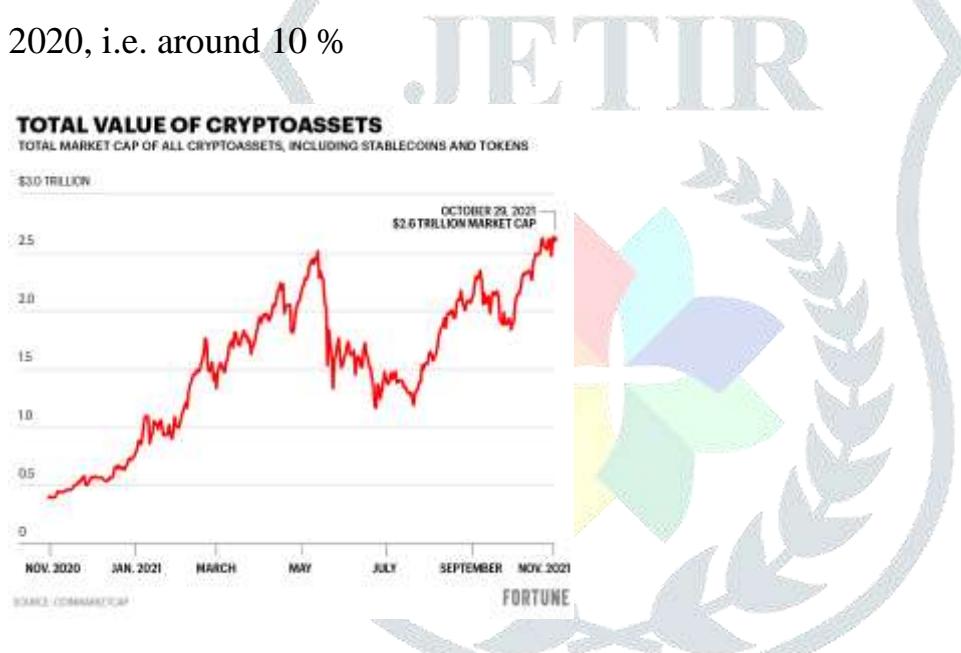
Content/Scope	Country	Additional Information
<b>Prohibition</b>	China	December 5 <sup>th</sup> , 2013, China's Central Bank prohibited financial institutions from handling Bitcoin transactions. Individuals and private parties can legally trade Bitcoin. [43]
	Russia	In February 2015, Russia's Prosecutor General's Office claimed that Bitcoin "cannot be used by individuals or legal entities." [44]
	Iceland	The Icelandic Central Bank said "it is prohibited to engage in foreign exchange trading with the electronic currency bitcoin, according to the Icelandic Foreign Exchange Act"[3]

<b>Prohibition of ATM's</b>	Taiwan	Approval for Bitcoin ATMs refused.
<b>Protection from money laundering &amp; illicit activities</b>	Singapore	Financial intermediaries to verify the identities of their customers and report suspicious transactions.
	USA	Bitcoin exchanges and most miners obliged to collect information on potentially suspicious transactions and report these to the federal government
<b>Taxing Bitcoin</b>		The sale, exchange or use of Bitcoin for payment in a real-world economy transaction may result in tax liability.
	Japan	The tax will cover gains from trading bitcoins, purchases made with bitcoins and revenues from transactions. Banks and securities firms will be prohibited from Bitcoin trades.
	Finland	Rules on taxation of capital gains apply when profits are in Bitcoin after it was obtained as payment is also taxable.
	Germany	Profits from mining or trading subject to capital gains tax unless hoarded for at least one year
<b>Unclear</b>	Israel	The Bank of Israel, the Capital Market, Insurance and Savings Department, the Israel Tax Authority, the Israel Securities Authority, and the Israel Money Laundering and Terror Financing Prohibition Authority issued a joint statement warning of the risks cryptocurrencies posed to users. However, no regulation has been established.
	India	The Reserve Bank of India's Secretary General, Ajit Prasad, said "The creation, trading or usage of virtual currencies including bitcoins, as a medium for payment are not authorized by any central bank or monetary authority." However, cryptocurrencies are currently not regulated.

But at the same time it has some promising future predictions and potential such as:

- Its massive popularity and adoption:

The global cryptocurrency market size was USD 826.6 million in 2020. The global market size is inclusive of several cryptocurrency mining software such as Kryptex miner by Kryptex, Cudo Miner by Cudo Ventures, Nicehas Miner by NICEHASH Ltd., among others and mining hardware such as Antminer S19, WhatsMiner M30S+, AvalonMiner 1246, among others. The global impact of COVID-19 has been unprecedented and staggering, with cryptocurrencies witnessing a positive demand shock across all regions amid the pandemic. And according to some studies the global market of crypto has witnessed a huge growth in 2020, i.e. around 10 %



Cryptocurrency has gained popularity relatively quickly over the years. The adoption rate is high and looks promising. It has attracted the minds of mostly young investors who want to jump in on this new trend. Bitcoin is the largest player in the Crypto market, as it has almost 50% of the market value.

Bitcoin hit multiple new all-time high prices and more institutional buy-in from major companies. Ethereum, the second-biggest cryptocurrency, notched its own new all-time high recently as well. U.S. government officials and the Biden administration have increasingly expressed interest in new regulations for cryptocurrency.

Although impact of covid 19 on crypto is till premature to determine, it is safe to say pandemic has only painted a positive picture of crypto so far, most crypto

currencies like bitcoin have managed to increase value during the pandemic and if this continues, many place may start using it as an alternative currency.

- Mainstream companies across industries have taken interest — and in some cases themselves invested in:

In recent years, endorsement of crypto by world's top businessmen like Elon musk has only given a push to crypto's popularity. Elon musk company tesla has announced that it will allow some of its customers to buy its tesla accessories through doge coin. Other major companies like subway, AT&T, Starbucks, PayPal etc. have also announced some form acceptance of bitcoin as mode of payment.

Still people right now do not buy Crypto for trading or casual buying, it is more of a currency for investment or asset like stocks that people like to gamble on.

Bitcoin attempts to make it stable has been showing some progress. We can see evidence of less volatility in BTC following its late 2017 rally and subsequent pullback, with the coin only surpassing this 10% deviation barrier once since then. This gradual calming influence is largely attributed to the arrival of more institutional investors into the cryptocurrency ecosystem

In addition to people adopting and using cryptocurrency, companies have also shown interest in investing in them. Like Automaker Tesla has joined the ranks of companies holding Bitcoin, with an SEC filing revealing that the company invested "an aggregate US\$1.50 billion" in the cryptocurrency and Micro Strategy, a prominent business analytics platform, has adopted Bitcoin as its primary reserve asset.

- Freedom from government control and regulation and having no boundaries

Every normal currency in the world is controlled by central authority and in most cases it's the central bank of that nation. Like India has RBI. Central bank insures that value of currency is stable and backed by a reserve. Central bank decides how much money is to be oriented and how much money should circulate in the market through loan rates and borrowing as oppose to crypto mining in case of cryptocurrency. Since

cryptocurrency is not controlled like this by a central authority, it is called a decentralized currency.

For some people and for other people in general who want good privacy, Crypto offers a great solution, since cryptocurrency is decentralized and has no central authority that has its control, owners and users of crypto can truly work in unregulated environment, where govt. fees and charges and transaction charges are nil.

Additionally, International exchange and trade can be carried out so much easier though Cryptocurrency. A centralized currency suffers from limited innovation, lacks worldwide acceptability and has many more limitations, so in decentralized currency like bitcoin can solve a lot of these limitations.

A centralized currency has a slower transaction rate, involves many middlemen like banks or government and is not completely anonymous. Cryptocurrency suffers from none of these flaws. Although with the risk of less tractability and security in a case of fraud or hacking.

- Blockchain Technology

A blockchain is a decentralized ledger of all transactions across a peer-to-peer network.

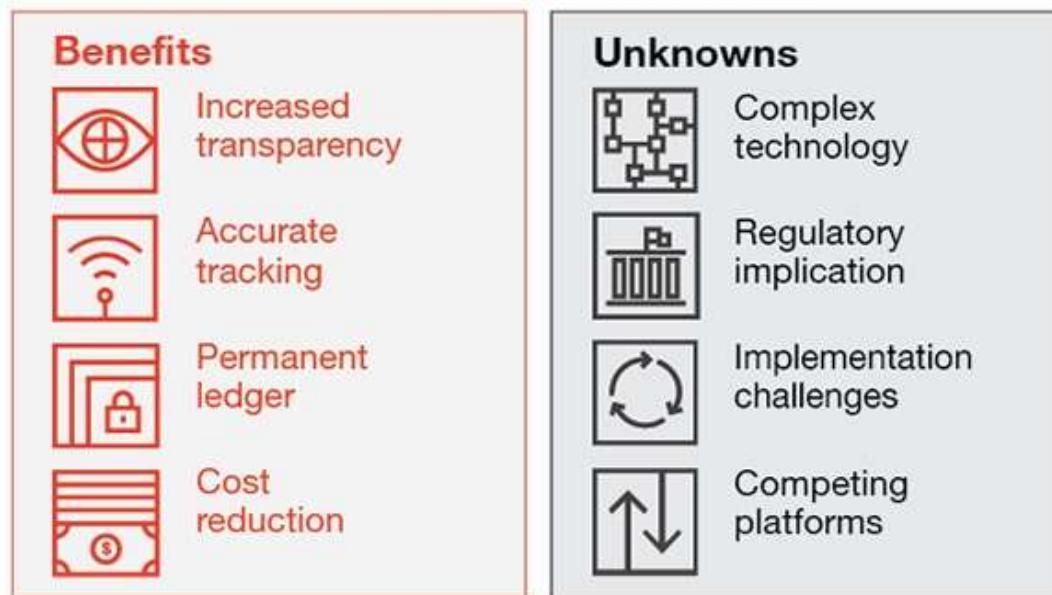


Using this technology, participants can confirm transactions without a need for a central clearing authority. Potential applications can include fund transfers, settling trades, voting, and many other issues. They are typically managed by a peer-to-peer network for use as a publicly distributed ledger, where nodes collectively adhere to a protocol to communicate and validate new blocks.

It is decentralized, distributed, and oftentimes public, digital ledger consisting of records called blocks that is used to record transactions across many computers so that any involved block cannot be altered retroactively, without the alteration of all subsequent blocks.

This allows the participants to verify and audit transactions independently and relatively inexpensively. A blockchain database is managed autonomously using a peer-to-peer network and a distributed timestamping server. They are authenticated by mass collaboration powered by collective self-interests

## Blockchain's benefits and unknowns



## Uses of Crypto

As we all know Crypto not just an investment tool, or a new type of financial market. It is a totally new types currency and can do everything a normal currency can do and more. Here are some uses of Cryptocurrency –

**Investment** -- Of course first and most obvious use of Cryptocurrency is investment. It is something that can be gambled upon. And we can see rise of its popularity, that means more and more people and not just youths are coming forward to invest in Crypto. And it can actually be really profitable.

Some of the top investors of Bitcoin like Barry Silbert and Michael Saylor have companies that have invested in more than hundred thousand bitcoins and have estimated values in millions. But as the value of crypto is always changing the worth of the investors' bitcoins also corresponds.

That however said, before investing in crypto a person must have studied its trajectory and that takes time. Although it still possible to manage to get a somewhat stable interest rate on crypto investment after gaining enough experience in the market. That is why Individual investors and companies alike are seeking to gain direct exposure to cryptocurrency, considering it safe enough for investing large sums of money.

investors in Bitcoin believe the cryptocurrency will gain value over the long term because the supply is fixed, unlike the supplies of fiat currencies such as the U.S. dollar or the Japanese yen. The supply of Bitcoin is capped at just under 21 million coins, while central-bank-controlled currencies can be printed at the will of politicians. Many investors expect Bitcoin to gain value as fiat currencies depreciate.

**Buying and selling** – Another great and important use of Cryptocurrency could be to use it as medium of exchange like normal money, however not incredibly common today, it could be the future, as in this article it is mentioned before how many big companies like subway, tesla and pay pal have started accepting payments in bitcoins.

Low cost of transaction and transfers – Cryptocurrencies unlike normal currencies do not have middlemen to complete transactions like banks and governments and central banks, that's why transactions of cryptocurrencies are super low cost and supper swift.

Not to mention, many nations have a limit of amount of transfers and transaction, one can carry out in a given time, but no such problem is there with crypto. A transaction worth millions can be made in milliseconds. These qualities of cryptocurrencies like ease of transfers, less transaction fees and so on make it an ideal and convenient place for doing big transfers.

Moreover, international transfers of monies are also made easier by cryptocurrencies. International accessibility, lack of scrutiny and swiftness of crypto transaction make it an excellent way of transferring monies internationally.

**To get paid** – Although might be rare now, but if cryptocurrency does shoot up in popularity even more, one can expect to get paid for work in cryptocurrency. The world's first incentivized social media and blogging platform, Steemit, enables publishers to receive financial rewards in the form of cryptocurrency for posting content and for curating on the network by up voting high-quality content.

**Crypto mining** – "Mining" is performed using sophisticated hardware that solves an extremely complex computational math problem. The first computer to find the solution to the problem is awarded the next block of bitcoins and the process begins again.

Cryptocurrency mining is hard, costly, and only sporadically rewarding. Nonetheless, mining has a magnetic appeal for many investors interested in cryptocurrency because of the fact that miners are rewarded for their work with crypto tokens.

Bitcoin miners receive Bitcoin as a reward for completing "blocks" of verified transactions, which are added to the block chain.

## Future of Cryptocurrency and conclusion

It will not be wrong to say the future of cryptocurrency is as of now quite uncertain. A digital currency is a new phenomenon and such a development has not been witnessed in the past before. But the way bitcoin and other crypto currency has gained popularity over the years it looks promising.

Like MasterCard launched crypto payments cards in Asia-Pacific with the aim of making crypto transactions seamless. A lot of experts say it's only a matter of time and not if, bitcoin passes \$100,000 and becomes a standard alternate currency. But one of the big hurdles is volatility.

Kiana Danial, author of "Cryptocurrency Investing for Dummies." Danial says there have been plenty of huge spikes followed by pullbacks in Bitcoin's price since 2011. "What I expect from Bitcoin is volatility short-term and growth long-term." All that said Cryptocurrency is still not clear from all the roadblocks like ban from countries like china, high volatility and hacking. For bitcoin to become globally adapted as a mode of payment it has to be scalable, or expandable, enough to support such activity. But block chain technology that enables bitcoin is still struggling, and developers are in a constant quest to find systems for a decentralized block chain that is both secure and scalable.

As long as a scalable system is not found and bitcoin is not able to deliver on its initial use case, the speculators have the upper hand. When speculators dictate value, volatility increases, making it even more difficult for bitcoin to be adapted as a payment method.

China has even gone so far as to invent its own digital currency but I think by doing so, it's missing the point of digital currency being a decentralized currency but on the other hand countries like Japan have accepted cryptocurrency, Others like usa and Europe have shown interest in it and want to make regulations to regulate it.

So best course for now would be not invest too much in crypto yet, and look at more conventional areas for investing huge amount of money. So I will not recommend anyone going and investing all his life savings on crypto just yet. It will be best to Keep investments in crypto small, and never put crypto investments above any other financial goals like saving for retirement and paying off high interest debt.

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