

Cryptocurrency: Myths and Realities in India

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ABSTRACT

Cryptocurrency is a virtual currency, and it is defined as a medium of exchange that employs cryptographic protocols to ensure the safety and authenticity of transactions. Such virtual money works on the concept of the underlying technology, Blockchain, that is not regulated by any authority, and this is the reason why cryptocurrencies and their transactions are completely secured. But sadly, the concept of Cryptocurrency is still in its infancy and is generally misunderstood, contributing to the circulation of several misconceptions revolving around it.

In India, the RBI (Reserve Bank of India), has understood cryptocurrency as a form of digital/ virtual currency generated through a series of written computer codes that rely on cryptography which is an encryption and is thus independent of any central issuing authority. It is facilitated through blockchain technology and has emerged as a person-to-person issuance and transaction system that uses private and public keys to enable authentication and encryption for secure transactions. Witnessing the massive popularity of the crypto market, its usage within a year of its usage, and potential revenue loss to the Government of India, the regulators and authorities began to take notice and as a consequence, the Reserve Bank of India (RBI) issued a press release, cautioning the public against dealing in virtual currencies including Bitcoin and has opened the door for Cryptocurrency in 2020.

Cryptocurrencies has turned out a hot commodity among individual and institutional investors. Despite existing for over a decade, in the recent times, there remains a lot many misinformation and myths over digital currencies. Here, the study takes a look and sheds some light over some common myths that persist in the market

KEYWORDS: Cryptocurrency, Digital Currency, Strategy mechanism for Crypto

INTRODUCTION

A cryptocurrency is a digital or virtual currency that is secured by cryptography, which makes it nearly impossible to counterfeit or double-spend. Many cryptocurrencies are decentralized networks based on blockchain technology—a distributed ledger enforced by a disparate network of computers. A defining feature of cryptocurrencies is that they are generally not issued by any central authority, and are rendered theoretically immune to government interference or manipulation. Also Cryptocurrencies are systems that allow for secure payments online which are denominated in terms of virtual "tokens," and are represented by ledger entries internal to the system. "Crypto" refers to the various encryption

algorithms and cryptographic techniques that safeguard these entries, such as elliptical curve encryption, public-private key pairs, and hashing functions.

CRYPTOCURRENCY IN INDIA

With the exponential development and advancements in the field of technology in India, especially with the emergence of COVID-19, the fintech sector has been on a path of constant rise. Due to the growing popularity and awareness about cryptocurrencies such as Bitcoin, Ripple, Dogecoin, and more in India, many people have started investing their time and money in these virtual currencies, in anticipation of

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profits. In India, the apex financial authority i.e., the Reserve Bank of India, has understood cryptocurrency as a form of digital/virtual currency generated through a series of written computer codes that rely on cryptography which is an encryption and is thus independent of any central issuing authority per se. It is facilitated through blockchain technology and has emerged as a person-to-person issuance and transaction system that uses private and public keys that enable authentication and encryption for secure transactions.

Being an untapped, unregulated market with a capability of over a trillion dollars, India also saw a massive surge of cryptocurrency exchanges. Witnessing the massive popularity of the crypto market, within a year of its usage, and potential revenue loss to the Government of India, the regulators and authorities began to take notice and as a consequence, in 2013 the Reserve Bank of India (RBI) issued a press release, cautioning the public against dealing in virtual currencies including Bitcoin. In November 2017, the Government of India constituted a high-level Inter-Ministerial Committee to report on various issues pertaining to the use of virtual currency and subsequently, in July 2019, this Committee submitted its report recommending a blanket ban on private cryptocurrencies in India.

The factual report from the Inter-Ministerial Committee was pending, and by the beginning of April 2018, the RBI issued a circular preventing all commercial and co-operative banks, small finance banks, payment banks and NBFC from not only just dealing in virtual currencies themselves but also directing them to stop providing services to all entities which deal with virtual currencies. This essentially broke down the crypto industry as exchanges needed the banking services for sending and receiving the money necessary for converting it into cryptocurrency and for paying salaries, vendors, office space etc. However, the circumstances prevailing around cryptocurrencies and their usage completely changed on 4th March 2020, when the Apex court of India i.e., Hon'ble Supreme Court of India, in a well-conceived judgment passed a decision quashing the earlier ban imposed by the RBI.

MYTHS AND REALITIES OF CRYPTO CURRENCY

1. Digital Currencies Are Primarily Used for Illicit Activity.

One of the oldest and, unfortunately, most pervasive myths about digital currencies is that they are most commonly (or perhaps most effectively) used for illicit activity. While it's true that digital currencies have been used by individuals with nefarious goals in

mind as well as by criminal enterprises, the same could of course be said for fiat currencies as well. One of the reasons behind this myth is the anonymity that is crucial to most cryptocurrencies. As the first major digital currency, Bitcoin became popular in black markets like the Silk Road.

While it's true that aspects of bitcoin (including the anonymity, it provides) may have been enticing to criminals conducting illegal business in that and other similar markets, it's worth remembering that that the transactions itself were illegal and not the cryptocurrency as the wrong doers could (and primarily do) use fiat currency for their activities as well. This research has analysed the patterns of money flow on the Bitcoin network revealing that while there was indeed a period of time where most Bitcoin activity was concentrated in black markets and gambling venues. Today, the illegal activity has dropped to a small fraction of total flows.

2. Digital Currencies don't have any value

Cryptocurrencies have proven difficult to categorize. In the U.S., the IRS has spent years determining how to classify digital currencies for tax purposes. Investors haven't been quite sure how to treat their digital assets when it comes to taxes or even everyday transactions. All of this has perhaps contributed to the idea that cryptocurrencies are a fad or that they will simply disappear. In actuality, the cryptocurrencies have not only been gaining in prominence and popularity, but they are also set in such a way as to minimize the risk of these things happening. As with other types of currencies, cryptocurrencies can be exchanged for goods and services, and they have value in accordance with the belief of the currency holders.

Thus the research has shown that Bitcoins do have some intrinsic value based on the marginal cost of producing new bitcoins. Bitcoins, as well as many other digital currencies that use a proof-of-work (PoW) consensus mechanism, are produced through a "mining" process that involves the enormous consumption of electricity—which has a real cost. The market price of bitcoin tends to hover around this cost which increases as the mining network gets bigger, while the block reward is reduced over time.

3. Cryptocurrencies are not secure

As digital currencies have gained popularity, there have been a number of high-profile scams and thefts. In many cases, digital currency exchanges themselves were the targets of these attacks. In other cases, criminals are capitalized on vulnerabilities in wallets and other aspects of the cryptocurrency space. Investors worrying about the security of digital assets

should remember that it is possible for hacks, thefts, and fraud actions to occur. What is important to understand is that the cryptography and mining network used in a blockchain network are robust to attack. Single points of failure such as a cryptocurrency exchange's website or an individual user are susceptible to bad actors.

Yet there are several ways into which the investors can change their behavior in order to better protect their holdings. Further, it's also worth noting that many governments and other financial institutions have shown an interest in blockchain technology. One of the reasons for this is that blockchain is widely seen as a secure and effective tool with untapped potential.

4. Digital Currencies Are Bad for the Environment

There is reason for concern about the impact of digital currencies on the environment. As cryptocurrencies like bitcoin and others have taken off, so too has the number of mining operations around the world. Each of the individual mining rigs require massive amounts of computational power, and this, in turn requires large amounts of electricity.

What's worth remembering, however, is that the value of mining for a cryptocurrency nearly always outweighs the real-world cost that is required in order to complete the mining operation. Above all, many cryptocurrencies, including bitcoin, have set hard caps on the total number of tokens that can be mined. Due to this factor, individuals will no longer be able to mine for new tokens or coins, and the costs of the computational power required for mining this currency will be dramatically reduced. It is also necessary to remember that the modern financial and banking system also requires a ton of electricity to operate on a daily basis, right from office lights to computer servers to electronic payments networks and asset exchanges.

5. Cryptocurrencies Are a Scam

Again, there is a necessity for investors to be cautious when it comes to potential scams. There have been numerous initial coin offerings that have proven to be fraudulent in various ways. However, savvy investors tend to treat cryptocurrencies in the same way that they would over any other potential investment, with a healthy dose of skepticism and a large amount of research and caution.

It's possible for investors to be drawn into fraudulent investment opportunities in the traditional financial world as well, and this situation tends to arise when an investor has not taken the time to thoroughly

consider and learn about the details of the opportunity itself. In order to sift through good and bad potential investments in the traditional financial landscape, one must take the time and effort to sort out dubious investment opportunities in the cryptocurrency space. While it's impossible to fully eliminate the chances to be the victim of a scam, this helps reduce those chances considerably.

STRATEGY OF INDIAN GOVERNMENT

The Indian government is now considering the introduction of a new bill titled "Cryptocurrency and Regulation of Official Digital Currency Bill, 2021" ("New Bill") which is similar in spirit to its previous versions. However, the government intends to ban private cryptocurrencies in India with certain exceptions to promote the underlying technology and trading of cryptocurrency and provide a framework for creating an official digital currency which will be issued by the RBI. The New Bill recognizes the grey area of cryptocurrency laws and proposes to ban all the private cryptocurrencies in their entirety. However, it is still a grey area pertaining to which all kinds of cryptocurrency will fall under the purview of private cryptocurrency.

The RBI has cautioned the general public regarding the possible misuse of private cryptocurrencies in all possible ways. However, if the New Bill imposes a complete ban on private cryptocurrencies, it shall lead the cryptocurrency investors to invest and deal in cryptocurrency in unmonitored markets. Further, the objective of introducing a law related to virtual currency/ cryptocurrency is to simplify the process of trading and holding in a safer technological environment. Even with the introduction of state-owned cryptocurrency which shall be regulated by the RBI, the risk factor involved in investment and holding of cryptocurrency shall remain the same.

In recent times, towards the end of March 2021, in the latest amendments to the Schedule III of the Companies Act, 2013, the Government of India has directed that from the newly begun financial year, the companies should disclose their investments in cryptocurrencies, i.e, the companies have to now disclose profit or loss on transactions involving cryptocurrency/ virtual currency, the amount of holding, and details of deposits or advances from any person for the purpose of trading or investing in cryptocurrency/ virtual currency. This particular move has been welcomed with open arms by the people dealing in the crypto sector, as it is felt that the same would open the doors for all Indian companies to have Crypto on their balance sheets.

CONCLUSION

Based on the inference that can be drawn from the aforementioned facts and present scenario revolving around the world of cryptocurrencies, it is evident that there is a lack of clarity with respect to cryptocurrency regulation in India. A well-structured cryptocurrency regulation with respect to crypto trading exchanges, blockchain technology, investors, and the people employed in such sector is the need of the hour and thus such regulation needs more attention.

It is interesting to note that the benefits of cryptocurrency were highlighted in the Draft National Strategy on Blockchain, 2021, published by the Ministry of Electronics and Information Technology. Therefore, banning global virtual currency which has created an impact in many countries is not the best possible solution for the development of our nation. The government is required to take an effective step towards regulating

Cryptocurrency as a way forward to have the confidence of investors and the general public in the developing nation. Though it has been affirmed by the Union Finance Minister Nirmala Sitharam that there shall not be a complete ban on cryptocurrency – “we will allow a certain amount of window for people to experiment on blockchain, bitcoins and

cryptocurrency.”, it will be crucial to sit back and review the Government formulated regulations with respect to cryptocurrencies before spearing ahead in that direction.

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