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An Overview of Cryptocurrency in Indian Scenario

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ABSTRACT

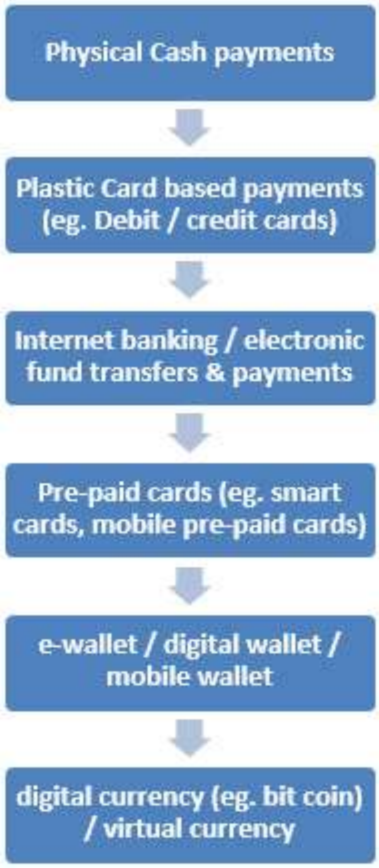
What if there is technology advancement so powerful that it transforms the very basic pillars of our society? A technology which fundamentally influences the way that our economy, government systems and business function, and change our conceptual understanding of trade, ownership and trust? Yes, this technology already exists and it's called cryptocurrency. Through the centuries trade has become incredibly complex every one trades with every one worldwide. Trade is recorded in book keeping. This information is often isolated and closed to the public for this reason we use third parties and middle men we trust to facilitate and approve our transactions. Think of governments, banks, accountants, notaries and the paper money (fiat currency) in your wallet, we call these 'trusted third parties' but cryptocurrency are decentralized in nature, this is not regulated or monitored by any trusted third party or approved by central bank. Cryptocurrency is neither commodity nor fiat money –it is new experimental kind of money. Now a day's people are using different types of cryptocurrencies for payment trading and investment purposes instead of fiat currency. Cryptocurrencies doesn't have any intrinsic value. Experts say the anonymity and the fact that there isn't any central authority managing the transactions make it a treacherous financial instrument and highly vulnerable to cyber-attacks. In case of any fraud, there's no one to be contacted for help and there is a high chance of the culprit getting away. The prime object of the present study is to give a brief understandings, pros and cons and risk associated with cryptocurrencies transactions and cautions given by the Reserve Bank of India.

KEYWORDS

Cryptocurrency; RBI; SEBI; Virtual Currency; Currency system.

INTRODUCTION

Different types of currencies have been used through the history of humanity as a medium of exchange. It started with the barter system and progressed to metallic money, paper currency, later on plastic cards or what is described as plastic money digital wallets like paytm, mobiquick and many such happen to be the best known methods of payment in these days and age. Most of us did not take a notice how quickly these methods of payment system took its place in our day to day transactions. Today with help of wide spread internet and technology there has been a rapid increase in the reliance on electronic or online transactions, This nature of internet technology gave way to unregulated digital currency called crypto currencies. An indicative progress path is shown in the following graph.



The first kind of crypto currency was bitcoin. Crypto currencies could serve as medium of exchange as it satisfies the technical properties of money, but crypto currencies are totally different from fiat currencies what we are using today. Fiat currencies (INR USD etc.,) are printed and managed by a central bank whereas crypto currencies are neither issued by a bank nor backed by any tangible asset but it operates on sheer demand. Its value is measured by just demand and supply more over there is a lot of opacity behind their operations, For instance no one knows who is behind the creation of crypto currencies.

The importance and popularity of crypto currency technology has rapidly spread through the general public as a means to store and transfer wealth through internet. Trading and investment on crypto or virtual currencies has surged due to extraordinary returns and other reason for surge in the crypto currency may be due to the low returns rendered by other assets classes such as real estate, fixed deposits and gold.

In spite of its growing popularity most important thing that everyone should know is, if people lose money in a bank, then they can complain to the Reserve Bank of India (RBI). But for crypto currencies there is no regulator people can turn to. Given these concerns, the government formed a committee2017 April to give recommendations for regulating the crypto currency market in India. The committee members, however, have not reached any agreement yet. Several issues, ranging from who could be its regulator to how secure are these transactions, are being deliberated at the government level.

OBJECTIVE OF THE STUDY

1. To examine the pros and cons of crypto currencies.
2. To study the RBI'S stance on crypto currencies in India.
3. To give suggestion and conclusion on virtual currencies.

RESEARCH DESIGN AND METHODOLOGY

The paper is based on the objective to examine the pros and cons and regulatory issues of crypto currencies. The descriptive and empirical studies were used to analyze the meaning and RBI'S stance on crypto currency. References of some news paper articles, websites, and journals were used in this study. The present study has been divided four sections viz. meaning of crypto currency, pros and cons of crypto currency, RBI'S stance on crypto currency, conclusion and way forward.

SECTION: 1 MEANING OF CRYPTO CURRENCY

According to Financial Action Task Force (FATF) report 2014 defines virtual currency as, "a digital representation of value that can be digitally traded and functions as (1) a medium of exchange: and/or (2) a unit of account, and/or (3) a store of value, but does not have legal tender status in any jurisdiction. It is neither issued nor guaranteed by any jurisdiction, and fulfils the above functions only by agreement with in the community of users of the virtual currency. Virtual currency is distinguished from fiat currency, which is the coin and paper money of a country that is designated as its legal tender in circulation and is customarily used and accepted as a medium of exchange in the issuing country. It is distinct from e-money, which is a digital representation of fiat currency used to electronically transfer value denominated in fiat currency. E-money is a digital transfer mechanism for fiat currency".

Upon the surge in bitcoin and block chain technology since 2009, a number of other crypto currencies or tokens have come into existence. There are over 850 crypto currencies currently being traded across the globe. Litecoin, Dash, Ripple, Dogecoin, Apple coin, ATC coin are some examples of the popular coins. The total market capitalization of all crypto currencies combined crossed $100 billion in June 2017 and it also has become the emerging payment system in recent times. Business and merchants offered virtual currencies to their customer for long time, which was effectively a token representing the fiat currency. This redeemable virtual currency could be used by individuals and business to transact quickly and efficiently over the internet without banking intermediaries throughout the world. Thus, it is fast, secure, low-cost mean for consumers to use, store, and transfer money using internet without third-party interference.

SECTION: 2(I) PROS OF CRYPTO CURRENCY

1. Low or no transaction fees is first advantage of using crypto currency. Because transactions occur via the block chain over a distributed peer-to-peer network, without third party interference for verification and authorization for instance currently Bitcoin has low transaction fees, it is less than 1% when compared with traditional payment platforms.
2. Crypto currencies are decentralized in nature, means it bypass bank and other financial institutions, so that payments and transfers can be completed quickly. This is particularly attractive for international transactions. For instance, where a wire transfer could take up to 3 business days to settle, a typical Bitcoin transfer could be done within the consensus block chain in less than an hour.
3. In credit card and debit card transactions often results in fraud and identity theft, especially when you hand over the card to make payments or sharing card information on online payment system. The user has no control over the payment process. But when it comes to digital currency, the user has all control to send only the designated amount to the merchant with no additional information. This feature prevents fraud and identity theft.
4. The most important thing on crypto currencies is people are owns it. There is no other electronic cash system in which your account isn't owned by someone else. Lets cite an example pay pal, if the company decides for some reason that your account has been misused, it has the power to freeze all of the assets held in the account without consulting the account holder, With crypto currency you own the private key and corresponding public key that makes up your crypto currency address. No one can take that away from people, unless they loss it or host it with a web-based wallet service that losses it for them.

SECTION: 2(II) CONS OF CRYPTO CURRENCY

1. Since crypto currency is not regulated by any financial organisation, lack of regulatory concerns around crypto currency is its ability to facilitate illicit activity. Crypto currencies are increasingly popular tools for money laundering activities.
2. Crypto currencies aren't regulated by national governments and usually exist outside their direct control. They naturally attract tax evaders. Many small employers pay employees in Bitcoin and other crypto currencies to avoid liability for payroll taxes and help their workers avoid income tax liability. While online sellers often accepts crypto currencies to avoid sales and income tax liability.
3. Only the most popular crypto currencies those with the highest market capitalization in dollar ($) terms have dedicated online exchanges that permit direct exchange for fiat currency. The rest don't have dedicated online exchanges and thus can't be directly exchanged for fiat currencies. Instead users have to convert them into more commonly used crypto currency such as Bitcoin, before fiat currency conversion.

4. The prices of crypto currencies have been extremely volatile. Investment on this involves very high risk. Since these crypto currency prices are not regulated as more people enter the market lured by the high prices. The prices climb ever higher this might lead to formation of a bubble that will eventually burst and cause widespread losses. Following figure 1 depicts an example for price volatility of a crypto currency i.e. Bitcoin

Figure 1: Price Index Volatility over the Years

SECTION: 3 RBI'S STANCE ON CRYPTOCURRENCY

In India, Bitcoin and other cryptocurrency trade is carried by unregulated digital exchanges that are 11 in number according to tax department estimates, people are investing in money expecting huge returns as Bitcoin registered a price increases from just $1000 in January 2017 to $15000 at the end of the 2017. But any time a burst can happen. The Reserve Bank of India and Finance ministry has come out with timely warnings against transaction with cryptocurrencies.

The RBI as the central bank issues money/payment related warnings on virtual currencies, regarding the asset or trading security side. The Government of India and SEBI (Security Exchange Board of India) are giving their cautions. Similarly the tax department is scrutinising the actions of investors to check the tax implication.

The fundamental stand of the RBI about Bitcoin and other cryptocurrencies is that they are not legal tender currencies. They can't be used for payments as usual currencies. Rather they have greater risk without any regulation and support. So far RBI has issued warnings 3 times first in 24th December 2013, followed by 1st February 2017 and third on 5th December 2017.

In its First caution issued on 24th December 2013, "Creation, trading or usage of virtual currencies as a medium for payment are not authorised by any central bank or monetary authority and it also said that no regulatory approvals, registration or authorisation is stated to have been obtained by the entities concerned for carrying on activities".

On 1st February 2017, in RBI'S next caution reiterated that the "Reserve Bank has not given license or authorisation to any entities to operate such schemes or deal with Bitcoin or any virtual currency." The bank regulators categorically said that any investor or trader dealing with virtual currencies 'will be doing so at their own risk'. Not only this, it also explained why investors could lose their money in cryptocurrency.

Following are the some risks listed by RBI. That cryptocurrency may pose to investors.

1. The RBI says that virtual currencies being in digital form are stored in digital-electronic media that are called electronic wallets. Therefore, they are prone to losses arising out of hacking, loss of password, compromise of access credentials; malware attack etc. since they are not created by or traded through any authorised central registry or agency, the loss of the e-wallet could result in the permanent loss of the virtual currency held in them.
2. Payments by virtual currency take place on a peer-to-peer basis without an authorised central agency which regulates such payments. As such, there is no established framework for recourse to customer problems or disputes.
3. There is no underlying or backing of any asset for virtual currency. As such, their value seems to be a matter of speculation. Huge volatility in the value of such currency, users is exposed to potential losses.
4. So for, cryptocurrencies are being traded on exchange platforms set up in various jurisdictions whose legal status is also unclear. Hence, the traders of virtual currency on such platforms are exposed to legal as well as financial risks.
5. It has been reported that usage of digital currencies are largely for illicit and illegal activities. The absence of information counter parties in such peer-to-peer anonymous/pseudonymous systems could subject the users to unintentional breaches of antimony laundering and combating the financing of terrorism laws.

Meanwhile, Securities Exchange Board of India (SEBI) on 20th December 2017 said that if Bitcoin is considered as a commodity derivative then it might regulate it. Though there are still no clear regulations or proper jurisdiction. The income tax department is clear that tax has to be paid on all cryptocurrency transactions, though there is no mention of cryptocurrencies in the Act, income tax will still have to be paid on any gains accruing from cryptocurrency transactions.

SECTION: 4 SUGGESTIONS AND CONCLUSIONS

The study made an attempt to convey about present scenario of cryptocurrencies in India and its potential pros, cons and risks in our country. The study included a brief introduction and meaning of the cryptocurrency, thereafter, RBI stance and cautions on these currencies have been explained in detail. Lastly the study found that, cryptocurrency is fast becoming a true rival to traditional currency across the world. The digital currency is available to purchase in many places and it could be a sign that money as we know it is about to go through a major change. Making currency decentralised is very appealing with in the world of hacking and tampering of which we live. It is protecting our money in the sense taking it away from the centralised banks; it's likely that the market capitalization of cryptocurrencies will continue to grow. Therefore timely regulation of the cryptocurrency market is necessary by providing guidelines or by empowering commodity regulator like SEBI to regulate, control or ban the cryptocurrency oriented investment/payment activities.

The government of India, keeping in mind all these facts has appointed an inter-disciplinary committee on cryptocurrency comprising 9 members including representatives of RBI, SBI, NITI Aayog and department of Financial Services in April 2017. However the committee submitted its recommendations in August 2017, details of the report is yet to be published. This panel was asked to examine the existing framework on digital/cryptocurrency in India and globally and to come out with measures for dealing with such cryptocurrencies, issues relating to consumer protection, money laundering etc. The accounting and taxation treatment of the virtual currencies is to be examined by the committee.

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