

Crypto Currencies: A Paradigm Shift of Digital Currencies

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Abstract

The world is moving towards a “cashless” existence. If we think, is it actually true, just ask in our mind when we have used cash from our pocket for the last time? Most people don't even carry enough change to pay a toll or parking meter anymore. Almost everything that has to do with our money has been moved online. It is probably a good idea to believe that this is the way of the present, and not the future anymore. But this can be difficult for people who don't fully understand what exactly the digital currencies, crypto currencies and fiat currencies are. Crypto currency is a subset of digital currency. It is a specific type of digital currency whose unique angle and appeal is privacy, decentralization, security and encryption. Bitcoin, Ethereum, Litecoin etc. are some of the examples for the leading crypto currencies. Block chain is the platform which brings crypto currencies into play. The block chain is the technology that serves as a distributed ledger that forms the network or ‘chain of blocks’. This network creates the means for transacting, and enables transferring of values and information. This article try to contemplate the rising trend of crypto currencies in a country like India and its future prospects. It also try to analyse the size of the Bitcoin market, the biggest of the crypto currencies and the growth in its market capitalisation.

Keywords: Digital Currencies; Crypto Currencies; Block chain Technology.

Introduction

As with many things in the contemporary world, the financial sector has also undergone significant changes over the years. This is the era of information and communication technologies which is creating greater impact on this area in several ways. As the number of online users are increasing, the world is moving towards a virtual economy which in turn creating various business phenomena. To uplift this trend, new methods of transactions, trading mechanisms and the medium of exchanges are also arising. One of the appreciable financial forms that became prominent in the past few years is Cryptocurrency.

A Cryptocurrency is a medium of exchange that does not exist in physical form but only in digital

form. It is neither linked to any form of physical currency, nor is it covered by any underlying asset or commodity. It may be quoted in any of the stock exchanges like other currencies. The most commonly known form of crypto currency is Bitcoin.

The origin of crypto currencies is not clear and who has founded it. A person or a group of people that known under the identity of Satoshi Nakamoto are said to be the one/s who conceptualised crypto currencies. Nakamoto published a paper about a peer-to-peer electronic cash system, which would allow online payments to be sent directly from one party to another without going through a financial institution.

All the transactions and the value of money relating to crypto currencies would be recorded digitally on a publicly available open ledger called block chain. This system was introduced with an expectation that it could help to remove and curtail corruption and inefficiencies in the system.

Trend of Crypto currencies in globally

As of March 18, 2018 there are 1564 Cryptocurrencies available and traded in about 9422 exchanges. Below is the top 10 cryptocurrencies

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as on 25th October 2018. The data is according to the website Coinmarketcap.com (<https://coinmarketcap.com/>):

Table 1: Trend of Crypto currencies in globally

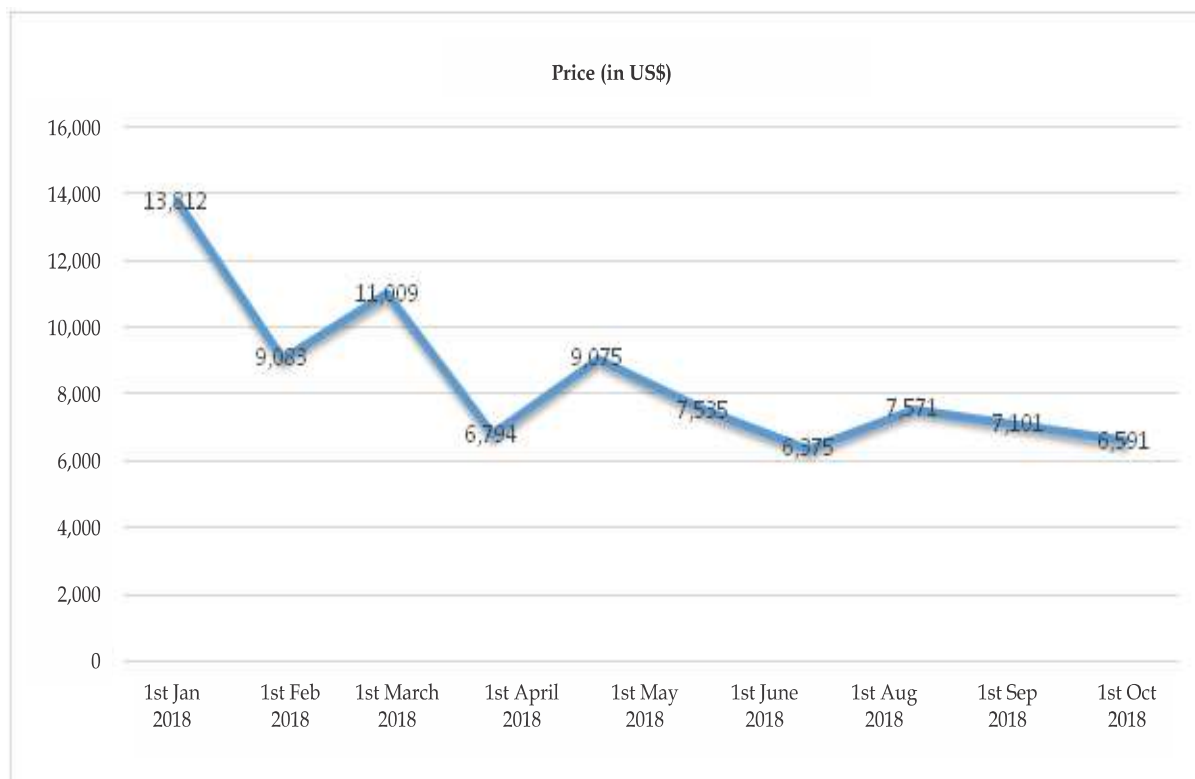
Crypto currency	Market cap (in US \$ million)
Bitcoin	1,12,163.33
Ethereum	20,803.56
XRP	18,168.96
Bitcoin Cash	7,685.17
EOS	4,867.55
Stellar	4,451.54
Litecoin	3,070.03
Tether	1,949.63
Cardano	1,909.56
Monero	1,748.10

As on 25th October 2018, Bitcoin has the maximum dominance in the cryptocurrency market with around 53.64% of market share & market capitalization of \$1, 12,163.33 Millions. Ethereum occupies 2nd position with a market share of 9.96%.

Trend of Market Price of Bitcoin

Table 2: Trend of Market Price of Bitcoin

Month in 2018	Price (in US\$)
1 st Jan 2018	13,812
1 st Feb 2018	9,083
1 st March 2018	11,009
1 st April 2018	6,794
1 st May 2018	9,075
1 st June 2018	7,535
1 st July 2018	6,375
1 st Aug 2018	7,571
1 st Sep 2018	7,101
1 st Oct 2018	6,591



Graph 1: Trend of Market Price of Bitcoin

(<https://www.blockchain.com/charts/market-price>)

Crypto currencies in India

India with a population of over 1 billion has been experiencing economic renaissance for the last few years. The international organisation IMF explained India as one of the fastest growing and emerging economy in the world. Internet and telecom facilities are available almost in all parts of the country. Within this circumstances the crypto currencies has gained public attention as a new means of exchange and an innovative avenue for investment opportunity. Bitcoin and other cryptocurrencies have been operating within the country for a number of years now.

Till 2012, only a limited scale of Bitcoin transactions were taking place within the country. But by the beginning of 2013, Bitcoin started to gain a level of popularity that was spreading across many countries and a few businesses started to accept payment by way of Bitcoin. Kolonial, a pizza shop in Mumbai became the first restaurant in India to accept Bitcoin payments.

Cryptocurrencies are not recognized as a 'currency' by the Reserve Bank of India (RBI) or any other authorities in India. While presenting the Union Budget on 1st February 2018, finance minister Mr Arun Jaitley declared that the crypto currencies are illegal in India and he emphasized that the government will not encourage its uses. The authorities are taking possible steps to eliminate its use across the country. The perceived risks associated with the use of digital currencies include illegal, antisocial and illicit activities which are uncontrollable. Since there is a lack of information about the contracting parties, such peer-to-peer non-regulated trading may lead the investors to unexpected losses and breach of agreement.

The Legal Status of Cryptocurrencies

The legal status of bitcoin and other related crypto currencies varies from one country to another and is still undefined and unclear in nature. But majority of the countries would like to consider its usage as legal. Because some countries have explicitly allowed its uses, trade, and using it as a medium of exchange.

Bitcoins are currently unregulated in India. There are no specific legal frameworks for Bitcoins and cryptocurrencies in India yet. Legality of Cryptocurrencies of some of the nations are as follows:

Nation	Legal status	Situation
India	Unregulated	Discussions are currently carried out among Securities and Exchange Board of India, the Reserve Bank of India and other authorities regarding its legality.
Japan	Regulated	Japan recognized crypto currencies as a medium of exchange for the payment of debt.
Russia	Unregulated	Cryptocurrencies are currently unregulated but the Russian government plans to introduce regulations in the near future.
United States	Regulated	Crypto currencies are treated as commodities that can be taxed as income or as capital gains.
Vietnam	Banned	The financial regulators of Vietnam has banned the usage of crypto currencies and engaging in the businesses of any crypto currency.
Italy	Legal	Italy has no regulations on private use of cryptocurrencies.

Initial Coin Offerings (ICO)

An initial coin offering (ICO) or Initial Currency Offering is a type of funding system used in crypto currency transactions. Initial Coin Offerings is a mechanism in which a quantity of cryptocurrency is sold in the form of 'tokens' or 'coins' to speculators or investors, in exchange for legal tender or other crypto currencies. An ICO is a good source of capital for start-up companies and small scale businesses. ICOs helps this start-ups to avoid strict regulatory compliances and from the catches of intermediaries such as venture capitalists, banks and stock exchanges. The first ICO was by Master coin in 2013, which raised approximately US \$600,000 for a new project.

Challenges of Crypto currencies

- ❖ Security threats: The main threats can be expected from Hackers as they are the persons keenly chasing to break the system and to know the method of virtual currency creations. This will lead to the creation of fake virtual currency or steal virtual currency by just changing the accounts balances.

- ❖ Money laundering: Money laundering is another major risk that can be expected in the digital currency transactions.
- ❖ Excessive volatility: The prices and value of crypto currencies on exchange platforms rise and fall dramatically over a short period of time.
- ❖ Identity risks: Accounts in most of the virtual currency platforms is not authenticated, financial transactions cannot be monitored very well. Gamers and users can create more than one account with unknown identities and use them for illegal transactions.
- ❖ Mismatch between demand and supply: Bitcoin market is faced with the problems of shortage of supply of currencies against its demand. This will lead to price fluctuations intermittently which in turn leads to inflationary situations in the economy.

Conclusion

Even though crypto currency platforms possess innovative and challenging characteristics, they are not recognised and controlled as they deserved.

In this competitive world, financial sector is also undergone significant changes over the years. The introduction of crypto currency is one such example. But it has to be rechecked and reanalysed whether the way in which it was positioned in the market was correct or need some improvement. Because even the authorities was not convinced about its technicality and legality aspects. In this scenario the future of Crypto currency in India is quite unclear and unpredictable.

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