

Bitcoins In India – An Overview

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Abstract

Now a day's peoples are dealing with various kinds of online trades using their smart phones and computers. People buying and selling equity shares, preference shares various kinds of debentures, bonds, mutual funds and other kind of financial securities. These processes are very simple in recent years a smart phone or laptop with internet facility can do. Bi coins are the new trends among these online markets in recent years and still growing very large margin. The problem is that the Bitcoin transactions are still not legalized and not supported by the SEBI and RBI. There are lots of problems are associated with it but still millions of people from India were trading in Bitcoins. It is a growing market and corporate giants like face book are planning to enter the bit coin market with their own currency called Libra. This paper is trying to understand the bit coin concepts, working methods and its affects in the Indian economic growth.

Key word: Bitcoin, Block Chain, Crypto Currency, Indian Economy

1. Introduction

There are various kind of online and offline payment mechanism is available in the market today. Many of them are built on platforms like smart phones and internet banking and digital wallets. This kind of electronic payment mechanism is growing day by day. This payment mechanism is based on the traditional currency of the country or calls as fiat currency simply means as the normal currency. Beyond these normal currency payment system there is another new high value payment mechanism is currently working without the support of any government or organizations. It's called Bitcoins or crypto currencies. Bitcoin is the well known and high value digital currency today; Bitcoin is the crypto currency which is a subset of what is generally known as digital currency. Bitcoin is unique crypto currency that's

widely known as the first of its kind, like many created after it. Bitcoin use the power of internet to process its transactions. (Chen & Niam, 2015)

Concept of Bitcoins

Bitcoin is a digital currency that created in the 2009 by the mysterious and pseudonymous developer Satoshi Nakamoto , whose true identity has still unknown. Bitcoin are the peer to peer payment mechanism introduced as open source software. It is a crypto currency because it uses cryptography to control and making of the money. The idea about sending money is through these encrypted digitally signed messages to the network.

It is operated by a decentralized authority who offers the lowest transaction fee then the other online payment services. The major point is that it is not authorized by any government. Unlike traditional currency there are no governments or organizations promises or offer the safety of the money. The trust between the persons who engaged in the transaction is actually matters. Bitcoins can be accepted by the means of payment for goods and services sold just like all other payments. Online firms can easily accept this kind of payment by using the Bitcoin merchant tool to process the transactions.

History of Bitcoin

August - 2008	: The domain name bitcoin.org is registered.
October - 2008	: Satoshi Nakamoto makes an announcement that He has been working on a new electronic cash system that's fully peer-to-peer, with no trusted third party.
January - 2009:	The first Bitcoin block is mined,
January - 2009	: The first version of the Bitcoin software is announced on The Cryptography Mailing list.
January - 2009	: Block 1 is mined, and Bitcoin mining commences in earnest. (Frankenfield, 2019)

Investing in Bitcoins

There are many Bitcoin supporters who believe that digital currency is the future. Many of those who support Bitcoin believe that it facilitates a much faster, no-fee payment system for transactions across the globe. Even though this is not backed by any government or central bank, it can be exchanged for traditional currencies. Indeed, one of the primary reasons for the growth of digital currencies like Bitcoin is that they can act as an alternative to national fiat money and traditional commodities like gold.

Benefits of Bitcoin

- 1. Quick and inexpensive Transactions:** The Bitcoin transaction fees are extremely low while compared to conventional methods of online transaction fees. Even one Bitcoin value is more than five lack Indian rupees; the transaction fee is always matters. So its lesser transactions fees are attracting people to pay in Bitcoin the large sum of money.
- 2. World wide acceptance:** The Bitcoin transactions are accepted worldwide without converting them to dollar or any other common currency. The Bitcoin itself acceptable everywhere in the world among all kind of people
- 3. High Market Demand:** The high market demands for Bitcoin guarantee to its investors a bright long-term future, since its introduction, it has high demand among the traders. The value of Bitcoin will continue to rise until its available supply maximizes
- 4. Higher Value:** The value of one Bitcoin is currently is more than 5 lack Indian rupees. That attract investors because paying high sum of money to other party through Bitcoins is very easy and it's untraceable because of its nature, peer to peer payment through secured encrypted network
- 5. Anonymous Transactions:** The transactions are taken place through the encrypted network and governments or other regulatory agencies are not involved in this, nobody can track these transfers. So people who want their transactions are completely untraceable use this method of payment.
- 6. New and Highly Growing Market:** The bit coins and crypto currencies are still in its infant phases and there are still huge growth potentials or the investors are thinking in that way that makes this crypto currency market and Bitcoin is the heaven of speculators and investors.

Risk associated with Bitcoin Investment

- 1. The Volatile and Fluctuating Market:** The price of Bitcoin is constantly changing. Bitcoin market is constantly rippling back and forth. With such an unpredictable market, there's no telling if you will get a return on your investment. To avoid a massive loss, keep a vigilant eye on the market. Make small investments; they'll be more beneficial long-term.\
- 2. Cyber theft:** Crypto currency is technology-based, which leaves this investment open to cyber attacks. Hacking is a serious risk, since there is no way to retrieve your lost or stolen Bitcoins. Carefully research your crypto currency wallets to be sure you have the most reliable option.
- 3. Fraud:** In addition to hacking, there is a fair amount of fraud in the Bitcoin market. Buyers and sellers are looking to trade Bitcoins online, but since their rise in popularity, some of these exchanges can be counterfeit.

Our Heritage

4. Modest or No Regulation: Currently, the Bitcoin market is operating without any major regulations. The government doesn't have a clear stance on crypto currency. The market is just too new. It is not taxed, a lack of taxation could lead to problems should Bitcoin pose as competition for government currency.

5. No Physical Existence: Bitcoin is an online exchange that is dependent on the technology and practically situated inside of the internet. Coins are digitally mined, exchange via smart wallet and kept in check using various online clouded systems. Without these technologies, Bitcoin is worth nothing. Unlike other forms of currency or investment, there is no physical collateral to back it up. With gold, real estate, bonds or mutual funds, you own something that can be exchanged.

6. Not a Widely Accepted as Mod of Payment: Bitcoin may be a step headed for a new monetary exchange; however, there are few companies that accept it as a viable form of currency. At present, only few online stores allow crypto currency payments. Additionally, Bitcoin owners can use their funds for travel with companies like Air Baltic, Air Lituanica and CheapAir.com. Regrettably, many companies do not recognize Bitcoin as a legitimate exchange. (Herlean, 2018)

2. Literature review

Greg Herlean (2018) "The Top 10 Risks Of Bitcoin Investing (And How To Avoid Them)" this article comprise of the top ten risks associated with Bitcoin transactions and Investment, this paper published in the prominent Forbes magazine's website by Greg Herlean, one of the Forbes council member. (Herlean, 2018).

David Lee Kuo Chen, Liam Pak Niam (2015) "Introduction to Bitcoin" This book deals with evolution of alternative digital currencies from Digi Cash to Bitcoin, the very digital currency that has spurred the development of this book. Specifically, this chapter explores the general features of Bitcoin and its benefits and risks before suggesting some conditions for a successful crypto currency to thrive. This book then concludes with optimism about the future of crypto currency and its underlying technology. (Chen & Niam, 2015)

Satoshi Nakamoto (2009) "Bitcoin: A Peer-to-Peer Electronic Cash System" it is the first article write by the concept of Bitcoins by the anonymous and mysterious developer of the Bitcoin. He announces then that he has been working on a new electronic cash system that's fully peer-to-peer, with no trusted third party. This paper is the now-famous whitepaper published on bitcoin.org entitled "Bitcoin: A Peer-to-Peer Electronic Cash System." This paper would become the Magna Carta for how Bitcoin operates today. (Nakamoto, 2009)

Impact of Bitcoin in Indian Economy

The Indian economy is now experiencing a harsh economic slowdown not seen in many years, and crypto currency can potentially help. However, the government is considering making a bill to ban crypto currencies, which could have undesirable consequences on the economy. Meanwhile, the Indian crypto community has already been facing a banking ban by the central bank. Nischal Shetty, CEO of crypto exchange Wazirx, believes that job growth is one of the major benefits the crypto currency can help to this nation's economic problems. The cofounder of the crypto exchange Coin recoil, express his thoughts to the "Bitcoin.com" Indirectly, crypto can help to create awesome applications that can contribute to good business and that can also boost the overall Information Technology sector of India and that can add new jobs for the younger generation. Rather than job creation the crypto currency can lots to contribute to the Indian economy. Like attract the foreign venture capital investments to the new Indian startups.

The Wazirx CEO also adds that crypto currency can help to make remittances in India make very less cost and more speed to the transactions. Information from Trading Economics reflects that remittances in India stood at \$12.6 billion in the first quarter. He also believes that crypto currency can offer the "Opportunity to bank the massive 300 Million unbanked people in India." The Indian government's own data shows that, as of Feb. 13, the number of accounts opened under the PMJDY, the government-run financial inclusion program, was 34.43 crores. (Helms, Kevin, 2019). On the other hand, he has doubts about how much crypto currency is able to help the Indian economy. He stated that the most people all around the world still thinking that crypto and Bitcoins are as money for illegal activities. RBI has given repeated warnings on the virtual currencies like Bitcoins, on the potentially financial, operational, and legal and security related risks and losses associated with it. RBI also mentions that the Bitcoins may create many security risks such as the chance of the misuse and miss representations of Bitcoins are highly, as there are no government regulatory bodies to monitor. As Bitcoins or virtual currencies are illegal and unregulated in this country, the income tax department has asked 4 or 5 lakh high net worth income individuals to give the details of savings and sales of Bitcoins and other crypto currencies in India and overseas.

While seeing the complexity of Indian economy, Bitcoins may spin out to be an advantage to India or a catastrophe. This is going to know the reliance on their degree of the freedom to use the Bitcoin allowed by the governments of India. Bitcoin is virtual cash. It can be buying and selling through online crypto currency exchanges. Since these technologies are new to the people, retailers are still hesitant to allow payments in Bitcoin.

3. Objectives of the study

1. To know the profile of Bitcoin and its working mechanism.
2. To understand the benefits and risks associated with Bitcoins.
3. To find out why people choose Bitcoin over conventional online transactions?

4. Statement of the problem

Bitcoins are the most recent methods of online payment mechanism and it attracts more people day by day even its required high knowledge to understand its working mechanism. The Bitcoins are also new area of speculative investment and lots of people investing these and loss their money because of not knowing the risk associated with Bitcoin investment and trade. But still people especially youngsters are attracted to this because of their higher online involvement. Even though there is no government bodies to regulate these crypto currencies market people are still using it. The intention of this article is to understand the basic concepts, risks and benefits associated with Bitcoins and its growth rates in the last decade.

5. Research Methodology

The transactions are performed through the highly encrypted and secured networks. So the primary data collection is very difficult. Because the people who don't want to expose their transactions are using this kind of payments methods. So in this study the data used are from secondary sources like published books, articles and websites.

Research design

This paper adopted the descriptive type of research design, because it's a new kind of payment mechanism and it is still not familiar among the general public. So the researcher collects the secondary data and analyses the data and made conclusions.

6. Limitations of the study

1. This study is based on the secondary data.
2. It includes only the Bitcoin transaction details and doesn't include any formal fund transfer methods.
3. Since these technologies are new and unfamiliar among most of the people the collection of data are very difficult task

Analysis and Interpretation of the Study

Table – 1 BITCOIN PRICE INDEX FROM JANUARY 2016 TO NOVEMBER 2019

Months	Price of Bitcoin (in U.S. dollars)
Feb-16	436.61
Apr-16	415.16
Jun-16	672.48
Oct-16	697.37
Dec-16	968.23
Feb-17	1190.89
Apr-17	1349.19
Jun-17	2504.28
Oct-17	4353.05
Dec-17	13860.14
Feb-18	10309.64
Apr-18	9244.32
Jun-18	6387.31
Oct-18	6320.45
Dec-18	3689.56
Feb-19	3799.68
Apr-19	5151.43
Jun-19	10908.18
Oct-19	9225
Dec-19	7551.99

Sources: <https://www.statista.com>

(Szmigiera, 2019)

The above mentioned table shows that the price index movement of the Bitcoin from the last 4 years. It's clear that the price of one Bitcoin has high fluctuation rate. October 2017 to December 2019 has the higher increase happens in the price index. It's a clear cut warning to the investors and speculators that the Bitcoins value are high volatile and at most care and prediction is needed to not loose you Money in Bitcoins.

Table – 2 NUMBERS OF BITCOINS IN CIRCULATION WORLDWIDE FROM 2012 TO 2019

Year	No of Bitcoins (in Millions)
2012	10.61
2013	12.2
2014	13.67
2015	15.03
2016	16.08

2017	16.78
2018	17.45
2019	17.97

Sources: <https://www.statista.com>**(Szmigiera, 2019)**

The above table represents the number of Bitcoins circulated in the world wide from 2012 to 2019. It shows that the numbers are increasing year by year. Within these seven years around 7 million Bitcoins increased. In the end of the 2019, there were 17.97 million Bitcoins are circulating in the world. Bitcoin is a virtual currency. It can be bought and sold through online exchanges.

7. Suggestions

From this study, it is implicit that the trade in Bitcoins are still prevails though it is against the law from the government point of view. The Bitcoin gains its trust by the peoples who are buying and selling these crypto currencies. And around most of the people are also aware the massive risk associated with it. Hence, the researcher suggests that the government may take proper steps to control and manage these crypto currencies and Bitcoins rather than going to completely illegalize it. Educate the investors about the risk associated with it and try to make rules and regulations against the fraudulent activates in the crypto currency market. Seeing as these technologies are new to the people government and SEBI must educate people especially the young investors who were very interested in these kinds of online trading instruments. Educate them about the working mechanism, advantages and risks associated with these Bitcoins and other similar unauthorized online fund transfer methods and online trading financial instruments.

8. Conclusion

In India buying and selling of Bitcoin and converting them to fiat currency is banned by the RBI. Even though people were continuously using Bitcoin and crypto currencies for online trading. Bitcoin trading was very popular among peoples especially among youngsters. It's because of the availability of the advanced Bitcoin trading mobile apps and software in their mobile phones. And the higher volatile of the Bitcoin price is also a major factor for speculative investment. The reason for these youngster trading in Bitcoin is that the higher price fluctuations, it can make huge profit but they eventually forgotten the chance of the huge loss associated with it. There is lot of controversies associated with these transactions and it is still growing and attracts more and more investors and traders. In this digital era people were choosing these kinds of online trading and payment methods even though they were illegal and higher risk associated with it, Because of the expected higher return than the traditional methods of trading.

Scope for further research

This study is dealing with the basics of Bitcoin and its Mechanism and also includes the data related to the growth of the Bitcoin market in the recent years. There are some other scopes for future research in these areas such as conducting a comparative study between the Bitcoin indexes and any other prominent stock indexes. If possible conducting surveys among the Bitcoin traders and their attitude towards various online Bitcoin trading stock exchanges and their experiences with them.

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