

## A Study On Cryptocurrencies and Its Issues

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### ABSTRACT

*India's supreme Court declines to lift ban on crypto currency stating RBI ban which was started on 5th April 2018. Bank noticed a threat to the economy dealing with money laundering and fraudulent leaving all the various exchanges and investors of virtual currency mesmerized. Extreme Price fluctuation was a major concern towards investors investing their savings in these virtual currencies rather than in banks which is a regulatory market flow of fund. These currencies are decentralized adding to not having backed by governing body which doesn't approve as investing factor in financial sector. This decision lead to act and file petitions against RBI for being familiarized with block chain. One such petition was filed by an Indian firm Kali digital ecosystems, claiming to start its very own cryptocurrency exchange under article 19(1)(g) of the Indian constitution which approves the right to trade, or to carry on any occupation. The study depicts the facts and figures of cryptocurrencies and their factors affecting the ban which influences the exchanges and investors across the countries directly or indirectly*

### Keywords:

### Introduction

Cryptocurrency, a digital based currency takes hold of cryptography for its safe reliability acting as a circulating medium for the purpose of financial transaction. It deploys decentralized authority objecting towards centralized banking system. Today cryptocurrency being global recognition still remains low brow to most people of most nations as they have only been familiar to the first crypto, bitcoin. Infact, in recent years there is no such set of financial institution that has not been involved in fact finding study or making publication effort regarding digital asset.

(Et, 2018) "Virtual currencies, perhaps most notably Bitcoin, have captured the imagination of some, struck fear among others, and confused the heck out of the rest of us." - Thomas Carper, US-Senator.

Satoshi Takemoto and a group of unspecified and creators of cryptocurrency bitcoin had no designated desire to create cryptocurrencies. during the announcement of bitcoin in 2009, Satoshi claimed to initiate "peer to peer electronic cash system. failing centralized attempts, Satoshi tried to construct a digital cash system which lead to the creation of other cryptocurrencies. these virtual coins are firstly processed by practical method of mining where the certified transactions are attached to public ledger known as block chain, further converting into a reward as bitcoin. The process involves accumulation of transactions into blocks and data processing of the puzzle after which the concerned person solving first solved puzzle places consequent block on the block chain and achieves the reward. (Barbara.f, 2012)

The price of bitcoin in 2010, was less than 1 cent. In December 2018, it crossed \$19,000. During 2013 the price of bitcoin was around 140-150\$ it surged up to 1000\$ in the span of 2 months and it is told that behind this surge there was only 1 person who bought bitcoins in lump sum of quantity using 2 bots. It was mostly a price manipulation called Markus and Willy bots. A lot of fake transactions took place for such a manipulation. This is not possible now as regulations and valuation has increased so 1 or 2 big players now can't make any slight change

Crypto currency when it was first launched barely a couple of people knew about it. it was mostly and widely used by smugglers, drug dealers and black marketers for their fund transfers as it is the safest, fastest and untraceable mode of transferring across world. After a few years when few more crypto currencies emerged nerds and few companies found interest in a digital mode of currencies and invented their own crypto's few famous crypto's apart from bitcoin are Ethereum, lite coin, Tron, ripple, neo etc. (Abhigail.S, 2018)

Growing value of cryptocurrency had increased its need in the current market, consumers have started using these digital assets for purchase of various goods and services at bricks and mortar stores etc. A young boy got his first car Lamborghini by paying with bitcoins. Few countries have banned cryptocurrency because of its uncertainty, decentralized nature, threat to the countries investments and GDP and also the link with immoral relation with drug dealing and money laundering. Most of the old school financial experts are not getting into crypto currencies as they believe it as a bubble but the youth still believes and

have a good future forecast for cryptos as they are the ones who have created and invested in this concept of blockchain and crypto currencies. We still think these crypto in the coming few decades will change the face of financial systems, monetary transactions and paper currencies in the future.(Akshay.M, 2017)

India's digital assets industry is currently going through a phase of uncertainty. These uncertainties have created huge complications for the once thriving digital assets industry in the country, particularly digital exchanges like Zebpay, koinex etc. and valuable users. Several exchanges launched with a mission to turn India into hotbed of block chain technology development but as per recent RBI action, banks have been told to discontinue banking services to those dealing with virtual currencies leaving all the virtual currency exchanges a legal challenge. Henceforth, a warning for all the investors depositing in these exchanges.(Et, 2018).

### Literature Review

The publisher states that India's top court denied to reverse a central bank ban on banks and financial institutes from dealing in cryptocurrencies, The Supreme Court concluded by saying the central bank told the top court that Cryptocurrencies cannot be considered as currency under India's existing law that mandates coins to be made of metal or exist in physical form which is stamped by Indian government. The recent fluctuations in cryptocurrency exchange has made regulators around the globe to take a more harsh and skeptical view of cryptocurrencies.(Upmanyu.T, 2018)

The South Korean financial policy makers are reconsidering on their regulations so they can effectively respond to financial innovation in the future industrial revolution era.it's looking to nurture bitcoin, cryptocurrency and block chain.The move happens to glow with a report earlier this week from the international financial stability board, of which South Korea is a member, that said bitcoin and cryptocurrencies do not currently pose any kind of material risk to the global financial system and encourage countries to take a soft approach towards them.(Billy.B, 2018)

The '2nd global summit p2p digital asset system' organized by ASSOCHAM, the department of legal affairs were focusing on the allegations that people having black money were diverting them by investing in crypto currencies in India at the time of demonetization. It was also noted by the income tax department, further taking an action of consigning notice to ones who have transacted in bitcoins. As per the news article, all the VC's (virtual currencies) were carried out for illegal activities such as smuggling, terror - funding etc. (Toi.authors, 2018)

The New Age of Decentralized Digital Currency System: The Bitcoins "report published by Krishi Sanskriti Publications,2016 says RBI along with many sites (Zebpay, paisa), travel company (etravelsmart), intuitions (Dharwad International School in Karnataka), fashion portal (Fashiondiva.me) etc had appreciated transactions through cryptocurrency in late 2016 due to demonetization in India. It also explains how Constitutions of India have power to regulate and legislate these coins.(krishi.sanskriti, 2016).

"Growing Strategies of Bitcoin in Bangalore Urban" speaks about how bitcoins is gaining popularity in third most popular city –Bangalore. Though India's leading bitcoin exchange –Uno coin is located in the city still many people don't know about it and also hardware, software issue relating to bitcoins are big threat to these digital currencies.(Afsan, 2017).

### Need for Study

There are many important reasons for this research to be made. One of the main motive to do an extensive study on crypto currency is to find out the in-depth reason of Indian government ban on bitcoin related transaction across the nation. Crypto currency being venerable since years have affected people's wealth, making a concern matter for the economy. Decisions in one country has relied or made an impact on other countries, leaving a direct or indirect influence on a particular country or country's people. This research reveals a strong connection between India's ban on cryptocurrency and people owning digital currency in the other countries. Hence giving an ideal futuristic opinion as to where this decision goes further and would make or break the crypto hype in India.

### Statement Of The Problem:

Indian government banned cryptocurrency and banks to transact with crypto exchanges across India creating a great buzz amongst the youngsters as per the above record. RBI encountered a threat of people's savings converting into digital currency henceforth staking economy's wealth. Money laundering and frauds being the major factor of ban led to take a step against these cryptocurrencies. Meanwhile few exchanges of India are in constant rush to revert the decision of RBI. Not only exchanges, also the crypto

holders made an appeal against the bill released by supreme court for which a hearing has been announced on September 2018.

**Objective**

The main purpose of this research is to affectively interpret and analyze core reason behind the crypto ban in India. The below mentioned are the objectives of the research.

1. Emphasis on Major factors affecting cryptocurrency ban
2. Impact on crypto exchanges, people of India and resulting reaction towards supreme court decision
3. giving in future outlook and insight of these banned cryptocurrencies in India.

**Research Methodology**

This research is qualitative and quantitative research study. Primary data was collected from the respondents by sending them a detailed and structured questionnaire. The data was gathered from totally 100 respondents of various different age, gender, occupation and income groups, so that the data is free from any bias. Respondents were from Bangalore city as it is the IT capital of India and One of the top crypto exchange Unocoin is headquartered in the same city. The questionnaire had two major aspect one contained all the demographic details, few personal detailed questions with set options were asked to the respondents and the other aspect was related to the research problem, an open-end question with opinion based options were asked to the respondents the data gathered from the questionnaire was analyzed administered and then recorded in this research study.

Primary data was also gathered directly from the crypto exchanges across India including Zebpay, Koinex, Unocoin etc. They were mailed a set of questions directly regarding the ban of crypto transaction banned to bank by the RBI. Questions regarding the bill passed and their future course of action to resolve the issue going on. All the data were interpreted and then recorded accordingly in this research study. Secondary data was collected by various sources such as Websites, Books, Magazines, Articles, Newspapers, Journals etc.

**Analysis And Interpretation**

The table given below shows the demographic data of the 100 respondents. The first category is gender 76% are male respondents and 24% are female respondents. The next category is of age groups 74% of respondents are between the age 10-30 years, 18% of respondents are between the age group of 30-50 years and the rest are above 50 years. According to occupations 52% of respondents are students, 23 % of respondents are employee, 15% of respondents are professionals and remaining 10% are entrepreneurs. The next category is of income respondents earning within 20,000rs are 43%. Respondents earning 20,000-50,000rs are 30% rest 27% are of income group above 50,000rs. The next category is of investing experience 46% of the respondents are beginners or having an experience of 0-1 years. 29% of respondents have a experience of 1-2 years the rest 25% of respondents are having an experience of more than 2 years in investments.

**Demographic detail**

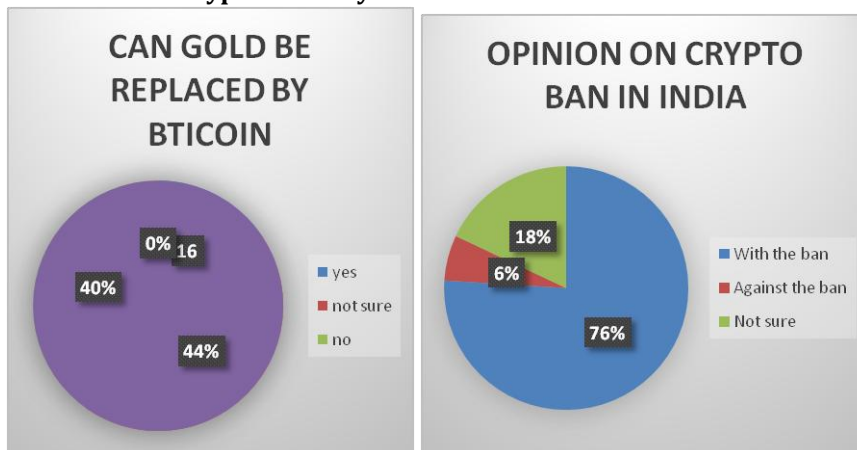
GENDER	-
MALE	76
FEMALE	24
TOTAL	100
AGES GROUP	-
10-30 YEARS	74
30-50 YEARS	18
50>	8
TOTAL	100
OCCUPATION	-
STUDENTS	52
EMPLOYEE	23
PROFESSIONALS	15
ENTREPRENEURS	10
TOTAL	100
INCOME GROUP	-
<20,000 RS	43
20,000 – 50,000	30

50,000>	27
TOTAL	100
INVESTING EXPERIENCE	-
0-1 YEARS	46
1-2 YEARS	29
2> YEARS	25
TOTAL	100

The above data implies that most of the young generation or the youth of this country are more involved into crypto currencies as 74% of them are in their age group of 10-30 years old. The occupation data also proves the same that 52% and 23% are Students and employee respectively it suggests that most of the respondents are of the younger generation. 43% of them have income below rs 20,000 and 30% have an income of 20,000-30,000rs. The experience data states that out of all the respondents 46% of them are beginners in investing or they have just stepped in into investments and 29% of them have at least of 1-2 years of experience in investments. After the analysis of the above demographic data it is interpreted that young and rising generation are more into this digital currency world than the older generation. This shows that the digitalization has a highest number of impact on the youth than the grown-ups. Further data shows what is their opinion on this research problem and what do they believe about crypto currencies and their opinions.

The below pie chart shows the important analysis of this research study. The opinion of the people on the ban of crypto trading in India and will gold will be replaced by Bitcoin and their opinion on the future of crypto currencies in this world. The pie chart 1 states that 76% of people are against the ban on crypto trading and 18% of the respondents are not sure and 6% of respondents are supporting the ban by RBI on crypto currencies. 41% of the respondents say no to replacing of gold with bitcoin 43% of people are not sure if gold will be replaced by bitcoin and 16% agree that gold will be replaced by bitcoin.

**Cryptocurrency market state visualization**



According to above data it is analyzed that 76 respondents are against the ban held by the RBI and they want it to be removed, 18 respondents are not sure whether the ban was the right thing or not and 6 respondents are with the RBI ban and say they want all the crypto currencies to be banned. Another chart states that 40 people are saying that gold will not be replaced by bitcoins and 16 people are saying that yes gold can be replaced by Bitcoin in the future and 44% of them are not sure about it.

An open end opinion was asked to the respondent about future of cryptocurrencies in India and its impact. After carefully analysis of all the responses most of the respondents are optimistic about the future cryptocurrencies in India. They believe in the future change and the emerging digital currency which would replace all the fiat or paper currencies. They are ready to still invest in crypto currencies and are against the bill passed by the court of banning the banks to transact with crypto exchanges.

On 6<sup>th</sup> April 2018 RBI released a statement giving everyone 3 months of time to withdraw all their holdings from crypto currencies as they were set to ban all banks to transact with any crypto currency exchanges across India. All the exchanges and the people filed a petition against this to the supreme court of which hearing has been in process and the coming hearing is on September 11 2018 according to Koinex. All

these exchanges had cautioned users since the issue of statement and have been with updating to their clients and users till date with the current scenario. Koinex has started a P2P service which enables clients and customers to continue their transferring and withdrawal of funds through a third party or outsourcing it. Zebpay a Mumbai based crypto exchange app one of the largest and widely used app had mailed us back giving all the information on the hearing. It was said that the crypto currency cannot be banned by any country as it is a decentralized system, they were also planning to shift their business to other country which had easier and non-restrictive policies on crypto currencies. All the exchanges have filled their issue regarding the ban and their solution regarding the same and are hoping that the court will solve this ongoing dispute and accept theirs and people demand.

### Conclusion

(Kelvin helms 2018) has mentioned that supreme Court decided to look over all the petitions that have been raised by all the exchanges and the investors of India. Various exchanges presented their suggestions, keeping in mind regarding the major factors affecting RBI ban by offering strict verification of all the initial investors to avoid money laundering. Bitcoin's legality has been amazed since it differs country to country. A decentralized cryptocurrency is not backed by governing body, threatening a result of ban in various countries.

### Suggestions and Recommendation

People who have already invested in these cryptocurrencies and are not able to make any transactions, want to retain these coins for long term and are hoping for change in the terms stated by RBI. Until then they can transfer their coins to a safer wallet where you can preserve the coins such as LUNO.

Investors can also transfer their coins to their friends and relatives living in those part of world like Japan, Canada, Australia etc. where cryptocurrency is legal. PayPal an American based company allows to purchase and sell cryptocurrency through an account in Virvox or through credit cards. PayPal can also be adopted for future investment.

Companies like WazirX and koinex have launched peer-to-peer transactions which facilitates entry and exit of cryptocurrency through Indian rupees. All the Indian investors who are looking for a future investment can apply P2P method at their own risk. Some suggestions that are made to RBI and supreme court by various bitcoins exchange and investors are that they must remove complete ban and instead penalize and implement on only those companies who are violating the terms.

### Scope For Future Research

There is a scope for conducting further research studies to understand the future of cryptocurrency in Indian market and also in other countries regardless of its legality. The research is needed so that the current and upcoming investors of these digital currencies (cryptocurrency) have clear cut idea of where to invest in or formulate their future strategies. In this study, we have focused on only one part of world and that is India, so the same study can be conducted in the different parts of world, for example the issue related as to why South Korea tight regulations on cryptocurrencies. Further studies can also include information relating to how various companies have been working to make bitcoins a legitimate mode of exchange and payments.

### Limitations of Study

The utmost limitations of this study are that we have included certain views of various investors and companies transacting cryptocurrencies. The data collected in this study was gathered through survey sampling of 100 respondents only in Bangalore, Karnataka so the data may not be generalized for complete India. Due to restricted resources, we had to limit ourselves to one city. Another major limitation was to gather information from government sources and government agencies due to the ongoing case they had strict policies of not sharing any kind of information on the matter.

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