

A STUDY OF LEGAL AND ECONOMIC ASPECTS OF BITCOINS IN INDIA

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Abstract: Attention of investors all over the world has gained attention by Bitcoins for reasons such as ease of transactions, lack of central authority in the network and its status as money without any limitations. This has obviously triggered the careful thought and discussion on the evolution of cryptocurrency as the future of digital currency. There are though, regulatory and legal issues before the Central Banks of the nations. In India, Bitcoin has not been recognised as a legal tender mainly due to legal, economic and financial and legal issues. With respect to the Blockchain, India can't be ignored. In India, the issue of Bitcoin has been mostly legal: using Bitcoin in money laundering and transactions for acts of terrorism are the major challenges in the use of Bitcoin as legal tender. It is an incredible country with more than a billion people who recently experienced demonetization. The objectives of this paper are to understand the future of cryptocurrencies and Bitcoin in India and to evaluate the perception of Bitcoin as the future currency and to analyze the probability of legalization of Bitcoin in India.

Key Words: Bitcoin, Cryptocurrency, Blockchain, Digital Currency, Fiat Money, Economic.

1. INTRODUCTION:

The wild swings in Bitcoin costs have made the advanced money a major subject of dialog over the world. Bitcoin is one of numerous digital currencies that have picked up prominence over the world because of exponential ascent in its cost and market estimate. They have sparked concerns of money laundering, terrorist financing and drug trafficking, and attractions attention from authorities all over the world. Bitcoin is both virtual cash and an online instalment framework (one that a few people accept will change the worldwide money related framework). In the current obsession of bitcoins, people have even forgotten the fundamentals of a currency system. The critical point is that "what it is or can be used as money and in the long run what gives it its regard". Everything is not what it may seem to be. The identity of the creator of bitcoins remains a mystery. The bitcoin system is not managed by a central authority, but relies on a peer to peer network on the internet.

2. OBJECTIVES OF THE PAPER:

This research paper has the following objectives:

1. To study the basics and concept of Bitcoin.
2. To know about the legal position of Bitcoins in various countries.
3. To analyse the economic legal and aspects related to Bitcoins in India.

3. RESEARCH METHODOLOGY:

The main objective of the study is to know about the working of Bitcoins and various provisions related to the Bitcoin in India and other countries. The present article is based on secondary data.

4. CONCEPT OF BITCOIN:

A cryptocurrency is basically a digital asset which is generated through encryption techniques to manage the creation of new units, as well as to secure transactions. It is a medium of exchange which enables payment in a decentralized peer-to-peer (P2P) network. It is controlled and endorsed by the agreement of its clients. There is no central agency or middleman to handle and control it. Cryptocurrencies are not printed like Fiat money but are 'minted' or produced by technocrats around the world. Bitcoin and its derivatives use decentralized control as opposed to centralized electronic money or centralized banking system. Each unit of the virtual currency is nothing more than an entry on a digital ledger, just as most currencies exist only as entries on a bank's digital ledger. The price of a Bitcoin is set on the open market, generally on exchanges where people offer to buy and sell bitcoin, similar the way that stock price is set. Anybody can produce bitcoins but it has been programmed like a gold mine. It is indistinct whether the digital currency, cryptocurrency, serves more as a mode of trade or a store of significant worth. There are

numerous cryptocurrencies like Bitcoin , litecoin, peercoin, namecoin, ethereum and primecoin. Among these, Bitcoin is the most famous. The arguments made by bitcoinnoisseurs is that it is a type of 'digital gold'. Stores of value are supposed to keep their value; but coin, by contrast, is extremely volatile.

5. NATURE AND TECHNOLOGY OF BITCOIN:

Block-chain technology is used to deal in bit coins and other cryptocurrencies. Bitcoin is 'mined' and brought into existence. Any individual with the essential equipment and a web association can partake in the mining. The mining process involves solving computational puzzles. The more people are mining, the difficult it gets, and vice-president versa. After solving the puzzles, this transaction is verified and added to something called? The block-chain is underlying technology of cryptocurrency. This, instead of using a central authority to verify the digital transaction, but coin uses a process called block- chain, which is effectively a distributed public ledger that tracks all transactions. The order of transactions in the ledger is enforced by cryptography. Block- chain is the formalization through Internet technology. Block-chain technology allows for instant recognition of the exact size of the block by all transacting parties in the chain since the block is simultaneously updated an all their data-bases, and has unique security features that don't allow tampering with the definition of the block. The impact of this is that it creates instant trust or having blind faith in 'honour among thieves'. Block-chain maintains a continuously growing list of re words, blocks that are said to be free from tampering and revision. Bitcoin obscures the identity of currency owners, but the block-chain, the ledger that keeps track of all the coins, is open and can be analysed to see the flow of funds.

6. HOW BITCOIN WORKS? :

Bitcoins are totally virtual coins intended to be ' independent' for their esteem, with no requirement for banks to move and store the cash. Once anybody own bitcoins, they possess value and trade just as if they were nuggets of gold in the pocket. Bitcoin is produced during a special kind of online transaction process. These online transactions occur between not only two people, but between two people and one system. This system is present on www. When someone logs in to search for Bitcoin through this client, then he is issued an index number along with its position, time, and date. This index number is also called Mandatory String. After this the user changes this number into a chip or code using a special type of processor minor. Changing the index number to a chip or mandatory string is called cryptography. In fact, the index number which is converted into code using the minor processor is already a collection of index numbers used by many users. If a user succeeds in changing the index number to a certain number determined by his system, then he reaches very close to achieving a block of 50 Bitcoin. But it can only be obtained if any other user searching for Bitcoin justify this block by changing its index number to a chip or code. In this way the first user gets a big chunk of 50 Bitcoin blocks. It is thus clear that Bitcoin is a total virtual currency which depends on complex computer and mathematical process. If it is said simply, it is a way in which online users deposit their currency through difficult calculation and secret coding and then spend it. At present 21 million Bitcoins are hidden in the network of Internet and it can be estimated that by 2040 all these will come out.

7. POTENTIAL USES OF BLOCK-CHAIN TECHNOLOGY:

The idea if block-chain deserves more attention, as it could potentially transform the way transactions are settled. For instance, it has the potential to end property- related litigation in a country like India. The government can have a block-chain where ownership and transactions can be traced easily. Likewise, block-chain can make government spending progressively productive in regions, for example, the social division, as it will build straight forwardness. The technology is also being used to settle transactions of financial sector. Block- chain could help ware merchants rise above customary market boundaries. It also ensures timely settlement, expedites capital allocation and provides proof of collateral.

8. FACTORS CONTRIBUTING TO THE POPULARITY OF BITCOIN:

Bitcoin usage is overwhelmingly gaining worldwide acceptance. There are various reasons why individuals around the globe are getting pulled in to Bitcoin. The following socioeconomic factors influence their demand-

- One of the most important factors for the popularity of bitcoins is that it is actually possible to make transactions electronically without any formal system of financial and banking institutions.
- It is also believed that in future time, the demand for bitcoins can increase which is contributing its prices to increase over time.
- In different parts of the world, some people also wish to take their savings out of domestic currency owing to political and economic instability.
- Bitcoin has become a legal payment system and classified as an asset for accounting purposes in Japan.
- Asset allocators and fund managers are beginning to allocate funds to cryptocurrencies.

- The inefficiency of financial architecture with the view that financial services are overpriced and the whole financial system is too costly to operate.
- A large number of investors are buying just to ride the momentum and earn quick returns.
- Demand of cryptocurrencies is increasing due to launch of many initial Crypto-Tokens Offerings. The beginning of future trading in bitcoin is a major step towards making it more mainstream even though its consequences are still unknown.
- The ability to bypass capital controls and acceptance that cryptocurrency is an asset class to hedge against the collapse of Fiat currency system that is too costly to operate.
- The Economist has remarked that “the high returns are drawing in waves of speculative money. One of the reasons for its popularity is constant publicity. The first step for cheating others is to stimulate the desire and greediness of others, and that is what Bitcoin is doing right now. But this should not be a fundamental case to invest in bitcoins”.

9. EMERGING TRENDS AND SPECULATION:

According to website Coinmarketcap, the total market value of all cryptocurrencies reached as high as \$603 billion as on December 2017. This makes its market cap greater than that of Facebook and Amazon. There is increasing interest in using the bitcoin network as a payment system for legitimate purpose. Bitcoin has been gaining more and more interest for using as a payment system for legitimate purpose. Nowadays bitcoin is being accepted by thousands of merchants around the world. Bitcoin is preferable to credit card payments for merchants. Bitcoin has evolved as an asset class which is alternative to other payment methods because of its high returns but not without involvement of high risks. Various nations like Japan, USA have accepted bitcoin as legal digital currency. In the USA, bitcoin has been permitted to be used for trade in future markets. Bitcoin valuations are on surge mainly due to its demand from an increasing numbers of investors. Publicly traded companies are starting to make decisions to show that they stand to benefit from bitcoins, and markets are beginning to reward them in a big way for those decisions. But the threatening aspect of bitcoin is that it is a highly speculative asset and it could use a massive threat to the financial stability of traditional assets and currencies which would ultimately harm the markets and the economy. This fact has been justified by the fact that the price of the bitcoin which has been artificially inflated by speculative investment, putting it in a bubble.

10. SECURITY AND OTHER PROBLEMS ASSOCIATED WITH BITCOIN:

As the usage of internet is increasing immensely, cyber frauds are also on the rise globally. Bitcoins have not been untouched by these frauds and are vulnerable to it. In recent past also, bitcoins have been reported to be exposed to several online financial frauds. Many users have lost their valuable money to fraudulent sellers and they have to take care of their digital wallets. The cyber security mechanism related to bitcoins and cryptocurrencies are very much unknown and mysterious. One of the challenges of doing business on internet is that it is very hard to know that it is hard to know who one is transacting with. Bitcoins are not free from hacking. Pure internet trade takes place between parties who are very much unknown to each other and therefore there can be no trust which can be developed between the two trading parties. Online security is a vital concern for the dealings. Bitcoin brings no money streams to the proprietor; the main return will come through an ascent in cost. Resources in the real economy are going to see cryptocurrencies impact. So, it's the right time to take notice of that and become cautious and afraid. A modern economy needs monetary stability because it is mainly dependent on contract trading. Future payments are only acceptable when there is stability in the value of money.

11. REGULATORY CONCERNS ASSOCIATED WITH BITCOIN:

Cyber security poses one of the biggest challenges to the stability of the global financial system and Governments and central banks of various nations are carefully watching the developments regarding this. It is not easy to regulate a technology that is as disruptive as bitcoin, since it is highly decentralized. At present, there is no regulatory clarity globally and the regulatory environment remains a free-for-all. But efforts are going on globally to formulate an appropriate regulatory framework for cryptocurrencies such as bitcoin. Recently, Chinese Government has banned bitcoin exchanges in capital flight and tax evasion. In Japan also, the Financial Services Agency has started placing exchanges under close surveillance. Similarly, Australia, Canada and other European Countries are also making their rules tougher for bitcoin transactions. The US is taking tentative steps to follow Japan in regulating fintech and SEC has created a cyber unit which, among others will tackle misconduct and irregularities in digital financial transactions. One major problem is that there is lack of coordination between the regulators. There are attempts to adjust bitcoin into the formal financial system, exactly what it is designed to avoid. In India, RBI has also joined the ranks of other global central banks that officially don't give recognition to cryptocurrencies, but have not banned them.

12. BITCOIN AND INDIA:

In this era of digitalization, it is critical that asset security, data privacy, insanity and careful disclosure of the consumers are being protected. Awareness level regarding bitcoin is at all time high in India. Bitcoin, as a medium of payment, has neither been authorized nor regulated in India. Since no legal status is granted to such virtual currencies, no set rules, regulations or guidelines have been laid down for resolving disputes that could arise while dealing with bitcoins. Hence, there come a lot of risks in such transactions. In 2013, the Reserve Bank of India had forewarned the clients, holders and brokers of virtual monetary standards, including but coins, about the potential budgetary, operational, legitimate, client assurance and security-related dangers that they could open themselves to. The use and trading of bitcoin, as a medium of payment has not been authorized by any financial agency and commercial banks of India. It is notable in order to control the virtual currency which includes Bitcoin; the government has constituted a committee on 12th April, 2017 to fulfill the regulation gap in this regard. The Government has also said that it has not given the status of legal tender to cryptocurrency and not coins. RBI has again cautioned in the year 2018 about the potential risks related to the use of bitcoins. The central bank cautioned that it has not granted any authorization to any company to operate such schemes or deal with bitcoin or any other such currencies. There are number of objections raised by RBI about bitcoins which are as follows:

- Being digital in nature, they are stored in digital and electronic media and are prone to losses arising out of hacking, loss of password, malware attacks, etc.,
- There is no established framework for recourse to customer problems and disputes.
- Due to huge vitality, consumers are exposed to losses.
- There is no underlying backup of any asset for virtual currencies and their value seems to be matter of speculation.

But in spite of various warnings of the Government and the RBI, the use of cryptocurrencies in India has not been restricted. The bitcoin establishment was begun in 2012 to institutionalize, advance and secure the utilization of bitcoins. The establishment arranges gatherings and gives specialized help to the digital currency. This is evident from the fact that number of companies which increased from four in 2013 to almost 20 at present. In India despite being not recognized by RBI, some Bitcoin exchanges like Zebpay offer mobile recharge or DTH bills using bitcoin. Various businesses such as, exchanges, portfolio management, technology solutions, trading platforms and bitcoin mining have sprung up around bitcoin. Indians are using bitcoins for trading, overseas payments and to convert into Indian currency. On February 27, 2017 bitcoin start-up Zebpay, Unico, Coinsecure, and Search Trade mutually propelled the Digital Asset and Block-Chain Foundation of India (DABFI) for the general development of the virtual cash advertise. DABFI will be responsible for laying down regulatory framework and observation for trading of bitcoins and other cryptocurrencies. In India the finance minister during his budget speech on February 01, 2018 has cleared that the cryptocurrencies are not recognized as legal tender in India.

13. CONCLUSION:

In spite of the fact that the bitcoin is a gigantic advance towards decentralized computerized money however it's anything but a fiat cash. Any money on the planet has government or its institutions' backing which the bitcoins needs. It is a factual truth that unregulated systems attract people with its freedom. Bitcoin technology is one such example. Bitcoin cannot become an acceptable medium of exchange because of its huge swings in its value and lack of regulatory oversight or sovereign guarantees. A tiny bit at a time, the world's driving cryptographic money has been going standard. Bitcoin is clearly becoming an acceptable alternative asset among adventurous investors. The huge positive of bitcoin is that people believe is anonymity but the reality is that bitcoin is easier for financial investigative agencies to track than a currency note. It does not seem to be robust enough to keep the money safe from thieves. There is no regulatory framework or governing body to manage them. The ongoing swings in bitcoin costs ought not detract from the way that advanced monetary standards offer a significant test to existing money related frameworks. Therefore, digital currencies offer a profound challenge to existing monetary systems. The issue is as much political as it is monetary. In India the finance minister during his budget speech on February 01, 2018 has cleared that the cryptocurrencies are not recognized as legal tender in India. Besides the different governments have issued duty notification to the speculators of the cryptographic forms of money and has additionally cautioned its kin to know while investing in digital currencies. Accordingly the Bitcoins are not lawful delicate in India.

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