



CRYPTOCURRENCY: A TRENDING & EMERGING WAY OF FINANCING AND WEALTH CREATION

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Abstract

Cryptocurrency is a digital payment system that doesn't rely banks to verify transactions. It is recorded in public ledger and stored in digital wallet. It uses encryption to verify transactions. India is the new cryptocurrency hub globally and data shared by crypto exchanges reveal what's powering the euphoric rise. The digital assets have caught everyone's attention not only because it has emerged as the best asset class of 2021 but also because other asset classes are not able to fulfil the aspiration of the smart investors who want their money to grow in tandem with global growth rate. It is still unclear what the legal status of cryptocurrency in India is, still it is the first choice of young investors even after pandemic. India is said to consider capital markets regulator for crypto. We can speculate on what value cryptocurrency may have for investors in the coming months and years, but the reality is it's still a new and speculative investment, without much history on which to base predictions. This study article will be theoretical in nature and based on secondary data and will provide some insight in this newly emerging investment field of cryptocurrency.

Keywords: Cryptocurrency, digital wallet, crypto exchanges, smart young investors, unclear legal status, high returns.

Introduction

A cryptocurrency is a digital asset stored on computerised databases. These digital coins are recorded in digital ledgers using strong cryptography to keep them secure. The ledgers are distributed globally, and each transaction made using cryptocurrencies are codified as blocks. Multiple blocks linking each other forms a blockchain on the distributed ledger. There are estimated to be more than 47 million cryptocurrency users around the world. These cryptocurrencies are created through a process calling mining. A cryptocurrency exchange is a digital exchange is a business that allows customers to trade digital currencies for other assets, such as conventional fiat money or other digital currencies. As per industry trends, apart from metropolitans, a lot of users are young from tier 11 and tier 111 cities in India, who are trying to get into crypto as their first investment class. Trade volumes from smaller cities show a high level of penetration of digital assets in India and with post- pandemic recovery, retail and institutional investors are looking for high returns on their investments. It looks like digital assets have become their choice to beat inflation. Based on the growing acceptance of cryptocurrency by financial institutions and regulators, there are signs that it might be around for a while.

Crypto Currencies and Potential Indian Market

India is slowly becoming a new hub for cryptocurrency globally. Data shows that along with metro cities, crypto adoption has gained pace even in India's Tier-2 and 3 cities, indicating wider acceptability for these digital tokens. This growth is despite of the fact that there is still no regulatory clarity from the government over the fate of digital currencies.

Cryptocurrency have seen an exponential increase in interest even since the RBI ban was lifted in March 2020. Indian exchanges clocking impressive user additions and a sustained surge in daily trading volumes. Despite of the legal ambiguity on whether cryptocurrency investment is permitted in India and huge volatility in prices, the country has the highest number of crypto owners in the world at 10.07 crore, according to broker discovery and



comparison platform BrokerChooser. The US came in a distant second in terms of crypto owner at 2.74 crore, followed by Russia (1.74 crore) and Nigeria (1.30 Crore).

In terms of number of crypto owners as a percentage of the total population, India stood at the fifth spot at 7.30%. Ukrain ranked first with 12.73% people of the total population owning crypto followed by Russia (11.91%), Kenya (8.52%) and the US (8.31%). The US saw the highest number of crypto-related searches followed by India, the UK and Canada.

India's largest stockbroker Zerodha has been overtaken by some of the country's popular crypto exchanges in the number of users. Zerodha at present has over seven million users against 11 million at CoinSwitch and 8.3 million at WazirX.

Cryptocurrency Regulation

“Regulation is probably one of the biggest overhangs in the crypto industry globally,” says Jeffrey Wang, head of the Americas at Amber Group, a Canada-based crypto finance firm. We would very much welcome clear regulation. Expect continued conversations about cryptocurrency regulation. Lawmakers in Washington D.C. and across the world are trying to figure out how to establish laws and guidelines to make cryptocurrency safer for investors and less appealing to cybercriminals. China announced in September that all cryptocurrency transactions in the country are illegal, effectively putting the brakes on any crypto-related activities within Chinese borders. In the U.S., things are less clear. Federal Reserve Chair Jerome Powell said recently that he has “no intention” of banning cryptocurrency in the U.S while Security and Exchange Commission Chairman Gary Gensler has consistently commented on both his own agencies and the Commodity Futures Trading Commission's role in policing the industry.

Regulatory announcements can also affect the price of cryptocurrency in already volatile markets. Market volatility is why investing experts recommend keeping any cryptocurrency investments to less than 5% of your total portfolio and never invest anything you're not OK with losing. Many experts believe regulation is a good thing for the industry. “Sensible regulation is a win for everyone,” says Ben Weiss, CEO and cofounder of CoinFlip, a cryptocurrency buying platform and crypto ATM network. “It gives people more confidence in crypto, but I think it's something we have to take our time on and we have to get it right.”

Investors are “likely to get hurt” if stricter regulation is not introduced. Investors should also know with obvious interest to know how to report virtual currency when they file their taxes. Like most things with cryptocurrency, regulation comes with hurdles. There are different agencies that may or may not have jurisdiction to oversee everything and it differs state by state.

Indian Government's Stand on Cryptocurrency

A bill on banning ‘Private cryptocurrencies’ was introduced in the Budget session of Parliament in February 2021, but it was not tabled and it is still unclear what the legal status of crypto currency in India is. The government currently is working on a bill to regulate cryptocurrencies in India; however, the contents of the bill are not known. A positive regulatory environment will prove to be highly beneficial at this stage.

More clarity from the government around crypto is the need of the hour and the entire digital asset industry is looking forward to an inclusive and growth-oriented crypto regulation in India. Clear regulation would mean the removal of a significant roadblock for cryptocurrency.



Crypto ETF Approval

There's already been a major breakthrough on this front, with the first Bitcoin ETF recently making its debut on the New York Stock Exchange. The development represents a new and more conventional way to invest in crypto. The BITO Bitcoin ETF allows investors to buy in on cryptocurrency directly from traditional investment brokerages they may already have accounts with, like Fidelity or Vanguard. But the BITO ETF is not enough, because while the fund is linked to Bitcoin, it does not actually hold the crypto directly. The fund instead holds Bitcoin futures contracts. While Bitcoin futures follow the general trends of the actual crypto, experts say it may not track the price of Bitcoin directly. For now, investors must continue waiting for an ETF that holds Bitcoin directly. ETF approval has been in consideration by the SEC multiple times over the past few years, but BITO is the first to gain approval.

What Crypto ETF means for investors?

It's too soon to tell how many investors will get in on BITO — but the fund did see lots of trading action in its first week. In general, the more accessible cryptocurrency assets are within traditional investment products. Instead of learning to navigate a cryptocurrency exchange to trade digital assets, we can add crypto to our portfolio directly from the same brokerage with which we already have a retirement or other traditional investment account. However, investing in a crypto ETF, like BITO, still carries the same risk as any crypto investment. It's still a speculative and volatile investment. If we are not willing to lose the money, we put into crypto by purchasing on an exchange, then we shouldn't put it in a crypto fund either. We have to carefully consider if we are willing to take on the risk of having cryptocurrency in our portfolio at all.

Institutional Adoption of Cryptocurrency

Mainstream companies across industries have taken interest — and in some cases themselves invested in cryptocurrency and blockchain in 2021. AMC recently announced it will be able to accept Bitcoin payments by the end of this year. Fintech companies like PayPal and Square are also betting on crypto by allowing users to buy on their platforms. Tesla continues to go back and forth on its acceptance of Bitcoin payments, though the company holds billions in crypto assets. We have seen a tremendous amount of inflow of attention, and that's going to continue to drive the growth of the industry for a while now. Some experts predict bigger, global corporations could jumpstart this adoption even more in the latter half of this year. What we are looking at is institutions getting involved in crypto, whether it's Amazon or the big banks. A huge retailer like Amazon could “create a chain reaction of others accepting it,” and would “add a lot of credibility.” Amazon has recently sparked rumours that it's making moves to that end by sharing a job posting for a “digital currency and blockchain product lead.” Walmart is also recruiting a crypto expert to oversee its blockchain strategy.

What more institutional adoption means for investors?

While paying for things in cryptocurrencies doesn't make sense for most people right now, more retailers accepting payments might change that landscape in the future. It will likely be much longer before it'll be a smart financial decision to spend Bitcoin on goods or services, but further institutional adoption could bring about more use-cases for everyday users, and in turn, have an impact on crypto prices. Nothing is guaranteed, but if we buy cryptocurrency as a long-term store of value, the more “real world” uses it has, the more likely demand and value will increase.

The Future of Cryptocurrency

2021 has been a big year for cryptocurrency. But what's next?

We have seen Bitcoin hit multiple new all-time high prices and more institutional buy-in from major companies. Ethereum, the second-biggest cryptocurrency, notched its own new all-time high recently as well. U.S. government officials and the Biden administration have increasingly expressed interest in new regulations for cryptocurrency.



All the while, people's interest in crypto has skyrocketed this year: it's a hot topic not only among investors but in popular culture too, thanks to everyone from long-standing investors like Elon Musk to that kid from our high school on Facebook.

In many ways, 2021 has been a "breakthrough," says Dave Abner, head of global development at Gemini, a popular cryptocurrency exchange. "There's tremendous focus and attention being paid to the crypto industry."

We can speculate on what value cryptocurrency may have for investors in the coming months and years, but the reality is it's still a new and speculative investment, without much history on which to base predictions. No matter what experts think or says, no one really knows. That's why it's important to only invest what we are prepared to lose, and stick to more conventional investments for long-term wealth building.

If we were to wake one morning to find that crypto has been banned by the developed nations and it became worthless, would we be OK? We should keep our investments small, and never put crypto investments above any other financial goals like saving for retirement and paying off high interest debt.

Practical Implications of Cryptocurrency

The cryptocurrencies are already here to rule. Or, at least that's what all say. Fine, point accepted. So, can I buy my new car using Bitcoin? Not yet, not even if it's a Tesla. Okay, so can I buy a new smartphone using it? Not really. Maybe a pizza for an evening? Not really, we will still have to use fiat currency for that. Will I ever be able to? Will the Bitcoin and other cryptocurrencies replace Rupees, Dollars and other fiat currencies? Well, it's complicated. Bitcoin is not the future. It is the present.

Technically speaking, anything can qualify as money as long as the receiver and sender agree. That's how the barter system existed for years. People would get rice in exchange for flour. Or, salt in exchange for sugar. Until, they realised that not everything is available or can be grown in the same amount. This made certain goods more valuable than others

The paper currency has helped achieve some stability and has attached value to every good and service. There is a generation that believes that paper currency may also lose its value or perish like other currencies over a period of time. One of their concerns was also around the centralisation of fiat currency which gives power to banks and governments over the hard-earned money of people.

Sum-Up & Conclusion

Cryptocurrencies emerged as a way to decentralise money after the financial crisis of 2008. There was a bunch of people who believed that as more and more people will start buying these coins, their value will increase, and they can emerge as alternate to the paper currency.

In truth, the possibility cannot be ruled out. Money has evolved and changed faces over the years. In fact, the paper currency became popular only as long ago as the 17th century. However, there are a lot of challenges which might stop Bitcoin and cryptocurrency to replace Dollar and Rupee.

It is Store of value and not currency

The governments of different countries might not accept crypto as a mode of payment. Several of them have already imposed bans and restrictions, limiting the ability to trade in cryptocurrencies. At the beginning of this year, the Indian government was planning to impose a complete ban on cryptocurrency and had also proposed a bill for the same. It has softened its stance since then and believes that the proposal is outdated but, still isn't willing to accept crypto as real money. Instead, it's planning to list cryptocurrency as asset class which will take it closer to real estate than actual money. Every economy is built on government's control over its currency. This allows the government to decide how much of a currency should be printed in response to external and internal pressures. If cryptocurrencies replace rupee or dollar, that power is taken away. E.g. Bitcoin has put a cap of 21 million. This means there are only 21 million Bitcoins in the world and more cannot be minted. Even if there is a need.



There are other genuine concerns too. The whole idea was to make decentralise financial transactions and that's what works against Bitcoin and cryptocurrency. These transactions could facilitate illegal activities like tax evasion, money laundering and dealings in illegal activities.

Co-existence is more practical

It seems very difficult that cryptocurrency will entirely replace rupee, dollar or any other paper money. The co-existence of two is more practical and that is why regulations become more important. For now, cryptocurrencies are vulnerable to tweets or reactions from major investors, players, stakeholders, observers and even the decisions by government. A regulatory framework will provide it protection against all of that.

The other factor is that there are several cryptocurrencies in the market right but, only few of them including Bitcoin and Ethereum can be taken seriously. Those like Dogecoin, Shiba Inu and other meme coins do not and should not give the same level of confidence. So, at some point, someone will have to decide which cryptocurrencies can be accepted and allowed to exist in the system.

Most investors have also not looked at crypto as a payment method. They are using it to invest money and grow it quickly in comparison to a stock market or mutual funds. This is why a lot of coins haven't really changed their IP address in last few years, which means people are mostly hoarding them. Even a country like the US, where the acceptance is more than India, is far away from truly embracing crypto.

There is no doubt that digital currency is the future. High chance that by the end of this decade, physical wallets will extinct, and you will store money on your smartphones but, that money is unlikely to be just crypto. There are governments that are trying to work on their own digital money, including India. There have been reports of RBI introducing a digital rupee in near future, and it has better odds of outlasting cryptocurrencies.

Yet, Bitcoin, Ethereum, Ripple etc are likely to remain parts of our lives in future -as money, investment options, commodities, assets or some other form.

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