

Entry and Exit of Cryptocurrency in Indian Market

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Abstract:

The general level of prices of cryptocurrencies in India is on the high side. Market rates are relatively higher by as much as 5 to 10 percent compared to the global average. This means that Indians can only get involved in peripheral participation in crypto trading as far as international crypto exchange platforms are concerned. Lack of large-scale mining facilities especially with regard to Bitcoin has been identified as a reason for this. Also, strict government restrictions on international money flow also make it significantly difficult for Indians to transact with many of the large foreign crypto exchange platforms. The emergence of local platforms has helped to alleviate this issue to some extent as it is now a little easier for lower income citizens to gain access to cryptocurrencies.

Keywords: *Blockchain, Bitcoin, Demonitisation, Digitisation, Price Bubble*

1. Introduction:

A cryptocurrency is a digital or virtual currency that uses cryptography for security. A cryptocurrency is difficult to counterfeit because of this security feature. Many cryptocurrencies are decentralized systems based on blockchain technology, a distributed ledger enforced by a disparate network of computers. A defining feature of a cryptocurrency, and arguably its biggest allure, is its organic nature; it is not issued by any central authority, rendering it theoretically immune to government interference or manipulation.

2. A little Bit of History:

As early as 2012, smallscale Bitcoin transactions were already taking place within the country. These were still early days in the development of Bitcoin when only crypto hobbyists were interested in Bitcoin. By 2013, Bitcoin was beginning to gain a level of popularity that was spreading across many countries. That year, a few businesses began to accept Bitcoin payment. A vintage era pizza shop called Kolonial in the Worli area of Mumbai became the first restaurant service in India to accept Bitcoin payments. In a short space of time, cryptocurrency exchanges began to spring up within the country. Pioneers like BtcxIndia, Unocoin, and Coinsecure began offering cryptocurrency exchange and trading services in India. Over time, others like Zebpay, Koinex, and Bitcoin-India were added to the list. With the proliferation of crypto trading and exchange platforms, the crypto market in India has grown from its modest level in 2013 to what it is today. Apart from

these online exchanges, there are also a number of over-the-counter (OTC) crypto shops in the country and you have the makings of a crypto economic hub.

3. Initial Phase of Cryptocurrency in India:

While authorities and government officials in India continue to warn users against the use of cryptocurrencies for investments or transactions, young and unorthodox Indians haven't shied away from getting their hands on this global phenomenon. The same has created a strong impetus in the economy for the mushrooming of several startups venturing into the crypto space, as coin miners, exchanges or aggregators. In the past, the Government of India has taken certain radical steps favouring tech innovation and disruption. Extending the same treatment of the brimming world of cryptocurrencies will resolve a host of administrative and bureaucratic hurdles in the nation's ambition of emerging as a developed economy. Here's enumerating the radical transformations India would achieve through an active cryptocurrency economy.

4. Benefits of Cryptocurrency:

4.1 Enabling Small Merchants to Benefit From Digitisation:

The wave of digitisation in India has been guided by the rise of mobile phone internet connectivity, the advent of Aadhaar authentication and e-KYC, Jan Dhan accounts and more. Furthermore, internet payments and POS machines have also been the key drivers for digitizing payments and banking services. However, even though the cost of digital payments is reducing, it is still a costly affair due to the involvement of intermediaries. Often, third parties like banks etc. act as the intermediaries, and hence, inflate the costs of such transactions. Even POS machines have proven to be an expensive bargain for merchants. Although a number of merchants took to POS machines following the demonetization drive, a high number of these merchants are not exhibiting enough interest, despite a huge demand for the same. The cryptocurrency economy can easily resolve these challenges. When the economy becomes more accepting of cryptocurrencies-led transactions, these small merchants will be able to access digital payments services, at lower costs. With the reducing price of mobile data packs, a host of small-scale merchants will be able to access cryptocurrencies for even low-costing transactions, without being burdened by excessive overheads.

4.2 Making Financial Transactions Immune Of Thefts:

The financial world at present, and hence the resulting economy of today, is not immune to thefts or frauds. The world, as we know it, is increasingly becoming vulnerable to sophisticated leaks and hacks. In the past few years, news headlines have been abuzz with several ransomware attacks, data leaks of top-notch banks and credit card companies. To be honest, our financial systems or the economy stands like a house of cards; a blow and it might all come crashing down to the very ground on which it stands. For instance, let's view the security challenges in the context of India. India has been currently going digital, the foundation of which has been formed on Aadhaar authentication, Jan Dhan accounts etc. However, the same is giving rise to security vulnerabilities, with criminals gearing up to crack the security feature of Aadhaar or Jan-Dhan accounts. Adopting cryptocurrencies completely by-passes such security vulnerabilities. In fact, in a cryptocurrency-led economy, the person wishing to send the money (in this case, crypto) will have complete control of the transaction, as against the credit card companies or banks that would otherwise be controlling the transaction, and by its virtue, the important personal information and data of user's activities.

4.3 Near Instantaneous Settlements:

An economy led by cryptocurrencies is fundamentally a decentralized economy. Hence, a lot of time and resources that otherwise go in securing sanctions from the third party, will not be required in a cryptocurrency economy. Thus, the entire time and effort invested in settlements will no longer be required while buying, for instance, a property etc.

4.4 Cross-Border Payments At Trailblazing Speed:

The benefits of the decentralized economy led by cryptocurrencies are applicable to cross-border payments as well. At present, owing to time-consuming and arduous third-party checks, international payments may consume up to 5 business days. The same causes a lot of distress, especially during emergency situations. However, the same payments could be done within seconds, owing to cryptocurrencies. Even with oceans spread out between the sender and receiver, cryptocurrencies make money transfers quick and completely hassle-free. Besides, the values of such transfers would not be subject to any levies or exchange rates, letting users derive the maximum value from their own digital assets or virtual currencies.

4.5 Being At Par With The Global Economies:

Lastly, cryptocurrency presents Indians, especially the present burgeoning millennial generation with a golden opportunity to be on par with the global economy. When we consider some of the trailblazing and epoch-making developments of the past, especially the rise of the internet, the entrepreneurial ecosystem, the existence of Silicon Valley etc, India has only been trying to match the pace with global developments. However, since cryptocurrency is a new and growing domain, the playing field is levelled. Indians, especially the present generation, can easily be at par with this global phenomenon. Considering the global phenomenon that cryptocurrency is, it is the right time for Indians to start building up their digital assets and be secured for the future.

5. Reason for growth of cryptocurrency in Indian Market:

5.1 The 2016 Demonetization

On November 8, 2016, Prime Minister Narendra Modi announced the commencement of a demonetization policy. The move was aimed at affecting the withdrawal of the Rs 1,000 and Rs 500 currency notes from circulation. Announcing the move, the Prime Minister described the move as part of the government's effort to curb counterfeiting of currency. He also declared that the move would fight against the circulation of black money while significantly reducing the level of inflation in the country's economy. This was only the third time that the Indian government had demonetized the economy. The move by the government to demonetize approximately 86 percent of the country's paper currency sent shockwaves all across the subcontinent of India. People with large cash holdings required a new means of holding such wealth without incurring significant tax burdens and sundry government scrutiny. It became common practice for some to buy large orders of Bitcoin or other cryptocurrencies and then sell them at a later date. This meant that they were effectively circumventing what would have been considerable taxes if they had tried to circulate their wealth through the banking system. The demonetization policy also led to widespread criticism of the mainstream financial scene in the country. In the space of 24 hours, 86 percent of the country's paper currency in circulation had been rendered valueless by virtue of a single government proclamation. Realizing that fiat money isn't exactly "real" money since it isn't backed up by anything, Indians began to seek alternative currency models. Many Indians, especially those in the 40 percent bracket with access to the Internet began to take up Bitcoin and other cryptocurrency investments.

6. The Case for a Bubble:

The 20th century economist Hyman Minsky, is credited with developing the first informal framework for characterizing asset bubbles. Minsky's framework consists of the following five phases:

- 6.1 Displacement: Some new technology or financial innovation leads investors to believe economic growth and profits will increase.
- 6.2 Boom: Increases in the asset price steadily climb, eventually outpacing the fundamental improvements associated with the new technology.
- 6.3 Euphoria: Prices increase in a speculative frenzy as investors buy the asset simply because they believe they can sell it to someone else at a higher price in the future. During this phase, intelligent investors may become aware there is a bubble occurring.
- 6.4 Profit taking: Sophisticated investors, wary of a bubble, begin reducing their positions and harvesting profits. Less sophisticated investors, who are new to the market, may still be willing to buy the asset during this phase.
- 6.5 Panic: Prices start to fall rapidly as investors dump the asset. The plunge is accelerated if investors borrowed heavily to purchase the asset.

7. In India there are two types of people holding cryptocurrencies:

- 7.1 During late 2017 to early 2018, they heard from social media or surroundings that there is a crypto industry that will boom like internet in 1980 → they are into trading a bit share out of it mainly as FOMO (Fear Of Missing Out).
- 7.2 Few from 2012– till date, they understand the technology and things that may boom in the world so they did their own research into different blockchain teams and invest money cleverly based on potential events and belief

8. Future of Bitcoin & Other Cryptocurrencies in India after RBI's Ban

- 8.1 **Bitcoin** and other cryptos are not banned in India.
- 8.2 You can still use Bitcoin to pay someone or to receive money. Just like any P2P payment.
- 8.3 Soon you might not be able to withdraw money from Indian Crypto exchanges in INR.
- 8.4 We may expect to see some currency like USDT for Indian citizens. The only problem is liquidation that could be fixed by using DEX like **BiSQ** or by using a P2P website like **Localbitcoins**.
- 8.5 The price will be affected in Indian crypto market for a bit. However, this will not last long as Indian crypto market is just a fraction of the global market.
- 8.6 Personally, I believe this will put us back in the 2014-15 mode where buying/selling Bitcoin was not possible or as easy on exchanges.
- 8.7 The government has taken this step to curb down growing crypto scams in India. Moreover, the government's fear of money laundering is real but this move is not justified. As many countries of the world like Japan, Australia, USA are adopting and creating an ecosystem for the growth of crypto economy and technology, this step will put a big dent in the growing crypto and also blockchain sector of the Indian market.

9. RBI today wrote in its **press release** that they are thinking of introducing ‘Central Bank Digital Currency’ in India.

9.1 Rapid changes in the landscape of the payments industry along with factors such as the emergence of private digital tokens and the rising costs of managing fiat paper/metallic money have led central banks around the world to explore the option of introducing fiat digital currencies. While many central banks are still engaged in the debate, an inter-departmental group has been constituted by the Reserve Bank to study and provide guidance on the desirability and feasibility to introduce a central bank digital currency. Technological innovations, including those underlying virtual currencies, have the potential to improve the efficiency and inclusiveness of the financial system. However, Virtual Currencies (VCs), also variously referred to as cryptocurrencies and crypto assets, raise concerns of consumer protection, market integrity, and money laundering, among others. Reserve Bank has repeatedly cautioned users, holders and traders of virtual currencies, including Bitcoins, regarding various risks associated with dealing with such virtual currencies. In view of the associated risks, it has been decided that, with immediate effect, entities regulated by RBI shall not deal with or provide services to any individual or business entities dealing with or settling VCs. Regulated entities which already provide such services shall exit the relationship within a specified time. A circular in this regard is being issued separately. It means banks that are in the relationship with Indian exchanges like **BitbNS**, **Unocoin** etc can be hit hard as banks will stop providing services to them. Also, the investors will not be able to wire transfer money in their fiat accounts to buy cryptocurrencies in exchange, if this turns out to be true. Which further meant that cryptocurrencies like Bitcoin are not banned India but the Indian government will be consciously cracking down the illegal activities that happen via BTC or other cryptocurrencies and this is similar to keeping a check on illegal activities in USD or INR terms.

10. Thoughts on Reserve Bank of India (RBI) Limiting the future of Crypto in India:

It is naive to announce the contemplation of your own digital currency and simultaneously stopping the growth of other decentralized cryptocurrencies like BTC or ETH in the India market. However, it will not stop the crypto market but we can surely see some drop and loss of confidence as this news spreads like wildfire. This step by the government will also encourage peer-to-peer cash dealings through services like **LocalBitcoins** which has already proven dangerous in India. If this is acted upon seriously and if the banks stop servicing Indian Bitcoin exchanges, **a huge black market of crypto will emerge** which will be even more difficult to regulate or control.

11. Five quick facts which you should know about this situation:

- 11.1 4 to 5 million Indians hold some kind of cryptocurrency.
- 11.2 Most of these investors bought cryptocurrencies during the period October- December 2017, when the prices were at \$20K USD.
- 11.3 Now with the current prices at \$6K USD, most of these investors have lost more than 70% of their original investments. There is tremendous pressure on these investors to sell their dead asset ASAP.
- 11.4 With a 3 month deadline for the exit, the government has started a “cryptocurrency demonetization process”. There will be grave consequences of this decision. More people selling cryptocurrencies in a short timeframe means that the prices will go down further and the free fall will start again.

11.5 Some people are talking about peer to peer exchanges and illegal trade but these options are not viable in the long term and chances are that these illegal ways will also be cracked down in future by the government.

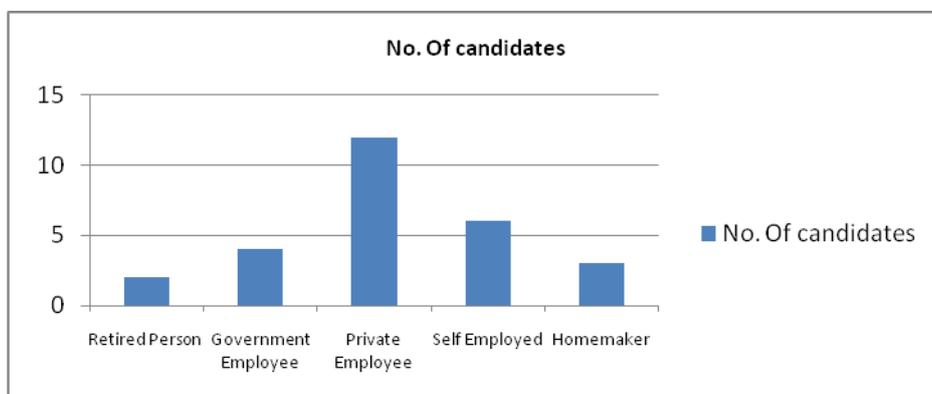
12. Research Methodology:

12.1 Primary data: A survey was taken among 27 respondents about their knowledge and awareness of cryptocurrency in India – from 5 different category of people – Retired Person, Government Employee, Private Employee and Self Employed and House wife. The result have been pictured in bar.

12.2 Secondary data: The data is collected from various sources and RBI data.

13. Figures and Tables:

Bitcoin chart

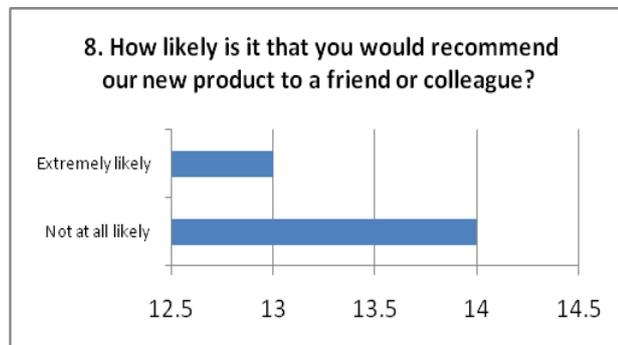
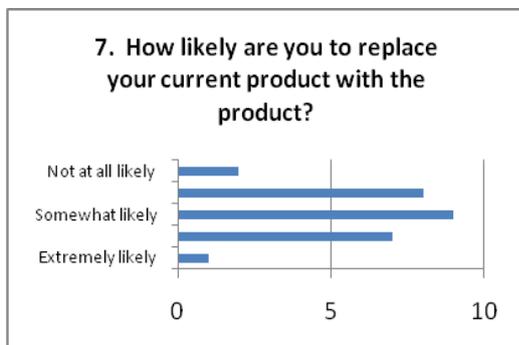
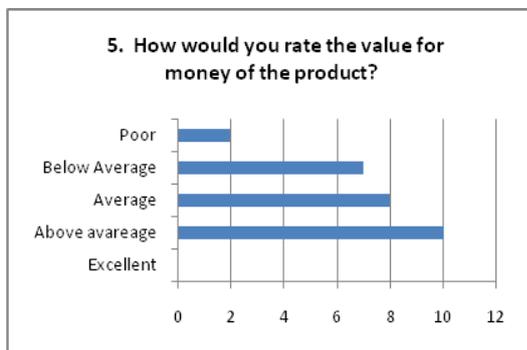
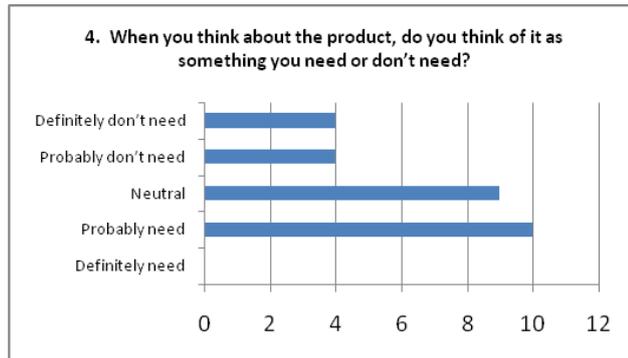
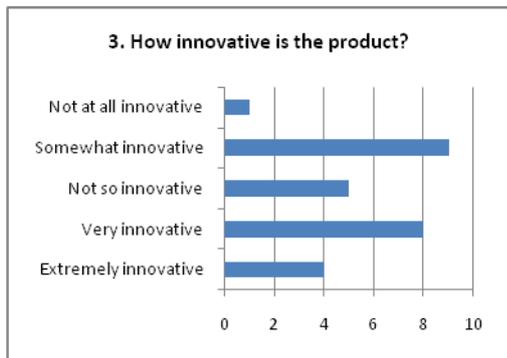
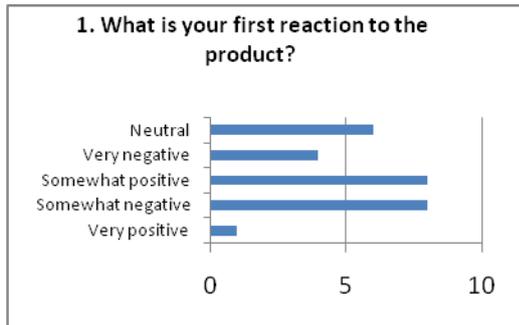


C a t e g o r y	No. Of candidates
Retired Person	2
Government Employee	4
Private Employee	1 2
S e l f E m p l o y e d	6
H o m e m a k e r	3

The following questions were put off and this was the response on the awareness of the product from 5 different categorized people: The result shows only private employed people has more knowledge of this product and they are interested to trade on Bitcoin. So Impact of Crptocurrency is only on 2% of Indian Population.

Refer to the questionnaire sample below:

Questions / Respondents	Retired Person	Government Employee	Private Employee	Self Employed	Homemaker	Total
1. What is your first reaction to the product?						
Very positive			1			1
Somewhat negative			3	2	3	8
Somewhat positive		1	5		2	8
Very negative	1	2	1			4
Neutral	1	1	2	1	1	6
Total						27
2. How would you rate the quality of the product?						
Very high quality			1			1
High quality			6			6
Low quality		2	2		2	6
Neither high nor low quality	1	2	3	2	4	12
Very low quality	1			1		2
Total						27
3. How innovative is the product?						
Extremely innovative			2		2	4
Very innovative			8			8
Not so innovative	1	1		2	1	5
Somewhat innovative	1	3	2		3	9
Not at all innovative				1		1
Total						27
4. When you think about the product, do you think of it as something you need or don't need?						
Definitely need						0
Probably need			9		1	10
Neutral		2	2	1	4	9
Probably don't need	1	1	1		1	4
Definitely don't need	1	1		2		4
Total						27
5. How would you rate the value for money of the product?						
Excellent						0
Above avareage			8		2	10
Average		1	3	1	3	8
Below Average		3	1	2	1	7
Poor	2					2
Total						27
6. If the product were available today, how likely would you be to buy the product?						
Extremely likely			1			1
Very likely			6		1	7
Somewhat likely		1	4	1	3	9
Not so likely	1	2	1	2	2	8
Not at all likely	1	1				2
Total						27
7. How likely are you to replace your current product with the product?						
Extremely likely			1			1
Very likely			6		1	7
Somewhat likely		1	4	1	3	9
Not so likely	1	2	1	2	2	8
Not at all likely	1	1				2
Total						27
8. How likely is it that you would recommend our new product to a friend or colleague?						
Not at all likely	2	3	4	2	3	14
Extremely likely		1	8	1	3	13
Total						56



14. Conclusion:

Thus far in Bitcoin's short history, there have been several events which could have easily been the pin that pricked the bubble. These include: the world's largest Bitcoin exchange failing in 2014 and losing nearly \$500 million in customer Bitcoin; the Bitcoin network being split into two mutually incompatible networks this past August due to disagreements over Bitcoin's potential to process transactions; China, the world's largest cryptocurrency market, banning Bitcoin exchanges in September; JPMorgan Chase CEO Jamie Dimon calling Bitcoin a fraud; and a recently abandoned attempt to split the original Bitcoin network in two yet again. These events, and their negligible impact on Bitcoin's price, have led many cryptocurrency supporters to argue there is no bubble. Such certainty permeated all of history's asset bubble

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