

## INDIA ON CRYPTOCURRENCY

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### INTRODUCTION

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The concept of electronic money originated around 1990-95 when David Chaum, a cryptographer, released the platform of DIGICASH which was a cryptographic electronic payment system that made the digital currency untraceable and provided for anonymity. However, this platform could not sustain for long and it eventually died. After around 10 years from then, in 2009, the first cryptocurrency, BITCOIN was created by an anonymous person named Satoshi Nakamoto which was completely decentralized and removed the need for third-party in financial transactions. It brought the necessary changes to the previous theory and gave birth to a platform that is now widely accepted and used by people around the world. Slowly and gradually the market flooded with numerous other cryptocurrencies which further led to the developments in the earlier concept to make it easier and more user-friendly. Since then the cryptocurrency industry is growing at an unimaginable rate and is expected to grow further. It was for the first time in April 2021 that the cryptocurrency market/industry crossed USD 2 trillion.

### WHAT IS CRYPTOCURRENCY?

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Cryptocurrency is made up of 2 words i.e., Cryptography and Currency. Cryptography is away by the help of which codes are used as a medium to protect information and communication. It means hidden writing which means that the person to whom the information is directed can read and process the information only and no one else. This mechanism when used to carry transaction between two individuals or to build up asset wherein each transaction is protected by strong cryptography, it is termed as cryptocurrency. Cryptocurrency does not require any centralized authority or anything to carry a transaction unlike the conventional banks, and hence provides a complete decentralized system wherein no middlemen exist to affect the transaction in any way. Hence, cryptocurrency acts as a virtual money/currency in form of certain coins or assets wherein people could do

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transactions without the need of any neutral third party and provides for complete anonymity to the users.

### **WHY CRYPTOCURRENCY IS REGARDED SO SAFE?**

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Cryptocurrency works on the concept of blockchain which makes it very difficult for an individual to cheat the system and advantage out of it. So, what is this Blockchain Technology? It is a technology wherein there exists a distributed ledger of the transactions so performed whose history is unalterable and quite transparent at the same time. It reduces risk, provides more transparency, eliminates the centralized authority which makes it decentralized, reliable, etc. It has the scope to be used in multiple industries like payments, cybersecurity, and healthcare.

Since everyone in the world is talking about privacy and it has turned out to be a basic fundamental right of a human being, Blockchain technology serves as the best medium to cater to the needs of the present generation. Many western countries are applying this technology in governing their country as well as using it on multiple fronts.

### **INDIA ON CRYPTOCURRENCY**

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Although millions of people are investing in Cryptocurrency in India alone, people are still not clear whether or not cryptocurrency is legal in India? This confusion is associated with the number of past events that happened in India which impacted the cryptocurrency industry in India to some great extent.

In India, the cryptocurrency market started to flourish between 2012 and 2017 when companies like Zebpay, Unocoin, koinex, etc. evolved and started functioning in India. People started to invest in cryptocurrency and it was after this time in 2018 when RBI released a circular prohibiting banks, NBFCs, payment system providers, etc. from dealing in any sort of virtual currencies or providing the services to the entities which deal in cryptocurrency. This impacted crypto-exchanges quite badly and they were out of business as they cannot access banking services anymore. It resulted in people filing a writ petition in the Supreme Court of India.

What happened in the *Internet and Mobile Association of India v. Reserve Bank of India*?

*This petition was filed in the Supreme Court of India against the circular issued by the RBI terming it to be excessive use of power by RBI and against the right to carry any trade and commerce under Article 19(1) (g). The Supreme Court ruled that RBI was well within its power to issue such a circular to protect the banking sector. However, there was a lack of any Proportional Damage in the present case and there exists no case which has affected the banking sector or the Indian economy in any way by the arrival of cryptocurrency in India. Hence the circular is baseless and cannot stand to take the fundamental rights of the cryptocurrency exchanges in any way. Therefore, the Supreme Court in 2020 quashed the RBI's ban on these crypto-exchanges to avail banking services. SC as well made it clear that cryptocurrency in India is unregulated and NOT ILLEGAL.*

Before Supreme Court gave its judgment in 2020, the government had put forth its stance to ban all the private cryptocurrencies in India and instead release a digital rupee, a government-backed cryptocurrency in India. This created a fear in the minds of investors which exists to date.

Till now we established that cryptocurrency is not illegal and needs to be regulated. However certain instances stand as proof that cryptocurrency is legal in India to some extent.

- In March 2021, the government of India made it mandatory to disclose all the investments done in Cryptocurrency.
- The profits/gains that an individual gets out of cryptocurrency would be taxed under the head of Income Tax.
- Recently a cryptocurrency investment platform, CoinSwitch Kuber launched and aired its new advertisement campaign between the IPL telecast on Disney+ Hotstar.

Hence, we can say that Cryptocurrency is Legal in India and it is unlikely that we see a complete ban on cryptocurrency.

### **HOW DOES UPI IMPACT CRYPTOCURRENCY IN INDIA?**

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In India, there exists a payment mechanism built by NPCI popularly called UPI or Unified Payments Interface. It is world's one of the fastest ways to do daily transactions in seconds. It is based on the "Peer to Peer" model and has more than 100 million monthly active users in

India itself. It is cost-free and takes seconds to perform a transaction. Therefore, Cryptocurrency cannot achieve such a speed and be cost-effective at the same time. Hence cryptocurrency is not so efficient that it can compete with the UPI transaction system in India.

Along with this cryptocurrency lacks the key feature of that of a sovereign currency and therefore cannot have the same transactional value as compared to the Indian Rupee. Hence it wouldn't be wrong to say that cryptocurrencies like bitcoin cannot be used to do the transaction and cannot be attributed as a transactional currency as of now in India.

### **IF IT CANNOT BE USED AS A TRANSACTIONAL CURRENCY IN INDIA THEN WHAT IS ITS USE?**

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A very important aspect of cryptocurrency is that it has a limited supply and there is a scarcity of it, unlike fiat currency like euro, dollar, rupee, etc. that has an unlimited supply by the respective central banks of the country. In total there only exists 21 million bitcoins that can be mined and as of now, more than 18 million bitcoins have been already mined. Since it has a limited supply, it is not likely that there would be any sort of inflation here. If there is the least possibility of inflation in cryptocurrency, then it can be used as an asset class by the investor to grow their wealth just like gold.

Most of the investors and even heads of big companies agree to the point that the potential investors in India should at least allocate a part of their investment in cryptocurrency if not more. It would help them to diversify their portfolio and advantage from it as well.

### **WHAT ARE WAYS AHEAD WITH INDIA FOR CRYPTOCURRENCY?**

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There are mainly three ways in which the government can move concerning Cryptocurrency.

- **Prohibitive** - This type of approach is taken by the Chinese Government where there have officially banned all initial coin offerings (ICO), in which digital tokens are issued and money is raised. Along with this, it plans to ban the mining of bitcoins in China to reduce its carbon footprint. The government of India as seen earlier had the desire to ban all the private cryptocurrencies and instead launch a digital rupee, a government-backed cryptocurrency. Although this step seems promising to some extent as the new cryptocurrency would be backed by the government, yet it would

not lead to any fruitful results. It would put a hindrance on India's growth and it would not be able to join other world powers in a long run. Let's take an example. What would have happened if 30 years back when the internet was born, India would have imposed a complete ban or taken an extreme prohibitive approach against it? The answer as we know is very simple. India then would have been extremely backward and would not be able to enjoy the benefits that we get today from the internet. Every industry to some extent cannot survive without the internet today. Likewise, the cryptocurrency which works on the concept of blockchain can see the same growth and penetration into the common life of people. Therefore, a complete ban on cryptocurrencies is not a solution at all. Doing so India could face serious consequences in the future seeing the potential growth of cryptocurrencies across the world.

- **Accommodative or liberal** - This type of approach is taken by the Japanese Government and a few others. This approach is problematic in the case of Cryptocurrency, particularly in India. This is because it could catalyze terrorist activities and illegal activities in India as there is a complete anonymity of the sender and receiver. Along with this, there exists a principle on which bitcoin works that most of the people in the system are truthful and good persons and bad persons if any are quite less as compared to good persons. Therefore, if cryptocurrencies are not subjected to regulations and not monitored properly, then along with the good benefits that it has, cryptocurrency would bring with it some ill-effects and people would try to take advantage of the lack of regulation. In India where the rate of criminal and terrorist activities is high, people would look at it as an opportunity to use cryptocurrency for these activities and it would put the security of the state in danger. Hence a complete liberal approach won't fit India.
- **Regulated** - This type of approach is currently undertaken by western countries like the United States of America. This approach is what caters to the interests of India to some great extent. It was as well recommended by the Supreme Court of India that the cryptocurrency market/industry in India needs to be regulated rather being banned. If regulated properly by the government, India could not only enjoy the benefits of the cryptocurrency but as well stop the potential risks that could arise out of it.

## CONCLUSION

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- It's high time that India should regulate the cryptocurrency market/industry in India with the help of proper legislation and guidelines. Although there exist certain drawbacks with the use of cryptocurrency, it is the government itself that could minimize these drawbacks by the use of rules and regulations. This would not only benefit India but would help it to grow to contribute to society. People in India especially the youth are quite excited and interested in the concept of cryptocurrency and blockchain. India should look as to how the concept of blockchain could be applied in several other industries as well which to date face problems. Middlemen who form a potential part of various industries could be eliminated by the use of this concept and it could even help to control the level of corruption that India currently faces. It would make the system more transparent, reliable, and user-friendly.
- Along with this, the Right to Privacy is defined as a fundamental right under Article 21 of the Constitution of India. Blockchain technology stands as the best possible way to provide the desired privacy to the citizens and cater to their needs. Hence, India should understand the importance of blockchain technology and cryptocurrency which have great potential and has the ability to the nation at different fronts.

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