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❧ CONTENTS OF ENGLISH PART - II ❧

S. No.	Title & Author	Page No.
13	A Study of Crypto Currency- Challenges and Opportunity in India Dr. Vijay Ganpat Gaikwad	79-84
14	India Serves Globally: Exploring FDI Potential Growth Sectors Manisha Navale Abhijeet Barse	85-92
15	Five Plus One: An Alternative Teaching Learning Model Dr. Zahid Husain Ibne Hasan Ansari	93-99
16	Impact of Digital Finance on Financial Inclusion Ms. Tauqeer Fatima Mohd Anees Suratwala	100-104
17	Challenges and Changes in Banking Sector Vignesh Mahatre Amir Sohel M. Sujjat	105-110
18	Impact Analysis in Banking, Insurance & Financial Services Industry due to COVID-19 Pandemic Vijay Gurav Atharva More	111-118
19	Daar-Ul-Rehmat Trust' A.E Kalsekar Degree College Firdos Shaikh Umer	119-124
20	Digital Library & E-resources: A Paradigm Shift in Learning Process at Higher Education Dr. (Mrs.) Sadhana D. Singh	125-133
21	Role of Artificial Intelligence in the Healthcare Industry Shaikh Nazmeen Sadrealam Prof. Kalpana Mulay	134-140

13. A Study of Crypto Currency- Challenges and Opportunity in India

Dr. Vijay Ganpat Gaikwad

Assistant Professor At Commerce Department, Karmaverr Raosaheb Thorat Arts and Commerce College, A/P Vani, Tal-Dindori, Dist-Nashik.

Abstract

A crypto currency became popular, people started investing and trading in crypto coins across the globe. The same thing can be observed in India as well, mainly in the year 2020-2021. There have been many regulations passed by the RBI. The crypto currency was banned in India but with time crypto trading started again. Now, neither are they recognized by the Government as legal tender nor are they regulated by RBI. There are no laws that prohibit trading in crypto. In that sense, crypto currency is any other asset like gold, commodities, etc.

From the survey, it is observed that 95.20% of the total respondents believed that crypto currencies in India will exist even after a decade. While the rest 4.80% of the respondents think that crypto currencies will not exist in the future with government regulations that might come up in the future. But with so many investors investing in crypto currencies, there are chances that crypto will exist in the future even with the regulations put on by the government.

Introduction

A **crypto currency** or **crypto** is a digital currency designed to work as a medium of exchange through a computer network that is not reliant on any central authority, such as a government or bank, to uphold or maintain it.

Individual coin ownership records are stored in a digital ledger, which is mostly used in trading by way of a computerized data base using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership. Despite their name, crypto currencies are not necessarily considered to be currencies in the traditional sense and while varying categorical treatments have been applied to them, including classification as commodities, securities, as well as currencies, crypto currencies are generally viewed as a distinct asset class in practice. Some crypto schemes use validates to maintain the crypto currency. In a proof-of-stake model, owners put up their tokens as collateral. In return, they get authority over the token in proportion to the amount they stake. Generally,

these token stakers get additional ownership in the token over time via network fees, newly minted tokens or other such reward mechanisms.

Crypto currency does not exist in physical form (like paper money) and is typically not issued by a central authority. Crypto currencies typically use decentralized control as opposed to a central bank digital currency (CBDC). When a crypto currency is minted or created prior to issuance or issued by a single issuer, it is generally considered centralized. When implemented with decentralized control, each crypto currency works through distributed ledger technology, typically a block chain that serves as a public financial transaction database.

Bit coin, first released as open-source software in 2009, is the first decentralized crypto currency. Since the release of bit coin, many other crypto currencies have been created.

Objective of the study

1. To understand the concept and types of Crypto currency
2. To study the importance of Crypto currency in India
3. To study the challenges of Crypto currency in India
4. To study the opportunity of Crypto currency in India

Research Methodology

This study is based on secondary data,. Secondary data which has been collected from books, periodicals and journals news paper, websites of RBI, SBI, internets etc. The data and information have been arranged logically in order to draw certain conclusions.

Meaning of Crypto Currency

A crypto currency or crypto is a virtual currency secured by cryptography. It is designed to work as a medium of exchange, where individual ownership records are stored in a computerized database.

A crypto currency is an **encrypted data string that denotes a unit of currency**. It is monitored and organized by a peer-to-peer network called a block chain, which also serves as a secure ledger of transactions, e.g., buying, selling, and transferring.

Types of Crypto Currency

1. Bitcoin- Bitcoin is regarded as the first decentralized crypto currency using blockchain technology to facilitate payments and digital transactions.
2. Ether (Ethereum)- Ether is the token used to facilitate transactions on the Ethereum network. Ethereum is a platform that uses blockchain technology to enable the creation of smart contracts and other decentralized applications. the actual coins are measured in units called Ether

3. **Binance Coin-** Binance Coin is available on the Binance crypto currency exchange platform (along with other digital coins that are available for trading). Binance Coin can be used as a type of currency.
4. **XRP (Ripple)-** XRP is a digital currency based on the digital payments platform Ripple Net, built by the company Ripple. It was designed for financial institutions to scale digital payments across the globe and reduce transaction costs associated with typical cross-border funds transfers.
5. **Tether-** Teather is what's known as a stablecoin, a currency tied to a fiat currency -- in this case, the U.S. dollar. The idea behind Tether is to combine the benefits of a crypto currency (such as no need for financial intermediaries) with the stability of a currency issued by a sovereign government.
6. **Dogecoin-** Dogecoin originally made as a joke poking fun of rampant speculation on crypto currencies, Dogecoin has skyrocketed in value of coin was made to be used a form of digital payment like Bitcoin.

Above Crypto currency can be exchanged through digital currencies like U.S. dollar. Robinhood, Webull, Square's, NYSE:SQ, Cash App, SoFi etc.

Importance of Crypto Currency

1. **Easy Transaction-** Crypto transaction can be done easily, reasonable price and in a manner more private than the other transaction available for investment purpose. By use of smart phone, hardware wallet, exchange wallet any one can send or receive variety of crypto currency such as Bitcoin, Litecoin and Ethereum etc.
2. **Incredible Security-** Crypto transactions are generally based on the cryptography and block chain security for the purpose of to make payment of crypto currency in secure forms. Crypto security is determined in large part by has rate, highest the hash rate is the most secure crypto currency. Bitcoin is the most secure crypto currency.
3. **Short Settlement time and low fees-** Most of people want to invest in crypto currency only for price appreciation. Crypto currency like Litcoin, XRP etc transaction of these settle in seconds or minutes with low charges.
4. **Exponential Industry Growth-** The crypto currency is the one of the fastest growing market. The total market capture by the crypto currency in 2013 was about 1.6 billion dollar and by june 2021 it raised upto 1.4 trillion dollar.
5. **Outsized Returns-** Crypto currency like a Bitcoin has been performing best asset over the last 12 years. According to expert crypto currency would rise tens of thousands dollars. Other stock index gets average return approximately 8% per year.

6. Portfolio Diversification- crypto currency is a non correlated asset class. Crypto market largely function independently of other markets and their price action tends to be determined by factors other than those affecting stocks, bonds and commodities. Hence millions of investor give preference for purchase of crypto.

7. Cross Border Payments- Crypto currency have no national borders. An individual person of one country can send or received crypto without any difficulty. There is no any regulations, restrictions and sanctions between the countries .

8. 24/7 Markets- Stock markets open on weekdays during the regular business hours of 9.30 am to 4.30 pm. During nights, weekends and on holidays most stock or financial markets are not open for business. On the other hand crypto market trade 24 hours a day, seven days a week without any exception.

Challenges of Crypto Currency in India

Crypto currency is a cheaper and faster money transfers and decentralized systems that do not collapse at a single point of failure. The challenge of crypto currencies include their price volatility, high energy consumption for mining activities, and use in criminal activities. Crypto currency must meet the following requirements.

1. Absence of any centralized authority and is maintained through distributed networks
2. The system maintains records of crypto currency units and who owns them
3. The system decides whether new units can be created and in case it does, decided the origin and the ownership terms
4. Ownership of crypto currency units can be proved exclusively cryptographically.
5. The system allows transactions to be performed in which ownership of the cryptographic units is changed.

Opportunity for Crypto Currency

The Indian government is currently working on a Bill to regulate crypto currency in India. The government had plans to introduce a bill on crypto currencies like Bitcoin during the Winter Session of Parliament in November-December 2021 but did not introduce it. Moreover, the Reserve Bank of India is in favour of a complete ban on the speculative assets. Reserve Bank Deputy Governor Michael Patra, earlier this week, had said that crypto currencies hold no underlying value at all, and has also called them a threat to financial stability. The following are the decision and Opinions of Finance Minister, Governor of RBI, Supreme Court and Eminent Personality involved in the study of crypto.

1. New Delhi: Supreme Court, on Friday (February 25), asked the central government to clarify its stance on its position on Bitcoin. The apex court has asked the government whether

bitcoin is legal or not. Recently, Finance minister Nirmala Sitharaman, during the Union Budget 2022 presentation, had announced that crypto currency investors will have to pay a 30 per cent tax on gains from virtual assets such as crypto currencies or NFTs. Budget 2022 proposed to introduce section 115BBH to introduce a tax on gains from virtual assets.

2. New Delhi: The government is attempting to bring crypto currencies under the purview of the Goods and Services Tax (GST) so that the total value of transactions can be taxed. Currently, bitcoin exchanges are subject to an 18% GST slab on services rendered to users in the financial services category. GST officials believe that cryptos, by definition, are akin to lottery, casinos, betting, gambling, and horse racing, all of which are subject to a 28% GST on the total value. Furthermore, in the event of gold, a 3% GST is paid on the whole transaction amount.

3. New Delhi: On February 14, Reserve Bank of India (RBI) Deputy Governor T Rabi Sankar launched a scathing attack on bitcoin, saying that banning crypto currency is "probably the most sensible decision available in India." Sankar mentioned this at the 17th Annual Banking Technology Conference and Awards hosted by the Indian Banks Association.

The remarks are significant in response to the ongoing discussion over whether or not to prohibit digital currency. The deputy governor outlined a number of reasons that he believes contribute to the banking system's concerns about private crypto currencies.

4. New Delhi: Crypto is back on the discussion table as Finance Minister Nirmala Sitharaman and Reserve Bank of India (RBI) Governor Shaktikanta Das deliberated over the issue.

The Finance Minister had announced in her Budget speech that the RBI will launch a block chain based digital currency next year. The government also proposed to tax digital assets.

5. New Delhi: Finance Minister Nirmala Sitharaman, in an exclusive interview with Sudhir Chaudhary, Editor-in-Chief, Zee News, and Swati Khandelwal Jain on Thursday

Finance Minister asserted that Virtuous cycle of investment expected to revive on the back of capex and crowd in private investment. In the matters of tax on income from virtual assets, she reiterated that crypto currency or any digital assets should be inclusive as government backing is required for every currency to function in transparency. She further added that the explanation about crypto should be crystal clear.

6. New Delhi: FM's announcement led to several people wondering as to whether the Finance Minister has indicated towards legalization of Crypto currency in India. The answer is not a simple YES or NO. In her post Budget press conference, the Finance Minister had categorically said that anything to be called a "Currency" must have the sovereign backing by

the Reserve Bank of India. So, she added that what we call a crypto-currency is actually a crypto-asset and not a Currency. Sitharaman further asserted that the term Crypto-currency is not a correct term.

Hence, to decode the FM's statement further, conclude that cryptos like Bitcoin, Ethereum, Dogecoin or Shiba Inu (popular ones) will be legal currency in India. However, since the income upon these would be taxed, the indication is that these will be legalized as Assets class and not as currency.

Conclusion

A crypto currency is a tradable digital asset or digital form of money, built on block chain technology that only exists online. Crypto currencies use encryption to authenticate and protect transactions. There are currently over a thousand different crypto currencies in the world. The crypto currency is the safe and another good option to Indian investor to look apart from the national stock market to invest.

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