



## “Banning To Regulating: Unexpected Journey of Crypto Currencies in India”

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### Abstract

From March 2020 i.e. few years before nobody knew that the world will turn down due to Covid 19 pandemic. All sectors of the economy are affected due to the pandemic norms. Investment sector is also not left untouched. Pattern of investment changed as due to the pandemic investors moved towards making online transactions instead of doing physical transactions. Due to the changing pattern investors started to invest in digital market. Also the use of technology grew rapidly, due to this people got knowledge about various digital investment pattern. Crypto currency is one of them. In last 2 years in India investment in crypto currency rapidly increased. Taking cognizance of this Ministry Of Finance imposed tax on returns of crypto in Budget 2022.

Crypto currency regulation is where India can lead the way by leveraging the G20 presidency. The steep fall of several key crypto players in 2022 underscored crypto currency regulation to protect consumers and investors, and maintain the integrity of financial markets. Crypto currency received its name because it uses encryption to verify transactions. This means advanced coding is involved in storing and transmitting crypto currency data between wallets and to public ledgers. The aim of encryption is to provide security and safety. Crypto currencies don't have a central issuing or regulating authority, instead using a decentralized system to record transactions and issue new units. The study aims to take an overlook about Journey of Crypto currency in India. For the study the secondary data has been taken into consideration. The study finds that The Indian government's approach to crypto currency clearly transitioned from hostility to cautious optimism. Despite the bumpy start, the outlook for crypto currencies and crypto investors in India looks promising

**Keywords: Indian Economy, Crypto Currency, Banning, Regulating**

### Introduction:-

Along with the evolution of human being the development of economy occurred. With the growth of various essential needs mankind has entered in this modern era. In this evolution three things are very important i.e. fire, will and money. In the process of development man has started making transactions and adopted barter system. In the primary stage of evolution of economy the money was not present in any form but in the process of development the amount of transactions increased and barter system failed in the market. For valuation of goods and services there was a need to introduce a third medium which will be accepted by all. In various stages of evolution man has accepted various forms of money. In hunter stage man used bones, skin, hair, teeth as money. In shepherd stage man used cow, bullock, goat etc. as money. In agriculture stage man used wheat, rice, jawar, as money this type of money is called goods money. After sometime man had to use copper, brass and iron particles as money. After that silver and gold were used as money and from them coins were made to use as money. As the transactions increased the exchange of such coins became difficult so the paper currency was introduced. As the development took place credit money took place of paper currency. With the development of technology and IT services soon the cashless transactions came into limelight and digital money came into existence. Now virtual money which is crypto currency shook the economic system of the world.

### Meaning:

A crypto currency, crypto-currency, or crypto is a collection of binary data which is designed to work as a medium of exchange. Individual coin ownership records are stored in a ledger, which is a computerized database using strong cryptography to secure transaction records, to control the creation of additional coins, and to verify the transfer of coin ownership. Crypto currencies are generally fiat currencies, as they are not backed by or convertible into a commodity. Some crypto schemes use validators 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 takers 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.

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. ... Bit coin, Ether, Lite coin, and Monero are popular crypto currencies.

### **Crypto Currency and Indian Economy:**

The Indian crypto currency economy has been rated second in global crypto currency implementation, just after Vietnam. The size of the crypto- tech market in India is anticipated to reach \$241 million by 2030, growing at a CAGR of 14%, with the potential of creating 877,000 jobs by then. Crypto currency is the new slogan in the Indian Economy.. What will happen to the crypto in future in and after 2023 is impossible to predict. More questions remain than there are answers for it. But as the market progresses, we will be able to make smoother investment picks by keeping an eye on a few key crypto trends. The future of crypto in the next five years looks hopeful, and India is on the edge of ruling the crypto market. The government and the RBI are concerned about the various contrary effects of crypto currency. One among them was the part that crypto money could play in supporting violence and money laundering.

### **Literature Review-**

**Komal Dhande (2017)** in her Bitcoin and Its Prospects in India study focuses on the remarkable growth in the acceptance of cryptocurrencies but does not see it replacing paper currencies anytime soon. The problem is to structure it for the law enforcement agencies and users to ensure safety in transactions and the problems to determine a way to charge cryptocurrency tax. The high growth on bitcoins has attracted a lot of interest but the high amount of risk involved in keeping the investors hesitant to invest. Though the study shows belief in virtual currencies, a good legal and regulatory framework is required for investors to trust this form of currency in India.

**Dr.Vijeta Banwari(2017)** CRYPTOCURRENCY-SCOPE IN INDIA discusses the change in finance and the world of money. Cryptocurrencies have a huge risk factor but are increasingly popular and it will be difficult for the government to control the transaction. According to the Blockchain Foundation of India, (lobby of around 45 crypto dealers,) claimed that more than 30 new exchanges have applied for membership in the recent two months.

**Gunjan Jindal and ShezaAzeen (2018)** in their Legal acceptance of bit coin in India discuss how bit coin plays a pivotal role in aggregating the growth percentage of the nation and how it would not be possible unless the government pushes towards making the transactions legal and implies its regulations on it.

### **Objectives-**

- 1) To study about the Journey of Crypto Currency in India

### **Method of Data Collection-**

For this study Secondary data was collected through various sources like-

- Reference books on concerned topic
- Trade journals, financial newspapers, magazines
- Government agencies



- Articles published in periodicals
- Internet/ Website
- Annual reports of various firms

## Data Interpretation-

### Initial Interest and Concerns (2013-2016)

**December 2013:** The Reserve Bank of India (RBI), India's central bank, issued its first warning about crypto currencies. The RBI cautioned users, holders, and traders of virtual currencies about the potential risks they are exposing themselves to.

**February 2017:** The Finance Ministry set up an Inter-Disciplinary Committee to study the status of crypto currencies and suggest recommendations.

### Increased Scrutiny and Regulations (2017-2018)

**December 2017:** As Bit coin and other crypto currencies gained massive popularity worldwide, the Finance Ministry cautioned investors, comparing Bit coin trading to Ponzi schemes.

**April 2018:** The RBI issued a directive to all regulated financial entities, instructing them to cease any crypto-related services. This effectively crippled the operations of crypto currency exchanges in India as they were unable to process fiat transactions.

### Legal Battles and Supreme Court Ruling (2019-2020)

**2019:** A draft bill titled "Banning of Crypto currency & Regulation of Official Digital Currency" was circulated. This bill proposed a complete ban on crypto currencies in India and criminal penalties for violations.

**March 2020:** In a landmark judgment, the Supreme Court of India lifted the RBI's banking ban on crypto currency, stating that it was disproportionate and violated the right to conduct business. This was seen as a major win for the crypto currency community in India.

### Legislative Developments and Ongoing Discussions (2021-2022)

**2021:** The Indian government introduced "The Crypto currency and Regulation of Official Digital Currency Bill, 2021" in the Lok Sabha, aiming to create a favorable framework for the creation of digital currency. However, as the year progressed, the bill remained under discussion without being passed into law.

### New Budget Proposals, Industry Appeals and International Collaborations (2023)

**February 1, 2023:** As part of the new budget, the Bharat Web 3 Association representing the Indian crypto industry called for changes in the taxation structure concerning crypto currencies.

**February 4, 2023:** In a post-budget press conference, Economic Affairs Secretary Ajay Seth announced plans to introduce measures around crypto regulation later in the year, although the specifics were not disclosed.

**March 7, 2023:** The central government issued a notification bringing digital assets and their related financial services under the ambit of the Prevention of Money Laundering Act (PMLA).

**September 5, 2023:** During the G20 Summit, Finance Minister Nirmala Sitharaman disclosed that significant deliberations were taking place regarding the establishment of global regulations for crypto assets, indicating India's interest in international cooperation on crypto currency regulation.

### A Glimpse into the Indian Regulatory Roadmap for Crypto Assets

March 2023 marked a pivotal point in India's crypto journey with the inclusion of crypto currencies under the country's anti-money laundering act.

This change holds crypto exchanges, NFT marketplaces, and custody service wallet providers accountable for monitoring and reporting any suspicious financial activities, thereby instilling a sense of legality and structure in the once uncertain market.

Crypto intermediaries now fall under the Prevention of Money Laundering Act (PMLA), obligating them to record transactions and client data, akin to traditional financial institutions. This is a win for transparency and echoes the government's message of safe and declared investments in the crypto sphere.



Extending money laundering rules to the crypto trade blankets various transactions and services related to virtual digital assets. This extension gives authorities greater oversight on cross-border asset transfers, stepping up the vigil against potential illicit financial activities.

## **Where Does India Stand In Crypto Adoption?**

India, along with Nigeria and Thailand, tops the 2023 Global Crypto Adoption Index by Chainalysis, showcasing significant adoption, especially among lower middle-income nations. The country secured the top position in four out of five sub-indexes used in the same Chainalysis report, indicating strong crypto adoption. This includes centralized service value received, retail centralized service value received, DeFi value received, and retail DeFi value received.

Despite regulatory setbacks, India's crypto adoption saw a significant rebound from the previous year, where it had slipped to the fourth position in the 2022 index.

Further, India could potentially have over 150 million crypto users in 2023, a figure more than five times that of the US. Moreover, more than half of all crypto users globally in 2023 are projected to come from India.

Between July 2022 and June 2023, India led in transaction volume with an estimated \$268.9 billion in crypto assets — that's over 20% of the world's crypto activity from just one country! So, what is driving this adoption in India?

## **Factors Driving Adoption**

A significant driver of crypto adoption in India is the rise of fintech, mobile technology adoption, and the increasing popularity of digital payments. According to Deloitte, the number of smartphone users could be as high as 1 billion by 2026.

The adoption patterns in India reflect a broader trend in the Central & Southern Asia and Oceania (CSAO) region, where different factors are driving adoption across various countries. Various crypto currencies like Bit coin, Doge coin, and Ethereum are gaining traction, signaling a grassroots-level adoption in India.

A survey by Analytics Insight revealed that 60.5% of respondents have invested in crypto currencies as of 2022, showcasing a growing acceptance and understanding of digital currencies among the citizens.

The rising awareness and acceptance of crypto currencies among both the general public and the financial sector play a significant role. As people become more educated about the potential benefits of crypto currencies, they are increasingly viewing them as legitimate assets.

Importantly, the tech behind crypto currency is relatively new. As a result, the mature demographic (people aged 40 and above) are typically wary of it given the unfamiliarity. However, a substantial portion of crypto investors in India are between the ages of 18 and 35, which suggests that the younger demographic is driving crypto currency investments in the country.

## **Regulatory Landscape**

The Reserve Bank of India (RBI) initially maintained a conservative approach by prohibiting banks from dealing with crypto currencies.

However, the narrative has been shifting slowly as more people get drawn towards crypto, and governments are exploring different regulatory approaches.

Today, regulated crypto on-ramps and exchanges can liberally accept INR deposits via payment methods like IMPS. Transak users could even make payment via UPI to get crypto currencies.

## **FIU Registration: A Significant Milestone for Crypto in India**

The registration with the Financial Intelligence Unit (FIU) marks a significant milestone for the crypto currency industry in India as it brings crypto service providers under the ambit of the Prevention of Money Laundering Act (PMLA), 2002.

Here's a detailed breakdown of the FIU registration and its implications based on various sources.





## FIU Registration

Crypto businesses are required to register with the Financial Intelligence Unit (FIU) as part of compliance with anti-money laundering (AML) regulations. This registration process falls under the broader framework of the Prevention of Money Laundering Act (PMLA).

## Significance

The registration signifies a notable step towards regulatory compliance in the crypto sector. The FIU registration allows for better monitoring and reporting of suspicious transactions, thus aiding in the prevention of money laundering and other financial crimes through crypto channels.

## Impact on Crypto Businesses

Crypto businesses are now obligated to perform verification processes such as Know Your Customer (KYC). Additionally, they are required to report suspicious activities to the FIU voluntarily and must designate a Money Laundering Reporting Officer (MLRO) to ensure compliance with the act.

This includes having a customer due diligence and record management program in place and maintaining transaction records related to crypto business.

## Web3 Businesses and FIU Registration

Major web3 businesses, including Transak, have registered with the FIU, making them reporting entities under the new regulations.

This registration is mandatory for all crypto service providers and is likely to help facilitate information in a systematic manner concerning suspicious financial transactions.

## Conclusion-

The Indian government's approach to crypto currency clearly transitioned from hostility to cautious optimism. Despite the bumpy start, the outlook for crypto currencies and crypto investors in India looks promising — one that is regulated and aligned with the nation's economic interests. Reserve Bank of India's CBDC pilot program and NPCI's inclusion in the hyper ledger Foundation are strong signs of increasing awareness and acceptance surrounding block chain-based digital assets.

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