

Digital Currency Vs Crypto Currency – Is cryptocurrency in line with Digital Currency?

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Introduction

We are living in a fast-moving world where every day comes as an opportunity. Nowadays new phenomenon of digital currency appeared. We are living in a digital world where most of the transactions are done online, so a digital form of money has appeared. Over a period of time, Digital currency evolved which is used to make online payments. The digital currency financial system revolutionized. Digital currency does not exist in physical form but exists in electronic form. Nowadays multiple mobile payment applications are there. Big players in digital payments markets are Google, Apple, Amazon, etc. In 2008 cryptocurrency was introduced which is a sub-type of Digital Currency. Cryptocurrencies are used for payments but mostly it is used for investment purposes. ‘ Digital Currency’ and ‘Cryptocurrency’ are used interchangeably, but there is a slight difference between both. All cryptocurrencies are digital currencies but all digital currencies are not cryptocurrencies. As of July 2022, there are 20,268 Cryptocurrencies in existence across the world (Which includes dead cryptos, which are inactive). Asia is in first place having 160 million crypto users followed by Europe and Africa. India is in the first place by Cryptocurrency usage having 100.7 million crypto users followed by the USA. As of July 2022, there are 498 exchanges for the trading of cryptocurrencies. In this chapter, we will study Digital currency and Cryptocurrency and will also study how Digital currency is different from Cryptocurrency.

Digital Currency / Virtual Currency / Digital Money/ Electronic Currency

Definition :

1. Digital Currency refers to a currency that has no physical coins or notes.

What is Digital Currency?

The idea of Digital cash was introduced by David Chaum in his research paper in the year 1983. To commercialize his idea, he founded an electronic cash company named Digicash.

The first widely used internet money was e-gold which was introduced in 1996 but shut down in 2008 by the US government. E-gold was referred to as ‘ digital currency’ by the US government. In 2006, Liberty Reserve (A digital currency service) was founded. It provided the services to the customers to convert dollars and euros to Liberty Reserve Dollars and exchange them freely at a 1% fee.

Digital Currency is an intangible asset that you cannot feel, touch, or hold it in your hands Digital Currency is also called ‘ Digital Money’, and ‘Electronic Currency’. Traditional Currency can be held in physical form or digital form. Digital Currency is the traditional currency that exists online. Digital currencies do not exist in physical forms like banknotes and coins. Digital currency is used for making payments for goods purchased or services availed in an online store.

e.g. – A rupee in an online account can be held and transferred online.

e.g. – You have opened an account with Rs. 5,000, the bank will keep a vault filled with cash on hand. Your money would be held in physical form but when the bank holds your cash as an entry in the database, then your money would be held in the digital form e.g. when you are making a payment by using a debit card.

When you make a payment from your bank account or digital wallet or when you withdraw money from an ATM then the digital currency is turned into liquid cash.

Digital Currencies are backed by an authority, the Reserve Bank of India (RBI). The Reserve Bank of India (RBI) would be rolling out its digital currency. The digital format of currency can be carried around in a wallet or withdrawn from ATMs.

Sometimes Digital Currency is called Virtual Currency also but there is a minor difference between digital and virtual currency, Digital currencies are regulated while virtual currencies are deregulated.

Cryptocurrency / Digital Coins

Cryptocurrency is a recent phenomenon, which is gaining popularity nowadays. The first ever

cryptocurrency, Bitcoin was launched in the year 2009, the most widely used and accepted digital currency. It was the first blockchain-based digital currency. Cryptocurrency represents digital money.

Definition

1. “Cryptocurrency refers to that currency which is held on a Blockchain database.”
2. “Cryptocurrency is a purely Virtual Currency recorded and stored on a Blockchain database.”

What is Cryptocurrency?

Cryptocurrency is informally defined as a currency but legally it is not a currency. Cryptocurrencies are pieces of code created by ‘mining’. It is managed through a digital ledger known as the blockchain. Cryptocurrencies are created using advanced blockchain technology. Cryptocurrency is treated as a financial product or property. Blockchain technology is used for security and database. When you own the cryptocurrency, you own an entry in a database.

e.g., You have Bitcoin XYZ 123. When you spend it, the ledger will be updated in the entry and will show the name of the new owner of Bitcoin.

A cryptocurrency is a form of Digital Currency, but not all digital currencies are cryptocurrencies. Cryptocurrency is exclusively digital currency that is based on blockchain storage formats. To secure the Rupee, When banks use cryptography that doesn't make the rupee a cryptocurrency.

Cryptocurrency is not backed by the centralized authority, the RBI.

Cryptocurrency is often referred to as Digital coins such as Bitcoin, Dogecoin, Ethereum, Litecoin, Ripple, etc.

Among developed countries, cryptocurrencies mostly have widespread use in English-speaking countries like the USA, Canada, and the UK, and in emerging economies, India, China, and

Brazil registered heavy uses of cryptocurrencies. The main factor behind the popularity of cryptocurrencies among developing countries is that they are used as an investment. Individuals in developing countries use cryptocurrencies in peer-to-peer payments too.

Cryptocurrencies gained popularity after their inception in 2009. It has gained extraordinary popularity in the year 2021 when a number of countries have decided to ban or enact strict regulations to regulate these highly volatile assets. Cryptocurrencies took the economic markets by storm. The most important economic actor that banned these digital currencies was China.

The earlier Indian government has decided not to legalize cryptocurrency in India due to difficulty in tracking cryptocurrency transactions and fear of cryptocurrency transactions could be a competitor for the banking industry. After demonetization, the Indian rupee traded in cryptocurrency was the highest. After the Dollar and Yen, the Rupee-dominated cryptocurrency is the third largest volume. In 2019, Bill was issued to make the mining, selling, transferring, and use of cryptocurrencies made punishable but in 2020, the supreme court removed the ban on cryptocurrency. When the Indian government tabled the 'Cryptocurrency and Regulation of official Digital Currency Bill, 2021 in the parliament which has created a nationwide buzz about digital currency. The government announced that the transfer of cryptocurrency will be liable to 30 % tax in the Union Budget 2022 -23.

Countries with Implicit Bans on Cryptocurrencies :

There are approximately 42 countries that imposed an implicit ban on some Cryptocurrencies which includes :

- Burundi
- Bahrain
- Cameroon
- Georgia
- Kuwait
- Libya
- The Maldives

- Vietnam
- Zimbabwe

Countries With Absolute Bans on Cryptocurrencies :

There are approximately 9 countries that have imposed an absolute ban on cryptocurrency are :

- Algeria
- Bangladesh
- China
- Iraq
- Nepal
- Qatar

Digital Currency Vs Cryptocurrency

1. Virtual Currency (Digital Currency) is an electronic form of currency (fiat money) or it is a form of e-cash while Cryptocurrencies are a store of value secured by encryption.
2. Virtual Currencies do not need encryption like Cryptocurrency but Digital currency must be secured with passwords to protect digital wallets, and debit & credit cards to minimize theft and hacking.
3. Virtual Currency (Digital Currency) is not treated like Digital assets while Cryptocurrency.
4. Virtual Currencies (Digital Currencies) are regularized in all countries while Cryptocurrencies are decentralized and unregularized in most of the countries.
5. In India, Virtual Currency transactions are backed by a central authority i.e. RBI while Cryptocurrency transactions are not backed by any authority.
6. In Virtual Currency transactions, transaction fees will be levied while in cryptocurrency transactions transaction fees will be levied but they will be reduced due to blockchain technology.
7. Information on Transactions of Digital Currency is available to the sender, receiver, and the bank. But due to the decentralized ledger, the information of all transactions of Cryptocurrencies are publicly available.
8. Digital currency is stable and easy to manage due to wider acceptance in the global

market as many companies accept payments in digital currency. While Cryptocurrency is highly volatile there is no stability in the value and it does not have wider acceptance because not many companies are accepting payments in cryptocurrency.

9. To make large payments cryptocurrency is used while for limited payments can be made by Digital currency.
10. Cryptocurrencies are widely used for illegal transactions like money laundering, and the purchase of illegal weapons while the use of Digital currency is limited in illegal transactions.
11. Credit or debit cards take two or three days to process while the speed of cryptocurrency transactions takes 10 minutes to clear.

Conclusion

Digitization of everything is the future and it happened and happening in everything and everywhere, due to this, the revenue is also growing rapidly. The World has into cash less transactions through digital money. Digitization of money and Cryptocurrency is one aspect of digitization.

Cryptocurrencies are considered harmful to the planet. This digital currency uses blockchain technology which requires computers all over the planet to solve complex equations in order to verify transactions. This is called data mining, which can be lucrative. The person involved in it earns a bitcoin as a reward. This procedure of calculations consumes a large amount of electricity and imposes a negative impact on natural resources.

Cryptocurrency is one of the most important innovations of the century. Though Cryptocurrencies are unregulated by any authority and central bank, it is Digital currency. A number of problems associated with cryptocurrencies have been banned in most countries across the world. India and China both are considered twin engines of Asia, the economic growth of both countries is very high still both countries banned the trading and use of Cryptocurrencies. But as per the order of the Supreme Court, India legalized the trading of Cryptocurrency but in China, trading in Cryptocurrency is still illegal. According to experts, cryptocurrency is a big scam and bubble. Asia stood first in Cryptocurrency usage. India has the highest number of users of Cryptocurrency followed by the USA.

Digital currency is giving tough competition to Cryptocurrency. By introducing Applepay, Apple has become a major competitor. It allows its users to charge their credit and debit cards associated with their iTunes account with their cell phone. Visa and Master Card are credit card companies now joining ApplePay's infrastructure. Paypal is gaining popularity in mobile payment. Apple, Google, and Amazon are now in the mobile payment application market gaining advantages over cryptocurrencies. Now, Consumers across the world use digital currency to make payments through phones.

During the Covid -19 pandemic when the movement of people was restricted due to lockdown, the use of

Digital Currency rapidly increased across the world. During a pandemic, the number of users of Digital currency increased, and still, the counting is increasing after the pandemic. Not only the Rich, Middle Class but the poor class are also started using digital currency. And during this many major players stepped into digital payments markets. Digital Currency is popular among users while cryptocurrency is more popular among investors.

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