

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

Dr. Minti Sinha

Assistant Professor (MBA)

Shri Chiman Bhai Patel Institute of Management (Affiliated to GTU)

Ahmedabad, Gujarat

Introduction

We are living in the digital world. In this digital era, today most of the transactions are done online (i.e. Financial or non-financial transactions). And nowadays the payments are also done online. Over a period of time, the Digital currency evolved which is used to make an online payments. Digital currency does not exist in physical form but exists in electronic form. Thus with the introduction of digital currency financial system revolutionized. In 2008 cryptocurrency was introduced which is a sub-type of cryptocurrency. Cryptocurrencies are used for payments but also used for investment purposes. ‘ Digital Currency’ and ‘Cryptocurrency’ are used interchangeably, but both are different. All cryptocurrencies are digital currencies but all digital currencies are not 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 is any currency which is recorded and transferred on computer or online.”
2. “ 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 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

The first ever cryptocurrency, Bitcoin was launched in the year 2008, the most widely used and accepted digital currency. It was the first blockchain-based digital currency. Cryptocurrency prompted the interest in digital currency across the world.

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. There 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 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 has widespread use in the English speaking countries like USA , Canada , UK and in emerging economies India , China and Brazil registered heavy uses of cryptocurrencies. The main factor behind the popularity of cryptocurrencies among the developing countries is that they are used as an investment. Individuals in developing countries use the cryptocurrencies in peer – to -peer payments too.

Cryptocurrencies gained popularity after its inception in 2008. It has gained extraordinary popularity in the year 2021, when a number of countries have decided to ban or to 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.

When the Indian government has tabled the ' Cryptocurrency and Regulation of official Digital Currency Bill , 2021 in the parliament which has created a nationwide buzz about the digital currency.

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 regularised in all countries while Cryptocurrencies is decentralised 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.

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