

# Business Standard

## Bitcoins: Not for the faint-hearted

This virtual currency has had a volatile past and the future can be equally unpredictable

RAJESH BHAYANI | Mumbai July 11, 2016 Last Updated at 00:28 IST



Bitcoin has emerged as an alternative asset class, delivering high returns in the past few years but not without equally high risks. A year before, the crypto-currency was quoting at \$260 a unit. In the past six weeks, the price has risen to \$640, following the British vote to exit (Brexit) the European Union and a depreciating Chinese currency. In India, each bitcoin is worth Rs 44,000-45,000.

A crypto-currency is a medium of exchange that uses cryptography to manage the creation of new units, as well as to secure transactions.

Considering the returns, there are risk takers in India who are buying bitcoins. Though it is not the only crypto-currency, it has more acceptance and popularity. Raja Raman, director (technology) at Sapien Global Markets, says: “In troubled times, most investors rush towards safe assets. Brexit has been one such recent event that brings back memories of the Lehman crisis. The most obvious solution is gold. Over the past few years, bitcoin has emerged as the most commonly used crypto-currency. By far, it has the largest market capitalisation among all such currencies.”

Interestingly, anybody can produce (mine) bitcoins but it has been programmed like a gold mine. The deeper one goes to mine more gold, the more expensive it is. So far, a little over 15 million bitcoins have been mined and when the algorithm was created in 2008, a finite limit of 21 million on the number that would ever exist was set. The final bitcoin will be mined in the year 2140, at the current rate.

Bitcoin, which started at a price of around \$5, has gone up and down sharply several times. For Indian investors, a bitcoin worth Rs 5,000 in 2010 is today worth more than Rs 5 crore. (In July 2010, bitcoin was available at \$0.08 a unit). Since maximum supply has been fixed by the computer program, it will be interesting to see what happens when it gains acceptance from governments. Currently, governments and central banks globally are watching the developments.



Experts say the strong-hearted can still bet on it. However, apart from the volatile prices, there have been worries of bitcoin being used for money laundering and other illegal activities. As a result, experts advise a cautious approach.

Sandeep Goenka, co-founder of Zebpay, a bitcoin exchange which is among the largest in India, says: "Just as any other asset, it is impossible to predict the price of bitcoin in the short term. In the long term, it has the potential to be one of your best investments, as it has been in the

past. However, since it is a new technology, one should only invest an amount one can afford to lose."

Raja Raman highlights some of the risks. "Since it is not tied to any underlying economic value, we always run the risk that it can lose or gain market value in ways we haven't seen in past. Since there is no government backing bitcoin, you don't have any legal recourse here, should your investment be lost."

Bitcoin, however, is not illegal. It runs on 'Blockchain' technology and a public ledger is maintained which registers all the transactions of bitcoin happening on any bitcoin exchange globally. The technology has been endorsed by the Reserve Bank of India (RBI). However, three years earlier, the central bank had also warned people from dealing in bitcoin. After that, there has been no word from it.

Vaibhav Parikh, partner, Nishith Desai Associates, adds: "Bitcoin creation and transfer are based on an open source cryptographic protocol, managed in a decentralised manner. Harnessed properly, bitcoin could deliver many benefits to the Indian economy."

Given the nature of the beast, Raman recommends investors start with a small amount. Do a few transactions, understand the trade, get hands-on and see what you can make of it, without risking much.

Also: "Bitcoins are not free of hacking. Apart from frauds, which could more likely happen at the exchange's level, there are other crypto-currencies. While they are not popular, if another crypto-currency gains popularity, the premiums being paid to bitcoin could fall," says Parikh.

Investment side apart, bitcoins have other uses. In India, this virtual currency has not been recognised by RBI but some bitcoin exchanges like Zebpay offer recharge of mobile or DTH bills using bitcoin.

In contrast, the number of vendors accepting bitcoin in return for selling goods across the world is increasing. Currently, a little over 100,000 vendors or websites are accepting bitcoin.

A paper prepared by Nishith Desai Associates says, quoting CoinDesk (a bitcoin exchange):  
“Bitcoins are being used in North and South America, Europe, Africa, and Asia.

The number of companies accepting bitcoin in September 2014 soared to over 80,000.  
“useBitcoin.info” reported more than 2,000 businesses using bitcoin worldwide.”