Mains Practice Question

Q. While virtual currencies offer many opportunities, they also pose some serious threats. Comment. (250 words)

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Approach

- Briefly define virtual currency
- Highlight opportunities from virtual currencies.
- Highlight challenges from virtual currencies.
- In conclusion, highlight their systemic importance and need for regulation.

Introduction

Virtual currency is a type of unregulated digital currency that is only available in electronic form. It is held within the blockchain network that is not controlled by a centralized banking authority.For example, Bitcoins.

Body

Opportunities offer by Virtual Currencies

- They make transactions quicker as no intermediaries are involved, also due to flexibility and ease of conversion.
- Encourage financial integration while giving a reduction in costs for international and local transactions.
- They have the potential for global scalability. In several countries, Bitcoin and different coins are as of now acknowledged along with fiat cash at terminals and stores.
- They feature enhanced secure transactions by using blockchain technology and cryptography to make a private, secure environment.
    - Block chain technology enables exchanges, transfers, and different activities can be performed if the agreement is reached among all hubs in the network.
- They widen the financial market by enabling more investment and speculative avenues.

Threats from Virtual Currencies

- There is a danger of hacking attacks, including the installation of malware on the PCs and smartphones of ordinary clients.
- There have been various cases of closure of crypto exchanges and bankruptcy in the early history of the digital currency market.
    - A recent report verified that during the most recent years, the closure of crypto exchanges reached 48 percent.
- Virtual currency is unregulated and therefore experiences dramatic price movements since the only real force behind trading is consumer sentiment.

- If a crypto exchange goes bankrupt and closes, clients do not get an opportunity to recover the assets from their accounts, and there is nothing that can be done. There is no legal authority or law to appeal.
    - On the contrary, when a bank goes bankrupt, it, as a rule, has a specific reserve fund. People who suffer as a result of this will recover their assets in a specific order, or possibly some of them.

Conclusion

These opportunities and challenges have been evident in the recent Bitcoin market. These currencies though cannot replace legal tenders have immense importance with respect to their working platforms like blockchain that are more secure and can enhance a digital economy and need regulation like diktats of RBI.