



Mains Practice Question

Q. Discuss, how cryptocurrency can revolutionise India's financial sector?

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Approach

- Briefly explain what is cryptocurrency and how it works.
- Explain how cryptocurrency can be useful in Financial sector by giving examples
- Conclude suitably

Introduction

Cryptocurrencies are a **digital form of money** that runs on a totally new monetary system. It is supported by a **decentralized peer-to-peer network called the blockchain**. Blockchain technology ensures that all transactions in cryptocurrencies are recorded in a public financial transaction database. For example Bitcoins.

Body

A blockchain in simple terms is a series of **connected blocks containing a record of data** managed by a bunch of computers not owned by any single entity secured by using a cryptography principle.

Cryptocurrency backed by Blockchain technology can revolutionise India's financial sector due to following factors:

- Digital payments are marred by inadequate digital infrastructure creating security concerns while making the international transfer and therefore, these payments are open to cyber-attacks that can interrupt transmission.
 - Therefore, blockchain technology **facilitates payment systems, decreasing the operational costs, human blunder, and falsification**.
 - It also facilitates banks to get rid of all intermediaries in the payment processing system to lower the costs to process payments between banks and clients.
- Blockchain technology can be of **great use in administering trade finance transactions for the banks**.
 - Under the blockchain technology, all the documents such as Shipping bill, Tax invoices can be recorded in a centralized repository where all the parties involved can access the real-time data.
- It becomes essential for the banks and other financial institutions to build a database containing all the information of the customers including their identity proof like PAN card, passport, Aadhar card, driving license, etc. mainly to avoid the money laundering, other forms of frauds and complying with the regulatory KYC norms.
 - Blockchain technology can help the banks to **overcome the problem of establishing identity by offering cryptographic protection** that ensures the involvement of all

parties to the transactions.

- Blockchain technology **can help the insurance companies** (including re-insurers) and regulators to access the required data and it will, in turn, help them in settling the insurance claims at a much faster rate.
- It can be used to implement Smart Contracts. Smart Contracts are executed based on matching of terms and are validated by other parties instantaneously and without the need of an intermediary.
- Cryptocurrencies act as **alternative investments**. These currencies may enable tech savvy traders to hedge global volatility, as it did during the financial turmoil of 2012-13.

Conclusion

Cryptocurrency and blockchain reduces delays, conflicts, and confusion in many aspects of **financial services**. Thus, there is a need for the Fintech industry to jointly work with the RBI and the government on a constructive policy framework for cryptocurrencies in India.

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