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A Study on Impact of Cryptocurrency on Banking Sectors

Amanlal Rajak

Department of commerce, University of Mumbai, Mumbai (India)

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ABSTRACT

As we all know banks have both primary and secondary functions. Cryptocurrency has been acclaimed to carry out the same primary functions as of bank. The objective of this is to aid as a mediator between the fund gathering and allocation of it. Cryptocurrency is also giving the same intermediary role and the most important thing is the boycott of the supervision of each transaction. Now a day's internet has become worldwide popular, depositors will deal with cryptocurrency in a more convenient method and it also provides users the intermediate actions. It will make the banks to focus on their functions which are secondary in nature for their survival. We will see how blockchain and cryptocurrency impacts on the bank, the aim of this paper is to find out the related literature form the past literature by using the secondary data analysis.

1. Objectives of the study

- To study the Blockchain and cryptocurrency
- To analysis the challenges faced by banking sectors
- To understand the behavioural intentions with regard to usage of cryptocurrency

2. Research Methodology

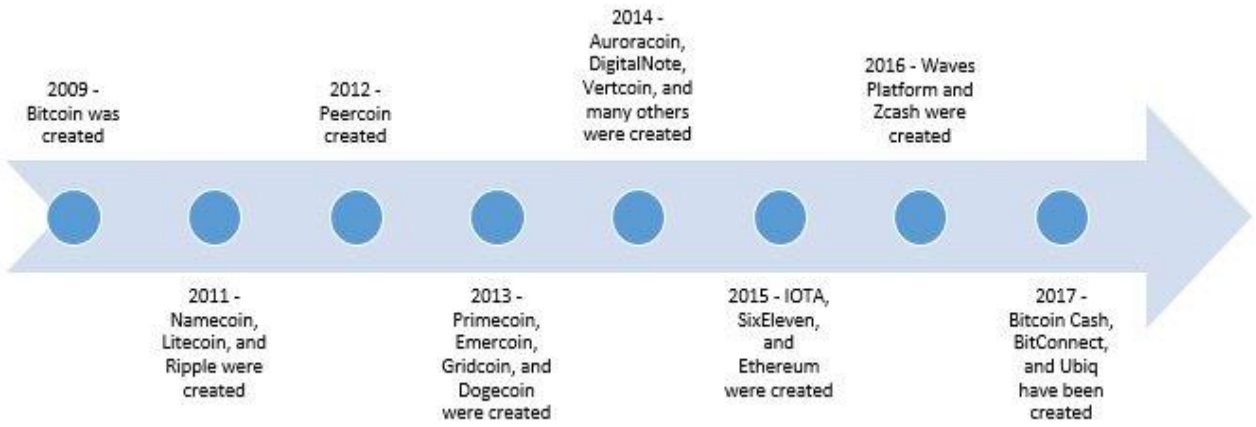
This Research Study is based on facts and data which has been collected through secondary mode from Journals, websites, E-newspaper, and Research articles.

3. Introduction

Cryptocurrency's also known as digital currency, According to Coinmarketcap, there are total 5397 cryptocurrencies (as on April 2020) traded in the international market.it represents valuable and intangible objects which are used electronically in different applications and networks such as online social networks, virtual payments, online games, virtual worlds, and peer to peer networks based on blockchain. It has the potential to be as disruptive to society because the creation of the net, moving the method we have a tendency to interact with family, friends, colleagues, banks, and customers, and bitcoin, the foremost recognizable cryptocurrency, putting blockchain on the map, that has created a huge use case for the technology. In today's world info and communication technologies rapidly increasing in our daily life-style with the foam of IoT (internet of things). Due to transparency an enormous growth in the range of blockchain users and new business development in which cryptocurrency is to facilitate monetary activities like, such as buying for selling, mercantilism, and of course trading also. The legal status of cryptocurrencies varies considerably from country to country and continues to be indefinable or ever-changing frequently, in our India additionally RBI issue a circulation on time to time about the risk and fraud for investors and traders who deal in cryptocurrency In this research paper, we are going to study the overall impact of cryptocurrency on banking sectors.

4. A short history of cryptocurrencies

In order to truly understood the impact cryptocurrencies, having on the banking sector, it's necessary to have a short understanding of their history.

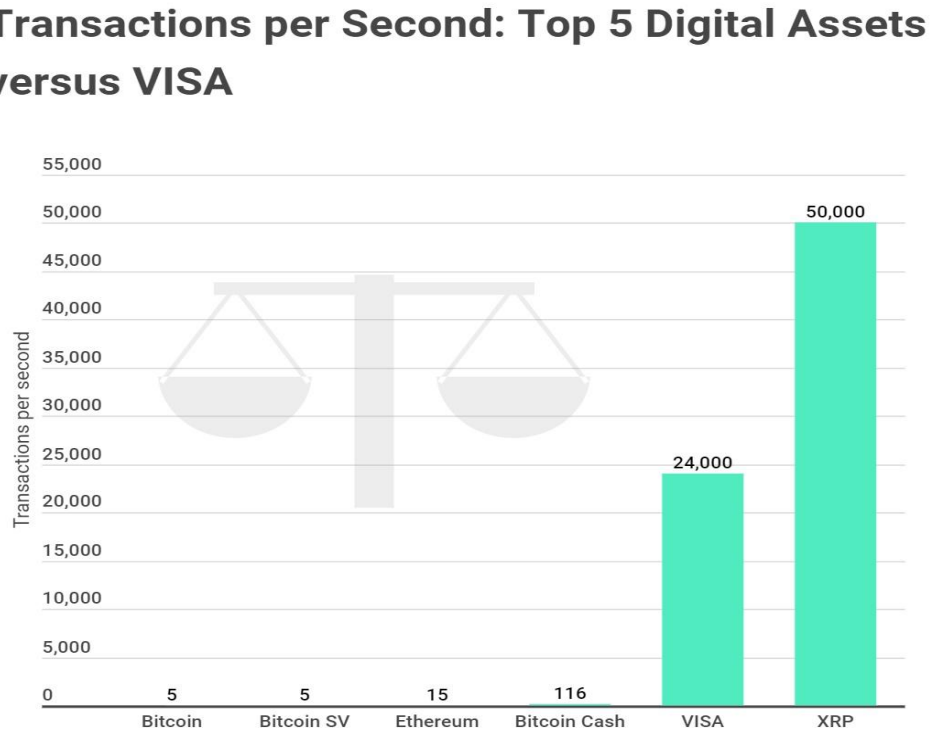


(source:huxley.com)

Digital currency starts in 2008 when Satoshi Nakamoto (an anonymous person and/or group) released their White paper detailing what would become bitcoin. Bitcoin became the first decentralized cryptocurrency coin when it was created in 2008. Then went to the public in 2009. As on of April 2020, Bitcoin (market cap □10,912,694,920,983.00) is the most commonly known. Meanwhile, alternative coins including Ethereum (ETH), Ripple (XRP), Litecoin (LTC), and additional are notable mentions. Given the popularity of Bitcoin as well as its history, the term "altcoin" is typically used to describe various cryptocurrencies to bitcoin (especially coins with small market caps).

5. Transaction speed

The power of eliminating intermediaries is the ability to lower transaction costs and take back control from powerful financial intermediaries**.**Cryptocurrency transactions generally are more efficient compared to banking transaction,Bitcoin is a peer to peer payment system that utilizes a cryptocurrency of the same name and a transfer protocol that is entirely different from that of Visa. It is based on a decentralized distributed network known as a blockchain. This network operates as a kind of registry, where chronologically registered transactions are recorded. Each of the network members keeps a copy of it. This ensures a high level of network security and transparency of the complete transaction history, and also allows for conducting transactions without intermediaries. It is thanks to the blockchain that users can send and receive cryptocurrencies directly to each other. Moreover, since the launch of the primary blockchain in 2009, the Bitcoin network has maintained continuous operation for 100% of the time because of blockchain.



(Source: payspacemagazine.com)

XRP (Ripple) is the 3rd most valuable (**market cap** is □. 722,964,991,566.00) cryptocurrency in the world after Bitcoin and Ethereum it can handle 50000 transactions per second and visa can make up to 24000. For example, the transfer of □.1,00,000 in XRP charged up to □. 14. While in VISA or any other banking mode, if we take 1% as a transaction fee it was like Rs. 1000 so we can see there is a huge different in terms of transaction charges so it is a batter than a bank. But a coin always has two sides Governments control fiat currencies. They use central banks to issue or destroy money out of thin air, using what is known as monetary policy to exert economic influence. They also dictate how fiat currencies can be transferred, enabling them to track currency movement, dictate who profits from that movement, collect taxes on it, and trace criminal activity. All of this control is lost when non-government bodies create their own currencies like XRP, and it is harmful to the economy, Control over currency has many downstream impacts, perhaps most notably to a nation's fiscal policy, business environment, and efforts to control crime. While each of these topics is broad and deep enough to fill volumes, a brief overview is enough to provide insight into the general concept.

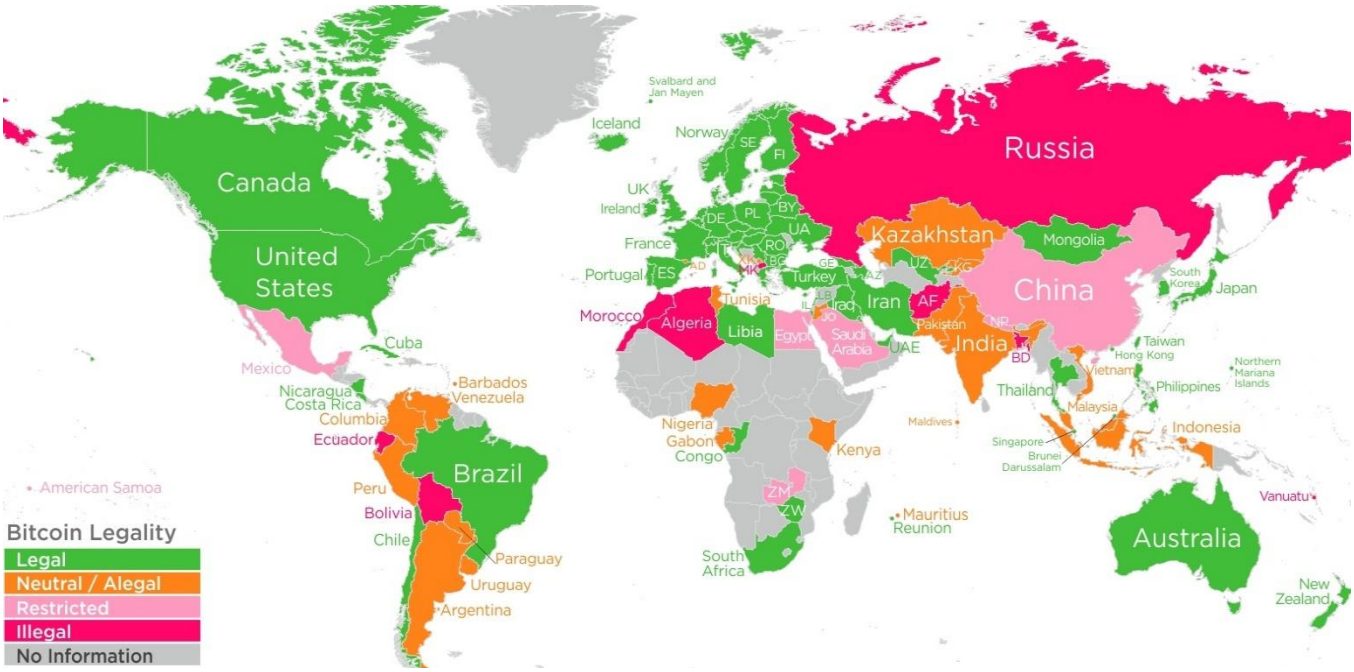
6. Transparency

Blockchain is a distributed database that can offers many innovative features above and beyond what a traditional database offers. Cryptocurrencies are decentralized ledgers that almost always make use of a blockchain to keep track of and secure transactions.If you find yourself getting confused, just remember that blockchain is to the internet as cryptocurrency is to email. Cryptocurrency is likely just the first major widespread application of blockchain technology.

The goal of achieving transparency has become more challenging in recent years as banks' activities have become more complex and dynamic. Many banks now have large-scale

international operations and significant participation in securities and/or insurance businesses in addition to traditional banking activities. Their product lines change rapidly and include highly sophisticated transactions, and they have complex legal and managerial structures. These banks present formidable challenges to market participants and supervisors who need to formulate ongoing assessments of banks' activities and risks. At the same time as transparency has become more challenging.

Countries that have legal and illegal status for cryptocurrency around the world:



(source: howmuch.net)

Here is a breakdown of the chart, based on the global legality of Bitcoin out of 246 countries
Legal (mean not 100% they make some regulation) and Neutral (Green and Orange): 99 Countries or 40% of World
Restricted (Light Pink): 7 Countries or 3% of World
Illegal (Dark Pink): 10 Countries or 4% of World
No Information (Grey): 130 Countries or 53% of World

Overall, a majority of the world still has yet to comment on the legality of Bitcoin. The emerging industry is still not fully understood by global regulators, which may explain why some countries have yet to comment on the movement. As time passes, countries that have remained on the side line will eventually come out with a set of regulations that either approve Bitcoin's use or illegalize the activity. Bitcoin's rise in popularity continues to exceed expectations, but not all countries will see cryptocurrency in a favourable light.

7. Major challenges faced by India banking sectors

Non- performing assets: Due to a high proportion of non-performing assets or outstanding due to banks from borrowers, banks are incurring huge losses. Most of them are also unable to maintain the capital adequacy ratio. Also, the bank is not able to recover the loans. In recent times, Punjab national bank is making huge losses because of NPAs.

Lack of technology: Many of the public sector banks are not ready to give up their obsolete way of banking as it will increase the maintenance cost of banks. Automation of the banking sector can help the banks from coming out of the revenue crunch.

Competition: Cryptocurrency companies, Foreign banks, Non-Banking Financial Institution, and the smaller private sector banks have a registered higher increase in deposits and ROI. One reason seems to be that non-nationalized banks offer betters customer service. This creates the impression that a diversion of deposits from the nationalized banks to other banks as well as companies has probably taken place.

8. Major organization future plans

Facebook coming with his own cryptocurrency Libra coin, Telegram coming with his own coin TON coin and much more organization is in the line.

9. Conclusion

Blockchain technology is bringing tremendous transformation in the financial sector as well as in the banking sector it got its own importance and limitations and challenges in the Indian Banking sector as we discussed in the above information, lack of legal Framework, energy consumption is very high need a lack of database lack of encryption privacy etcetera but still its own advantages in IT sector and also got its advantages like it would reduce the cost efficiency and it elements intermediaries, high transparency and also it helps in trading platforms payments, trade finances and also it helps to record accurate know your customer, very easy smart connect, security and transparency will be very high in this technology. But on the other side Banking is also very important pillar

without bank and government it was just a way for money laundering, gambling, terrorist activities, and other illegal activities, so the government should draft rules and regulation for legalize the cryptocurrencies in India because this is a new trend.

A famous statement the World biggest e-commerce company Amazon has almost no stores, the World largest taxi company Uber owns almost no cars, the world most valuable retailer Alibaba has no inventories, Airbnb the largest accommodations provider own no real estate, and last Bitcoin has no physical coin, this is the new trend in the business.

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