Bit by bit, coin by coin

When Prime Minister Narendra Modi broke the demonetisation news to a billion gobsmacked Indians on November 8, 2016, many things happened. Mattresses were unsewn, lines snaked around rapidly depleting ATMs, there were mini-riots outside banks, and impromptu parties were reported in the e-wallet startups in India.

One particular side-effect of demonetisation, however, was not talked about much: the price of Bitcoin in India went up around 10% almost overnight, and trading volumes from India jumped up 30-50%, as people looked around for alternative currencies and investments. Conversely, the much-criticised feature of Bitcoin, that it was not backed by any government, became its most sought-after point.

The rise of alt currencies

Most of us have heard of Bitcoin, and many of us know it as a digital currency that is open-source, with a design that is public, and the fact that nobody owns or controls Bitcoin, but everyone can take part. We are also a bit wary of it, with its slightly shady darknet and drug-trade overtones.

Bitcoin is actually one of the thousand-plus alternative currencies (or alt-coins), enabled by a potentially world-changing technology called Blockchain. These were born of a seminal paper written by Satoshi Nakamoto in 2008; what adds to the mystery is that no one still knows who or what Satoshi is. What is, however, increasingly clear is that Bitcoin (and Blockchain) represents a completely new way of super-secure, peer-to-peer currency (and technology) which has the potential to disrupt the way our businesses and transactions behave.

There is a lot of noise around Bitcoin these days — one bitcoin, worth a couple of cents in 2008, is up to over $4,000 today; in fact, there was a period, when it was increasing by 5 to 10% daily! This has powered the Bitcoin market value to reach $50bn. Catching up fast is another alt-coin, Ether, which is the currency emanating from the Ethereum Blockchain: it grew from almost nothing to $200 for one Ether today, making a $20bn market cap, and is widely predicted to become larger than Bitcoin. As if this was not enough, there are others: Ripple, Litecoin, Golem, Dogecoin, and one intriguingly called Satoshi.

The scene in India

While this is all very interesting, and sometimes baffling, what do we make of this, sitting in India? There are two ways you can obtain Bitcoin or Ether — either you 'mine' it, or you buy it. Mining, while very possible, is an intensive and tech-heavy proposition; you will need mining software and some very heavy-duty computing equipment and hardware. There is Alt currency (especially Bitcoin) trading in India too, though the traded volume here is very small; the giants in this being USA and China. There are a few Indian companies — Unocoin, Zebpay, Coinsecure, BTCXIndia — which offer Bitcoin wallets and INR to BTC (Bitcoin) buying and selling.

You can freely convert Bitcoin into currency — whether INR or USD. In fact, there are multiple merchants who accept BTC directly. Some of them are big names like Microsoft, Dell, Expedia, Intuit to name a few. Then there are others like Whole Foods, a bunch of pizza and coffee bars, a few adult sites... Unocoin claims that 25 merchants in India directly accept Bitcoin, like Sapna Book House and a few online travel and mobile recharge merchants. However, the best way to use BTC is still to reconvert it into rupees/dollars.

Are alt currencies for you?

There are fabulous stories of bitcoin riches. There is one of this American guy who bought 20,000 bitcoins for around $3000; today, he travels the world in complete luxury, with the $25 million he made on that investment! This kind of rags-to-riches story has prompted many of us to look seriously at this investment option. So, should we get into this game?

BTC is definitely a legitimate trading option in India, though it comes under a high-risk category. The currency is very volatile, sometimes going up and down 5% in a single day. While it is not banned in India, it is in a grey area: the RBI does not stop it, but asks people to be careful. There are a few countries which have banned it, there are some actively encouraging it, and some where it is predicted that digital currency will become the national currency. Also, BTC is more expensive in India than it is in the US, so there is arbitrage risk. The wallet providers here are much smaller and more recent, and there have been instances of large, global Bitcoin wallet providers going belly-up due to fraud and other reasons. So, it really depends on your risk appetite; if you are willing to take some risk with a small part of your investment corpus, go for it. Do not bet the house on it, however.

Summing up

While alt currencies are going through their growth pains, I do believe that digital currencies will exist, and thrive, in the future. What I am much more optimistic and excited about, however, is the building block technology behind them: the Blockchain. This has the potential to disrupt and change multiple businesses — banking, remittances, supply chain, land records and registry, healthcare, and even governments. So, I would put my money on Blockchain.

Blockchain: Safety in numbers

Any data stored by one organisation — the record of your banking transactions, for example — is vulnerable to hacks and inadvertent errors. But what if that data was spread to multiple entities, and each maintained an independent record of your transactions? Hacking or manipulating such a decentralised ledger would be a task best left for Hollywood flicks.

Blockchain technology — where the ledger is distributed to peers across a network — promises enhanced security, trust and transparency over traditional bookkeeping systems. No wonder it has become a popular buzzword in the banking and financial services sector, where significant amounts are lost every year to transaction frauds and data entry errors. But Blockchain tech also has the potential to disrupt manufacturing, real estate, stock exchanges, transportation, smart cities, e-commerce — in fact, any business that depends on its database being reliable.

As the advisory firm Deloitte’s Beyond Bitcoin report points out, “Blockchain technology offers a way of recording transactions or any digital interaction in a way that is designed to be secure, transparent, highly resistant to outages, auditable, and efficient; as such, it carries the possibility of disrupting industries, remaking business practices such as accounting and auditing, and enabling new business models.”

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It shows better energy efficiency than digital models

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