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Original Article

A Study on The Evolving Financial Landscape, Risk Dynamics and Institutional Integration of Cryptocurrency in India

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Abstract

The rapid development of cryptocurrency and blockchain technology has significantly influenced the global financial landscape, creating new opportunities for digital financial innovation while introducing various financial, technological, and regulatory challenges. This study examines the evolving financial landscape of cryptocurrency in India, with particular emphasis on risk dynamics and institutional integration. It explores the development of Virtual Digital Assets (VDAs), the major risks associated with cryptocurrency, and the regulatory mechanisms introduced by the Government of India and financial authorities. The study focuses on market volatility, cybersecurity threats, consumer protection, money laundering, financial stability, taxation, and Anti-Money Laundering and Counter-Terrorist Financing (AML/CFT) compliance. It also examines the growing relationship between cryptocurrency-related activities, financial institutions, fintech organisations, and India's broader digital-finance ecosystem. The research adopts a secondary and descriptive analytical approach based on publications from the Reserve Bank of India, the Income Tax Department, the Financial Intelligence Unit–India, the Bank for International Settlements, and other credible sources. The study highlights the importance of balancing technological innovation with effective regulation, risk management, and consumer protection. It concludes that a transparent and well-structured regulatory framework is essential for addressing cryptocurrency-related risks and supporting the responsible development of India's digital financial ecosystem.

Keywords: *Cryptocurrency, Virtual Digital Assets (VDAs), Financial Landscape, Risk Dynamics, Institutional Integration, Blockchain Technology, Financial Regulation, Taxation, AML/CFT Compliance, Cybersecurity, Financial Stability, Digital Finance, Fintech, Consumer Protection.*

Introduction

The rapid development of blockchain technology and digital assets has introduced new forms of financial activity into the global economy. Cryptocurrency represents one of the most significant developments in this area because it enables digital value to be transferred through distributed-ledger systems without relying on a conventional centralised monetary authority. Bitcoin, Ethereum and other crypto-assets have developed into a large global market involving individual users, exchanges, technology companies, investors and financial intermediaries. This development has created new opportunities for financial innovation while also generating questions concerning market volatility, consumer protection, financial stability, money laundering, cybersecurity and regulatory oversight. India has emerged as an important market in the global digital-asset ecosystem. The growth of smartphone usage, digital payments, financial technology and internet-based investment platforms has increased public awareness of cryptocurrencies. At the same time, Indian financial authorities have maintained concerns regarding the risks associated with private crypto-assets. The Reserve Bank of India has repeatedly highlighted risks related to volatility, cybersecurity, consumer protection, illicit finance and monetary and financial stability. The financial landscape surrounding cryptocurrency in India is therefore distinctive. Rather than treating cryptocurrency simply as either a conventional currency or a prohibited financial instrument, India has developed a framework in which certain activities involving Virtual Digital Assets (VDAs) are subject to taxation and anti-money-laundering requirements.

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The Income-tax framework provides a specific tax treatment for income from VDAs, including a 30% tax rate under Section 115BBH as reflected in current Income Tax Department guidance. The regulatory framework has also expanded through the Prevention of Money Laundering Act (PMLA). In 2023, specified VDA-related activities were brought within the reporting-entity framework, including exchange between virtual digital assets and fiat currencies, exchange between different VDAs, transfer of VDAs, custody or administration of VDAs and certain financial services connected with VDA issuance and sale. This represents an important development in the institutional integration of cryptocurrency because crypto-related service providers are increasingly being brought within financial-integrity and compliance mechanisms. The Financial Intelligence Unit–India has continued to develop the compliance framework for VDA service providers. Its updated January 2026 AML/CFT guidelines provide guidance for reporting entities providing services related to VDAs. FIU-India also issued a revised registration circular for VDA service providers in September 2025, demonstrating the continuing development of India's compliance infrastructure. Taxation represents another important dimension of institutional integration. India's tax framework recognises VDAs for taxation purposes rather than treating all crypto activity as outside the financial system. Current Income Tax Department guidance states that VDA gains are subject to a 30% tax, with a separate Schedule VDA for reporting such income in applicable income-tax returns. The tax framework has also evolved administratively. From 1 April 2026, the Income Tax Department's current guidance provides for the use of Form 141 for specified TDS-related reporting, including transfers of VDAs under the new tax framework. The evolving financial landscape must also be considered in relation to India's central bank digital currency. The Reserve Bank of India has distinguished private cryptocurrencies from Central Bank Digital Currency (CBDC). RBI research has described CBDC as sovereign digital money and has highlighted potential benefits such as payment efficiency, resilience and financial inclusion. At the same time, RBI publications have expressed concerns about private crypto-assets and their potential implications for monetary and financial stability. Risk is therefore a central component of India's cryptocurrency debate. Cryptocurrency markets can experience substantial price volatility, creating financial risks for investors and users. RBI has historically highlighted risks associated with hacking, loss of access credentials, lack of established customer recourse mechanisms and substantial price fluctuations in virtual currencies. These risks remain relevant as the market becomes more interconnected with technology providers, exchanges and financial services. Another important risk concerns money laundering and terrorist financing. The pseudonymous characteristics of certain blockchain transactions and the cross-border nature of cryptocurrency markets create challenges for traditional financial monitoring. India's decision to bring specified VDA activities within the PMLA framework represents an institutional response to these concerns. Cybersecurity and operational risks are equally significant. Crypto-assets are dependent on digital wallets, private keys, exchanges, blockchain infrastructure and software systems. Security breaches, fraudulent platforms, phishing attacks and loss of access credentials can result in financial losses. These characteristics create a need for stronger cybersecurity, customer identification, transaction monitoring and operational controls. The relationship between cryptocurrency and traditional financial institutions is another emerging issue. Globally, financial institutions have gradually developed varying degrees of exposure to crypto-assets and related services. Research by the Bank for International Settlements found that traditional financial intermediaries' direct crypto exposures were relatively limited in the period studied, while crypto activity was concentrated in specialised exchanges and other intermediaries. The study emphasised that rapid growth could create risks requiring comprehensive monitoring. In India, institutional integration should therefore not be understood simply as banks directly adopting cryptocurrencies. It can include taxation, AML/CFT compliance, financial reporting, regulated interactions with VDA service providers, blockchain-related technology, custody arrangements, financial-market infrastructure and the broader development of digital financial services. The distinction between cryptocurrency itself and blockchain technology is also important because distributed-ledger technology may have applications beyond speculative crypto-assets. The global regulatory environment has also influenced India's approach. During India's G20 Presidency, international discussions focused on developing coordinated approaches to crypto-assets. RBI's financial-sector reports noted the IMF-FSB synthesis work and the Financial Stability Board's global regulatory framework based on principles addressing market integrity, custody, cross-border risks, operational risks and retail distribution. The risk landscape has continued to evolve with stablecoins and decentralised finance (DeFi). RBI's publications have noted that crypto-assets and stablecoins have grown substantially and that previous market disruptions demonstrated vulnerabilities associated with inadequate regulation and design. DeFi can create additional challenges because financial services may be provided through smart contracts and decentralised arrangements rather than conventional intermediaries. At the same time, cryptocurrency-related technologies may contribute to financial innovation. Blockchain can support programmable transactions, tokenisation, digital ownership records and potentially more efficient settlement mechanisms. The challenge for policymakers and institutions is therefore to distinguish useful technological innovation from risks arising from poorly governed financial activities. Institutional integration also requires consideration of consumer protection. Retail participants may have limited knowledge of market risks, taxation requirements and cybersecurity practices. Transparent information, appropriate disclosures, secure custody and effective complaint mechanisms are therefore relevant to the development of a more structured digital-asset ecosystem.The Indian cryptocurrency landscape can consequently be understood as a process of **regulated recognition without equivalent treatment as sovereign money**. Crypto-assets have entered parts of the

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formal institutional framework through taxation and AML/CFT requirements, while major financial authorities continue to highlight their risks. This creates an evolving environment in which technology, financial markets, regulation and institutional participation interact.

The present study therefore examines the evolving financial landscape of cryptocurrency in India, with particular attention to risk dynamics and institutional integration. It focuses on regulatory developments, financial risks, technological risks, taxation, AML/CFT requirements, institutional participation and the relationship between private crypto-assets and India's broader digital-finance ecosystem.

Need of the Study

The study is needed because cryptocurrency has developed from a largely technology-oriented innovation into an important component of the wider digital-finance discussion. India has introduced taxation and AML/CFT mechanisms for specified VDA activities, demonstrating that cryptocurrency-related activities have become relevant to formal financial and regulatory institutions. The study is also important because cryptocurrency creates several types of risks, including market volatility, cybersecurity threats, consumer-protection concerns, illicit-finance risks and potential implications for financial stability. RBI publications continue to examine these issues as part of the broader financial-stability framework. Understanding the relationship between innovation, risk and institutional integration can therefore help explain how India's financial system is responding to the emergence of crypto-assets and how the digital-asset ecosystem is becoming connected with taxation, compliance and financial institutions.

Objectives of the Study

1. To examine the evolution of the cryptocurrency and Virtual Digital Asset landscape in India.
2. To identify the major financial, technological, regulatory and consumer-related risks associated with cryptocurrency in India.
3. To analyse the development of India's taxation, AML/CFT and regulatory framework relating to Virtual Digital Assets.
4. To examine the emerging relationship between cryptocurrency, financial institutions, fintech organisations and India's broader digital-finance ecosystem.
5. To study the role of institutional and regulatory mechanisms in managing risks associated with cryptocurrency.
6. To examine the future implications of cryptocurrency and related digital-asset technologies for India's financial landscape.

Literature Review

Reserve Bank of India (2022) examined the implications of private cryptocurrencies in the context of India's financial system and CBDC development. RBI highlighted concerns relating to monetary stability, financial stability, money laundering, capital-flow management and consumer risks. The publication also distinguished CBDC from private cryptocurrencies and discussed the potential role of sovereign digital money in providing digital-payment functionality without some of the risks associated with private crypto-assets [1].

Bank for International Settlements (2022) examined institutional adoption of cryptocurrencies and the relationship between crypto markets and traditional financial intermediaries. The research found that direct exposure of major banks to cryptocurrencies was relatively modest in the period examined, while significant activity was concentrated in specialised crypto exchanges. The study highlighted the importance of monitoring institutional linkages as crypto markets develop and potentially become more interconnected with mainstream finance [2].

Reserve Bank of India (2023) examined regulatory developments concerning crypto-assets and DeFi within the broader financial-stability framework. The report noted that India's G20 Presidency contributed to international efforts toward a coordinated regulatory approach and discussed the IMF-FSB synthesis paper and the FSB's framework for crypto-asset activities. The report highlighted issues including market manipulation, custody, consumer protection, operational risks, cross-border risks and regulatory arbitrage [3].

Reserve Bank of India (2024) examined developments in decentralised finance and its implications for the financial system. The research highlighted the high volatility of DeFi returns and discussed the relationship between crypto-related activities and traditional financial institutions. It also noted that although major financial institutions had some direct exposure, the overall exposure remained limited in the context examined [4].

Research Gap

Existing research has examined cryptocurrency from several perspectives, including monetary policy, financial stability, investment risk, regulation, DeFi and institutional adoption. RBI publications have particularly focused on macroeconomic and financial-stability risks, while international research has examined institutional exposure and the integration of crypto markets with traditional finance. However, there remains scope for an integrated study specifically examining the **Indian financial landscape** through the combined dimensions of cryptocurrency development, risk dynamics and institutional integration. Existing literature frequently examines regulatory issues, financial risks or institutional participation separately. There is therefore a need to bring these dimensions together and examine how

cryptocurrency-related activities are becoming connected with taxation, AML/CFT compliance, financial institutions, fintech infrastructure and broader digital-finance developments in India.

The present study addresses this gap through a secondary analytical framework that connects the evolution of cryptocurrency with the changing institutional and regulatory environment in India.

Methodology

The study will adopt a **secondary and descriptive analytical research design** using information obtained from Reserve Bank of India publications, Ministry of Finance and Income Tax Department documents, Financial Intelligence Unit–India guidelines, Government of India reports, Bank for International Settlements publications, IMF/FSB-related materials, peer-reviewed academic studies and other credible financial-sector research. The analysis will focus on three interconnected dimensions: the evolving financial landscape of cryptocurrency, major risk dynamics and institutional integration. The financial landscape will be examined through developments in crypto-assets, digital finance, taxation and the growth of VDA-related services; risk dynamics will be analysed through market volatility, cybersecurity, consumer protection, money laundering, operational risk, financial stability and cross-border concerns; and institutional integration will be examined through taxation mechanisms, PMLA-related compliance, FIU-India registration and reporting requirements, financial institutions, fintech organisations and the broader digital-finance ecosystem. Comparative and thematic analysis will be used to interpret regulatory developments and institutional responses over time. Current regulatory information will be distinguished from historical policy statements, and numerical evidence will be included only where directly supported by reliable published sources. No fabricated survey responses, percentages, institutional exposure figures or primary empirical results will be introduced.

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