

# Cryptocurrency

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Cryptocurrency is gaining popularity worldwide, with some countries already starting to regulate and accept cryptocurrency in their financial services. Malaysia's Securities Commission (SC) announced in October 2021 that over MYR 16 billion (USD 3.85 billion) involving digital assets and cryptocurrencies were traded between August 2020 and September 2021. Since cryptocurrencies are issued by private corporations and are technically beyond the federal government's control, criminals may use them for illegal reasons such as money laundering and terrorist funding. Consequently, it is vital to examine why investors are engaged in cryptocurrency in the first place.

Keywords: risk ; cryptocurrency ; investment

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## 1. Introduction

Globalization and the development of financial markets have increased people's ability to invest in securities and financial instruments as they are no longer bound by national borders ([Lim 2013](#)). Cryptocurrency and the technology that underpins them, namely blockchain technology, are developing into popular investment instruments and are transforming the way financial services operate and accelerating the pace of digitalization. Additionally, when the world was struck with a global health catastrophe in the form of the COVID-19 pandemic that resulted in the implementation of quarantines and restrictions worldwide, the future of financial services could not have evolved sooner.

Nevertheless, the world economy has suffered as a result of the pandemic, causing a devastating downturn that affected most financial markets. Accordingly, investors began looking for an alternative and recognized the potential of the digital economy in the wake of restrictions and movement control. Given the fact that almost all the world's population was restricted to their homes as a result of lockdowns, consumers became more engaged in online businesses. Although digital currencies were not used as a medium of payment, many investors switched their investments to cryptocurrencies in the hope of profiting, despite the fact that they were not backed by economic fundamentals. However, Malaysian regulators and policymakers seem to be unsure of how to approach this new innovation and how to properly utilize this new technology ([Nawang and Azmi 2021](#)).

Alternatively known as digital or virtual currencies or tokens, cryptocurrencies are developed or mined and privately traded for transactions by individuals or organizations. However, regulators in many countries do not recognize cryptocurrency. Despite the total ban on the usage of cryptocurrency in many countries, cryptocurrency is gaining popularity in the recent years as a number of countries have started accepting and regulating cryptocurrency ([Global Legal Research Center 2018](#)). Additionally, the interest in cryptocurrency is gaining momentum as many blockchain start-up companies are using cutting-edge blockchain innovation in developing economies to enhance the efficiency of the current banking system.

In the context of Malaysia, the government made its position on cryptocurrency clear in 2019 by adopting the cryptocurrency law which took effect on 15 January 2019. The Capital Markets and Services Order 2019 categorizes all digital coins, tokens, and crypto assets as being protected and subjected to the Securities Commission Regulations. Anyone involved in unlicensed initial coin offerings or digital asset exchanges in Malaysia could face a ten-year prison sentence and a RM10 million fine ([Zmudzinski 2019](#)). Additionally, Malaysia's Ministry of Finance reaffirmed the government's objective of encouraging continuing growth in digital asset creation and peer-to-peer lending while protecting investors in digital asset trading in certain circumstances. In achieving this goal, the Securities Commission Malaysia (SC) and Bank Negara Malaysia (BNM) began working closely together in December 2020 to establish cryptocurrency and digital asset policies and regulations that would foster sustainable innovation while managing any potential risks connected with this developing sector.

In Malaysia, the adoption of cryptocurrency in general, including its adoption by investors, is still in its early adopter phase ([Ku-Mahamud et al. 2018](#); [Yeong et al. 2019](#); [Yusof et al. 2018](#)). In an effort to foster innovation and creativity, Bank Negara Malaysia (BNM) does not prohibit Bitcoin trading even though digital currencies are not legal cash in Malaysia.

Thus, the question of whether the digital currency should be regulated in Malaysia needs to be addressed. Malaysian regulators and policymakers are presently working on how to approach this new innovation and how best to utilize this new technology. Accordingly, having better knowledge about Malaysian retail investors' perceptions of the risks and returns would help policymakers and regulators to make better decisions on how to deal with cryptocurrency investments. This is essential since governments need to engage carefully in this area by avoiding both over-and under-regulation since both would hinder the development of digitalization. Therefore, knowing retail investors' perception of risk and value in relation to cryptocurrency investment is crucial as such knowledge would be able to provide an insight into public perception of this new emerging form of investment.

## **2. Risk Control and Management**

The decentralized and anonymous (or pseudonymous) features of cryptocurrency have made it easy for criminals to use it to engage in a variety of illegal activities including money laundering and terrorism financing. Additionally, the anonymity exhibited by cryptocurrencies can lead to consumers being manipulated into believing they are engaging with legitimate firms, only to discover they have been victimized. Given their anonymity, terrorist funders have even used this platform to finance terrorists as their transactions cannot be traced back to them. The uncovering of Silk Road, a black-market network that accepts Bitcoin for the trade of illegal drugs ([Daniels 2014](#)), is one such example of how cryptocurrencies could be easily used for illicit transactions. Such a scenario has undoubtedly raised legal concern over the monitoring and regulating of cryptocurrency. Despite the fact that cryptocurrency is highly volatile and lacks a regulatory framework, research on the primary reasons for investing in cryptocurrency is still scarce ([Gupta et al. 2020](#)). Nevertheless, research on the phenomenon is currently gaining momentum.

[Zulhuda and Sayuti \(2017\)](#) found that government attitudes and perceptions toward cryptocurrency vary across countries. They argued that Malaysia has so far embraced a “minimalist” approach to cryptocurrencies while possibly adopting a “wait and see” approach toward it. As a result, the business and activities of digital currency exchanges are not protected by the market norms that are applicable to other financial organizations that are regulated. For this reason, [Zulhuda and Sayuti \(2017\)](#) maintained that the government should conduct a closer inspection and consider implementing an industrial self-regulatory system to handle and manage key elements and risks. In a study conducted by [Huang \(2019\)](#), in China it was found that many of the respondents were keen and wanted to buy Bitcoin; they also wanted the government to get involved. More than 50% of the respondents in Huang's study reported that they understood the higher return from cryptocurrency investments, especially that of Bitcoin; however, many were unaware of its risks and perceived values.

In general, cryptocurrency is viewed as a speculative investment instead of a long-term investment ([AFM 2018](#)). According to [Ryu and Kwang \(2019\)](#), cryptocurrency as a speculative investment activity is a natural response to an unbalanced interplay between high and low impulses. The findings of his study, which was conducted in South Korea, imply that Bitcoin speculation uses a decision-making process similar to that used by other unplanned or risky IT behaviors. [Inci and Lagasse \(2019\)](#) demonstrated that cryptocurrencies' contributions to an ideal portfolio are dynamic and thus evolve over time. Based on their findings, the authors concluded that popular cryptocurrencies play an important role in portfolio construction and investment, in addition to the original purpose of growing money. Their findings also indicate that social commerce promotes trust in cryptocurrency usage and willingness to use cryptocurrency.

Despite the lack of authoritative statistics and official records on the adoption and use of cryptocurrencies in Malaysia, it is claimed that Bitcoin has been transacted in the nation since 2012, with many relying on posts on BitcoinMalaysia.com ([Nawang and Azmi 2021](#)). Nevertheless, a detailed examination of the historical evolution of cryptocurrencies from 2012 to the present reveals that the currency's promising future has yet to be properly acknowledged by the Malaysian public. It has been argued that the concern over loss or theft, fraud or unauthorized use, wallet or exchange failure, inadequate disclosure as well as issues of transaction processing are some of the potential risks that may have contributed to Malaysian consumers' slow adoption of cryptocurrencies ([Zahudi and Amir 2016](#)). This is supported by [Nawang and Azmi \(2021\)](#) who reasoned numerous factors may have contributed to the delayed adoption of these cryptocurrencies in this country. However, they maintained that most of these are centered on concerns about security and consumer protection. The Malaysian government has taken a “minimalist” approach to cryptocurrency regulation to avoid stifling innovation and the growth of cryptocurrency in the country ([Nawang and Azmi 2021](#)). In doing so, it could be argued that the government has taken a warm approach toward cryptocurrency regulation in Malaysia ([Durgha 2018](#)).

## **3. Perceived Risk and Value**

Perceived value had a significant influence on adoption, while perceived risk had no influence on adoption. The results suggest that investors recognize the value of cryptocurrency investments and not the risk. Perceived value was found to

have a positive influence on cryptocurrency investment. Retail investors are drawn to cryptocurrencies as an investment option because of their attractive characteristics. [Briere et al. \(2015\)](#) highlighted the key features of cryptocurrencies that make them exceptionally attractive among investors including the high market volatility, high average return, accessibility even on weekends, and low correlation with traditional assets which are all characteristics that have major diversification advantages. This is supported by [Lee et al. \(2018\)](#) who mentioned that cryptocurrency has also been highlighted in many studies for their diversification benefits. Despite the many advantages of cryptocurrency investment, there is also an equal amount of risk associated with cryptocurrency investment. The findings of this study regarding financial literacy among Malaysian retail investors which revealed that 48.82% of the respondents reported their willingness to allocate more than 20% of their portfolio into cryptocurrency should raise concern. This willingness could be due to the investors' expectation that cryptocurrency investments would skyrocket eventually, as well as their fear of missing out (FOMO) if cryptocurrency prices were to skyrocket. Hence, this study contributes to the consumer behavior theory by highlighting Malaysian retail investors' perceived value over risk in cryptocurrency investment.

Perceived risk is consistent with [Mendoza-Tello et al. \(2018\)](#) and [Arias-Oliva et al. \(2019\)](#) who both concluded that perceived risk had no influence on cryptocurrency investment adoption. [Arias-Oliva et al. \(2019\)](#) justified that this could be because most respondents regarded the danger associated with cryptocurrencies to be relatively low. Additionally, it could be argued that as a result of the extensive notion that retail investors lack financial literacy and investment knowledge, some retail investors may be completely unaware of the risk that they might be exposed to. As claimed by [Weber and Milliman \(1997\)](#), consumers who have low perceived risk of the behavior are likely to have a more positive attitude toward the behavior. This could be a convincing argument as cryptocurrency investors are often driven by the potential of earning a high rate of return despite the associated risk of cryptocurrency investment. [Zhao and Zhang \(2021\)](#) found that individuals who invested in cryptocurrencies had a much lower perceived risk and a higher risk tolerance than those who did not. As 69.9% of the respondents of this study reported having invested in cryptocurrencies, such a behavior aligns with [Zhao and Zhang's \(2021\)](#) findings, evidencing a low level of risk perception and higher level of risk tolerance among the Malaysian retail investors.

## **4. Demographic**

The demographics of age and gender were found to have a significant influence among adopters and potential adopters in this study. Most of the respondents who were already investing in cryptocurrency in this study were male, at 74.4%. According to [Faqih \(2016\)](#), women have a higher risk perception when it comes to adopting new technologies, and this concern is likely to deter them from engaging in these activities. Considering that 74.4% of the respondents in this study were men, this might justify the reason for the finding of unsupported hypothesis for perceived risk. Moreover, women are most likely deterred from cryptocurrency investment because of their low income, the market uncertainty and volatility of cryptocurrency, and their lack of investment experience. In terms of age, most of the respondents (31.3%) in this study were of the age between 25 and 34 years old and belonged to Generation Y. In contrast, only a small number of the respondents at 14.2% belonged to the Baby Boomers category, whose age range were 55 years old and above. [Fietkiewicz et al. \(2016\)](#) argued that different generations have varying levels of technology adoption and acceptance. Various assumptions concerning generational acceptance of technology have been asserted in the literature, where it is claimed that the different perspectives of the different generations combined with the digital divide have prevented older generations from accepting and adopting modern technologies. This assumption is relevant since the majority of the retail investors in this study were from Generations Y and Z who are deemed to have a high level of technological awareness.

Conversely, income, education, and investment experience were found to be insignificant in relation to cryptocurrency investment adoption. This suggests that the demographics of income, education, and investment experience would not result in any significant difference among retail investors in Malaysia that would influence their intention to adopt cryptocurrency as an investment. The variable of income was found to be insignificant, and this could be attributed to the nature of cryptocurrency investment where cryptocurrency can be acquired in fractions depending on the retail investors' buying power. In addition, there is no capital gains tax in Malaysia; thus, any income earned from the trading of cryptocurrencies would not be taxed. Next, education was also found to be insignificant, and this could be attributed to retail investors having a "non-investment" type of education ([Grable 2000](#)). This demonstrates that, despite having a high level of education, retail investors are not necessarily well-versed in investment-related matters. According to [Nurbarani and Soepriyanto \(2022\)](#), findings indicate that more experienced individuals, especially those who hold more high-risk sophisticated investment products, are more likely to invest in cryptocurrencies. However, this was not the case in this study. Arguably, it could be rationalized that as cryptocurrency investment is relatively new in Malaysia, most retail

investors are probably adopting cryptocurrency investment out of curiosity rather than out of their sophisticated knowledge of crypto investment.

## 4. Conclusion

Malaysian retail investors consider the value of cryptocurrency investments and not its risk when it comes to adopting cryptocurrency investment. This study provide better understanding and offer a new perspective on Malaysian investors' decision-making process with regard to this new emerging cryptocurrency investment. A significant theoretical contribution of this work is the development of investment intention factors for analyzing the investment decision-making process of Malaysian retail investors from a consumer behavior's viewpoint. Many prior studies have examined the variables affecting cryptocurrency investment, but few have considered how an investor would approach this decision-making process from a consumer standpoint. To the authors' knowledge, this is the first study to employ consumer behavior theory to understand retail investors in the context of cryptocurrency investment.

By understanding investors' adoption behaviors, policymakers would be better able to determine the need for cryptocurrency regulations. Policymakers and regulators can develop policies accordingly by avoiding over-regulating or under-regulating. By over-regulating, Malaysia risks being left behind in terms of new technologies and innovation that could improve the current financial sector. At this early adopter stage, over-regulation through tax burdens, strict licensing requirements, and foreign exchange controls may suffocate innovation efforts. However, if Malaysia fails to regulate, investors will become victims of financial fraud, crime, and money laundering, which could lead to significant losses to consumers, businesses, and investors. This could put Malaysia's financial stability at risk. As a result, regulators and policymakers must design policies that protect retail investors while also fostering the digitization of the financial sector.

To achieve Malaysia's objective of enhancing the development of digital infrastructure and services in accordance with the 12th Malaysian Plan, efficient, effective, and transparent policies regarding cryptocurrency need to be established. In this respect, this study could help policymakers by giving them better understanding and valuable information regarding retail investors' perceptions of cryptocurrency investment. Based on the findings, the majority of the respondents were male and of a relatively young age. It could be suggested that many of the retail investors in this study are unaware of the risks associated with cryptocurrency investment and are more intrigued by this new emerging investment product. For this reason, regulators should develop policies to protect young and inquisitive investors, as they are Malaysia's future. At this stage, financial literacy awareness for the general population is required.

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