ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/25jun1206

Perceived Risks and Challenges in Cryptocurrency Adoption

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Submitted to the Faculty of the Graduate School in
Partial Fulfillment of the Requirements for the
Degree of Doctor of Philosophy Business
University of the Cumberland

Publication Date: 2025/06/30

Abstract: This paper examines the perceived risks and challenges associated with the adoption of cryptocurrencies. Using qualitative interviews with stakeholders across the fintech and blockchain sectors, the study identifies major deterrents including volatility, regulatory uncertainty, cybersecurity threats, and lack of consumer protection. The findings reveal how both emotional and cognitive perceptions of risk hinder broader public adoption. Many participants highlighted the influence of media sensationalism and anecdotal experiences, which amplify fears related to scams and technical complexity. Furthermore, perceptions varied significantly across user groups, with institutional investors focusing on legal ambiguity and operational risks, while retail users emphasized usability issues and fear of irreversible losses. Understanding these perceptions is critical to creating strategies for building user confidence, promoting safe practices, and ensuring sustainable growth in the cryptocurrency space. The study recommends the development of transparent regulatory guidelines, improved cybersecurity standards, and more user-friendly onboarding experiences. By addressing the psychological and structural barriers simultaneously, stakeholders can facilitate a more inclusive and secure environment for cryptocurrency adoption. This research contributes to the growing body of work examining behavioral finance in digital economies and underscores the importance of human-centric approaches in technology diffusion.

Keywords: *Cryptocurrency Risks, Behavioral Finance, Risk Perception, Blockchain Adoption, Regulatory Uncertainty, Cybersecurity, Financial Technology, User Trust, Digital Asset Management, Crypto Regulation.*

How to Cite: Chetankumar Prajapati (2025) Perceived Risks and Challenges in Cryptocurrency Adoption. *International Journal of Innovative Science and Research Technology*, 10(6), 2122-2124. https://doi.org/10.38124/ijisrt/25jun1206

I. INTRODUCTION

Cryptocurrencies are reshaping financial ecosystems, offering decentralized, borderless, and censorship-resistant alternatives to traditional finance. However, despite their rapid technological evolution and increasing media coverage, widespread adoption remains limited due to perceived risks. Public trust remains fragile, and many individuals are deterred by the speculative nature of crypto markets, frequent reports of hacks, and the complexity of securing digital assets. This paper investigates these challenges from the perspective of end users, regulators, and developers to better understand barriers to adoption. The focus extends beyond technical issues to include psychological and sociocultural dimensions of risk perception. For example, while developers may see volatility as a natural phase of a growing asset class, end users may interpret it as evidence of instability. Regulatory uncertainty also contributes to a sense of unease, particularly in jurisdictions where crypto legality fluctuates or enforcement is inconsistent. By examining the perceived risks through multi-stakeholder perspectives, this study aims to offer a more holistic understanding of adoption dynamics. The ultimate objective is to inform strategies that reduce fear, enhance trust, and create a more accessible pathway for the global integration of cryptocurrencies into mainstream financial and economic systems.

II. LITERATURE REVIEW

Risk perception plays a central role in the adoption of disruptive technologies. According to prospect theory, individuals are loss-averse and tend to overweight potential risks (Kahneman & Tversky, 1979). In the context of cryptocurrencies, volatility, fraud, scams, and unclear regulations have been widely cited as adoption hurdles (Ozili, 2022; Yermack, 2017). Several studies highlight how high-profile incidents—such as exchange collapses, pump-and-dump schemes, and initial coin offering (ICO) frauds—have shaped the negative perception of crypto assets, particularly among

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mainstream investors (Fisch, 2019). Security breaches and insufficient legal recourse further exacerbate these concerns, especially among less tech-savvy users. Additional research by Glaser et al. (2014) suggests that trust is a decisive factor in technology adoption, particularly in decentralized systems where there is no central authority. Regulatory ambiguity, including varying definitions of what constitutes a security or currency, also causes confusion and hesitation. Some scholars have argued for more nuanced legal frameworks that can adapt to the unique attributes of blockchain-based assets (Zohar, 2015). Moreover, research on behavioral finance reveals that emotional biases, such as fear and herd mentality, heavily influence decision-making in crypto markets. These findings underscore the need for targeted education and risk communication strategies to support user confidence and responsible engagement (Prajapati, 2025).

III. METHODOLOGY

The research adopted a qualitative approach involving semi-structured interviews with 20 participants, including crypto investors, blockchain developers, legal experts, and fintech analysts. Interviews explored perceived risks, personal experiences, and opinions on how these risks affect adoption behavior. Participants were recruited from diverse geographical and professional backgrounds to ensure a broad representation of views. The selection included both active participants in the cryptocurrency space and those hesitant or skeptical about involvement. Interviews were conducted virtually via Zoom and Google Meet, with sessions lasting 30–60 minutes. Interview questions were designed to explore themes such as trust in technology, emotional reactions to market events, cybersecurity concerns, and opinions on government regulation. Thematic analysis was used to identify key risk categories and emotional responses. Coding was performed using NVivo software, and recurring themes such as “security breaches,” “regulatory fear,” “market manipulation,” and “lack of education” were recorded. Special attention was given to triangulating perspectives across user types—e.g., comparing institutional vs. individual viewpoints. Ethical guidelines were followed throughout the study, including informed consent, confidentiality, and the anonymization of participant data. This approach ensured that the insights gathered were both authentic and analytically rigorous, offering rich qualitative depth into the complexities of crypto-related risk perception.

IV. ANALYSIS

Thematic analysis revealed five dominant themes contributing to perceived risk in cryptocurrency adoption:

- *Volatility and Financial Instability:*

Both institutional and retail participants cited extreme price fluctuations as the most visible and emotionally taxing risk. Retail users described anxiety from watching asset values swing wildly, while institutions worried about portfolio stability and fiduciary responsibilities.

- *Regulatory Ambiguity:*

Participants expressed confusion and fear due to inconsistent or nonexistent legal guidance. Institutional actors highlighted difficulties in assessing legal risks tied to security classifications, AML/KYC compliance, and taxation.

- *Security and Custody Concerns:*

The responsibility of managing private keys and safeguarding digital wallets was considered overwhelming by most participants. Multiple respondents referred to real-life stories of lost funds, hacks, or phishing attacks, which significantly deterred engagement.

- *Media and Public Narrative:*

A recurring theme was the influence of negative media framing. Sensationalized stories about scams and fraud were said to dominate mainstream coverage, reinforcing public skepticism despite legitimate innovations.

- *Emotional and Cognitive Biases:*

Fear of irreversible loss, herd behavior, and confirmation bias emerged as powerful psychological barriers. Participants who had negative initial experiences with crypto were more likely to generalize their distrust, regardless of technical improvements.

Overall, the analysis illustrates that perceptions of cryptocurrency risk are shaped by an interplay of technical realities, cognitive biases, media influence, and personal experiences. Tailored education, regulatory clarity, and platform-level protections are essential for mitigating these risks.

V. FINDINGS

Respondents consistently cited price volatility as the most prominent risk, followed by lack of regulation and susceptibility to cyberattacks. Volatility was described as emotionally taxing, especially for retail investors who lacked the tools to manage market swings. Participants expressed concern over rug pulls, phishing schemes, and exchange hacks. Institutional respondents were particularly wary of unclear compliance standards and feared reputational damage if associated with unstable or illicit activities. Regulatory ambiguity also created anxiety, especially for institutional and retail investors. Uncertainty about tax implications, anti-money laundering (AML) compliance, and security classifications were frequently mentioned. Many highlighted the absence of a safety net, such as deposit insurance, which discouraged them from committing significant funds. Additionally, participants noted the psychological burden of being solely responsible for asset custody, fearing irreversible losses due to user error or malicious actors. Some users also pointed to media influence, noting that alarmist reporting often exaggerates the risks and undermines the legitimate use cases of crypto. Interestingly, several tech-savvy respondents were more optimistic, expressing confidence in decentralized

ISSN No:-2456-2165 https://doi.org/10.38124/ijisrt/25jun1206

security mechanisms and highlighting the emergence of solutions like multisig wallets, insurance-backed protocols, and compliance-integrated exchanges. These findings indicate that risk perceptions are shaped not only by technical realities but also by emotional, cognitive, and contextual influences.

VI. DISCUSSION

The study demonstrates that risk perception is multifaceted, shaped by technical knowledge, media narratives, and past experiences. Participants with higher digital literacy were generally more comfortable navigating crypto ecosystems, while less experienced users expressed fear and confusion. These discrepancies suggest that improving transparency, user education, and regulatory frameworks could mitigate perceived risks and encourage adoption. Educational efforts must go beyond technical tutorials to include financial literacy and psychological preparedness, particularly for high-volatility assets. Projects that offer robust security audits, insurance mechanisms, and compliance features are likely to build stronger trust with users. In addition, establishing global regulatory norms and providing clear consumer protection guidelines can help reduce uncertainty and increase institutional confidence. Media engagement also plays a key role; balanced coverage can help correct public misconceptions and reduce the emotional amplification of risks. Notably, respondents expressed interest in hybrid solutions that combine decentralized infrastructure with centralized support mechanisms, such as dispute resolution services and insured custody. The discussion further highlights the importance of contextualizing crypto risks within broader socio-economic conditions. For example, users in inflation-prone countries were more willing to tolerate volatility in exchange for financial sovereignty. Therefore, strategies to enhance crypto adoption must be tailored to local risk perceptions and usage priorities.

VII. CONCLUSION

Cryptocurrency adoption is hindered by a complex array of perceived risks. These risks span technological, legal, emotional, and psychological domains, each influencing user decisions in distinct ways. While technical innovation has progressed rapidly, societal understanding and regulatory clarity have lagged, creating friction in adoption pathways. To foster trust and drive mass adoption, the crypto industry must prioritize security, clarity, and consumer protection. User-friendly design, transparent operations, and regulated insurance products are critical components of a safer ecosystem. Furthermore, emotional risk perception—often overlooked in technical discussions—must be addressed through community engagement, open dialogue, and accessible education. Future research should investigate how different demographic groups perceive crypto risks and which communication strategies most effectively alleviate those concerns. Comparative studies across cultural and economic contexts can offer actionable insights into localized adoption barriers. Longitudinal studies tracking changes in risk perception over time can also help evaluate the impact of new technologies, policies, and education initiatives. Ultimately, sustainable growth in the cryptocurrency sector depends on understanding and managing human behavior as much as technical capability. By aligning innovation with user trust, the industry can unlock the broader potential of decentralized finance and build a more inclusive, transparent, and resilient financial future.

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