

# CEO's Briefing



## Bitcoin — What is it? And What Does It Mean to Business?

Bitcoin works much like an ordinary currency. But Bitcoin is unusual as it isn't regulated by governments or banks.

What is Bitcoin?

Bitcoin is a digital-only currency, or “cryptocurrency,” created in 2009. It has many (or perhaps all) of the characteristics of any currency, except it's 100% digital and that it isn't controlled by any bank or government.

Bitcoin exists without any institutional support and parties transact without requiring a trusted third party, such as a bank. This is because the mechanism for recording Bitcoin transactions, which is called Blockchain, is secure and reliable.

These fundamental differences haven't stopped people from using it: the total value of Bitcoins in circulation is now over \$190Bn!

So is Bitcoin better than a conventional currency?

If you think that governments, banks and your existing currency are trustworthy, then Bitcoin may seem kind of pointless. But if, like many people around the world, you are subject to unreliable institutions and unstable currencies, then perhaps Bitcoin offers something important.

Of course without the backing of a nation-state, you might think that Bitcoin is built on sand—that its value could fall away to nothing in the same way that it has grown from nothing. Perhaps the bubble will burst and people holding Bitcoins will be left with nothing more valuable than Monopoly money. After all, someone could invent a better cryptocurrency tomorrow; even Facebook has plans for its own digital currency, Libra.



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“ Transactions go quickly and directly from peer to peer, so there are no third-party fees. ”

But Bitcoin has been adopted around the world. Though its anonymity makes it popular with criminals, it has also attracted huge mainstream investments. A very large number of people and companies work with Bitcoin every day. Bitcoin isn't the only cryptocurrency, but it is the oldest and by far the most popular. It has momentum and (arguably) credibility.

## What's so special about Bitcoin?

The system uses encryption technology to record transactions in a way that makes them visible and verifiable to everyone. So the ledger is public and unhackable.

The system also keeps the identity of the two parties anonymous. Although all the entries in the ledger are visible, the real identities of the parties are unknown (or at least extremely difficult to work out).

Thus the design of the system elegantly tackles all the challenges of building and running a currency, including preventing inflation and fraud. All of this is handled without any requirement for a central bank, a sponsor, or any central database.

So, depending on how you look at it, either Bitcoin offers the ability to operate safely and freely, or it's a wild-west currency without oversight.

## Perhaps the Blockchain is the most important part?

If Bitcoin is a train then Blockchain is like the rails: all Bitcoin transactions are stored in special file called a "blockchain" that is distributed to everyone using the system around the world. The blockchain is visible and accessible to all, but the detailed way this works makes it (seemingly) impossible to hack or defraud.

There are plenty of other ledgers that can be stored in a blockchain, such as real estate deeds or art provenances. So regardless of what happens to Bitcoin, Blockchain could radically change the way we think about centralized databases.

At the moment, centralized lists—such as driver's license numbers or tax IDs—are stored by trusted bodies. Blockchain may offer entirely new ways of managing this kind of data in the future.

## Is Bitcoin a real currency?

It's estimated that less than ten percent of the world's currency is actual cash. The rest is held digitally. Thus fundamentally what makes a currency "real" is that two or more parties trust it and that its value will remain stable in the short- to medium-term.

Whether a government considers Bitcoin as a currency is a different matter. The jury is still out on this one, but currently the US and UK governments do not consider Bitcoin as a taxable currency, the theory being that it is simply a digital asset.

When it is sold for actual dollars or pounds, the normal tax system comes into play. However, as with all government policy, that could change in the future.



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## What is Bitcoin useful for?

Fast and cheap transactions. Once you have set up a wallet, it is quick to transfer any amount of Bitcoin to another party, and transactions can be made directly from peer to peer, so there are no third-party fees to pay. This is particularly relevant for international transactions, where the costs of transferring money is high.

Privacy. If you are careful how you buy and sell your coins—for example, not storing all coins in a single wallet, and not using a fixed Internet connection—your bitcoin ownership can remain anonymous.

Retail. There are already some major online retailers, such as Newegg and Overstock.com, who accept Bitcoin as payment.

Investment. Many people make money by simply buying and selling Bitcoin. It is a highly volatile market—10% swings overnight are not uncommon. Still some people do make money.

Paying ransoms. With proper security and a well-designed backup scheme, you should never have to pay to unlock your files from ransomware, even if you do get caught by one. However, many businesses without proper IT advice have decided they have no other option, and Bitcoin is often digital kidnapper's currency of choice.

## How do I get started?

If you simply want to experiment in buying and selling Bitcoin, the best place to start is to choose a wallet to store your Bitcoins. It's best to use one of the ones listed on the Bitcoin website.

Then choose an exchange to buy Bitcoin using regular money. Again, the Bitcoin website has a good listing. Some exchanges charge extra for storing and managing your wallet. However, one of the main advantages of Bitcoin is that you can retain full control of your own wallet. So it is often best to avoid those options.

As a business, accepting Bitcoin is not that different from accepting any other type of payment mechanism. And it's potentially a marketing tool. For example, getting the headline of Now accepting Bitcoin! might get you some PR.

Adding this ability might be as simple as turning on the option on your ecommerce setup — there are Bitcoin plug ins for most eCommerce engines (such as, Magento and Shopify).

## The future

Cryptocurrencies offer a radical alternative to currencies run by governments and banks. Trading using Bitcoin has momentum and offers a low-cost alternative for all of us. For people around the world who do not have trustworthy institutions it can offer a better future, but it also provides shelter for criminals.



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“Blockchain may be a platform for radical change to how and where we store important databases.”

It will be interesting to see how the currency handles this uncertainty. It's too early to tell if Bitcoin will snowball or melt into nothing.

Either way, Blockchain may be a platform for radical change to how and where we store important databases.

**If you'd like to discuss how we can help, get in touch or visit [www.freemanclarke.com](http://www.freemanclarke.com)**

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