

## Bitcoin: A consumer reality check

If you're intrigued by Bitcoin but know little about it and other cryptocurrencies, read on



Female with bitcoin - closeup

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Who hasn't heard of Bitcoin? Its value has skyrocketed in recent months. Your neighbour tells you he has tripled his investment and says you could join too because the best is yet to come. Does that sound too good to be true?

It perhaps does. Bitcoin was started in 2009 and was supposed to be a type of currency not dependent on central banks or governments. Indeed, Bitcoin's underlying technology, called the blockchain, is an impressive innovation.

Bitcoin created a network of users, without a central bank or company running it, enabling users to pay each other easily and quickly. Yet as its popularity increased, Bitcoin started to become a victim of its own success. The network is becoming clogged, transactions are getting delayed, and fees are increasing. At the same time, "mining" (keeping the network going by validating transactions and adding them to the "chain") is consuming increasingly huge amounts of electricity.

### **But can you buy things with it?**

For the reasons mentioned above, Bitcoins have become all but unusable as a payment system. As its original goal moved out of reach, those goal posts were shifted. Nowadays, Bitcoin is often recommended as an investment asset instead.

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## *Other cryptocurrencies have more potential to succeed as payment systems*

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So what is Bitcoin's promise as an investment asset? While Bitcoin does have an edge over other cryptocurrencies, this is mostly based on being the first one and therefore most widespread. Other cryptocurrencies may have more potential to succeed as payment systems.

Any cryptocurrency will face a fundamental issue: government. Governments, central banks and supervisors like to keep a certain amount of control over the financial system. Central banks want to set rates, supervisors want to safeguard stability, and law enforcement wants to prevent and counter criminal activities. Any cryptocurrency that is becoming popular as a payment system may, therefore, attract their attention and, in the end, spark a regulatory crackdown.

### **A key advantage for enthusiasts**

And then there is the lack of an intermediary. For Bitcoin enthusiasts, this is a key advantage. They rejoice in keeping their own Bitcoin wallets, keeping their private keys secure on separate pieces of paper in a safe.

The average person, however, doesn't want to go through all this trouble. They just want secure, reliable and hassle-free access to their money, and if they forget their password, they want to be able to call their provider and have the password reset for them.

And with reason: recent analysis suggests that up to about 20% of all Bitcoin in circulation may be lost forever, due to, for example, misdirected transactions, lost passwords and crashed hard disks. Bitcoin's volatility and current lack of scalability are yet other issues that stand in its way.

### **Specialist investors only, longer term**

Bitcoin and blockchain brought some impressive innovations. Yet it is a giant leap of faith to assume that Bitcoin (or another specific cryptocurrency) will be a major success in the future. We think Bitcoin is likely to return to being a niche product for a select group of enthusiasts. What they regard as key benefits may actually hinder wider adoption.

Moreover, Bitcoin's value today is based on shaky foundations, given that the platform is open source and can, therefore, be "forked" (cloned) and copy-pasted easily.

### **What is the "true" value of Bitcoin?**

Conventional currencies tend to have value because they are backed by "the full faith and credit" of governments and central banks with an interest in keeping the value of their currency stable. But Bitcoin has no such guardian.

If users lost interest in Bitcoin en masse – for example, because they are moving to a more advanced cryptocurrency or because regulators ban it – usage would plummet. This, in turn, could see its value fall all the way to zero. After all, there is nothing and nobody backing it.

But Bitcoin may also be able to secure a substantial market share in worldwide payment markets. In an unlikely, extreme scenario in which Bitcoin would be the currency of choice for all payments, its value could move beyond \$1 million – see [my full analysis here](#) on ING.com/THINK for more

details.