

Report | 18 December 2017

FX

# Why Bitcoin is destined to become a niche asset

In the long term, Bitcoin has little to offer a wider audience, and will likely return to being a niche product for a select group of enthusiasts.

Download our full report by clicking on the link



## Executive summary

In the long term, Bitcoin has little to offer a wider audience, and will likely return to being a niche product for a select group of enthusiasts. What they regard as key benefits, may actually be impediments to wider adoption. Moreover, Bitcoin's high-value today is based on shaky foundations, given that the platform is open source and can, therefore, be forked and copy-pasted easily.

Scope for such cryptocurrency debasement is limited only by network effects and

switching costs, but those may be smaller than expected.

The “true” value of Bitcoin depends on its future use case. If users would, en masse, lose interest, then it could end at zero. On the other hand, in the unlikely scenario that Bitcoin takes over all worldwide payments, its value could rise beyond \$1mln.

Yet as Bitcoin is failing as a payment system, and is now primarily used as an asset to hold, the only remaining justification for investing in Bitcoin is the assumption that others are willing to buy Bitcoin at higher prices in the future.

### Why won't Bitcoin appeal to the mass audience?

**Regulation:** Its decentralised nature makes it difficult to regulate. Governments and regulators may never come to like decentralised financial networks at all. A negative event, such as a price crash followed by public outcry, could trigger a regulatory crackdown.

**Intermediaries:** Working without intermediaries is cherished by a core group of Bitcoin enthusiasts. The mass audience, however, dislikes having no rights, no recourse, no guarantees, no legal coverage, nothing. They just want secure, reliable and hassle-free access to their money, and a help desk to call when they lose their password.

**Scalability:** The Bitcoin network is currently clogged, and the current level of transaction fees (average \$8 in November) makes it very unattractive for small payments.

**Volatility:** while the value of “ordinary” money is managed by the central bank, Bitcoin’s supply is fixed, and its value depends very much on demand which makes it inherently volatile.

**Energy use:** in the case of Bitcoin, the price of taking out intermediaries is very high electricity consumption.

**Governance:** Blockchain is great at rule enforcement, but does not provide at all for rule-setting. This lack of governance makes implementing innovations slow and painful. Moreover, power may get concentrated in the hands of a few (miners, in the case of Bitcoin).

The current Bitcoin dominance appears to be built on the idea that bitcoin will remain the cryptocurrency of choice forever. Indeed, cryptocurrency, like other internet services, are subject to “network effects” and “switching costs”, creating a “winner takes all”-dynamic.

However, with cryptocurrencies, these network effects and switching costs may be lower than thought. This is especially the case given Bitcoin’s open-source, forkable,

clonable nature. Creating a clone or close substitute is easy. This means that Bitcoin may be scarce on its own blockchain, but its blockchain is in infinite supply.

If Bitcoin is “digital gold”, then forking and copy-pasting are successful forms of “digital alchemy.”

### Disclaimer

This publication has been prepared by the Economic and Financial Analysis Division of ING Bank N.V. (“ING”) solely for information purposes without regard to any particular user’s investment objectives, financial situation, or means. *ING forms part of ING Group (being for this purpose ING Group N.V. and its subsidiary and affiliated companies).* The information in the publication is not an investment recommendation and it is not investment, legal or tax advice or an offer or solicitation to purchase or sell any financial instrument. Reasonable care has been taken to ensure that this publication is not untrue or misleading when published, but ING does not represent that it is accurate or complete. ING does not accept any liability for any direct, indirect or consequential loss arising from any use of this publication. Unless otherwise stated, any views, forecasts, or estimates are solely those of the author(s), as of the date of the publication and are subject to change without notice.

The distribution of this publication may be restricted by law or regulation in different jurisdictions and persons into whose possession this publication comes should inform themselves about, and observe, such restrictions.

Copyright and database rights protection exists in this report and it may not be reproduced, distributed or published by any person for any purpose without the prior express consent of ING. All rights are reserved. ING Bank N.V. is authorised by the Dutch Central Bank and supervised by the European Central Bank (ECB), the Dutch Central Bank (DNB) and the Dutch Authority for the Financial Markets (AFM). ING Bank N.V. is incorporated in the Netherlands (Trade Register no. 33031431 Amsterdam). In the United Kingdom this information is approved and/or communicated by ING Bank N.V., London Branch. ING Bank N.V., London Branch is authorised by the Prudential Regulation Authority and is subject to regulation by the Financial Conduct Authority and limited regulation by the Prudential Regulation Authority. ING Bank N.V., London branch is registered in England (Registration number BR000341) at 8-10 Moorgate, London EC2 6DA. For US Investors: Any person wishing to discuss this report or effect transactions in any security discussed herein should contact ING Financial Markets LLC, which is a member of the NYSE, FINRA and SIPC and part of ING, and which has accepted responsibility for the distribution of this report in the United States under applicable requirements.

Additional information is available on request. For more information about ING Group, please visit [www.ing.com](http://www.ing.com).