**Bit by bit**

*Bitcoin has faced many hurdles in its quest to become a real alternative to cash, yet the digital currency has proven tenacious. Here Adam Tepper, CEO of the Bitcoin market Independent Reserve, predicts what the year ahead will hold for Bitcoin.*

Many have tried to predict the future of Bitcoin. It has some powerful backers, including Sir [Richard Branson](http://www.coindesk.com/richard-branson-backs-digital-currency-ahead-australia-summit/), Bill Gates, and venture capitalist [Tim Draper](http://www.coindesk.com/tim-draper-revealed-silk-road-bitcoin-auction-winner/), who bought XBT 30,000 seized from Silk Road auctioned by the US Marshalls for around USD 19 million.

In the opposite corner are many of the powerbrokers from the traditional banking world, who see Bitcoin’s lack of a centrally controlled central-bank like model as too far removed from the current financial system to ever be viable.

Yet Bitcoin has enjoyed a steady rise in popularity. A global Independent Reserve survey conducted in September last year showed that more than one-third of respondents had only become aware of Bitcoin in the previous 12 months, but that 40 percent intended to learn more or buy their own Bitcoin in the near future. Bitcoin has emerged from the realms of the technorati and is already viewed my many as a viable alternative, or useful adjunct, to traditional currency.

This is largely due to the explosion in the number of mainstream retailers accepting Bitcoin. Major global companies like Dell, Microsoft and Expedia accept Bitcoin as payment, with more joining the ranks every day. Bitcoin ATMs are popping up all over major cities, and independent businesses from Ferrari dealers to real estate agents to bars and cafes are jumping in. There are more than 76,000 merchants now accepting Bitcoin all over the world, and 2014 saw some of the biggest players yet enter the Bitcoin ecosystem. In 2015 we will see more very big names beginning to accept digital currency as payment.

NCR Silver, a global payments company that reported more than USD 6 billion in revenue last year, began accepting Bitcoin through its POS systems, including mobile wallet payments, in December last year. This will give small businesses the opportunity to accept Bitcoin through their existing NCR POS systems. NCR offered Bitcoin integration for free to all merchants using its POS technology.

The move will help NCR tap into a bigger share of the mobile payments market, which according to Capgemini is expected to grow 58.5 percent to 28.9 billion transactions this year.

In Australia, figures from the Bitcoin Association of Australia and the Australian Bitcoin business directory, BitScan, show there was 480 percent growth in Bitcoin businesses during the first four months of 2014. Trading patterns on Independent Reserve indicate buyers are keeping their Bitcoin, rather than using the platform for speculative trading. This is a positive indication for the market in Australia as it shows that Bitcoin is being used within the payments system, not just as a day trading instrument.

An important step for 2015 will be providing merchant services in Australia that allow Australian merchants to compete globally and attract buyers from overseas by making it easy to do business in Australia through an instrument that is not linked to the financial institutions and currency fluctuations of any one country.

Avoiding the vagaries of international currency exchange is emerging as a key reason consumers are using Bitcoin. Later this year, Independent Reserve will enable its users to exchange Bitcoin directly in AUD and NZD as well as USD. Customers will be able to have multiple accounts in multiple currencies and be able to break single orders across multiple currencies – just as they can in traditional bank accounts now but with an important distinction – far lower conversion fees. Currently, Bitcoin exchange is only done in USD, so the ability to trade directly in AUD means users will be able to enjoy pricing efficiencies by avoiding conversion fees and foreign exchange risk.

Many Bitcoin users are exploiting the digital currency for just this purpose. Individuals can save up to 70 percent by using Bitcoin to effect foreign exchange transactions over bank rates – and more again when measured against non-bank currency exchange outlets. By buying Bitcoin in one currency and redeeming it in another, many users are finding they can avoid unnecessary high fees and charges. We predict that this use of Bitcoin will grow strongly in 2015.

**It’s an institution**Institutional investors are often the vanguards of new financial products, and this has shown to be the case with Bitcoin as well. Particularly in the US, the buy-side have started using Bitcoin as an investment vehicle – the first hedge fund Bitcoin trader jobs were advertised in January 2014. Acceptance by the ‘big end of town’ was a significant development in Bitcoin’s evolution, and we expect to see more of this as institutions seek to cash in on the volatility and arbitrage opportunities available in the Bitcoin market.

**Regulate or perish?**The high-profile Mt. Gox collapse in 2014 highlighted the need for better technology and security controls for Bitcoin exchanges, much as the US Flash Crash highlighted these issues for traditional securities markets. One key difference here is the lack of Bitcoin regulation, and this does present a barrier to the industry as it presses towards mainstream acceptance. The Bitcoin community has been active in engaging traditional financial regulators in discussions about how to regulate the market and some progress is being made.

As the momentum builds with more retailers accepting Bitcoin and more people using it, pressure will mount on regulators to build safeguards into the market. We predict this will start to happen in 2015, and we will welcome this as a positive step forward in bringing Bitcoin more mainstream. Once the first regulator makes the leap into Bitcoin regulation, others will quickly follow. For more on where Bitcoin regulation is at in various jurisdictions, see addendum following.

**The dark side**The closure of the infamous Silkroad website was the first time many people heard of Bitcoin, and many still associate it with the underbelly of the dark economy, used to purchase drugs and other illicit items. They point to the anonymous nature of Bitcoin as a problem – but the fact remains that it is, in fact, less anonymous than a suitcase full of cash. The vast majority of illegal dealings are done as they always have been – with cash.

There will always be those who use any kind of currency for inappropriate activities, but Bitcoin is no more or less vulnerable to this than other currencies. We think this kind of accusation is spurious and one that will fade over time.

**You can’t take that to the bank**The lack of central infrastructure is another criticism leveled at Bitcoin – without central banks, how can the currency hope to be legitimate? Without making obvious remarks about failed central banks and the vulnerabilities of these to geopolitical upheavals, Bitcoin was specifically designed to sit outside these traditional systems. The decentralised nature of the currency is considered by many of its fans as a benefit, rather than a hindrance, as it’s agnostic to both politics and the ebb and flow of the traditional finance system.

Of course Bitcoin is very volatile – prices have varied considerably over the past twelve months. We predict that volatility will stabilise as more high-quality exchanges become established and more users come online. Users are voting with their wallets – both real and digital – when it comes to exchange quality. Just as there was in the world of equities a few years ago, we predict exchange consolidation will begin in 2015 and continue over the short to medium term. Multi-region, multi-currency Bitcoin exchanges will become more normal as the exchange side of the business evolves.

It’s worth discussing the fact that Bitcoin also has no Wall Street standing behind it. In the wake of the Global Financial Crisis many consider this to be a benefit – the democracy of the Bitcoin system is very appealing to many. However, Wall Street, as noted above, has noticed Bitcoin – NYSE just invested an undisclosed sum into US exchange Coinbase – and we predict that the big end of town will dip their toes deeper into the Bitcoin pool over 2015 and beyond. Bitcoin forex trading and [Bitcoin binary options trading](http://www.bitcoingg.com/bitcoin-binary-options/trading/) seem to be emerging as speculative instruments, and we predict more interesting new uses of traditional and digital currency to emerge in 2015 as the expert money-makers figure out ways to use Bitcoin to their advantage.

**Time for change**There’s no doubt that the traditional banking and payments systems will fight to maintain their dominance of the markets. But as consumer demand continues to grow, we will see Bitcoin integrating more and more into the financial ecosystem. Significant progress will be made this year, and by new year 2016 we will see Bitcoin far more prevalent among mainstream users.

**Addendum – Bitcoin regulation in major markets**

The basic fact is that Bitcoin is not a fiat currency issued by a national government backed by the full faith and credit, or lack thereof, of its taxpayers. It is ‘mined’ (i.e. manufactured) via computer algorithms that limit supply, or inflation in the traditional sense, and where there is limited supply and growing demand, the price is expected to increase, all other things being equal.

In August, Australian regulators [announced](http://cointelegraph.com/news/112362/australias-tax-office-guidelines-open-door-to-double-taxing-other-problems) that fiat-digital transactions would be subject to Australian Goods and Services Tax (GST), increasing costs for those wishing to explore Bitcoin using AUD. This is currently under review by the Australian Senate and many hope that legislation will follow the more Bitcoin-friendly stance taken by the UK.

Britain is currently undertaking a study by HM Treasury to consider Bitcoin and other digital currencies’ relationships with the traditional payments ecosystem. Chi Onwurah, UK’s shadow minister for digital government, is leading a review of technology use in government and has commented positively on Bitcoins’ capability to offer an alternative to dealing with traditional banking institutions which have lost the trust of many consumers. She has advocated a restrained approach to regulation of digital currencies so that growth is not unduly affected early in this emerging market. This does not mean an unregulated free for all however and Onwurah emphasises the need for consumer protection laws regarding digital currencies.

The US Department of Justice has also deemed Bitcoin as goods rather than a currency. If the European Union and UK follow US and Australia than it raises issues of VAT and sales tax in those countries as well.

The US is taking a state-by-state approach. In June 2014, California approved a bill that officially legalised alternative and digital currencies for purchasing goods and transmitting payments. This has a positive flow-on effect in the Bitcoin ecosystem. While in July the New York Department of Financial Services (NYDFS) released a list of proposed rules and regulations that will be required for New York-based Bitcoin businesses excluding merchants. All Bitcoin exchanges will need to be registered to acquire a ‘BitLicense’ to do business in NY and follow reporting, audit and other obligations of the traditional US banking ecosystem. In particular, they must record all transactions, including personal details which is one of the advantages of Bitcoin i.e. anonymity. This caused a fall in the price.

While Japan currently has an 8 percent consumption tax on the sale of Bitcoin but purchases from consumers, even through an exchange, are exempt. Japan has established a self regulating body, Japan Authority of Digital Assets (JADA) for Bitcoin that is lobbying the government to remove the consumption tax and drafting guidelines for regulations particularly around consumer protection.

Hong Kong is emerging as a Bitcoin hub for Asia especially after China restricted Bitcoin use in the financial system. The Hong Kong Monetary Authority (HKMA) has declared Bitcoin a virtual commodity and thus not regulated by the HKMA. Adding to Hong Kong’s success as a Bitcoin hub is the low flat tax rate.

England is also fostering a healthy Bitcoin ecosystem through organisations like the UK Digital Currency Association encouraging more bitcoin startups to invest in the UK economy.