

# CEO's Briefing



## What is Bitcoin and why does it matter to business?

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What is Bitcoin?

Bitcoin is a “crypto currency” that was created in 2009. It has many (or perhaps all) of the characteristics of a currency. The total value of Bitcoins in circulation is now over \$70Bn, and it is widely used as a currency around the world, every day!

Specifically Bitcoin is based on sophisticated maths which limits the number of Bitcoins that can ever be produced. And the mechanism for recording Bitcoins transactions, which is called Blockchain, is secure and reliable.

These things make Bitcoin very much like an ordinary currency, but Bitcoin is unusual as conventional currencies are controlled by banks and governments. Bitcoin exists without any sponsorship like this and parties transact without requiring a trusted third party (such as a bank) at all.

**So Bitcoin is better than a conventional currency?**

If you think that governments, banks and your existing currency are trustworthy then Bitcoin might seem a bit pointless. But if, like many people around the world, you are used to institutions that you don't trust, and currencies that you aren't able to rely on, then perhaps Bitcoin offers you something important.

Of course without the backing of a nation-state you might think that Bitcoin is “built on sand” and perhaps 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 crypto currency tomorrow.

But Bitcoin has been adopted around the world. Though it is popular with criminals (because of its anonymity) it has also attracted huge mainstream investments and there



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are a very large number of people and companies working with Bitcoin every day. Bitcoin isn't the only crypto currency, 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 such a way that once a transaction is completed it cannot be undone, it is visible to everyone and is verifiable. So the ledger is public but (in practical terms) 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 is unknown.

The design of the system elegantly tackles all the challenges of building and running a currency, including creating the currency, preventing inflation and preventing 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 a trusted overseer.

## Perhaps the Blockchain is the most important part?

All 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 everyone but the detailed way this works makes it (seemingly) impossible to hack or defraud.

If Bitcoin is a train then Blockchain is like the rails. There are plenty of other ledgers that can be stored in a blockchain but Bitcoin has demonstrated the strengths (and to some extent the limitations) of this system.

So regardless of what happens to Bitcoin, Blockchain could radically change the way we think about centralised databases in the future. At the moment, important centralised lists are stored by important, trusted bodies, for example driving licenses, tax numbers. Perhaps Blockchain will offer entirely new ways of managing this kind of data in the future?

## Is Bitcoin a real currency?

Almost all money in the UK is held digitally. Fundamentally what makes a currency real and therefore usable 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 UK and US 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 GBP or USD, the normal tax system comes into play anyway. However, as with all government policy, that could change in the future.

## 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 that there are not 3rd party fees to pay. This is particularly relevant for international transactions, where the costs of transferring money is high.

Private transactions – if you are careful how you buy and sell your coins, your bitcoin ownership can be pretty anonymous. For example, not storing all coins in a single wallet, and not using a computer on a fixed Internet connection.

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



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Investment – Many people make money by simply buying and selling Bitcoin for various regular currencies. It is a highly volatile market (10% swings overnight are not uncommon), but despite that, some people do make money. Some people have made very large amounts of 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.

## How to 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. Best to use one of the ones listed on the Bitcoin website: <https://bitcoin.org/en/choose-your-wallet>

Then choose an exchange to buy some Bitcoin using regular money (GBP). Again, the Bitcoin website has a good listing: <https://bitcoin.org/en/exchanges>

Some exchanges will also charge extra for storing and managing your wallet. However, one of the main advantages is to be in full control and be in 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, 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 (for example, Magento, Shopify).

## The future

It's obviously extremely difficult (and unwise!) to make any predictions. The small number of people who bet on Bitcoin at the start have made large fortunes. Most people have had little or no exposure to it, so this journey has only just begun.

Cryptocurrencies offer a radical alternative to currencies run by governments and banks. Trading using Bitcoin has momentum, and offers a low-cost alternative online 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 safety for criminals.

When the dust has settled, Blockchain may be a platform for radical change to how and where we store important databases we need to trust.

There are aspects of Bitcoin that are starting to creak as its popularity grows and some technical changes may be necessary. It will be interesting to see how the currency handles this uncertainty and whether its value proves robust. Bitcoin may start to "snowball", or to "melt away"?

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