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Is Bitcoin money? Bitcoin and blockchain from a financial services perspective

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My background

**I have been working with
payment systems on and
off for 35 years**

**US has for long time had
primitive and
unsophisticated retail
payment systems**

**US has for too long been
relying on checks and
credit cards**

Many has taken for granted that US is leading, and if you can beat the US system, you can conquer the world

**I have seen many
systems come and go**

**They should all be
"The Next Big Thing"**

**They have all been
technology driven**

**Many have been based on
asymmetric encryption**

**Optimistic technologists
saying that a new
technology will change
everything and conquer
the world**

**How many times have we
heard this before?**

**In the near future we will
have systems with
encryption that is so
advanced that we will no
longer need banks**

= saying:

**In the future we will have
printers so sophisticated
that we will no longer
need central banks.
We can print our own
money**

**New payment systems
failed because of lack of
understanding of how a
payment system works**

**They are all long
forgotten**

**PayPal managed to profit
from the inefficiency in
US retail payment system**

**PayPal saw a need in the
US retail market for
payment services
It is simple and
unsophisticated
No fancy technology
It works**

**I am discussing BitCoin
as "Money"**

**I am sceptic to BitCoin as
money**

I am not sceptic to the BlockChain technology, just as I am not sceptic to SmartCards, Assymetric Cryptography, etc.

But I am sceptic to naive technooptimists who say this technology will make the world as we know it obsolete in short time.

A double message

- BitCoin: Anonymous
- BlockChain: Everything can be traced and verified



THE UNITED STATES OF AMERICA

ONE

ONE

IN GOD WE TRUST



ONE



ONE

ONE

ONE DOLLAR

56



Is it just a change of religion?



Functions of money

- **Means of exchange**
 - **Universally, or at least widely accepted**

- **Measurement of value**
 - **Must have a stable value**

- **Value storage**
- **Must have lasting value**

- **Anything that is accepted as a means of exchange can function as money**

- **BitCoin can function as money, just as anything else.**

Examples of "money"















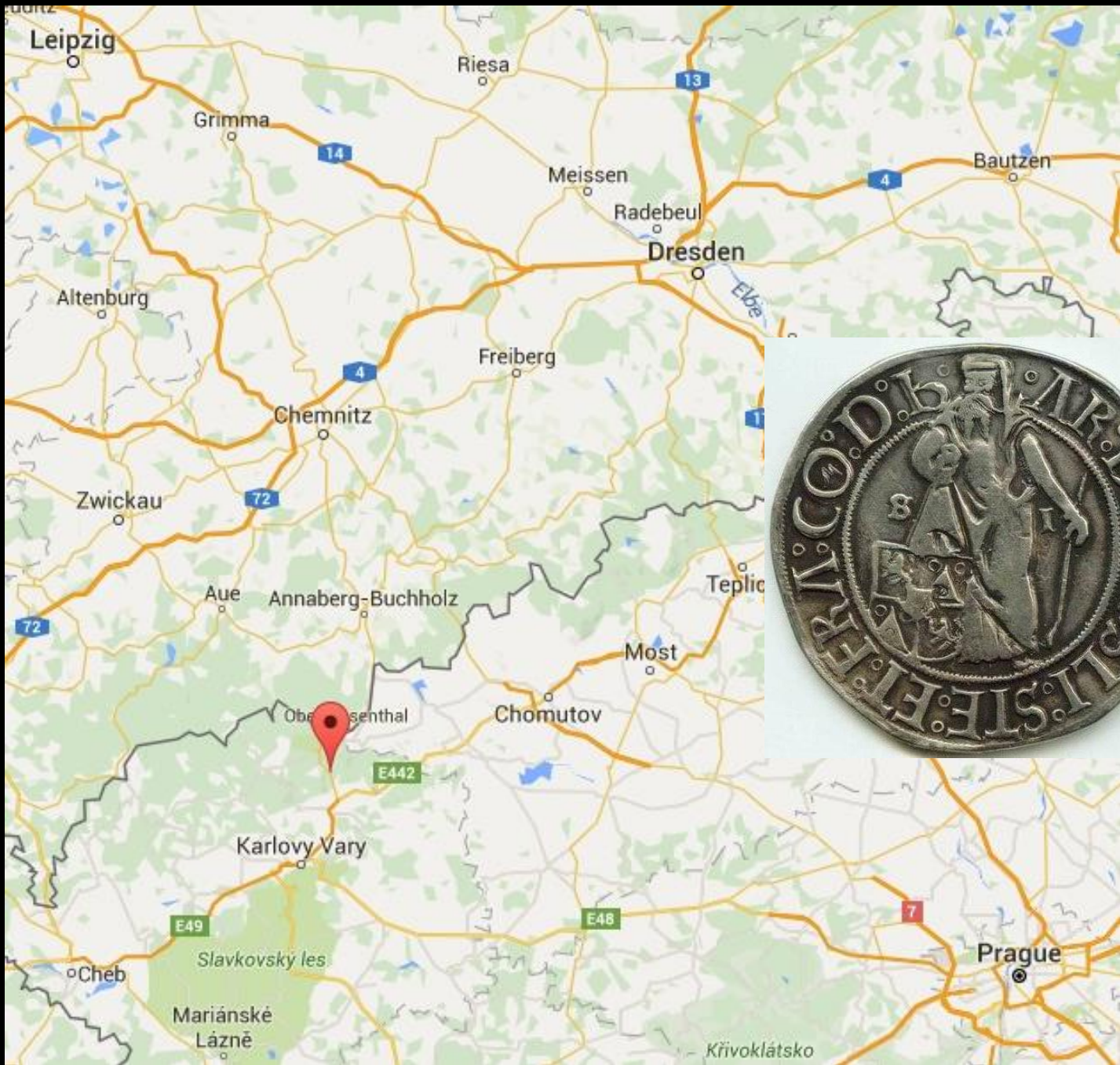
Names of currency

- **Weight units**
 - **Mark**
 - **Pound**

- **Material**
– **Gulden**

- **Weight and material:
Pound sterling**

- **Place of origin**
 - **Florin**
 - **Dollar**



Fiat money



What is money?

- **Banknotes and coins**
- **Deposits in bank accounts that can be managed by payment instruments**
- **Credits given by banks and other financial institutions**



- **Banknotes and coins are of marginal importance in today's society.**



A limited number of BitCoins

- **Inflation is not a result of
massiv printing**
 - **Despite that the term "run
the money press" is often
used**



A limited number of BitCoins

- The amount of money in circulation is not determined by the amount of cash**
- Inflation, or hyper inflation is a result of lack of trust in the economy of the state issuing the money.**

Zimbabwe wallet



10000000000000 RESERVE BANK OF ZIMBABWE

10000000000000

*I promise to pay
the bearer on demand*

AA3905431
**ONE HUNDRED
TRILLION
DOLLARS**

for the Reserve Bank of Zimbabwe


Dr. G. Gono
Governor

100 000 000 000 000 HARARE 2008



AA3905431

Two types of payment

- **Cash**

- **A chattel is handed over from payor to payee**

- **Bank transfer**
 - **Commercial and financial payments**
 - **Salary**
 - **Credit cards**

- **BitCoin mimics cash**
 - **Probably based on an assumption that cash is the ideal payment system**
 - **Which it is not**

How is money made?

**Money is not made by
minting**



**Money is not made by
printing**



**Money is not made by
mining**



<https://www.youtube.com/watch?v=AYuiiboO43A>

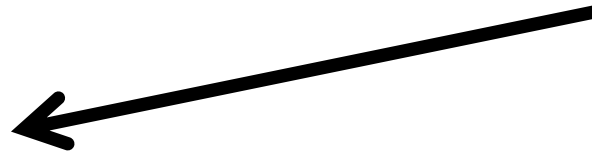
**Money is mostly made
by banks when giving
credit**



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A has 1000€ as deposit in bank M



B has 1000€ borrowed from bank M
The money is most likely deposited in a bank
And the story goes on and on and on.

Debts and credits can of course be denominated in BitCoins



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Bank Transfer





Main difference between BitCoins and other eMoney

- eMoney is denominated in a "real" currency
- eMoney is issued by an identifiable institution
- A regulated institution with solidity requirements, and under supervision
- An obligation to repay in "real" currency

- BitCoins are self referential
- Taken out of thin air
- No obligation to repay

BitCoin: Digital alchemy



2015

**Do we need BitCoins?
The selling points**

Anonymity?

**Who really cares about
anonymity?**



Google



THE PANAMA PAPERS

A man in a dark suit is seen from behind, standing on a boat. He is surrounded by stacks of papers and documents. The sea is dark and choppy, with numerous papers and banknotes floating in the air and on the water's surface. The background is a cloudy, overcast sky. The overall scene suggests a sense of chaos and the loss of information.

Politicians, Criminals and the Rogue Industry That Hides Their Cash

**An emerging market for a
new, anonymous
payment system?**

**Will BitCoins really be
anonymous?**



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The fastest way to buy
Bitcoin across the world.



**They act as market
makers do in the securities
markets**

**Sellers and buyers of
BitCoins, interface
between BitCoin and real
payment systems, will be
regulated and supervised**

**There is no reason to verify
a chain of payments**

- **A deposits 1000€ in bank M**
 - **The result: Bank M owes A 1000€**
 - **No asset is as generic as money**
 - **An obligation to repay 1000€, but not to return the same 1000€ that was deposited**

**When my bank informs me
that my account is credited
with 10.000 NOK:**

**Do I care from where the
bank has gotten these
money?**

Is BitCoin efficient?

- From bitcoin.org "How it works":
 - " All transactions are broadcast between users and usually begin to be confirmed by the network in the following 10 minutes, through a process called mining."

10 minutes!!!!
Who can wait for 10
minutes?

Pricing is not transparent

Other applications



**But a system for
electronic, negotiable
bills of lading is less sexy
than a new currency.**

Is BitCoin another 42?