

The Importance of Bitcoin in the Global Payments Ecosystem; MaltaProfile.info



T. Jack Williams
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My good friend T. Jack Williams continues on the global forefront to bridge the payments world we all know, with the virtual currency world such as bitcoin. His efforts in Malta are very interesting in that he has been able to share his view that to move bitcoin to mainstream financial acceptance, we bring bitcoin into the light of day. That is highlighted in the recently published article below:

Malta's Prime Minister Joseph Muscat recently urged European regulators to embrace bitcoin and regulate cryptocurrencies. Muscat's idea to turn Europe into the bitcoin continent is an interesting one, thinks bitcoin expert T. Jack Williams. For MaltaProfile, he delves further into the evolution of the payments sector and bitcoin's future potential. The global payments landscape has changed dramatically in the last 12 years. New entrants continue to introduce payment innovation and universal acceptance. Amazon began in a garage in 1994 as a struggling online merchant; today their annual sales exceed €61 billion. Prior to 1999, Alibaba was a character in a children's fairy tale. Alibaba now rivals Amazon in customers and packages shipped, with a market cap of €255 billion. Apple made home computers prior to 2014, and today ApplePay is a major mobile payments platform. Samsung was a small appliance manufacturing company, and today includes a major financial services company with Samsung Pay launched in 2015, and the list continues. Payment networks such as China Union Pay have more cardholders globally than Visa and MasterCard combined, and their client base is growing. Bitcoin continues to be the primary cryptocurrency in circulation today. However, it is reported that there are about 740 registered cryptocurrencies available for global trade. Out of those 740 cryptocurrencies, only 24 have a market cap in excess of €10 million, yet each could be the next bitcoin of the future. Before we look at the future of virtual currencies and blockchain within the payments landscape, I have provided some of the historical highlights of bitcoin.

History & Evolution

In 2011, bitcoin began to mature as a digital payment system, though its use was limited by the aspirations of early adopters. An early issue for bitcoin was the anonymous nature of the digital currency, which made it perfect for online black markets. The Silk Road was one of the public's primary introductions to the illicit use of bitcoin, prompting several law enforcement agencies to cast the currency as a vehicle for money laundering and drugs. On a global scale, payment cards and cash are the currency of criminals, not bitcoin. Other consumer services were also starting to emerge. BitPay, the first bitcoin merchant payment processor for bitcoin was launched in 2011. BitPay provides the means for merchants to accept bitcoin via their payment gateway and/or by using mobile-friendly applications. In 2011, BitPay processed payments for less than 100 merchants, while today they are processing payments for over 75,000 merchants globally and are providing bitcoin wallet access to over 250,000 users. Over the years more exchanges and services have opened globally, allowing people to trade bitcoin for other currencies more effectively, or access funds at bitcoin ATMs.

As a decentralised currency, bitcoin is more like "digital gold bullion or crude oil". Comparatively, market pressures direct the price of bitcoin, as they do with crude oil and gold. The values began to increase as governments and business entities began to take notice of the advantages of bitcoin to the worldwide business community. Globally, governments have begun to recognize bitcoin as a viable currency:

- The People's Bank of China (PBoC), after initially approving bitcoin, temporarily banned financial institutions from using it. Today the PBoC allows bitcoin use, and is working to oversee those money services businesses that trade in bitcoin, much like all other money service companies.
- The US Financial Crimes Enforcement Network (FINCEN) issued some of the world's first bitcoin regulations in the form of a guidance report for persons administering, exchanging or using virtual currency. In particular, exchanges must comply with money-laundering laws and register as Money Services Businesses in the US.
- The US Senate held an informational bitcoin hearing, which was (to the surprise of many) open to the long-term prospects of bitcoin.

The swell of popularity led to an explosion of "altcoins" – digital currencies based on modified or different underlying protocols. Litecoin had been the first, back in 2011, but 2013 saw hundreds of these new altcoins launched with over 740 traded today. A wave of new protocols emerged with applications beyond digital currency, in which people would repurpose blockchains (bitcoin's and others) to store and transport multiple types of digital information. There are hundreds of patents filed around the world by some of the world's largest financial institutions for the use of blockchains for secure data and negotiable instrument transfer of values.

Despite these developments, bitcoin's price began a slow decline and bottomed out in early 2015 below US\$200, and stayed relatively dormant for months. Part of this decline was a shift in capital from bitcoin to other digital currencies. Bitcoin's contribution to the total market value of all cryptocurrencies fell from a high of 95% in August 2015 to 78.93% today. This reflects the rising awareness of what early enthusiasts had thought: the technology of cryptocurrencies could be the payments foundation of the next Internet.

"Other European regulators may be wary of the new technology, but the fact is that it's coming. We must be on the frontline in embracing this crucial innovation ... We must be the ones that others copy."

- Joseph Muscat, Prime Minister of Malta

Bitcoin Advantages

The bitcoin advantages are being seen by businesses globally. Advantages include: the speed of funds transfers compared to a SWIFT, and without Insufficient Funds or chargebacks. Once a bitcoin is received, it is good secure funds, as counterfeit bitcoins do not exist. All this is to say that there are many strategic advantages of adding bitcoin acceptance to any business' payment acceptance methodologies. Why this change from the uncertainty of the past? Anti-Money Laundering (AML) and Know Your Customer (KYC) mandates that are required of a money service business by numerous governments must be adhered. Speaking recently at Bloomberg London, Financial Conduct Authority (FCA) Chief Executive, Martin Wheatley, announced Project Innovate, the FCA's fast track initiative to help support finance industry innovation, setting the goal for "an FCA that creates room for the brightest and most innovative companies to enter the sector". Interest in bitcoin is gathering pace. Many countries start supporting the use of bitcoin as a payment tender, and Malta has the potential to lead this development. Malta's Prime Minister has recently stressed that rather than resist, European regulators should innovate and create mechanisms in which to regulate cryptocurrencies.

At BitLoad4U, I suggest that the use of and the acceptance of bitcoin should be limited to those money service businesses that employ the same AML and KYC procedures that are required for reloadable prepaid debit cards. Only companies that work with a defined KYC process equal to prepaid debit cards will provide businesses with the assurance needed. Clients that send and receive bitcoin do so as known entities, not as anonymous individuals. Just as MasterCard and Visa banks provide KYC scans of customers, those that deal in bitcoin should do the same. The second change is in AML controls. AML is basically frequency, recency and monetary activity; the same is in place today for individual prepaid debit cards. Not only should you work with a company with solid KYC controls, and with strict AML oversight, the company must also monitor the velocity of transactions, and report suspicious activity to the proper regulatory authorities.

"In the context of the rapid developments in this area which are taking place at a global level, the Maltese regulatory system cannot afford any loss in competitive edge in this regard, especially to sustain its reputation as a forward-looking jurisdiction which is friendly to compliant businesses."

- Joseph Cuschieri, Executive Chairman of the Malta Gaming Authority

The days of the 'wild west' of bitcoin are over for criminals. More and more major corporations around the world will look to benefit from the many advantages of bitcoins' low cost, secure funds movements and payments. The advantages to the financial community are many and facilitating bitcoin acceptance for payments will be a sound business decision. Various governments will continue to see the future of bitcoin for what it can be, a meaningful contributor to the global payments ecosystem.

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