

Banking group sees limited future for Bitcoin

January 9 2014



A pile of Bitcoin slugs sit in a box ready to be minted on April 26, 2013 in Sandy, Utah

The online currency Bitcoin has shown unexpected success but its future as a broadly accepted exchange medium is limited, according to a report by a global banking group Thursday.

The report by the International Institute of Finance, which represents more than 450 banks and [financial institutions](#), said more regulation of Bitcoin exchanges and transactions could strengthen its legitimacy

among consumers and ease regulators' doubts about it.

But for the moment, the IIF report said, Bitcoin faces significant resistance in countries like China. And because most of the market is dominated by speculators rather than users, Bitcoin's value in other currencies is particularly volatile.

In a market worth around \$12 billion, the IIF said, "It is estimated that 50 to upwards of 90 percent of Bitcoin owners are speculators—thereby contributing to the substantial price fluctuations seen recently."

It pointed to the sharp fall of Bitcoin from a high of \$1,240 to \$576 in just three days in December after China banned its financial institutions from using the currency.

Since then Bitcoin has rebounded, topping \$1,000 earlier this week before falling to \$915 on Thursday.

"If it persists, this remarkably high volatility will compromise Bitcoin's capacity to function as a medium of exchange, as it deters most large companies from accepting the [digital currency](#) as a form of payment," the IIF report said.

Unlike other currencies, Bitcoin does not have the backing of a central bank or government. Instead, the units are generated by a complex computer algorithm designed by one or more anonymous people in 2009.

Because of that, said the report, its functionality and ultimate success "is determined by programmers—and their goodwill is taken for granted."

Thus the IIF characterized Bitcoin as effectively a "fiduciary currency" with no intrinsic value of its own and dependent on trust that it can be

exchanged for a more common currency like the dollar. That makes it "inherently fragile," the IIF said.

"Despite Bitcoin's 'ingenious features' it cannot provide a [currency](#) of stable value and its use as a broadly accepted medium of exchange appears limited," the report concluded.

© 2014 AFP

Citation: Banking group sees limited future for Bitcoin (2014, January 9) retrieved 11 May 2024 from <https://phys.org/news/2014-01-banking-group-limited-future-bitcoin.html>

This document is subject to copyright. Apart from any fair dealing for the purpose of private study or research, no part may be reproduced without the written permission. The content is provided for information purposes only.