

Cryptocurrencies and What They Mean for Businesses

Technology has added efficiency and modern conveniences to daily life. Among these conveniences, computer experts have managed to apply digital traits to new, online currencies that are commonly called cryptocurrencies.

Simply put, cryptocurrency is digital money that operates independently of a bank and can be used similarly to cash around the world. However, the digital nature of these new currencies add some benefits that appeal to consumers and have led to their increasing popularity. Bitcoin—the most popular cryptocurrency—was declared legal tender in Japan in 2017, and online services like Microsoft, Overstock and PayPal also accept the currency.

While it can be easy to get caught up in the excitement and potentially lucrative nature of cryptocurrencies, it's important to understand how they work as well as their positives, negatives and risks.

How Do Cryptocurrencies Work?

While it may seem confusing on the surface, the way cryptocurrencies function is actually quite simple. Like most currencies used around the world, cryptocurrencies store value, have specific exchange rates and are limited in supply. However, most cryptocurrencies are decentralized and work without administrators, and instead rely on encryption technology and verification to make transfers. This means that there is no central authority that manages the creation and use of cryptocurrency.

In the place of a central authority, most cryptocurrencies implement a network that allows users to make transactions directly between each other. These networks use a shared system of private keys and public ledgers to authenticate new transactions and create an encrypted log of past transactions. Bitcoin, the first cryptocurrency to implement this form of authentication, encourages users to participate in the system by rewarding them with additional bitcoins. In fact, this is the only way that new bitcoins circulate.

Despite concerns over cryptocurrencies like bitcoin, they aren't going anywhere soon as an alternative method of payment, investment or means of raising capital.

To use cryptocurrencies, consumers and businesses must first acquire a cryptocurrency wallet account. These accounts work like a bank, but are designed specifically for individuals who want to purchase or accept cryptocurrency. Most cryptocurrency coins have an official wallet or recommended third-party wallets, and it's important to conduct thorough research before choosing a service.

After you have acquired a wallet, you can purchase cryptocurrencies on open exchanges and use them for a

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variety of transactions. You can even convert cryptocurrencies to cash at a later date if you so choose.

The Positives and Negatives of Cryptocurrencies

Before adopting cryptocurrency at your business, you must consider how this new technology's benefits and drawbacks may impact your operations.

The Benefits of Cryptocurrencies

- **Little or no processing fees**—Unlike credit cards and other traditional forms of payment, cryptocurrencies often have no processing fees. This is because transactions are facilitated through the cryptocurrency's public network on what's known as a blockchain. Transactions are recorded on the blockchain chronologically, and users can create, verify and enforce transactions without an intermediary or central authority.
- **High transaction speed**—Credit and debit card payments often take two to three days to process and clear. With cryptocurrencies, transactions happen in real time and take about 10 minutes or less. As an added bonus, cryptocurrency transactions are final, which means consumers can't dispute a charge and negate a sale.
- **Increased payment options**—The more payment options you can provide as a business, the better. As such, cryptocurrency has the potential to attract a wider customer base.

The Drawbacks of Cryptocurrencies

- **Price volatility**—The value of bitcoins and other cryptocurrencies can change drastically over a small period of time. Bitcoin reached a value of \$17,000 in January 2018 before falling to \$7,000 less than a month later.

- **Anonymity**—While the details of cryptocurrency users and transactions are often held in a public ledger, names and locations are encrypted. This can be an issue when complying with regulations on customer identification or fraud protection.
- **Cyber security**—Cryptocurrencies exist digitally, and the proof of ownership is often limited to the private keys used to authenticate transactions. This makes cryptocurrencies a prime target for hackers, especially because many businesses aren't aware of how to protect this new form of currency.

Should You Accept Cryptocurrency?

While global companies like Amazon and Microsoft accept cryptocurrency, that doesn't necessarily mean it's right for your organization, especially if you're a small business. Before using cryptocurrency, it's important to conduct adequate research and understand how it may impact your company. In addition, you should speak to a qualified insurance broker to determine how using cryptocurrency opens you up to new risks.

To learn more, contact The Insurance Exchange today.

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