Opinion **Bitcoin**

There are good reasons for business leaders to invest in bitcoin

Cryptocurrencies can be a store of value, like digital gold

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The fact that dominant global economies could back digital currencies makes it impossible for business leaders and market watchers to discount them © Yonhap/EPA-EFE/Shutterstock

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Scepticism over the viability of cryptocurrencies has its roots in the framework of money as a medium of exchange, unit of account and store of value. Critics of bitcoin point to its instability and lack of nimbleness in transactions, but there are very good reasons for business leaders to invest in it.

In terms of exchange, cryptocurrencies are cumbersome and transactions are slow to execute compared with incumbent platforms, like credit cards, and conventional currencies. Whereas Visa and PayPal can execute 24,000 and 193 transactions in a second respectively, bitcoin can only complete seven transactions per second. Moreover, in order to achieve status as a medium of exchange, money has to be both widely trusted and have a critical mass of users. Today, bitcoin fails on both counts.

As a unit of account, critics say cryptocurrencies' value is too unstable, hindering corporate leaders' ability to plan and operate their businesses effectively. According to a report by JPMorgan, "Bitcoin's three-month realised volatility, or actual price moves, is 87 per cent versus 16 per cent for gold."

However, such currencies can be a reliable store of value, and offer a solution to a number of problems — particularly in emerging economies.

They provide an alternative way to park savings. Unlike conventional currencies, they do not contain the risk of inflation so can maintain purchasing power in real terms. In this sense, they can avoid the risks of devaluation brought about by profligate governments.

They can also provide stability and transparency in politically volatile environments. Finally, many emerging markets rely on remittances. Remittance flows to low and middle-income countries touched a record high of $548bn in 2019, larger than foreign direct investment flows ($534bn) and overseas development assistance (about $166bn).

Cryptocurrencies allow people to send money at a significantly lower cost than other currencies — transaction costs can be 50 per cent to 90 per cent lower than those of traditional methods.

Clearly, there is a compelling case to be made for cryptocurrencies as a store of value — akin to digital gold. However, whether they can resolve structural issues on the medium of exchange and unit of account are less clear.

One could argue that a remaking of the global financial architecture or system is already under way, with China being the largest trading partner, foreign direct investor and lender to both developed and developing economies, and the second biggest foreign lender to the US government after Japan. Although, after a decade of expansion China has begun to pull back.

Furthermore, the Chinese political class is backing its own digital currency, a virtual yuan. This is issued and controlled by the central bank, unlike peer-to-peer cryptocurrencies, and could challenge both bitcoin and the US dollar. The US Federal Reserve has also recently announced that it is exploring a digital dollar. The fact that dominant global economies could back digital currencies makes it impossible for business leaders and market watchers to discount the future of new currency platforms completely.

In December 2020, MicroStrategy — a business analytics and mobility platform — held $1.8bn of bitcoin on its balance sheet. Some corporate leaders are likely to follow suit, speculating that the currency's price will go up and — according to "greater fool theory" — they will be able to sell their holdings at a profit, reaping a windfall. Still others will conclude that they ought to secure some bitcoin to match those in their customer base or supply chain that may wish to transact in the currency. How much they would buy would obviously depend on their clients' needs.

However, there is a third reason seriously to consider adding bitcoin to their balance sheets — that of risk mitigation. Even if a company's leaders do not believe in the currency's long-term efficacy, they should ensure that they do not find themselves "offside" against a rival. Were bitcoin to continue to appreciate in value, a substantial increase in a competitor's balance sheet could, in effect, place your company in strategic danger of being eclipsed in the marketplace or even being acquired.

In this case, securing bitcoin today would essentially be prudent risk management and have little to do with whether the board and management believe in the longer-term efficacy of cryptocurrencies. Corporate leaders must instead be alert to the tipping point when the absolute risk of not owning bitcoin outweighs the risk of owning it.