

Cryptocurrency & Payments Disruption: What You Need to Know

Speculation about cryptocurrency has been building for years; but now these theories are turning into real-world use cases that are upending the payments ecosystem. We spoke with author of *The Money Hackers*, Dan P. Simon, and our own Mike Gillpatrick about how this alternative form of currency is disrupting the industry.



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WHAT ARE THE ADVANTAGES OF CRYPTOCURRENCY OVER FIAT CURRENCY?

Cryptocurrency (Bitcoin, for example) is a digital currency in which transactions are recorded on a decentralized system using cryptography rather than by a centralized administrator like a bank or an exchange. This decentralized nature is what its proponents say is its core advantage: It's borderless and not subject to the whims or manipulations of governments or central authorities.

Cryptocurrency as a digital currency comes with several advantages over traditional payment methods. First, the technology ensures that you can instantly realize the value of your trade without having to wait for a central ledger system such as a country clearing house or central administrator to transfer the funds. Secondly, you don't have to worry about the authenticity of the exchange, or having your identity stolen.

AS MORE PAYMENTS SOLUTION PROVIDERS ARE ENABLING PAYMENT IN CRYPTOCURRENCY, WHAT DOES IT MEAN FOR THE PAYMENTS INDUSTRY AS A WHOLE?

It's important to say that greater adoption is good news for the cryptocurrency industry. The two fundamental features of any currency are that it is a store of value and is exchangeable for goods and services. To date, that latter definition has eluded even the most popular cryptocurrencies. As more providers begin to enable payments in cryptocurrency, it creates a sense of legitimacy that will lead to greater consumer adoption and create a virtuous circle of increasing use.

Cryptocurrency technology is reshaping the way we pay and how that value moves. Cryptography is in use today by many of our payment networks, but its combination with distributed ledger technology changes the way a payment is completed. With a true cryptocurrency transaction there is no need for a clearing house or settlement, and no need to reconcile any core backend systems to that central authority. With the distributed ledger versus a centralized ledger, the payment is recorded and becomes a real-time settled transaction.

HOW DO YOU THINK IT WILL AFFECT TRADITIONAL PAYMENTS NETWORKS?

I'm less convinced that cryptocurrency adoption does much for the payments network. The payments rails on which the industry runs are incredibly well-established and are unlikely to switch to cryptocurrency or its underlying blockchain technology in the short term. There are some small-scale trials of blockchain and Ethereum technology in payments, but I think a large-scale "crypto revolution" is far off in the future.

Technically, the payments networks aren't necessary for a cryptocurrency transaction; they become irrelevant. For example, you can buy, sell or transfer in Bitcoin all day from your digital wallet without ever using traditional networks, financial institutions (FIs) or clearing houses. To stay relevant in the payments space of the future, FIs will need to be embedded in the very fabric of the distributed ledger.

BITCOIN IS CONSIDERED NON-SOVEREIGN CURRENCY, BUT NOW THERE ARE GOVERNMENTS TRYING TO CREATE THEIR OWN FIAT CRYPTOCURRENCIES. WHAT'S YOUR TAKE ON THAT TREND?

Central Bank Digital Currency (CBDC) is an interesting development, but virtually none of these currencies are truly decentralized. That would literally be oxymoronic. (A core feature of central banks is that they are... well... central, while digital currencies are decentralized.) Instead, central banks are exploring the cryptography that underpins the technology to see if they can create a digital currency which exhibits elements of Bitcoin but still enables them to control its creation and the amount in circulation.

Of the top-five cryptocurrencies, four of them are not tied to any collateral. Since they're not backed by any assets, their value tends to be highly volatile. This makes it still an edge-case payment method. But with the adoption of what is called stablecoins or cryptocurrencies backed by an existing asset such as a fiat currencies (i.e., Tether, collateralized against the USD), we are going to see adoption of these digital currencies rapidly increase as they receive validation from governments and traditional giants of finance.

WHAT'S NEXT? WHERE DO YOU SEE CRYPTO GOING?

Crypto's meteoric rise is not guaranteed to continue. For one thing, concerns about its energy efficiency promise to pit millennial and Gen Z investors who favor crypto against their peers who care about impact investing and the environment. Many people have bet against cryptocurrency, and most of those people have been disappointed. It's reminiscent of the Mark Twain quotation on reading his own obituary: "reports of my death have been greatly exaggerated."

Once it "grows up," it will be a single, truly global common currency. Adoption will bring out regulation, regulation will remove some of the players and there will be a move towards a globally accepted stablecoin, which many powerful people will want to control. This is inevitable. But the technology will bring about a change in the way we do all types of business—distributed ledger technology (DLT) can streamline the way a supply chain works; it will become a catalyst for workflow changes in many industries.

THE TAKEAWAY

There's a sweet irony in watching a technology that was created to disrupt classic financial systems be adopted by the very authorities it was designed to disintermediate. In fact, if you look across the wider crypto/distributed ledger landscape, the most avid adopters of the technology have been banks, asset managers and exchanges. It would be interesting to know what Satoshi Nakamoto—the mysterious inventor(s) of Bitcoin—thinks about this development.