Bitcoin basics

Bitcoin is a cryptocurrency, a digital alternative to traditional money relying on cryptography, for its security. The Bitcoin network, a system of open source processes, governs the currency and is primarily supported by a peer-to-peer network. This system also makes Bitcoin a payment network, one that exists outside the traditional payment systems.

### Pros
- Low transaction costs
- International transferability and convertibility
- Protection from some political risk and inflation
- Basic security of digital currency provides of supply growth and double payment/verification solved
- Operations is outside the banking system — immune to bank failures, but not protected by deposit insurance

### Cons
- Currently volatile value
- Limited adoption by insiders
- Combined with other software, anonymity can be used for illegal purposes
- Lack of trusted intermediaries to challenge fraud
- Potential to expose users’ transaction history to the public
- Uncertainty about security and operational resilience
- Inadequate mass-market understanding

### Conditions for mainstream adoption

- Trust may be a challenge (open source) and potential fraud (businesses)
- Operational issues, volatility and legal issues
- Lack of consumer protection may further inhibit

### Stability
- Bitcoin’s volatility needs to be moderated in order to attract the mainstream
- A mechanism of minimum value sort of account, and meter of value will be needed until stability is needed

### Acceptance
- An increasing number of demand/consumers looking for an alternative
- A commitment by traditional financial institutions
- Start of acceptance by traditional financial institutions
- Lack of widespread use
- Bitcoin’s lack of stability
- Retail stores and financial institutions

### Payments
- Non-financial websites
- Digital assets
- Accepted by a growing number of businesses
- American Express
- The uptake of Bitcoin may only occur in the acceptance of it by consumers

### Institutional implications

- Bitcoin and other cryptocurrencies
- Bitcoin raises many concerns from a risk and compliance perspective. Risk compliance and risk mitigation may need to be developed or updated to account for Bitcoin and other cryptocurrencies

### Business and institutional implications

- Bitcoin’s volatility
- Limitation of possible value
- Legal restrictions
- Limited adoption
- Volatility

For more information and to download the full report, please visit www.deloitte.com/us/cfs/bitcoin.