

## ROCKING A CHANGE IN CURRENCY

by [Steve Brown](#)

Elvis Presley has been gone since 1977, but during his time he was known as the King of Rock and Roll. He had a way of dancing as he sang where he gyrated his hips so much so; many wondered just what the heck was going on and how he did it. While not on the same scale as the King, many in banking and financial circles are wondering what the heck a Bitcoin is.

Articles are popping up everywhere about the virtual currency, but if it still seems murky, don't worry. Quite frankly, it's complicated. Some history first, the Bitcoin came about in 2009, through a developer with the pseudonym Satoshi Nakamoto. Creation and transfer of bitcoins happen through an open source cryptographic protocol not managed by any central bank. The structure is such that there are a fixed number of coins (about \$21B) that will be generated over time with the value determined by the exchanges upon which it is transferred.

The leading exchange is Mt. Gox, which processes around 80% of the bitcoin to dollar trades. There was a recent software glitch however, which caused an enormous hiccup in the price, driving it from \$266 to \$105 and back to \$160 in a matter of 6 hours. Investors (and probably hackers alike) love a good opportunity and investors realized the currency's volatility and ability to function could be dramatically curtailed by the failure of a key exchange. Bitcoins are not only pushing the boundaries of what we think a currency is, but demonstrating previously unseen levels of volatility. Technological complications clearly curtail the usefulness of bitcoins as a real currency.

As an investment, bitcoins have attracted the attention of the Winklevoss twins of Facebook fame and in general are the realm of goldbug-type speculative investors. The lack of central bank oversight has also reportedly made the bitcoin a popular currency platform for drug dealers and money launderers. Activity also increased dramatically during the EU's Cyprus bailout.

In March, FinCEN, the enforcement bureau of the US Treasury, indicated that generators of virtual currency are considered money transmitters as far as it was concerned and would therefore be subject to the regulations of a "money services business" and the Bank Secrecy Act. This effort to create a regulatory framework indicates the Feds are unlikely to shut things down, but do want to manage what happens in this realm for fear of spillover into the broader financial system.

Bitcoins are "mined" using high level computer calculations and an April estimate of the amount of energy used to do so in a day was equivalent to that needed to power 31,000 homes (or around \$147,000 worth). Profits generated at this moment are around \$681,000, but as seen with previous volatility, it's hardly a reliable number.

Community bankers reading about this quasi-regulated, quasi-functional currency that mostly lives in the world of tax evaders and speculative investors may wonder how it can impact their lives. An apt metaphor to the bitcoin was suggested by The Economist as the 1999 beginnings of Napster, the music swapping exchange that was in the end shut down in 2001 for copyright violations. Napster may be gone, but the music industry was changed forever and legal music sites allowing consumers to buy individual songs and swap files soon followed. In the same way, Bitcoin is likely to be the predecessor to other virtual currencies and some are already in development. One of those, called

Ripple, is far more simple and thus far without any association to the Jailhouse Rock of criminal or dubious activity.

If a large financial player like VISA were to enter the fray with a cheap instant international payments system, algorithmic money transfers could quickly become normal. Like every technological development, bankers will need to understand the costs and benefits, as you monitor things closely - Viva Las Vegas.

## **BANK NEWS**

### **M&A**

The holding company of Rockland Trust (\$5.8B, MA) will buy the holding company of Mayflower Co-operative Bank (\$255mm, MA) for \$37mm in cash (30%) and stock (70%).

### **Job Cuts**

HSBC will reportedly fire 14,000 people worldwide, as the bank seeks to save \$3B annually.

### **Leaving Banking**

The Financial Times reports hedge funds are ramping up efforts to capture retail investors. The increased effort is expected to push hedge fund assets from \$300B in 2012 to close to \$1T in the next 4Ys. We wonder how banks can compete and what risks this will create for the system.

### **Mobile Marketing**

Did you know research by Cardlytics finds transaction based and targeted marketing offers sent to people through their smartphones have a 100x higher activation rate than traditional methods like email, social media or banner ads.

### **True Statement**

The International Monetary Fund is warning global financial regulators are imposing too many new rules on banks, saying the benefits of the rules should outweigh costs.

### **Online Tools**

Research firm Aite asked people which online money management tools or features they wanted most or were already using. Topping the list: seeing balances from all accounts in one place (42%); organizing spending into categories (40%); setting up a separate account to save for a specific goal (40%); automatic categorization of spending into categories (38%) and creating/tracking a budget (34%). At the bottom of the list - receiving personalized product offers (26%).

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