KCS Group Europe

Currency speculating…

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Cryptocurrencies continue to make waves in the vast ocean of the global economy. The concept has taken off massively in recent years and may be about to step out onto the biggest stage yet: becoming legal tender in the country of El Salvador. The venture is being touted as 'a great leap forward for humanity' by the president, Nayib Bukele, and is proof positive of the degree to which a once obscure and niche concern has exploded worldwide, to be ultimately fitting of the 'evangelist' nature applied to several of its most ardent adherents. But the growing adoption, and acceptance of, cryptocurrencies worldwide is likely to place financial, reputational and even political reputations at even further risk.

Bukele's plans for cryptocurrency in El Salvador are certainly ambitious. He intends to set up Bitcoin ATMs in shopping malls, mine the blockchain using the power of volcanoes and even convert some of San Salvador's central reserves to a form of crypto. The key arguments in favour of these appear to be twofold: firstly, that it will extend the reach of financial services to much more of a population living in a poverty-stricken and low-tech environment, and it will (allegedly) offer certainty in a region that has for so long been beset by hyper-inflation and collapse of traditional currency. But good intentions are no excuse for bad consequences. Not only do the majority of El Salvadorans not want the encroachment of crypto currency, but the IMF has warned of severe economic, legal and financial issues that will arise as a result and 44% of respondents to a poll indicated that they thought it would make the economy worse. At what point does the desire for 'better life through tech' clash with the hard realities of what is made possible through that same technology, and when do we accept that some advances come with just as many drawbacks?

El Salvador is hardly alone in this adoption of digitisation to an extreme extent. From a government perspective, the UK is 'exploring' offering its own cryptocurrency to complement traditional services backed by the Bank of England, and China has trialled a Central Bank Digital Currency in several key cities and intends to roll this out further in time for next year's Winter Olympics. However, it is not just governments dipping their toes in the water: there is increasing use of cryptocurrencies by corporates on a full-scale level, rather than from a personal 'investing' perspective. This is perhaps slightly odd, as for many companies, their relationship with cryptocurrency extends only to the cold dread of being asked to pay a ransom in Bitcoin or see all their data locked forever more. But now, a growing number of companies are putting crypto payments on a platform with traditional payment methods in, presumably, an effort to keep up with the pace of tech adoption.

All such companies – and their clients and customers alike – are thus arguably taking on a significant level of risk for little to no tangible benefit. There are two primary problems, which orbit the central issue. On the one hand, a firm happy to use cryptocurrency in its transactions and relations with third parties, and which is then defrauded or conned by said third parties, will find it difficult if not impossible to get any of that money back. On the other, if a firm is deliberately run into the ground and the shareholders/directors have concealed all the assets in cryptocurrency, then the authorities and victims will be in exactly the same situation. Both scenarios are predicated on the fact that cryptocurrencies make it harder to ensure that all aspects of a transaction are genuine, and indeed make a selling point out of the anonymity and untraceability of the digital coin. Since when have these two factors been welcomed in other areas of business?

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Whatever the benefits of cryptocurrencies for businesses at the practical level (and these are debatable, let alone the wisdom of governments enshrining anonymity and unaccountability at state level), they are subsumed entirely by the potential for allowing, abetting and simplifying all kinds of fraud and corruption. A 2020 RUSI study and poll indicated that 84% of respondents were concerned about the potential of cryptocurrency to facilitate money laundering, 82% by sanction-breakers and 79% by terrorist organisations – and according to a Crypto Head study, crypto-fraud reporting in the USA is up by 24,000% from five years ago, with the unreported figure likely to be significant higher.

No matter what countries such as El Salvador, the UK and China may do, for corporates to engage in cryptocurrency as a professional standard represents arguably a risk that, in any analysis, is too great. But more than this, it is a key battleground in the movement to create a supposedly all-inclusive tech-based society that claims greater resilience, but instead offers greater threat. With firms facing more risks than ever from money laundering, Politically Exposed sanctions-breaking and cybercrime, Bukele's venture is not so much a great leap forward, but one significant step back.