



PREVIEW

Bitcoin and Virtual Currency: Hype or Necessity?

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Report Overview

WHAT IS THIS REPORT?

Despite an explosion in media coverage, virtual currencies such as Bitcoin are misunderstood. So what is it? This 43-page report reviews the mechanics of the currency and offers some thoughts on its characteristics and future applications. The report also provides detailed information around the current state of Bitcoin including merchant acceptance figures.

The second half of the report provides a deeper analysis on how Bitcoin compares to the current payments infrastructure, niche payment opportunities where Bitcoin can be leveraged and recommendations for payment players concerning the evolving virtual currency ecosystem and how they can prepare for the rapidly changing virtual currency market.

WHY IS THIS USEFUL?

This report will provide newcomers and industry veterans, across the merchant industry and payments landscape, with analysis on the evolution of virtual currency and Bitcoin. The report is an exceptional tool for reference purposes on the Bitcoin payments ecosystem, how the currency is operated, and the advantages and disadvantages associated with Bitcoin. The report also provides analyses on how the evolving virtual currencies market may impact the payments and merchant environment.

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What Is Virtual Currency and Bitcoin?

How Do Bitcoins Work?



BITCOIN MINER

Miners' create Bitcoins by using computers to solve mathematical functions. The same process also verifies previous transactions.



Bitcoin exchanges will trade between conventional currencies and Bitcoin, offering a way into the market for non-miners, as well as a way to cash out.

WORLDWIDE, DECENTRALIZED PEER-TO-PEER NETWORK



Users download a Bitcoin 'wallet' that works a little like an email address, providing a way to store and receive currency. Bitcoins can be transferred from one wallet to another using a web browser or a phone app.

Businesses create a wallet in the same way as an individual user, typically using a website button to enable a Bitcoin payment. For in-the-flesh enterprises, QR codes can be used to let customers pay quickly and easily.



Source: Federal Reserve Board

Where can Bitcoin Play In the Payments World?

Prominent Use Cases That Could Benefit From Bitcoin

International Remittances



In 2014 close to \$500B was sent overseas. Remittances are one of the most expensive payment ecosystems for consumers worldwide: prices range from \$10 to \$20 per transaction. Considering the added costs and risks of having to use physical locations and cash/checks to conduct transactions, the market is ripe for disruption. Virtual currencies promise to support remittances at a fraction of the cost, and allow users to leverage self-service transaction solutions such as mobile phones or ATMs alongside traditional physical locations.

P2P Funds Transfer



Compared to remittances, P2P funds transfers are more sporadic and typically occur within a single country's borders. P2P transfers have been the target of disruption in certain sizeable markets. While most U.S. banks allow free transfers within the bank, inter-bank transfers are relatively inefficient as they rely on ACH or wire rails. ACH is inexpensive, but takes 1-2 business days to process and can be revoked within up to 60 days; wire transfers do not suffer these shortcomings, but they come with a \$10-20 price tag. If banks were to become virtual currency gateways, they could facilitate real-time, nearly cost-free transfers with minimal disruption to their existing infrastructure.

B2B Payments



B2B payments are large in nature and can be recurring. In Europe SEPA has established shared standards and direct debit is essentially free, but in the U.S. it is not as seamless as businesses use checks for around half of all B2B transactions - even though by some accounts this generates a staggering \$50B annual processing cost. So why not leverage a virtual payment protocol that is real-time and extremely low-cost? Businesses could use a bank gateway or even set up their own gateway and connect their suppliers to it.

Source: Oliver Wyman; JWT Intelligence; TSG analysis

Why Should Payment Players Care About Bitcoin?

The Potential For Disruption Is At The Edge, Or Is It?

Why should payments players pay attention to virtual currencies?

- The value of virtual currencies as a payment method is in their potential use as a low friction, universal payment system, decoupled from traditional bank accounts. The use of virtual currencies in payments is growing. Consider that BitPay, processes \$1 million daily in Bitcoin transactions for more than 30,000 businesses. In addition, New York began to accept applications for virtual currency exchanges in 2014.



While virtual currencies are still in their infancy, the wave of investment and innovation in the space is expanding possible purchase occasions and further defining the regulatory environment around their use.

- Virtual currencies present opportunities for traditional payments companies to grow revenue beyond debit and credit by expanding into payments occasions generally served by banks. This can happen via new customer-focused payment products such as foreign exchange payment or wire transfers.

Source: Accenture; American Banker; TSG analysis

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Have Questions?

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The Strawhecker Group (TSG) is a management consulting company focused on the electronic payments industry.

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Payments Strategy - Payments Strategy encompasses the full spectrum of advisory services within the Payments Industry. The depth of these services is built on deep industry knowledge - the Partners and Associates of the firm have an average of over 20 years of industry experience. With clients from card issuers to merchant acquirers, TSG has the experience and expertise to provide real-time strategies.

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TSG consists of Industry leaders with extensive experience leading teams through explosive growth periods, mergers and acquisitions, and international and domestic expansion within the Payments Industry. Both Partners and Associates of the firm have held key senior management positions at leading industry companies including First Data / First Data International, Visa Inc., MasterCard, TSYS, Humboldt Merchant Services, WorldPay, Heartland Payment Systems, Cardservice International, iPayment, Alliance Data, RapidAdvance, Accenture Consulting, Redwood Merchant Services, Chase Paymentech, as well as other leading financial institutions and Payments companies.

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