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Cryptocurrencies: What is all the Buzz about?

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The world is buzzing with talk about "cryptocurrencies". It is being referred as the "new gold". But what are cryptocurrencies? Simply put, cryptocurrencies are a peer-to-peer, decentralized digital currency. Cryptocurrencies live a totally digital existence on the internet. Think of them as internet cash. Understand that there is no physical coin, just a string of numbers. If you lose the string of numbers, just like losing a $10 bill – it is gone forever.

Bitcoin is the most well-known cryptocurrency. However, there are over 1,100 cryptocurrencies in existence today. Lesser known cryptocurrency names include Ethereum, Dash, Ripple, Litecoin, Monero and Zcash. Bitcoin was launched in 2009 at $.05 a Bitcoin, and recently (early 2018), has traded as high as $18,000. Bitcoin has gotten a bit of a bad reputation based upon its wide use on dark web sites that sell drugs, illicit goods, have hackers for hire, and other illegal materials/services. Further, Bitcoin is often what is demanded by hackers to settle cyber extortion demands due to its anonymity and untraceable nature. In spite of its much publicized illegal uses, now, Bitcoin can be used to buy legitimate goods and services on popular sites such as Overstock.com, Microsoft, Craigslist (with more well known companies accepting Bitcoins daily).

What is so revolutionary about cryptocurrencies? Cryptocurrencies use blockchain technology. A "blockchain" is a digital chain of blocks that builds a digital record for each transaction. When the blocks of data that make up the transaction are added together it creates one unique number. To be put on the chain, the block must identify the previous block. Think of a blockchain as a ledger that permanently records all transactions. This ledger system is spread over thousands of servers by which transactions are made and validated. It can be used to transact payments or can be used to transmit any type of digital information or documents. For example, it could be used to send payments, as well as to transfer patient records, legal documents, insurance policies, etc., in a safe and secure manner.

With cryptocurrencies, each transaction is validated by "miners". The chain must remain unbroken from the first block to the last, in order to be validated by a miner. Miners operate similar to the entities that validate the Visa/MasterCard transactions in the traditional model we use now. Once the transaction is validated, the transaction and solution are broadcast over the network. The miner who successfully validates the transaction is rewarded by being paid Bitcoin from the Bitcoin treasury.

There has been significant investment in Initial Coin Offerings (ICO) related to cryptocurrencies. Loads of investment dollars are being poured into cryptocurrencies, blockchain technology and blockchain startup companies. At the time of this article, cryptocurrencies have a combined value of approximately $491 billion. With respect to insurance for these cryptocurrency related companies, the insurance marketplace has struggled to be able to assess the risks and to provide comprehensive insurance solutions due to the uncertainly of the regulatory and legal environment. A handfull of carriers are willing to provide some coverage, but the coverage is generally very limited.

Why is blockchain technology so different from current technology? So far it appears to be unhackable. However, a Bitcoin "wallet" which contains the unique digital signature can be hacked as easily as anything else. Cryptocurrency investors have been particularly at risk from phishing attacks as hackers spoof emails and websites to steal passwords and gain access to these investor's cryptocurrency digits. Fraudsters have even doctored up ICO websites, changing the info so would be investors send their money directly to the wrong digital wallets rather than the legitimate ICO address. The safest way to store your cryptocurrency is to use what is called "cold storage". This is where you store your cryptocurrencies offline such as storing your Bitcoin on a USB flash drive. As long as it is offline and not connected to the internet, it is safe from hackers. The problem is that many people have saved their Bitcoins on their computer or coin exchanges, which is where they are vulnerable to hackers. These hacks have been publicized in the news and have erroneously given the impression that Bitcoins can be hacked, whereas, the method of storage or during the trading of the coins is where the hacking is really taking place.

Blockchain technology is exciting due to its potential to revolutionize many industries. At this time, most banking transactions are currently done on the SWIFT electronic settlement system. SWIFT is cumbersome and easily open to fraud. Just think how may entities are involved when you swipe a credit card. Several stops are made as a payment makes it way from the merchant, to the payment processors, to the bank and back to the merchant. With Blockchain technology, such transactions can be initiated and settled in under 10 minutes, without risk of fraud. For this reason, many large financial institutions are exploring replacing SWIFT with the blockchain technology.

TAKEAWAY:

Blockchain technology has the potential to revolutionize many industries and to transform the way we transfer funds and handle documents. The real question is how the fledgling technology will evolve and what powerful industries, including the insurance industry, will be the first to adapt and adopt the technology to their business. Stayed tuned….

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