



Insight

Allianz Coffee Guide to: Bitcoin

Broking business is busier than ever, and staying on top of the latest insurance and risk management buzzwords can sometimes fall by the wayside. So, harking back to the coffee shop origins of insurance, Allianz is offering a series of short and snappy insights that pull on our commercial expertise. A perfect way to catch up on what's hot!

On this week's agenda: Bitcoin. We hope the following comes in handy next time you're awaiting a cappuccino in your local coffee house and a fellow coffee customer turns to you and says...

Coffee Customer: I like the new £1 coins. Apparently they've been described as the most secure coin in circulation.

You: Have you heard of Bitcoin? It's a digital currency, or 'cryptocurrency' which can provide high levels of security for transactions. Bitcoin started in 2008 by a programmer using the pseudonym 'Satoshi Nakamoto' and current estimates predict there are around 16 million Bitcoins in circulation. Other digital currencies exist, such as 'Ether' and 'Litecoin', but Bitcoin remains the most popular.

Coffee Customer: A digital currency? How does it work?

You: Bitcoin uses technology known as 'Blockchain' to transact digital currency

between virtual 'wallets'. Anyone wanting to buy Bitcoin has to install a virtual wallet onto a computer or mobile device which tracks their balance and transactions, known as 'blocks'. The wallet uses a secret key which has to be decoded by the network to validate these transactions, which are then logged on a public, shared ledger. Each transaction is linked to the previous transaction creating a chain of blocks – a 'Blockchain' – then an online broker can send you Bitcoins in return for cash via a credit card or bank transfer.

Coffee Customer: So what's so good about it?

You: Because the digital ledger records all Bitcoin transactions it provides an auditable trail and prevents fraudulent activity. Additionally, Blockchain uses a robust cryptography system where users need a private key which is so complex that even the most advanced computer can't yet hack it. Bitcoin transactions are fast, global and completely anonymous.

Coffee Customer: Sounds interesting! But where can I spend my Bitcoin?

You: More than 100,000 places worldwide accept Bitcoin, meaning you can spend your Bitcoin on items as diverse as beer, cars and even funerals. Like all currencies, the value of Bitcoin fluctuates but in July 2017 a single Bitcoin was worth £2,090 – more than the price of an ounce of gold. The smallest Bitcoin value is one hundred millionth of a Bitcoin, termed a 'Satoshi'.

Coffee Customer: I think I'll invest in some Bitcoin! Anything else I should know?

You: Whilst Bitcoin has a good reputation for security, it's good practice to back up your wallet regularly and use a strong password. Also, it's recommended to check the vendors selling Bitcoin and only ever use your own PC or phone when making transactions.

At this point, your drink will be served and you can smile modestly knowing that your coffee catch-up went well.



Insurance implications at a glance:

- In the future, it may become commonplace for insurance companies to accept premium payments in Bitcoin.
- Insurance companies may wish to capitalise on Blockchain technology for the transparent tracking of claims transactions in the fight against fraud.
- The technology is still relatively new and constantly evolving, so risk management best practice, security and controls are still being developed and adapted.

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