BITCOIN - BETWEEN LEGAL AND INFORMAL

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Abstract: *The proliferation of technology emphasized new forms of payment. During the last years, current literature highlighted the role of virtual currency, the channels of payment through digital coins and the importance of assimilation of such platforms. Bitcoin or BTC is known as a digital coin, issued for the first time in 2009 and based on a peer to peer system. The difference from other forms of payment is that BTC is not controlled by any institution or central authority. BTC transactions have grown rapidly, "asking" for regulation measures or legal approval of governments. Although BTC has become very popular, the market is poor and unfortunately of no confidence. There is a lack of regulation which can determine a number of risks associated with criminal financing activities. However, the legal status of Bitcoin is present in many European countries like Belgium, Bulgaria, Denmark, Finland, Germany, Lithuania, Norway, Poland, Slovenia, Switzerland or Turkey. Also, this type of currency has experienced a rapid evolution among coffee shops and restaurants.*

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INTRODUCTION

Globalization is a concept full of meanings in economic literature, practically is understood as a symbol of wealth, an important engine that moved all productive sectors to another level. These kind of changes brought by this phenomenon have been felt in the economical, political, social and technological system. Although the world continues to evolve, technology seems to be the most highlighted factor in scientific studies. Now, we are facing a world with sophisticated machines, important solution that could cure diseases and also who could support the pharmaceutical industry, there are virtual instruments which can easily erase distances and approach individuals, there are microchips and miniature intelligence which are covering the most competitive corporations of the world and so on. The finance and the economic channels have undergone many changes over time. The banking system is a more complex industry, with different types of services. Along time this system has evolved very much, interfering with virtual platforms or with Internet. So, it became much easier to pay bills or to conduct online transactions.

The existence of Internet simplified all the aspects regarding the financial and economical sector. Recent studies argue the future of currency. For many years, the currency was considered a simple form of exchange, a way to keep the value in a symbolic form, like precious metals or paper.

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Leaving aside historical forms of payment, such as gold, silver, jewels and so on, the paper was quickly assimilated by the market. *Can we leave behind the paper in exchange of electronic currency?* At first, the paper money was an invention of the Chinese people to simplify the transport of values between regions and also to eliminate the risk regarding theft or dishonesty. Now, it's seems that paper money has become a traditional way of exchange, while the electronic currency became a much more attractive system.

Nowadays individuals found more useful and handy to receive money through credit card or to conduct online payments. Credit card payment was introduced for the very first time in 1920 USA, to sell fuel to automobile owners. Being so useful, in 1938 more USA companies began to accept each other credit cards. Also, the first credit card with similar mechanism of our days, was released only in 1958. Indeed, the credit card is considered a helpful banking product, which is preferred by everyone because of its benefits, such as:

- the revolving credit line;
- the safety element;
- to flexible repayment and discount possibility;
- shopping bonuses etc.

In time, individuals found that its more useful to realize direct payments through E-POS (Electronic Point of Sale) or Imprinter, to shop online or to withdraw money from ATM`s (Automated Teller Machine).

Until recently, the term “virtual currency" was not very reliable. Many countries considered this kind of coin as an illegal commodity, and because of that, measures were taken to curb its usage. However, there a few numbers of countries that simply allowed it, countries like Canada, Germany, Finland, Switzerland and so on. 15 years ago the virtual market was a market of casino chips or flyer miles. Efforts have been made to launch this new system, the first platform being the eCash system, but at the end it has proved to be disappointing. Despite this, it followed a period of important currency innovation and expansion. According to economic literature it seems that the virtual money economy is now larger than the economies of many real countries (Castronova, 2014, p.13).

Because we are living among a new era of language and communication, the payment system relied on this aspect, allowing people to trade products, services in a quick, easy and safe manner. For some economists, virtual currencies may be the next step after paper money. Although is found under different names, the digital value transfer can be defined as an electronic payment system which is based on the transfer of value among users.

1. “VIRTUAL CURRENCY” DEFINITION

Although this period is characterized by the existence of virtual currency, this term is not a new one. Virtual currency continues to maintain the main features of traditional currency, in other words virtual money are a symbol or synonym for a value, a payment system technology which continued to grow over the past 20 years. Virtual currency is based on the idea of exchanging value without the approval of an institution. When is difficult to manage paper money, in an exchange of a transaction fee, virtual currencies could be an option to transfer in a quick manner value between parties.

Digital or virtual currency define an emerging market, which strengthens the payment landscape. Users or consumers have the possibility to earn points or rewards that can turn at any time in cash. Many international organizations tried to define virtual currencies. For example, the European Central Bank argue that virtual money is a type of decentralized digital money, issued and controlled by its developers, an exchange form of value accepted in virtual community. The U.S. Department of Treasury found digital money as a medium of exchange similar with currency attributes in virtual environments, but not the same with real currency. This concept was developed in parallel with social gaming and the industry of online games.

Recent studies argue that between virtual currency and digital currency, are some differences. Digital currency is again a way of payment that is electronically created and stored. For example, Bitcoin is considered to be a digital currency.

The virtual landscape presents a new area such as:

- mobile apps and online and network games has raised attention of online tokens, or virtual coins, which can simply be earned by completing games levels or different kind of tasks. The proliferation of virtual coins are not limited only to network games, this phenomenon evolved inside advertisements segment (TV shows, movie downloads and so on).
- the increase popularity of peer-to-peer currencies. Bitcoin became well-known in 2009, because was easier to use than traditionally banking system, encouraging the mining process through its users. It can be controlled among its users, and it is not managed at all by a central authority.
- new types of payments through mobile phones. The proliferation of technology in smarthphone industry has brought new payment schemes. Overall, the mechanism is very simple, merchants are rewarding consumers with tokens, if they use their mobile phones to realize a payment. Shopkick is one of those examples of mobile payment.

- virtual payment landscape is now more and more diversified. Today, airline passenger could access credits of air miles, as a form of compensation. Similar, mobile applications can generate virtual coins or tokens.

2. TYPES OF VIRTUAL CURRENCIES

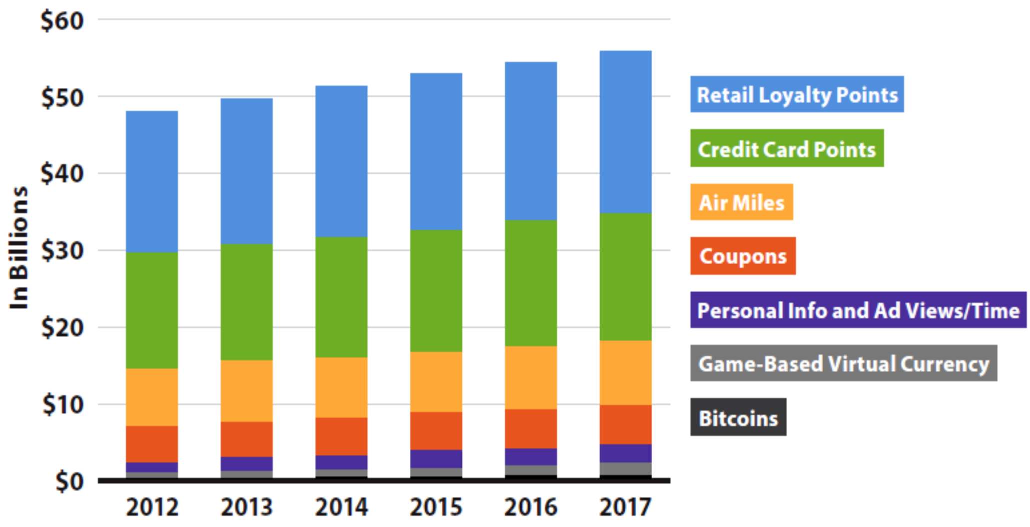
Recent literature argue that virtual currencies can be found into two distinct categories:

- **mature virtual currencies** (coupons, air miles, loyalty points etc.);
- **new or recently virtual currencies** (apps which could generate coins and tokens, mobile coupons, bitcoins etc.)

3. SIZE OF VIRTUAL CURRENCY MARKET

According to a research organization named Yankee Group, digital currency market assumes a constant growth rate. Only in 2012, this market have been worth around U.S. $ 47.5 billion and it is estimated that in 2017 will continue to grow up to U.S. $55.4 billion (McKee, 2013, p.3). Despite the fact that mature virtual currencies influences much more this market than the recently or up-and-coming virtual currencies, the new one forms of digital payment will make a profound impact in the next few years.

Figure 1 - Virtual currency market growth (2012-2017)



Source: McKee, 2013, p. 4

According to figure 1, retail loyalty points will have a significant increase, summarizing the period of 2012-2017. However, digital currency like Bitcoin, will continue to work for a period, to gain confidence and to combat the volatility disadvantage.

4. A NEW DIGITAL CURRENCY - BITCOIN

Bitcoin represents a new monetary system, an easy way to send and receive money which is also affordable for any computer user. Essentially, Bitcoin is a new payment system based on cryptography system. Its main features are: peer-to-peer system, a digital and decentralized coin used in virtual environments, which can make possible the exchange into US dollars or other currencies. Overall, this digital currency is primarily a code used for sending and receiving money online. There is no institution or central bank who is in charge with bitcoin creation or its administration, users are the only individuals who are able to control such kind of currency.

Bitcoin is based on pseudonymous features. All bitcoin transactions are registered in a open database named Blockchain. Blockchain is a mechanism which provides the anonymity source.

The inventor of Bitcoin is Satoshi Nakamoto, known as a mysterious hacker, who created this digital coin in 2009. Satoshi has developed the first software who emphasized the mining process or the process of creating Bitcoin. BTC`s are stored in bitcoin wallets, that borrows the same qualities of an account. The first set of bitcoin was named Genesis block. Shortly after this, in 2010 the international community could use for the first time, this digital coin. In May 2010, a bitcoin user could buy a pizza worth $25 in exchange of 10.000 BTC.

Soon after its introduction, BTC began to grow rapidly attempting to become a currency, increasing media attention. New online pages and companies began to cover bitcoin transactions. This coin has drawn the attention even of criminal structures. “The Silk Road” a hidden website allowed users to buy and sell illegal merchandise - mostly drugs, using bitcoin for security and anonymity (Patterson, 2013). At this point, this is a huge disadvantage that BTC could become a channel for illegal activities (drug trafficking, gambling, money laundering). Such examples are offered by other virtual currencies, like e-Gold or WebMoney. Bitcoin is currently accepted as a form of payment at hundreds of legitimate retailers including vendors selling clothing, games, music, and some hotels and restaurants (FBI, 2012).

The main characteristics of bitcoin payments are:

- transactions don`t require fees;

- electronic payments are confirmed in very short time;
- because of limited production of bitcoins (21 million) there is a low risk of monetary inflation;
- there is a low risk of payment fraud, considering that the transactions are irreversible;
- there is no need of identification;

In Europe, bitcoin has grown rapidly. For example, Germany recognized bitcoin for legal and tax purposes, under the name of “currency unit” and “”private money”. The first trading platform for bitcoins in Europe, with direct cooperation of a bank regulated by the Financial Supervisory Authority was set in Germany (RT, 2013). According to international reports, Germany, Finland, Singapore and Canada are among those countries that have issued tax guidance on Bitcoin, while Ireland, Israel and Slovenia have made gestures that they plan to (Hill, 2014).

CONCLUSIONS

Taking into consideration the widespread of technology, the Internet applications and mobile phones, virtual currencies are becoming more and more relevant in the consumer lives. The international companies dealing with smartphones selling, encouraged this market to increase, allowing a rapid transformation in the nature of financial digital world. Along with the appearance of Bitcoin many governments are trying to implement a regulatory system, to eliminate the competitiveness with national currency and also to ensure a security policy, designed to protect users against money laundering, theft, and other type of illegal activities such as drug trafficking, gambling and so on. Looking forward, virtual currencies are a part of an emerging market, which encourage both investment and risk. With proper regulatory policies, the world of digital currency can be considered a success also for governments and its users.

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