Are cryptocurrencies the 21st century's biggest fraud?

As of 5 May 2020, Tether was the world's most purchased cryptocurrency, with $56.16bn in 24-hour trade volume. However, Tether did not appear in the list of top five cryptocurrencies by daily transactions in the same period, nor in the first quarter of the year.

In the first quarter of 2020, Ethereum was the most used cryptocurrency, with an average of 753.51 thousand transactions daily – more than twice the number of its more commonly known rival Bitcoin, which saw only 298.98 thousand daily transactions in the same period. Other leading cryptocurrencies saw less than a tenth of the daily volume of Ethereum.

And yet, says Richard Firth, CEO of MIP Holdings, cryptocurrencies have been punted as the precursors to a fundamental shift in how financial transactions are managed, with the underlying technology, blockchain, being promoted as a means to ensure faster and more secure transactions.

Richard Firth, CEO of MIP Holdings

"There is no doubt that blockchain has the potential to enable a much more efficient way to conduct transactions, but there are still a number of challenges that are being ignored by those that are promoting it as 'the future of financial services'. One of these is the fact that the soaring popularity of cryptocurrency and blockchain has overtaken its ability to cope with the demand, and fees are becoming expensive as a result."

He adds that the benefits offered by blockchain as a technology have been somewhat eclipsed by the media around cryptocurrencies, leading many people to conflate the two. The volatility of cryptocurrency markets has put added pressure on the entire ecosystem, especially since cryptocurrencies are riding a wave of perceived value. Without something “real” to back them up (like the FIAT currencies), the perception of value can be extremely fickle, and thus volatile, Firth says.

Digital assets

Cryptocurrencies use peer-to-peer technology, relying on distributed networks to enable all functions such as currency issuance, transaction processing and verification. If these networks see a spike in activity, this affects the blockchain’s transactional capabilities as well the values of the cryptocurrency.

“Since its inception in 2010, Bitcoin was the first digital asset to see extreme fluctuations in price, rising to nearly $20,000 per coin in 2017, but then steadily declining to between $3,500 and $4,000. The other cryptocurrencies have seen similar peaks and troughs, which is why Tether is so popular with investors. Tether is the world’s most used stablecoin, a category of tokens that seek to avoid price fluctuations, often through pegs or reserves,” Firth explains.

“Some economists predict a big change is coming as more people buy cryptocurrencies, with rumours about some of them even being floated on the Nasdaq. However, the same decentralised structure that makes blockchain transactions so fast, and the reason that cryptocurrencies are generated and used the way they are, makes them the main currency used for a host of illegal activities including money laundering, drug peddling, smuggling and weapons procurement. In fact, leaders at the last World Economic Forum event held at Davos stated that more than 50% of all cryptocurrency transactions happen on the black market,” he says.

“The other side to this coin is that because the ledger persists through blockchain, it leaves a trace of transactions that law enforcement can trace, which cash does not. Patterns can be detected and then when criminals aren’t as smart as they think they are, they expose themselves and get caught. Unfortunately, the pace at which criminals can transact with digital currencies far outpace the rate in which law enforcement can catch up with them.”

Firth adds that he believes that cryptocurrencies are the 21st century’s greatest fraud. “Their use is limited to transactions, which makes them more vulnerable to the bubble-like collapses we have been seeing. In addition, cryptocurrency’s energy-intensive verification process is less efficient than systems that rely on a trusted central authority like a central bank. I believe that the journalists and analysts that bought into the concept in the early days had a vested interest in growing the popularity of cryptocurrencies, because the entire system relies on increasing volumes of miners and transactions.”

He points out that from a technical perspective, there is no reason for the massive interest we have seen in cryptocurrencies, mainly because the technology still hasn’t found a use case where it is the best and cheapest option. Add to that the fact that the primary customer base of all cryptocurrencies is organised crime syndicates, and Firth says that the growing worldwide interest seems to be merely a function of the publicity cryptocurrencies have received over the past decade.

“Regulators have been trying to bring cryptocurrencies under their control for years, but so far, none have succeeded. They are still being used for anonymous illegal transactions, and are still based on simulated values. Without the backing of the so-called crypto-evangelists, would cryptocurrencies have become as mainstream as they are now? I suspect not.”