WHY CRYPTO CURRENCIES ARE BECOMING MORE STABLE THAN EVER

Francesca Greco, director and co-founder of X8 Currency, examines key factors in the growth of the cryptocurrency industry, and what regulators are doing to curtail the risks

Positive regulatory developments

It is an encouraging sign that the crypto currency community and regulators have been quick to evolve and respond to risks that have been identified in the market.

For example, in June 2018 the Financial Services Regulatory Authority at the Abu Dhabi Global Markets issued a regulatory guidance on Initial Coin Offerings (ICOs) and crypto assets, bringing regulatory clarity to the industry and providing investors with confidence in the regulatory framework governing crypto assets.

Countering high price volatility

Currencies such as Tether and TrueUSD are backed by fiat currencies to better manage the risk of high price volatility and preserve investors' equity on a best effort basis. While other currencies such as Pecunio and Goldmint have utilised gold reserves to mitigate high price volatility.

X8 Currency uses a hybrid approach, whereby the price of the X8C coin is backed by a basket of eight major fiat currencies and gold coins, which significantly reduces the risk of high price volatility and counters inflationary pressures. This hybrid approach is the beginning of a new era for cryptocurrencies, as investors gain confidence in the management of the underlying basket of assets that underpin the X8C coin.

Digital 'Know Your Customer' techniques

There is a proliferation of regulated service providers that now offer virtual 'know your customer' due diligence services at an affordable price. These enable fintechs to validate their customers prior to on-boarding and ensure that their identity is established and in line with international regulatory requirements- thus providing comfort to law enforcement and financial services regulators. The verification process is managed using video calling, which reduces the cost burden on the company and ensures the process is seamless for the customer.

Digital asset management

Given the increased number of stable coins within the industry, investors are now turning to digital asset management to compliment the traditional asset management strategies that have been pursued over the past three decades. There is increased investor appetite to work with firms that can channel funds into stable coins in the near future that will preserve investor value and provide a respectable return.

Reduced costs of undertaking cross border money transfers

Money exchange houses are now saving costs on fund transfers by converting one fiat currency into a digital currency and then exchanging the digital currency into another fiat currency at the beneficiary destination, reducing the costs of traditional money transfers and ultimately providing a saving for the customer.

Risks

Many regulators across the globe have been quick to issue warnings regarding dealing in cryptocurrencies, due to the following risks:

1. High price volatility
2. Cybercrime attacks
3. Money laundering and terrorist financing Within the UAE, the Central Bank and the Dubai Financial Services Authority have aligned with the global regulatory approach, issuing warnings for investors dealing in crypto assets during the third quarter of 2017.

For example, investors that injected money into Etherum or Bitcoin during 2017 have lost the majority of their equity invested based on the price of the pertinent currencies today. Bitcoin, for example lost 30 per cent of its price during January 2018.

There have also been a number of instances whereby cyber criminals have made successful attempts to hack crypto exchanges and steal cryptocurrencies.

It is evident that the risks affiliated to cryptocurrencies are real and need to be addressed by regulators and the industry, The steps taken thus far mitigate the underlying risks referenced; however further steps are required to ensure the risk remains manageable.

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