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BARRIERS TO THE FUNCTIONING OF THE BITCOIN SYSTEM - USER ASSESSMENT

Abstract:

Bitcoin is a system created to service micro-payments in e-commerce, as well as the digital unit of value functioning in the system's environment. When analysed, the behaviour of market participants indicates that the introduction of investment applications of the cryptocurrency, in parallel with its original payment application, had a tremendous impact on the larger-scale functioning of the system. This was aided by the functioning of many trading platforms allowing for exchange into traditional currencies and a high volatility of quotations.

Without doubt, bitcoin may be branded a ground-breaking financial innovation or a work of genius. However, the growing, and even global use of bitcoin has brought some of the system's imperfections to light. As the system developed, bitcoin users started to have a better view of the threats to the correct functioning of the system arising from its construction.

The paper aims to indicate the main barriers limiting the functioning of the bitcoin system, and its use in payments in particular. The work has adopted the following research hypothesis: In the early stages of bitcoin functioning, users had little awareness of the technological flaws of the system. The study analyses the literature on the subject and the results of a survey carried out among Polish bitcoin users. The analysis confirms of the research hypothesis, as it shows that in the system's first several years, users identified the following threats to the system's functioning: the speculative nature of bitcoin, the lack of adequate awareness in society which would allow for a widespread use of the innovation, potential too strict regulation of the cryptocurrencies market or its banning. The authors also present threats to the functioning of the system which in their opinion are of greatest importance at the moment. These relate to the existence of intermediaries, the lack of systemic incentives addressed to bitcoin merchants, growing costs and payment processing time. The authors intend to indicate those aspects of bitcoin's functioning in order to make the use of cryptocurrencies more conscious and contribute to limiting financial risk of system users.

Keywords:

Cryptocurrency, bitcoin, financial innovation, operational risk

JEL Classification: F65, G20, O31