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Digital Currencies – Scary or Just Different?

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Most humans instinctively distrust something new. History demonstrates that when this relates to money, healthy scepticism serves us well.

Digital currencies represent one such development that currently makes people nervous, yet we believe they will play an important role in our lives moving forward.

At Tacit, we believe the hype surrounding cryptocurrencies has diverted attention from a genuinely transformative development: technology that will revolutionise the infrastructure of the global financial system over the coming years, significantly reducing transaction costs whilst enabling faster international money transfers.

The truly important technology to focus on is blockchain. A blockchain is a specialised digital record-keeping system that stores information securely and transparently. Think of it as a chain of blocks, where each block contains data such as transactions or records. What makes blockchain unique is that each block connects to its predecessor using a cryptographic hash, a special code that makes altering any information extremely difficult once added to the chain. This linking ensures data integrity and trust without requiring oversight from a central authority such as a bank or government.

A stablecoin is a type of digital currency designed to maintain steady value, unlike cryptocurrencies such as Bitcoin or Ethereum, which experience rapid price fluctuations. The core concept behind stablecoins is to behave more like traditional money, enabling everyday transactions without concerns about dramatic value changes from day to day.

To achieve this stability, many stablecoins are “pegged” to existing currencies such as the US dollar, meaning one stablecoin maintains a value of approximately one dollar. Companies or organisations issuing stablecoins typically hold reserves of dollars or other assets to support this promise, ensuring holders can exchange their stablecoins for real money whenever they choose, rather like the old gold standard where money was backed by physical gold reserves.

For everyday users, stablecoins can be understood as digital versions of the US dollar that exist online. Just as money in your bank account can be transferred electronically, stablecoins can be transferred digitally, often much faster and with lower fees, particularly across borders.

What makes stablecoins appealing is their combination of familiar currency stability with the speed and flexibility of blockchain technology. This allows people to transfer value instantly without relying on traditional banks or payment systems. Consequently, someone in one country can easily send money to another part of the world, with both parties confident that the value won’t fluctuate during transfer.

Essentially, stablecoins unite the trust and familiarity of the Pound or US Dollar with the efficiency and accessibility of digital currencies, creating a practical online form of traditional money. The concept is remarkably simple, and in practical terms for users, not dissimilar to Apple Wallet or Google Pay already on most phones today.

Maintaining an open mind in our modern world is vital to understanding the changes happening all around us.

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