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## **Currency Token and Coins**

**Payment Function and Store of Value.  
The Potential of Crypto Currency  
as a Store of Value**

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## Executive Summary

Following the spectacular rise in prices of the first cryptocurrency Bitcoin in 2017, the crash and the subsequent "crypto-winter", during which many blockchain projects had to fight to survive, a new chapter in the crypto-cosmos has opened up: We are on the threshold of mass adaptation.

The corona pandemic provides impetus for digitisation and its increased acceptance by individuals, private ventures and public authorities. Proof is given by large technology companies such as MicroStrategy and Paypal by opening up to the cryptocurrency Bitcoin.

In addition to its primal function as a means of payment, another factor has been brought into focus: the function of storing value. The measures taken to limit the negative economic impact of the corona pandemic have sparked a heated debate of professionals on the stability of our monetary system and confidence in money as a store of value. In this paper are shown the advantages and disadvantages of cryptocurrencies as a store of value compared to traditional stores of value such as money, real estate, gold and securities (like bonds or shares). Finally it is pointed out what potential cryptocurrencies hold to establish themselves as an asset class.

Table of contents

1. Preface	7
2. Introduction	9
3. Classification of cryptocurrencies	11
4. Cryptocurrency as a means of payment created under private law	16
5. The potential of cryptocurrency as a store of value	22
6. Comparison of conventional store of value concepts and cryptocurrencies	30
7. Results and outlook	38
8. About the authors	41

## Introduction

"Bitcoin as a primary treasury reserve asset" Geldmagazin, a journal on finance publishes in the September 2020 issue within its Blockchain Short News an article about the investment decision of the US technology company MicroStrategy to acquire 21,454 Bitcoin for \$250 million.<sup>1</sup>

CEO Michael J. Saylor is quoted as saying: "This investment reflects our belief that Bitcoin, as the most widely used crypto currency, is a reliable store of value (...)"<sup>2</sup>

Prior, Business Wire published a press release the day the investment was announced in early August, setting out the background to the investment decision, as provided by the CEO. The main factor he cites is the economic and political uncertainty associated with the Corona pandemic, but above all the unprecedented financial support provided by governments around the world to stabilise economy.

According to Michael J. Saylor, in the long run this will lead to a devaluation not only of the existing fiat currencies but also of conventional forms of investments. Saylor said after evaluating various investment options, the company had decided to go with Bitcoin. This appears to offer adequate protection against inflation and promises a higher rate of return in comparison to conventional investments (assets).<sup>3</sup> Additionally, the increasing institutional acceptance<sup>4</sup> is having a favourable effect.<sup>5</sup>

Since the initial investment, the company has reinvested in Bitcoin and now holds 38,250 Bitcoins valued at \$425 million.<sup>6</sup>

Therefore MicroStrategy uses the cryptocurrency Bitcoin as a store of value by investing a large portion of the company's money. Bitcoin has been subject to great volatility since its introduction in 2009.<sup>7</sup> Therefore, a stability in value cannot be

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<sup>1</sup> Cf. a.u., 2020a, p.66; cf. Bizovi/Denyeau, 2020 and [www.microstrategy.com](http://www.microstrategy.com)

<sup>2</sup> A.u., 2020a, p. 66.

<sup>3</sup> Cf. Bizovi/Denyeau, 2020.

<sup>4</sup> Cf. a.u., 2020a, p. 66; cf. Weger, 2020, p. 38.

<sup>5</sup> Cf. Bizovi/Denyeau, 2020.

<sup>6</sup> Cf. United States Securities and Exchange Commission, 2020.

<sup>7</sup> Cf. Balz/Paulick, 2019, p. 13.

attributed to it.<sup>8</sup> However, this would be an important prerequisite for its suitability as a means of payment or as an investment<sup>9</sup>.

The central question is: Does the crypto currency have the potential to be a store of value?

The answer requires the capture of the term cryptocurrency. Although originated in Bitcoin, there is a variety of virtual currencies<sup>10</sup>.

In the context of this analysis, a classification is undertaken and the concept of cryptocurrencies illustrated.

The definition of the concept of storing value is given, followed by presenting preferred investment products (assets). Throughout those conventional stores of value are determined and subsequently described.

A comparison of cryptocurrencies and conventional stores of value shows the similarities and differences. This points out to what extent cryptocurrencies themselves have the potential to be a store of value.

The prospect shows the interplay between the effects of the corona pandemic and cryptocurrencies. Finally, the question is answered whether cryptocurrencies have the potential to be a store of value and could become a recognised means of payment or the preferred store of value.

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<sup>8</sup> Cf. Zöllner, 2020, pp. 117, 119; cf. Schlund/Pongratz, 2018, p. 598.

<sup>9</sup> Cf. the functions of money: means of exchange, unit of account, value creation, store of value, cf. Grundmann, 2019, recital 3, (detailed explanations are provided in sections 3 to 5.).

<sup>10</sup> Cf. Baier, 2019, p. 123f.

## About the authors



Esther Hanzsch is studying business administration with a major in banking at the Baden-Wuerttemberg Cooperative State University Villingen-Schwenningen. She has a degree in law from the University of Passau and a degree in the fundamentals of English law from the University of London. She works in the area of financial services, assurance, and audit at a large auditing company.



Torsten Dennin is Professor of Economics and member of the Berlin Institute of Finance, Innovation and Digitalization e.V. Prof. Dr. Dennin is Chief Investment Officer (CIO) of Asset Management Switzerland AG and has more than 15 years of professional investment expertise.

Torsten lives with his wife in Switzerland and is author of several books. His current book, *From Tulips to Bitcoins*, is an Amazon bestseller in the categories financial market, commodities and digital currencies and has been translated into six languages so far.

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