

New financial product: cryptocurrencies, a peer-to-peer payment system

Cryptocurrencies are high-speed speculative assets which do not depend on any financial institution. They made headlines in the news at the end of 2017, when the price of a Bitcoin reached a record USD 20,000. But what exactly are these «electronic currencies» and what are the opportunities for holders of life insurance policies?

Origins

The beginnings of crypto money date back to the end of the 1990s, with rough drafts, such as the work of Nick Szabo¹ on “bit gold”. The first crypto money or cryptocurrency was finally created in 2009: the Bitcoin, by Satoshi Nakamoto². This electronic currency, based on the blockchain system,

was created with the primary aim of making fast, anonymous and secure transactions, outside conventional financial structures and intermediation systems. This technology was quickly adopted and other virtual currencies began to emerge.



¹ Computer scientist, lawyer and cryptographer, known for his research work on digital contracts and digital currency.

² The pseudonym used by the creator of the bitcoin «Bitcoin: A Peer-to-Peer Electronic Cash System <https://bitcoin.org/bitcoin.pdf>»; <https://bitcoin.org>. His true identity has never been revealed.



Crypto currencies today and how to access them

Starting from seven in 2013, there are now 1,563 different cryptocurrencies (29/04/2018) and their money supply is estimated at USD 434 billion³. Today the best known include Bitcoin, Ethereum, Ripple and Litecoin. Bitcoin represents 36% of this supply.

The highly volatile price of cryptocurrencies is comparable to the price of highly speculative stocks such as biotechnology shares. It is closely correlated to the news. Bitcoin is not exchangeable with any other tangible asset. Its mechanism is very different from that of other currencies or from the supply of currencies backed by deposits.

It is possible to invest in cryptocurrencies by going to dealing platforms. The platforms based in Europe are regulated, which is not the case for all the platforms around the world. So you have to be very careful, because if the platform goes bankrupt, there may be no legal entity you can sue.

It is also possible to access cryptocurrencies via Initial Coin Offerings (ICOs). An ICO consists in raising funds by issuing tokens (digital assets), which are exchangeable for cryptocurrencies at the start of a project. These tokens do not represent the shares of a company but a right to use a service. This is the purchase of a «product or a service under development».

The legislator's point of view

The legal status of cryptocurrencies is still uncertain today: is it a currency or an asset?

There is still no global regulation of cryptocurrencies⁴. At the last G-20 summit in March 2018, the Financial Stability Board stressed that «crypto assets» do not pose a risk to global financial stability at the moment⁵. Cryptocurrencies are estimated as representing less than 0.5% of the shares listed worldwide (excluding derivatives and debt). It is therefore up to each country to monitor these assets.

Nor is there any clear legislation on this subject within Europe. Current discussions only concern measures to prevent the use of cryptocurrencies in money laundering and terrorist financing. In December 2017, the European Parliament voted in favour of an agreement with the European Council for legislation on this subject, which mainly targets the anonymity of financial technology, in order to set the rules for virtual currency exchanges and platforms.

From a tax perspective, however, it should be noted that cryptocurrencies are not exempt from capital gains tax in most European countries. Countries such as France or Italy have not yet introduced legislation but their tax authorities have decided to tax the capital gains, while other countries such as Portugal are unable to tax gains from electronic currencies because of a legal vacuum on how to classify and tax these products. So, there is still no consensus in Europe.

Cryptocurrencies and life insurance policies

In view of the lack of a legal classification for virtual currencies (are they currencies or assets?), it is difficult, at the moment, to consider ways in which they could be included in a contract.

However, cryptocurrencies could be eligible in Type D portfolios⁶ (dedicated internal funds or specialised insurance funds), according to Annex 3 of Circular Letter 15/3, by investing in Funds, ETFs or certain structured products, but not by direct investment.

Bâloise Vie Luxembourg has a team of specialists in the structuring of insurance assets. Please contact us for more information about asset planning opportunities through a unit-linked life insurance policy, and the benefits of Bâloise Vie Luxembourg solutions.

³ <https://steemit.com/cryptofr/@willbourget/analyse-appfondie-de-l-industrie-crypto-depuis-2013>

⁴ <https://www.cnbc.com/2018/03/27/a-complete-guide-to-cyprocurrency-regulations-around-the-world.html>

⁵ <http://www.fsb.org/wp-content/uploads/P180318.pdf>

⁶ Subscribers investing a minimum total of EUR 1,000,000 in all their policies with the insurance company and declaring that they have a fortune in securities above or equal to EUR 2,500,000.



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