

GROWTH OF BITCOIN MARKET IN NEW ZEALAND: RED FLAG OR FRAUD?

Zeb Wilton

Research Assistant

Noel Yahanpath

Senior Lecturer

Business School

Eastern Institute of Technology

Napier, New Zealand

nyahanpath@eit.ac.nz

Corresponding Author: Noel Yahanpath, Eastern Institute of Technology, Private Bag, Napier, Hawke's Bay, New Zealand. Ph: 06-9748000 Fax: 06-8441907 Email: nyahanpath@eit.ac.nz

GROWTH OF BITCOIN MARKET IN NEW ZEALAND: RED FLAG OR FRAUD?

Abstract

Purpose – The objectives of this study are, firstly, to track the growth of the bitcoin market in New Zealand in comparison to other countries and highlight the risks to bitcoin investors and users; and, secondly, to examine whether there are any regulatory gaps in relation to the bitcoin market, post-Financial Market Authority (FMA) regime.

Methodology/Approach – We first track the historical growth of bitcoin use in New Zealand by analysing both monetary and non-monetary data, including bitcoin currency market volumes, bitcoin client software downloads, and businesses accepting bitcoin as a mode of payment. We then studied the regulatory regimes in other countries to compare them with the FMA in New Zealand in order to establish the regulatory gaps and the risks posed to investors.

Findings – We found that the New Zealand bitcoin market is growing rapidly, based on the volume of XBT/NZD currency trades and the number of users. However, only a small number of NZ-based companies accept bitcoins as a mode of payment, which could indicate that New Zealanders treat bitcoin more as a speculative investment than as a medium of exchange. There are threats of software errors, fraud or theft, and exposure to price volatility. Therefore, bitcoin as an investment can be classified as very risky. However, it is not entirely clear whether bitcoin investors and users are fully aware of these associated risks. Although bitcoin is relatively new, some countries have already taken regulatory action. The FMA, however, remains completely silent on this issue despite the growth of bitcoin use by New Zealanders being on a par with countries such as USA and UK.

Practical significance – In this paper we argue that regulation of the bitcoin market by the FMA is urgently needed to curb illegal activities and to perform its main function of protecting NZ investors and regaining the confidence lost as a result of finance companies' failures.

Originality/value – To our knowledge, no studies have been done on this topical issue. Continued silence on this matter is unacceptable; if NZ bitcoin investors suffer unjustifiable loss, fingers will first be pointed at the 'super regulator', the FMA.

Key words: Bitcoins, Financial Market Authority, Regulation and Investor Risk

Classification: Research Paper