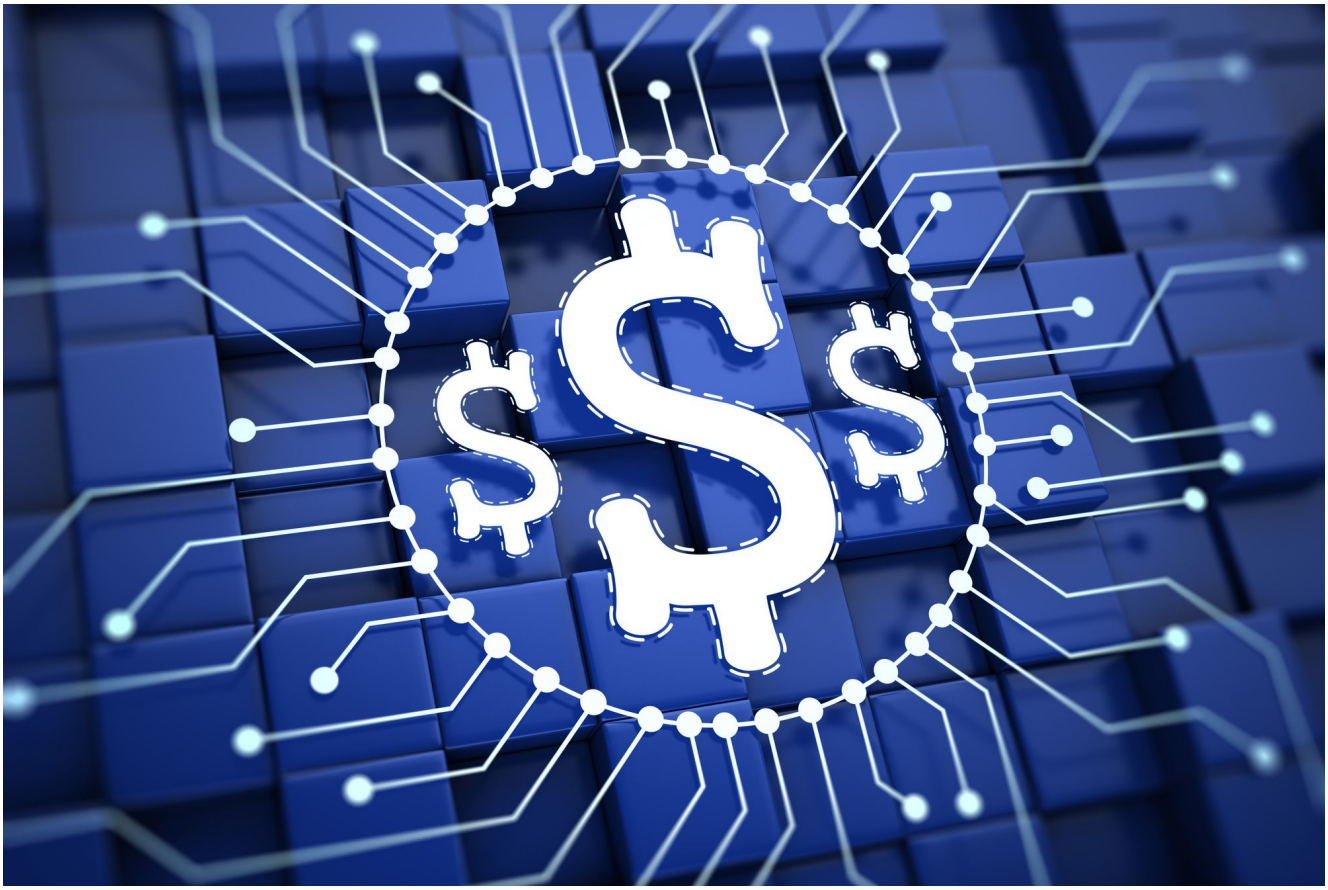
Will Stablecoins Solve Entrepreneurs' Biggest Problem?



Maybe you've never heard of them, but pay attention: This cryptocurrency, backed by traditional currency, could solve a lot of your problems.

January 18, 2019 7 min read

Opinions expressed by *Entrepreneur* contributors are their own.

The ubiquitous problem for entrepreneurs is *capital.* First, there's the constant struggle of seeking to get access to enough capital to get an idea off the ground. Next, there's the massively troubling problem of managing capital once the business takes off. Then, as any platform grows, capital reinvestment and further acquisition for greater growth become challenges.

Related: Stablecoins, Rather Than Cryptocurrencies, Might Be the Future of Money

While the market has consistently offered solutions for these issues, technology has simply not kept pace with the needs that entrepreneurs face on a daily basis.

Related: IBM Is Experimenting With a Cryptocurrency, Which It Says Is More Stable

However, a new solution may be on the horizon: *stablecoins.* Blockchain technology has created these digital coins, and they may simplify the above difficulties dramatically. But, at the same time, these cryptocurrencies come with their own set of massive risks: Their prices, for example, can fluctuate in massive ways, often without any technically analytical reason for the change.

Bitcoin, for example, endured a drop in excess of 80 percent of its value in the first half of 2018, and that kind of plunge could be disastrous: No startup wants to see its working capital suddenly dwindle to less than a fifth of what it had raised. What's more, Bitcoin is one of the most stable of the cryptocurrencies.

Stablecoins may be the solution to volatility. But what are they, exactly?

While the Bitcoin bubble cycle is nothing new for most market experts, the basis of its growth and loss is often attributed to the lack of backing for the asset. Devotees claim that, like gold, which has little intrinsic value, a simple consensus on a currency (meaning a mutual agreement as to its value based on scarcity) should provide the foundation. In other words, if all users agree on the value, then the value is maintained. But many investors have sought something more

stable.

Enter stablecoins. A new type of tokens, stablecoins may pose a solution to the volatility problem. A stablecoin is a cryptocurrency – again, think of a token that is used as currency – that uses blockchain technology for transactions, but *is also backed by fiat currencies* (meaning familiar currencies like dollars, euros or yen) or else by commodities (meaning something akin to the gold standard, but using digital tokens). By combining these features, stablecoins provide the benefits of both cryptocurrencies and traditional currencies.

Thanks to these coins' internal backing, users can streamline payments and acquire capital through transparent peer-to-peer (P2P) transfers ensuring liquidity, stability and security for use.

To put it simply, think of a way to receive and immediately use investment funds without the burdens of bank transfers, time-consuming disclosure statements and third-party fees. Transfers would be seamless and immediate, but still contain all the safeguards of current systems.

By combining flexibility with a value floor, stablecoins offer entrepreneurs a new, and perhaps far more useful, method for acquiring, managing and investing capital. Capital acquisition and transfers could be done in moments (unlike what happens with fiat currency filtered through old-guard banks). Payments and capital management could be handled digitally, and investment and fund control could all be managed with confidence based on the stability of the backing currency or asset.

Dollars and euros and yen, oh my!

Given their level of market potential, stablecoins have been on the rise. At this point, stablecoins backed by U.S. dollars

(USD) are dominating this sector. These dollar-backed stablecoins include Tether's USDT, Circle's USDC, Paxos's Standard Token and TUSD, all listed as top cryptocurrencies by their market capitalization (the dollar value of all outstanding tokens). These tokens have reached this heady place because of their rapid adoption by businesses and consumers alike.

However, some firms are seeking to break the stereotypes and develop still newer forms of stablecoins that incorporate even more features.

One good example is PlasmaPay, a European startup developing a blockchain-powered payment platform and ecosystem that revolves around the Plasma cryptocurrency. The latter is a new form of stablecoin backed by a pool of five major fiat currencies, including the USD, the Euro, the Chinese yuan, the Japanese yen and the British oound.

PlasmaPay founder and CEO Ilia Maksimenka explained to me that the Plasma cryptocurrency is a critical part of the company's ecosystem, which will eventually comprise 32 fiat-based stablecoins and tokenized financial instruments.

This particular stablecoin will use a price-formation algorithm taking into account all the stable currencies listed on the Plasma blockchain. The advantage of the Plasma cryptocurrency over U.S. dollar-backed stablecoins is that it can remove the volatility risks of both cryptocurrencies and fiat money.

Consider a simple example. If the value of the U.S. dollar dropped significantly, the corresponding value of a U.S. dollar-backed stablecoin would drop, as well. However, with only marginal U.S. dollar backing, along with that of a large number of other currencies, the PlasmaPay ecosystem would remain relatively stable. Essentially, the platform would be hedging against any loss by calling on global group

of currencies to mitigate the loss risk for its users.

“Corrections like the one we have today make the cryptocurrency market healthier,” Maksimenka told me. “In the future, I expect the concept of smart money to become more relevant. People will stop using this technology for speculation and instead will focus on the real usage in the economy.”

And, given the need for speeding transaction and payment systems for most entrepreneurial endeavors, the PlasmaPay network is able to work at the speed of business, the CEO claimed, adding a further claim that, “As of now, in the context of payments, we can rival with VISA and MasterCard in terms of speed.”

Can stablecoins help your business?

With their combination of flexibility and stability, and their enviable ability to back their coins with various world currencies, stablecoins may be the best way for entrepreneurs and startup managers to pursue capital acquisition. Even with any collapsing cryptocurrency market, these coins could represent a sea change in the way digital business will be done.

Below are some tips for how stablecoins could be used to help your business grow.

- **Flexibility** – The digital aspect of stablecoins allows you to manage funds rapidly, and without international barriers. Because stablecoin transactions are completed on the blockchain, there is no third-party intermediary required to check, process and verify payments and transfers.

Specifically, businesses are able to send and receive international transfers almost instantly, provide payments to

contractors both locally and overseas with ease and save a substantial amount of money in inter-bank transfer fees.

This feature is particularly helpful. Investments received in other flexible digital tokens like Bitcoin, while helpful, are subject to substantial market swings. Stablecoins provide market stability, protecting your working capital and savings from major fluctuations.

Further, for those stablecoins that are hedged against an array of international currencies, inflationary pressure is also much less. In a nutshell, your investment won't lose value with inflation changes.

- **Capital acquisition** – Investors and lenders can use these tools to move money into a startup, and entrepreneurs can likewise move funds back to investors, all without the tedium of legacy banking systems.

This latter feature allows for capital acquisition to take place globally, rather than simply locally, providing far more potential for growth. By eliminating the headaches of international transfer and investment obligations, stablecoins have the power to link you with investors in a genuinely peer-to-peer relationship.

Related: 5 Types of Cryptocurrency Entrepreneurs Should Know About

Together, these advantages make stablecoins a very real solution for entrepreneurs in the years to come.

https://www.entrepreneur.com/article/325843