

Chapter 13

Reflection on the Latent Role of Institutional Trust for the Adoption of Cryptocurrencies: Cases on Bitcoin, JP Morgan Coin, Diem, and Japanese Listed Cryptocurrencies

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ABSTRACT

Cryptocurrencies emerged with Bitcoin as a decentralized currency bringing freedom from institutions as well as uncertainty. Since then, lots of new cryptocurrencies have emerged. However, their diffusion among investors or among users as payment methods has been uneven. Several reasons could explain this discrepancy. This chapter will focus on the role of institutional base trust and present the potential role of four different institutions behind cryptocurrencies. To do so, it will describe four types of cryptocurrencies: Bitcoin as an independent cryptocurrency, JP Morgan Coin as a cryptocurrency backed by a reputable investment bank, Diem as a cryptocurrency managed by a famous brand, and Japanese-listed cryptocurrencies.

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INTRODUCTION

Cryptocurrency is by no doubt one of the most developing and interesting fields for researchers as well as for business practitioners. In its current form, it attracts attention due to its functions as a speculative commodity for investors and as an alternative payment medium between buyers and sellers (Hanley 2013; Yermack 2015; Williams 2014; Dyhrberg, 2016; Ciaian and Rajcaniova, 2016; Beck et al. 2017). However, to perform both functions efficiently, cryptocurrencies need to be understood and trusted to be used.

For example, when using credit cards, individuals understand that by using their cards in a retail place, they will be exchanging money from their account to the seller to get the desired goods or services. In addition, since credit card systems are widely used by others and bank institutions are relatively trusted, individuals will trust that the exchange will take place safely. In other words, users trust their credit cards because peers use theirs and because institutions such as banks are behind. In the literature, it is referred to respectively as cognitive base trust and institutional base trust (Li et al., 2008).

THEORETICAL BACKGROUND

Cognitive base trust refers to the idea that when an individual has no prior information about something, he will develop his trust based on information available in the environment. In many cases, individuals will focus on the reputational image developed by peers (Barber, 1983; Dasgupta, 1988). Institutional trust refers to the legal or formal safeguards provided by or expected from an organization. In this situation, trustors will develop trust based on the reputation or the organization's ability to keep its promise (Shapiro, 1998). For consumers, who would use cryptocurrencies to purchase goods or services, and for investors, who would use cryptocurrencies as an investment, the analogy about credit cards could be replicated, however, some limitations apply.

First of all, consumers would be influenced by peers when using or not cryptocurrencies. The more it is used by peers, the more it will be accepted. In addition, consumers will also be influenced by the institution or organization behind the cryptocurrency. Then, for investors, it is comparable. They need to develop similar dimensions of trust before deciding whether to invest in cryptocurrencies. Their investment will be influenced by their peers (Taghipour and Frayret, 2010). This is manifested through the supply and demand dynamic around an investment opportunity. If peers are invested massively, the investors will perceive the opportunity. If peers are neglecting an investment opportunity, investors will evaluate the investment

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