



BEYOND THE KEYS

Oct.
2024

Unmasking Bitcoiners' Fear of Self-Custody

Author: Sina G.

Date: October 15, 2024

Email: contact@21stcapital.com

www.21stcapital.com

Why Are People Reluctant to Self-Custody Bitcoin?

A Study of Bitcoiners

Introduction

As Bitcoin continues to grow, more individuals join the network and face a critical decision: how to store their money? whether to self-custody their Bitcoin or rely on third-party custodians. Self-custody, which enables users to have full control over their funds without relying on intermediaries, is one of Bitcoin's core benefits. Without self-custody, bitcoin is a shadow of what it could be; it would be relegated to a mere paper trade. Your Bitcoin at a custodian is not yours, not at the custodian, and likely not even real Bitcoin.

However, despite its advantages, many Bitcoin holders remain hesitant to take this step. We would even venture that the absolute majority do not self-custody. Why are so many individuals, including those who understand Bitcoin's promise of financial sovereignty, avoiding self-custody?

To understand why, we conducted an online focus group with fifty-three Bitcoin users from platforms such as Twitter and Telegram. Participants shared their candid concerns about self-custody, and through a structured analysis, we categorized these into clear themes.

Our findings reveal that key issues such as security fears, the burden of responsibility, challenges in inheritance planning, convenience, cost, and regulatory uncertainty are the main reasons people avoid self-custody. This article will provide a detailed exploration of these concerns and offer a comprehensive understanding of the obstacles hindering wider self-custody adoption among Bitcoin users.

Methodology

To understand why individuals choose not to self-custody their Bitcoin, we conducted an online focus group with participants from prominent Bitcoin communities on Twitter and Telegram. This method allowed us to gather a broad spectrum of views in an informal yet insightful setting, encouraging participants to share their experiences and concerns in a conversational format.

Textual Analysis and Categorization

The feedback from participants was analyzed systematically. We read through each response to identify recurring concerns and issues. Responses were labeled based on the specific themes they addressed, such as security challenges, ease of use, or inheritance planning.

Once labeled, the feedback was categorized into broader themes. For example, concerns about managing private keys, fears of theft, and irreversible mistakes were grouped under “Security Concerns.” This approach allowed us to capture the most frequently cited reasons why individuals avoid self-custody.

This methodology—rooted in qualitative data from an online focus group—provided valuable insights into the barriers that prevent broader self-custody adoption within the Bitcoin community. Figure 1 below shows a word cloud of the frequently mentioned concerns by the study participants.



Figure 1. Frequently Mentioned Concerns Around Self-Custody

Findings

Through this detailed analysis, we identified six major areas of concern: security issues, personal responsibility and self-trust, inheritance planning, convenience, cost, and regulatory worries. Each category represents a significant challenge that users face when considering self-custody for their Bitcoin.

1. Security Concerns

"Security is too complex."

The technical complexity of securing Bitcoin, particularly managing private keys, setting up cold storage, or using multisig configurations, can be overwhelming for many. The knowledge required to implement these security measures often acts as a barrier to self-custody adoption, especially for those less familiar with these technologies.

"I'm worried about theft."

Fear of physical attacks, such as being forced to reveal private keys under duress (a "wrench attack"), is a major deterrent. Even with robust digital security in place, many are concerned about the risks posed by physical threats.

"Fear of making mistakes."

Bitcoin transactions are irreversible, meaning any mistake—whether it's sending funds to the wrong address or mismanaging seed phrases—can lead to a permanent loss of assets. This creates significant anxiety around self-custody, particularly for users who are unfamiliar with best practices for handling private keys.

"Fear of losing or destroying private keys."

The risk of losing access to Bitcoin due to misplaced or destroyed private keys is a serious concern. With no recovery mechanism available, users are often hesitant to self-custody for fear of permanently losing their assets.

2. Responsibility and Self-Trust

"I don't trust myself with that responsibility."

Self-custody demands that individuals take full responsibility for securing their Bitcoin. Many users find this level of responsibility intimidating, particularly given the technical expertise required and the potential consequences of mistakes.

"Using ETFs for safety."

Some users prefer to use custodial solutions like Bitcoin ETFs, where trusted institutions manage the security of their funds.

This removes the burden of managing private keys and provides a sense of safety for individuals who are unsure about handling Bitcoin independently.

"I don't trust myself as I age."

As people grow older, they may fear their ability to manage complex security measures will decline. Cognitive impairment or forgetfulness could lead to serious mistakes, making self-custody a less attractive option for long-term asset management.

3. Inheritance and Long-Term Planning

"Setting up inheritance is difficult."

The complexity of setting up a secure inheritance plan for Bitcoin is another common concern. Ensuring heirs can access the Bitcoin without risking loss or theft presents a significant challenge, particularly when dealing with security measures like multisig setups.

"Executing inheritance is a problem."

Even when inheritance plans are in place, there are fears that heirs may struggle to execute them. The technical nature of self-custody security measures could lead to the permanent loss of Bitcoin if heirs are unable to navigate the process.

4. Convenience and Ease of Use

"It's just easier to let someone else handle it."

For many, the complexity and effort involved in self-custody simply aren't worth it. Entrusting a third party with their Bitcoin allows users to avoid the hassle of managing private keys and the potential risks associated with self-custody.

"I want liquidity and access."

Custodial solutions often provide faster access to Bitcoin, which is important for those looking to trade or use it as collateral. Self-custody may delay access to funds, particularly when they are stored in cold storage solutions.

"Using non-custodial wallets feels inconvenient and risky."

Managing non-custodial wallets requires dealing with private keys and seed phrases, which many find inconvenient and prone to errors. For these users, custodial solutions offer a more streamlined experience, reducing the risk of making costly mistakes.

"Inertia."

Some individuals continue using custodial solutions out of habit.

They may not see a strong incentive to switch to self-custody if their current solution works well enough and they haven't encountered any major issues.

5. Cost Concerns

"The costs are too high for small holders."

For those with smaller amounts of Bitcoin, the costs associated with self-custody can be prohibitive. Purchasing hardware wallets and paying transaction fees can erode the value of small holdings, making self-custody less attractive.

"Hardware wallet costs."

The financial burden of buying and maintaining hardware wallets adds to the deterrents for those considering self-custody. For individuals holding smaller amounts of Bitcoin, the costs may outweigh the perceived benefits.

"Transaction fees."

Frequent transactions on the Bitcoin network, particularly when moving funds between wallets, can incur high fees, making self-custody expensive for those making regular or smaller transfers.

6. Regulatory and Legal Concerns

"I'm concerned about government regulations."

Fears about future regulatory changes, such as increased taxes or restrictions on self-custody, deter some individuals from adopting it. The uncertainty surrounding Bitcoin's legal framework creates hesitation, as users may feel safer with custodial services that are subject to regulatory oversight.

"Concerns about capital access in ETFs."

Those who hold Bitcoin in ETFs or similar investment vehicles may find it difficult to transition to self-custody. Registered accounts often have restrictions, making it more challenging to manage Bitcoin independently without incurring penalties or other complications.

Figure 2 below summarizes these results:

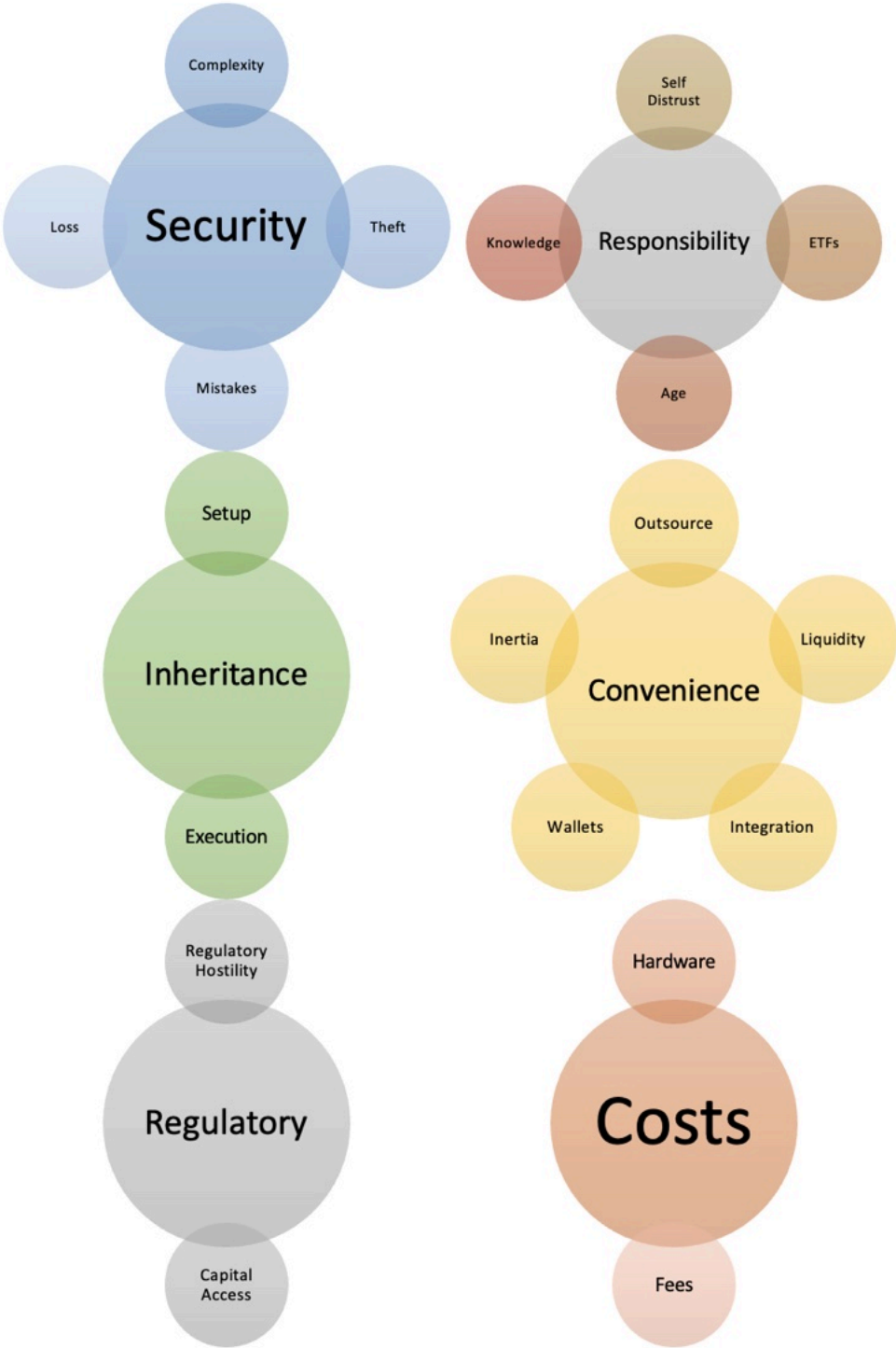


Figure 2. Summary of the Major Concerns with Self-Custody

Conclusion

Self-custody offers individuals unparalleled control over their Bitcoin, but it also presents significant challenges that prevent wider adoption. From the study it is clear while Bitcoin allows users to control their own wealth without relying on third-party institutions, many still choose not to self-custody their Bitcoin. Issues such as security concerns, the burden of responsibility, convenience, cost, and regulatory uncertainty contribute to the hesitation many users feel. However, as the Bitcoin ecosystem matures, solutions that simplify self-custody while addressing these concerns may encourage more people to take control of their digital assets.