

A Bitcoin Governance Network: The Multi-stakeholder Solution to the Challenges of Cryptocurrency*

Transcript of Interview with Jim Bailey, Global Managing Director, Accenture Digital, Mobility

Introduction:

Digital currencies, such as bitcoin, are products of the digital revolution and the networked age. As their usage and value have grown, government policymakers have struggled to play catch-up, finding it difficult to comprehend this phenomenon, let alone regulate and govern digital currencies effectively. Incumbent interests, such as large financial institutions, have been similarly caught off guard. Meanwhile, digital currencies march forward. The bitcoin economy has grown to over \$8 billion in value and the bitcoin ecosystem, once composed exclusively of a few hobbyists and technologists, now includes merchants, financial services firms, start-ups, foundations, advocacy groups, investment companies, venture capitalists, government regulators, law enforcement agencies and NGOs. Thought leaders and business innovators, such as Jim Bailey at Accenture, are now pushing forward with bold new applications for the bitcoin protocol. We were fortunate enough to sit down with Mr. Bailey for a candid and in-depth interview.



Jim Bailey

We would like to thank Mr. Bailey for his time and for his thoughts on this disruptive and fast-changing technology.

Participants:

Guest: Jim Bailey, Accenture

Interviewer: Alex Tapscott, Author, "[A Bitcoin Governance Network](#)"

The Interview:

Tapscott Hey, Jim. Before we launch into bitcoin specifically and digital currency as a subject, I'd like to talk a little bit about the work you're doing at Accenture on payment services. I've been reading a lot of your material and it seems to me that the digital payment transformation, that is, the migration of cash payments and classic card payments to digital channels, is a big thing that you think holds enormous potential for your client base. Could you spend a little bit of time talking about the work you're doing and what you view as the opportunity and also some of the challenges?

Bailey Sure. Just by way of introduction, I've been with Accenture 26 years. My current role in our financial services practice is I lead our payments business in North America, so I have responsibility for our client base that supports the existing payments Visa system as well as the business service around payments-related profits for our clients. We do get into the subject of digital currencies from time to time. There is a distinction, though, between digital payments and digital currencies. In digital payments we're seeing quite a bit of activity with our client base where consumers are adopting new technologies to simplify and add value to the way that they make payments in the world, and mobile wallets is one example of that. But there are other different schemes out there. It's a little bit different than digital currencies, which are the global technology based cryptocurrencies that exist in the world, such as Bitcoin, that kind of are a separate topic. Our client base, while we're seeing a fair amount of activity on digital payments using existing currencies, the US dollar or Euros, et cetera, our client base is not spending a lot of time right now, or at least not a lot of money, on digital currencies. They're watching and they're very interested, so we do have conversations from time to time but not a lot of engagement at this time where our clients are investing in the business to try to figure out how they incorporate bitcoin or others into their business model.

Tapscott And why do you think that is? Why do you think that, at this time, at least for now, they're watching intently but not prepared to take any action at this point in time?

Bailey Well, I think... and again, I wouldn't qualify myself as an expert on digital currencies from the limited client uptake that we've had on them to date, but I think most of the interest in digital currencies comes from either the technology community, the regulatory community, the security community, or the academic community. It seems to me that many in the world are looking at these digital currencies almost as an experiment, and the technologists are saying "can we pull this off, can we do this in a secure, easy to use way?"

Eventually there will be lessons that will be incorporated into all currencies and the way currencies are managed around the world. In the United States, the regulators are taking a hands-off approach to see how digital currencies grow, how they behave in the market, how consumers react to them, and how businesses react to them before taking formal action. The security community is looking at how digital currencies could be a threat or be an enhancement to the tracking of usage of money for illegal activities around the world, and the academic community is looking at how this impacts the overall financial system and business community, and the way we do commerce in the world.

So all of those different angles are looking at it, I think, like somewhat of an experiment where you're saying let's see how this evolves over the next year or two, three years, to see whether it flourishes or survives or doesn't survive. And businesses are... they're smart about how they use their money, so they're waiting to see. Is this a fad, or is this something that turns into the wave of the future? Then they'll decide about a serious investment.

Tapscott And Jim, the client base for Accenture, correct me if I'm wrong, is comprised mostly of large corporations, public enterprises, multinationals and the like, is that correct?

Bailey That is basically a way of thinking about it, yep.

Tapscott So you could argue perhaps that at least for large, established corporations, the technology or the development is a little too early stage, and it lacks mainstream adoption and therefore it's something they'd rather wait and see than take action prematurely?

Bailey I think so for now. I'd be interested in your feedback as well, what you're seeing as you've talked to other people, but at least from our client base, we have talked about it and done workshops in a variety of different venues and that's generally the position they're taking, which is let's wait and see how big this thing becomes. Now, there have been announcements by different businesses about accepting bitcoin. To my mind, that's a bit more of a marketing gimmick, where a business may want to get its name out there in the press, in the news, and that's an easy way to do it. But scratching under the surface you see exactly how much business traffic are they taking between bitcoin and other digital currencies, and it's almost none. So bitcoin is a very interesting topic, but not one that is commercially making a big splash right now with our client base. That of course may change, but that's where we are right now.

Tapscott Speed and cost are the two things that bitcoin proponents point out as being the two key aspects that make it superior to say, conventional financial instruments or electronic payments. The speed is instantaneous while the cost is basically next to nothing because the network is supported by miners who, in order to verify every blockchain, get compensated in the form of bitcoin. We all know how this works. So those two advantages, would you address them? You, I'm sure, deal with them on a day-to-day basis when talking about conventional digital payment systems using existing currencies. How important are those two things to your clients and what do you think about bitcoin essentially improving upon the speed and ease of use?

Bailey Well, first, I would agree with Marc Andreessen in that the speed and the rendered line technology is superior, no doubt about it, and I think there are things that we, as a society and an economy, are learning from bitcoin that will ultimately be adopted into currency systems around the world as well as payment systems around the world, because you can't argue that the speed and cost and the efficiency of a bitcoin model is superior.

I do think you need to break down bitcoin into: What is it? What are the characteristics of bitcoin? It's based on a new technology system that enables that speed and cost structure, it's also a global currency, so there are benefits that eliminate the need for foreign exchange, it's a virtual currency, it's not tied to any single government schema or monetary policy and it operates outside the current financial system. As you look at those different characteristics, I think there are some that are going to be durable and then some that perhaps are not. The one you mention around the technology base and the fact that it is

far more efficient, has speed and cost characteristics that I think people are going to want in the future, I think that is something that will likely stay in some form or fashion in the world five, ten plus years from now. If we fast forward and say that five years from now, everybody's going to use bitcoin, then there's zero chance that governments are going to allow them to operate outside of any government authority.

One of the primary policy levers that governments have in the world today is their monetary policy, so I think the minute a non-government based currency becomes material in the world, then I think we start to see the regulators move from observation to action.

For the moment, I think they're looking at the overall phenomenon of technology to say there are enough of the characteristics that we think are going to be usable in the future that make this worthwhile to allow it to continue in its current form, before we figure out okay, how do we take the good pieces and incorporate that into the future of the world. So I think it's significant, but I think it's going to be pieces of the bitcoin model that actually survive, versus bitcoin becoming a universal dominating global currency would be my opinion, we'll... time will tell.

Tapscott This is a great segue into the next part that I want to talk to you about, which is governance, and what we've seen so far is that governments have taken a fairly open approach to digital currency, particularly in the US, and this probably stems from a culture of innovation and entrepreneurship. The counterpoint to that is that they're pretty eager at this point to make sure that bitcoin as a financial instrument satisfies all the existing regulatory requirements for "know your customer" and "anti-money laundering," terrorist financing, etc., and also may change some of the security protocols and robustness of security that a lot of existing financial institutions have.

If digital currencies have any chance of going mainstream and getting widespread adoption, those conditions need to be satisfied, but the bigger issue is down the road, if cryptocurrencies end up gaining widespread adoption. Is government's response, do you think, to take the US dollar and make it a cryptocurrency of sorts? And by that I mean digitizing the US dollar. Or is the response to limit the utility of bitcoin through regulation, or some combination thereof?

Bailey I think it's some combination thereof. It's actually a very interesting topic, because we're getting far out there in our thinking. I actually was a bit surprised, because when I learned about digital currencies several years ago, and I've got a college classmate who was one of the early guys in bitcoin and it was one of these deals where he would attach bitcoins to e-mails he sent out to his friends just to try to get the name out there. Now those email attachment are worth \$50,000 or something to people.

At first I thought there's no way that the regulatory bodies and particularly the security bodies are going to allow this thing to really take hold, but virtually, as you said, they've taken a much more balanced approach and allowed it to run. I do think that, to your question, there are some minimal standards that are in place, but bitcoin is operating in a very open, unregulated environment, for all intents and purposes. So the market is driving whether bitcoin is going to be successful or not, whether people are

going to tolerate the volatility and all the issues that are around it, to get the benefits of using bitcoin as a currency. But let's say for the sake of argument that bitcoin were to take off. There's a significant issue, and this is probably a better question for a regulator, but I think there's a point when the United States government or other large economies around the world will say look, you can't let all currencies kind of flow into this large, global virtual unregulated currency, because we're basically ceding our monetary policy at that point. I do think there's a point at which governments put the harnesses on digital currencies to limit their use and impact so that they can preserve the levers that they have for managing the US dollar and the euro and such.

To the point about digitization of the US dollar, I look at that and I look at our existing monetary policy, and to some degree we have that conceptually, because you think about the difference between M1 and M2 monetary measures, really beyond zero you're moving away from physical currencies to virtual currencies, so if you have a repurchase agreement or a demand account or there are substantiations of the US dollar that are virtual and not backed by physical currency, then I would say, going back to the point about characteristics, what part of bitcoin would be potentially adoptable by established authorities in managing their existing currencies?

Maybe there is a portion of the technology that governments adopt to improve the way they manage the existing physical currency, as well as the overall monetary system. I think there are definitely lessons that are going to be adopted into the existing monetary system. It's not clear, though, which those are and when they will happen, but I think that's the primary motivation, really, for the regulators to allow this to run, because I think they're seeing there's probably a better mousetrap here and we can use parts of it to improve the way we manage our currencies.”

Tapscott It's interesting, governments globally have a really hard time cooperating. On issues like climate change, for example, the biggest improvements we've seen on that front have been on a state-by-state basis in the US, or by individual countries like Germany. Governments globally have not been able to coordinate, and so I wonder when it comes to something like digital currencies if they run the risk of losing that monetary lever as you called it, I think it's almost like an existential threat to the nation-state as an issuer of currency, whether or not they might decide this is actually an issue that we really need to get together on and coordinate on.

Bailey Yeah, potentially, and that's part of where the conversation goes. Unfortunately for either a businessperson or an academic, the minute we step into the political world, all bets are off and logic doesn't always apply to the way those bodies are going to potentially cooperate or not cooperate with each other to apply action. For now, generally they're taking a hands-off approach and not paying a lot of attention to it, but eventually, they're all going to get there, I would think.

Tapscott And you never know, certain states might be more hospitable to it than others. I feel like the US government is probably pretty secure in its feelings about the US dollar, maybe not as a global

reserve currency but at least as a going concern, but it might be less obvious in a place like Argentina, for example.

Bailey That's also because of the invented base. So if it's \$10 million or \$100 million or whatever it is in bitcoin activity, in the United States, that's a drop in the bucket. In Argentina, that could cause major swings, in the actual currency or other economic events.

Tapscott Yeah, for sure, and I know this is a question. I've been posing it a lot to certain people, specifically government people, about the question of governance. Digital currencies are a global phenomenon. They're not something I think that can be regulated or governed alone by one specific government, one specific regulatory body. It's going to require cooperation. The question now is what is the role of stakeholders in a governance network and what tasks do they perform. What I envision is a multistakeholder network where you've got governments globally, regulators globally, non-governmental organizations, advocacy networks—like the Bitcoin Foundation, for example—and also groups of individual developers all cooperating to steer this technology. Now, that doesn't mean that governments are going to cede control of regulatory functions. Obviously that's something that's going to always be the role of government, but because it's global in scope, much like the Internet, this technology might require a similar response. What are your thoughts about that?

Bailey I think that's a great way to look at it. The difference between digital currencies and the Internet analogy is that users of bitcoin, just to use a generic term, will ultimately need to convert the digital currency into some form of value. You can only use bitcoins in so many ways, so eventually a holder of bitcoins will likely want to convert to existing established currencies so that they can be used for a broader variety of purposes. I think there is a role for a multistakeholder approach to determine both the positives and the negatives of how the ecosystem can encourage, discourage or potentially put guardrails around the digital currency network.

One interesting sample scenario is if users of bitcoins don't necessarily see the need to convert to established currencies, and that there is enough traction in the ecosystem where the fact that they have a bitcoin, I've got 101 different ways to think about that I can buy or use and convert that to value by spending on things that accept bitcoin, then it potentially takes a life of its own where the number of ways stakeholders can put up guardrails potentially start to fall away and it becomes truly the market's going to decide how big it gets and the way it's used and how accessible it is. It's a very interesting topic.

Tapscott Bitcoin advocates would argue that the goal here is a situation where you never have to convert bitcoin to another currency because it will serve all the basic functions of money, as a medium of exchange, fungible, liquid, et cetera, but that remains to be seen. I think at this point in time 40,000 businesses and organizations accept bitcoin as a form of payment, and I think there are 3 million merchants globally that accept Visa, so it's a ways away, but a really interesting topic. What I'd love to hear from you— if at any point in time you start to notice your client base at Accenture starting to think a bit more seriously about this and seeing more of an urgent need based on the reaction of their

customers and the demands of their customers to begin integrating this technology into their digital payment platform, I think that would be fascinating and very helpful for us, as well.

Bailey Yeah, I think Accenture would be a good canary in a coal mine, if you will, where today it's not on the list for a lot of our clients. But as with a lot of these innovations, people ask me when we are going to hit the inflexion point around digital currencies, and that's really the \$64,000 question. It could be 9 months away or it could be 9 years away. User adoption is a tough thing to predict.

But the minute we start approaching that inflexion point, or if I start to see traction, then I'd be happy to reach out and let you know and we can talk about what you're hearing, as well.

Tapscott Great, thanks Jim for your time I really appreciate it.

Bailey Okay, you have an interesting project. If you have any outputs you think would be of interest, I'd love to take a read.

Tapscott By way of background, we're going to be interviewing people from all different perspectives on this. I interviewed Balaji Srinivasan and Marc Andreessen and they've got a view that this is going to be transformative, the same sort of disruption as the internet, and then you've got others... I've spoken with some people that do the mobile payment systems of the Bank, for example, in Canada, and they're of the view that it's a wait and see approach but that it's probably going to have pretty limited utility in the long run. So there are all sorts of different viewpoints, and then governments... one of the issues that's come up is the question of remittance payments. Of course, people in the world pay the highest fees to move money around, so bitcoin offers an alternative, and I'm talking to people in government on that issue. So, lots of varying viewpoints. We're obviously still in the early stages, but your thoughts are much appreciated. Thank you very much.

* ["A Bitcoin Governance Network"](#) is a research project of the [Global Solution Networks](#) program.