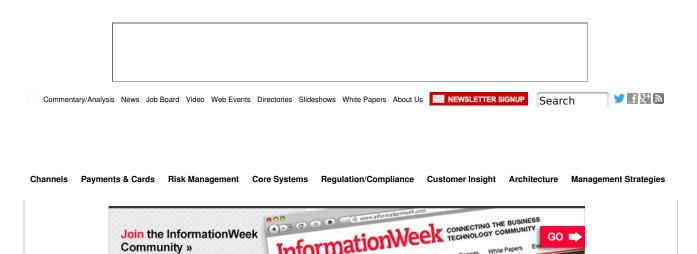
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Bitcoin: Friend or Foe to Banks?

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# Bitcoin: Friend or Foe to Banks?



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# **Bitcoin: Friend or Foe to Banks?**



### **Bryan Yurcan**

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Some consider virtual currencies a passing fad, while others believe banks should be keeping a close eye on them.

Tags: Payments, Bitcoin, Digital Currency, Regulation, Fraud



JANUARY 31, 2014

Bitcoin has been in the news quite a bit in recent weeks, as interest in virtual currencies seems to be ramping up by the day. News arose this week that New York plans to regulate Bitcoin and other digital currencies, which strikes at the very heart of why so many find digital currencies appealing: because they are not tied to any government, reserve bank, or regulatory authority.

On the other hand, the dark side of Bitcoin also reared its head this week, as the CEO of a Bitcoin exchange was arrested on money laundering charges.

But perhaps the most interesting aspect of Bitcoin and other digital currencies is the debate it is eliciting in banking circles about its potential role in affecting the banking industry.

Wells Fargo hosted a Bitcoin summit in New York this past week entitled "Virtual Currency: Viability, Compliance and Direction," and the bank has expressed interest in exploring the viability of digital currencies and how (or if) banks should approach them. On the other hand, JPMorgan Chase CEO Jamie Dimon derisively demised virtual currencies as a passing fad in an interview this month.

Some industry experts, however, do think banks should keep an eye on Bitcoin and other virtual currencies. Matthew Friend, managing director for Accenture Payment Services, North America, said that while digital currency is in its infancy, as they evolve the significant operational, risk management and regulatory differences between virtual currencies and existing payment systems will become clearer. Most importantly, Friend says, conventional actors like financial institutions, clearing houses and central banks may not necessarily be required for virtual currencies to work; also, virtual currencies are not bound to a specific country or currency area, which complicates regulation and enforcement, he notes

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"The value of virtual currencies like Bitcoin is that they provide a universal payment system," Friend says. "Payments can be made immediately, anytime, anywhere, and at no, or very low cost. In short, they can be a cheap and safe payment mechanism if used properly. While virtual currencies are currently limited to on-line transactions, the future of these currencies may expand beyond on-line activity. Further, the current Bitcoin model decouples payments from bank accounts, thereby providing security and privacy through a different design. It is important to note, however, that the differences between real and virtual currencies cut both ways. While virtual currencies address some of the design differences of existing payment mechanisms, the ability of virtual currencies to operate outside of the current financial system opens them to abuse."

While at the moment bank payments systems are not immediately threatened by virtual currencies, Friend notes that Bitcoin, along with many other non-traditional competitors in the payments space, may eventually threaten bank revenues derived from payments.

What do you think: Is Bitcoin a a passing fad, or viable payment mechanism in the future?



ABOUT THE AUTHOR

Bryan Yurcan is associate editor for Bank Systems and Technology. He has worked in various editorial capacities for newspapers and magazines for the past 8 years. After beginning his career as . See more from Bryar

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#### Kathy Burger - 5 days ago

Didn't Jamie Dimon also say the London Whale was a tempest in a teapot? I don't think he, or any other banker, should be in the "derisively dismissing" business about any trend or product. Yes, there certainly is something faddish about virtual currencies right now and no one should be "betting the bank" (so to speak) on Bitcoins. (Well, I guess the Winkelvoss twins are, but they don't have the same kinds of fiduciary responsibilities as a bank.) But Matthew Friend's comments explain why banks need to be following this -- the ongoing fragmentation of the payments value chain with the emergence of all sorts of new players seeking to fill gaps or do something better. That's part of a broader social trend that I don't think any kind of business, especially banking, can afford to ignore -- even if it's not at all clear what banks should do about it.



#### TMISHRA2738 - 5 days ago

bitcoin wow its like the dark under ground society of restricted elites having their own way :-) own currency own exchange. While the exclusivity of this and lack of possible scaling is going to improve the trade ability and in turn the value of the bitcoin. It cant be discounted specially if the fad catches up with NFL accepting it and there are ATMs being incorporated to exchange this. It would probably become a EMV rather than a alternative currency. Regulation will follow. There has not been a lot innovation in the money market currency traded side. :-) go bitcoin.



#### Bryan Yurcan - 3 days ago

Yes Dimon's comments smack of arrogance, and maybe he should be paying a bit more closer attention. Obviously virtual currencies are not something banks need to be forming strategies around now, but as with all non-traditional players in the payments space, it could disintermeidate banks in some capacity in the future.



#### Yaldez4FSI - 3 days ago

Keeping an eye on them and using them as currency vs. as an investment vehicle are two different things. Gold is hard to use as a currency, but it has value and people invest in it. Right now I would see and think of bitcoin more like gold and less like a dollar.



#### Kathy Burger - 3 days ago

I think the point is that banks SHOULD be forming strategies around it now, they should really be understanding the landscape and preparing for what role -- if any -- they should be playing in this space. If they wait to see how this plays out then they can only be in reaction mode and have no chance of being a meaningful player in the space.



#### Nathan Golia - 1 day ago

Dismissing something fresh and unexpected as a passing fad is a longstanding tradition going back to "Guitar groups are on their way out, Mr. Epstein." Certainly bitcoin isn't going to replace world currencies overnight but technology's impact on established economic systems is almost always more than meets the eye initially.



### Ivy Schmerken - 1 day ago

I've read that regulators are not dismissing bitcoin and think the digital currency has some legitimacy. Bitcoin is being watched by regulators - especially given, as Bryan mentions, the recent arrest of the Bitcoin exchange CEO for money laundering charges. The site was using Bitcoin to finance a drug operation. If bitcoin becomes more popular other than something for the elite- i.e. Winklevoss twins, then I'm sure we'll see some form of regulation emerge soon. The NFL app using Bitcoin as a form of payment for tickets is quite innovative, so it's hard to ignore if more things like that emerge.



### Greg MacSweeney - 2 hours ago

Ha, yes. Banks are very good at dismissing 'passing fads.' When PayPal first started, it was brushed off as a minor irritant by banks. Yes, the \$5.6 billion in PayPal revenue (2012) with a 26% growth projection is surely just a passing fad.

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