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Case #3 - Deutsche Bank: Pursuing Blockchain Opportunities

Bitcoin is a brilliantly disruptive technology that is revolutionizing the way we make transactions. It is a decentralized, peer-to-peer, cryptocurrency system designed to allow its users to make transactions with a digitalized currency. Bitcoin payments are processed through a private network of computers linked through a shared program. Each transaction is simultaneously recorded in a "blockchain" on each computer that updates and informs all accounts. "Payments are processed through a private network of computers linked through a shared program. Each transaction is simultaneously recorded in a "blockchain" on each computer that updates and informs all accounts" [1]. Bitcoin allows for commercial payments to be made across borders, which is typically cumbersome and requires a lot of expensive processing. Blockchain technology provides potential to mitigate the need for all of the middlemen and other operations that come with international transactions. However, that does not mean Deutsche Bank should be getting into the cryptocurrency market.

Bitcoin was founded shortly after the 2008 Great Recession, a response fueled by the distrust in government. It was clear that after the housing market popped that the government's word is not as valuable or trustworthy as it seemed. And for people to lose their lifetime of savings overnight is a surefire way for people to seek out more stable alternatives. For all intents and purposes, Bitcoin could potentially mean the elimination of national currency altogether. It would be comparable to going back to the gold standard, as all currencies have their value backed by something with definitive value. Now cryptocurrencies are still technically fiat currency as well, as the only thing supporting its value is the faith of its users that it can appropriately serve as a commodity. However, that doesn't mean its value isn't standardized. No matter where you are in the world, a single bitcoin is worth exactly that - one bitcoin. Take that in comparison to a gargantuan economy like the United States. The USD is like a mountain when compared to the paltry value of a Zimbabwean dollar. And even comparing the USD to a Japanese Yen yields a 1:100 conversion rate. Using a global currency to unify people from around the world is a great way to boost the productivity of all economies, without the authoritarian privacy invasion that is a global government.

Another part of the distrust that went into forming Bitcoin stemmed from the banking industry. The banks were deemed too big to fail, and the government was forced to save them via stimulus packages. Bitcoin sought to distance itself from centralized management and approach transactions from a decentralized position. To allow Deutsche Bank to get into the cryptocurrency scene would be in direct violation to the spirit of Bitcoin. Deutsche bank is a massive multinational bank, with "operations in over 70 countries and \$1.7 trillion in assets under management", and they also provide "commercial, investment, retail, and transactional

banking, and asset and wealth management services to corporations, governments, investors, small and medium-sized businesses, and private individuals” [1]. The bank clearly has a lot of power that it can levy. Their purpose of breaking into the Bitcoin and cryptocurrency world is new revenue opportunities, which there is absolutely nothing wrong with seeking out new areas of revenue. Deutsche Bank seeks to enter the crypto market by serving as an intermediary for facilitating crypto transactions. “Blockchain was seen as a way to keep track of payments, transactions and trades involving bonds, equities, or loans—transactions that traditionally required the involvement of banks, traders, exchanges, clearing houses and other intermediaries. Where these transactions often took days to clear, blockchain’s Distributed Ledger Technology (DLT) offered the potential of shortening the time to minutes and doing so without the use of physical intermediaries” [1]. One of the beauties of cryptocurrency is how fast transactions can take place. The bitcoin fees are minimal, and the blockchain is as simple as updating the ledger with the most recent transaction - a simple database update. Money transfers are almost instantaneous and require no paperwork or reason for the transfer. If a large sum transfer of fiat currency like the USD or the British Pound were to take place in an actual bank such as Deutsche Bank, then there would be a daily maximum transfer allowance, board meetings and paperwork. Crypto eliminates all of this. Deutsche Bank has even said they would want to profit off of transactions, but the only way they can profit is if they serve as an intermediary and charge for their services, which goes directly against the spirit of Bitcoin. Having an established banking firm moderate transactions reinserts the middle man that so many have come to distrust. Technology doesn’t like middlemen.

Bitcoin users don’t trust any centralised body to run it, and Bitcoin’s decentralization has solved this need. There is little point in leaving our money with a bank at the moment. Interest rates are abysmally low, and the only institution to blame is the Federal Reserve, who manages all of the banks throughout the country. After the 2008 financial crisis, we went to a zero lower bound, which is “when the short-term nominal interest rate is at or near zero” [2]. This caused a liquidity trap and “limited the capacity that the central bank has to stimulate economic growth”. The best interest rate is the one determined by those participating in the market, and not by some arbitrary council.

To play Devil’s advocate, sure this pure anonymity of the transaction does serve as grounds for underground criminal activity. Since the block chain ledger is public, with a bit of investigation and backtracking, the source of the crime can be located. Maybe a regulatory system like having a bank involved in crypto transactions could serve as a check against criminal activity. But at what cost? The only reason why cryptocurrency is valued so high is because people are excited about the prospects of a new commodity, and the power it gives back to the consumer. Banks can’t regulate the price of gold, and bitcoin is the new gold. There exists a certain thrill to using it, a counterculture so to speak, a backlash against the very banks that helped cause a financial crisis akin to the Great Depression. After the recession hit in 2008, gold prices soared to new heights, and eventually “reaching almost \$2000 per ounce” [3]. It is not unreasonable to see why people would put their trust in gold versus the government. It is stable, both in physical terms and in monetary terms, and nearly universal in value. Gold is worth the

same around the world, and now so to is Bitcoin. They are effectively global currencies, and people use them when trust in centralized institutions is at a low point. With today's political climate, it stands to reason why people would be nervous about the future of the economy.

Can Deutsche Bank provide the stability of a traditional bank all while servicing customers with the fast, anonymous transactional power of Bitcoin? It is quite possible that their experience as an establish firm can bring some great new insight to the table, taking the best of both worlds to provide users with a modernized banking experience. Their use of an “agile process to explore and evaluate the practical and technical challenges of executing a corporate bond smart contract using blockchain” is demonstrative of how even older firms can penetrate the modern development cycle [1]. It is proof that they are trying to keep up with innovation and that alone is commendable. However, it stands to reason that Bitcoin's popularity stems from distrust older institutions, and users concerns about Deutsche bank entering the crypto world are legitimate. Only time will tell if they can successfully keep the spirit of Bitcoin alive all while executing the next steps needed to begin commercializing their technology.

Works Cited

- [1] Deutsche Bank: Pursuing Blockchain Opportunities (Harvard Business Case)
- [2] Staff, Investopedia. "Zero-Bound." *Investopedia*, Investopedia, 18 Dec. 2017, www.investopedia.com/terms/z/zero-bound.asp.
- [3] NEW YORK (CNNMoney) -- Gold prices have been on a tear lately. "Gold Prices Hit Record, Looking like a Bubble." *CNNMoney*, Cable News Network, money.cnn.com/2011/08/22/markets/gold_prices/index.htm.