



Pivot – Cross Border Commerce Podcast Series

## Crypto and the future of digital currencies

### Hosts:

Mike Robertson - Head of Transactional FX Trading, Global Banking and Markets at Bank of America

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### Guest Speaker:

David Kinitsky - CEO of Kraken Bank

Mike Robertson ([00:00](#)):

Welcome to Pivot, the Bank of America Cross-border Commerce Podcast Series. Pivot refers to a moment where, due to an impactful event within the business environment, one is set on a new path and a new series of possibilities arise. In this series, you'll hear competing discussions with industry leaders and key figures in the cross-border payments ecosystem and learn how they pivoted when the situation demanded it. I'm Mike Robertson, Head of Transactional FX Trading, Global Banking and Markets at Bank of America. And I'm joined by my colleague, Doug Houser, Head of Transactional FX at Bank of America. So for today's podcast, we look at crypto and the future of digital currencies, and we are joined by our guest David Kinitsky, who is the CEO of Kraken Bank. Welcome David!

David Kinitsky ([00:46](#)):

Great to be here. Thanks for having me.

Mike Robertson ([00:48](#)):

David, I've been dying to ask this question of somebody who is knowledgeable, and you know, who knows the space that you're in. And invariably, it's a question that I get asked from time to time about people around me. And the question is this, cryptocurrencies hype or real? What do you think? I'm, obviously you're in this space. What do you think about this?

David Kinitsky ([01:07](#)):

Yeah, obviously I'm biased, but I'm, I very much think it's real. Just like any new kind of technology, innovation kind of market structure, you go through phases of hype cycles and all of that. So, maybe at one point in time,

there was more hype than it was real, but I think there's little doubt that this is sticking around. This is here to stay and it will fundamentally change a lot of how we view in the world of finance.

Doug Houser ([01:31](#)):

So David, that's a great segue into talking about how it will change in the world of finance. So I think still there's a misconception out there that a lot of people see crypto as a monolith, right? Even just by kind of short handing it with a brand of Bitcoin. And so, I want you to talk a little bit about, there are different business models that are really underlying the crypto assets in this space. Talk a little bit about how varied they are and a little bit about what some of the more interesting ones you've seen out there.

David Kinitsky ([02:02](#)):

Yeah, absolutely. And I think there's kind of two levels to it to start. One is kind of Bitcoin and these other types of new networks that we're seeing emerging and the differentiation between them and then what businesses people are building on top of them and the differentiation among them. So to start with the first one, yeah. I mean, people just say crypto and there's an inclination to lump it all together and you see Bitcoin or Blockchain and everything that is Blockchain is the same thing. I don't think that could be farther from the truth. I think you have Bitcoin, which is a fundamental innovation and, for the first time ever, the creation of digitally native property rights in the world. We've never seen this before. When there's other kind of Blockchain projects that are kind of more consortium or institutional based in the traditional finance world, these truly are just kind of like new networks or IT innovations. The Bitcoin and crypto innovation though is a much broader one, it's technological, but it's also a social and economic innovation. And even within that world of crypto, you have things like Bitcoin and you've got all these other networks with different value props, like an Ethereum that's trying to build a much more extensible and flexible kind of like financial system on the Internet. You've got ones that are more dedicated to specific use cases, whether they are entertainment or gaming, or even nonfinancial use cases like those. And so there's broad differentiation amongst that group. To be clear though, Bitcoin is certainly the granddaddy of them all, and a lot of things are built on top of it. Speaking of that, you've got a ton of businesses that are building on these new networks and protocols that have, kind of, are pursuing some interesting new business model. In addition to the traditional ones, certainly to date, the most popular and most profitable ones have been fairly traditional, honestly. They've been brokerage and trading and exchange, and market-making, they've been created investment products and collecting, you know, asset management fees or administration or custody fees, things like that. And by and large, that's at, kind of like the end user, whether it's retail or institutional level, but the infrastructure level, at the bottom of the staff, you've kind of have these protocols, which, like Bitcoin and these others that have their own incentives or business models to themselves. Bitcoin, for example, has the concept of miners, which process transactions and secure the network, and as a result are rewarded by the network with a new issuance of Bitcoin. And so miners, Bitcoin miners are another segment that have been relatively profitable as well. And you're starting to see kind of the middle of middleware be filled in with all sorts of services like beta and developer tools and things like that. So while you have seen a lot of this, kind of, that's a traditional financial services staff, you're starting to see some kind of new models be, kind of, pursued as well. Something like a traditional technology, open source software model where a business

builds kind of a new protocol and then builds a top layer above it that they monetize. You're starting to see that, which is a little bit unlike traditional financial services. You're starting to see different frameworks and paradigms, where folks can build services that they don't collect assets or users on their platform, but actually provide financial services wherever the users goes. And what we're seeing is the embedding of finance within applications across the web, and then even non-financial applications. We're seeing finance look a little bit more like entertainment though, I guess we're starting to see that in traditional markets as well. But what you're really seeing is kind of an unbundling and rebundling of the financial services stack, and really you're seeing a convergence of crypto with Fintech and Neobanks and traditional financial services as well. So I think really you're seeing kind of a lot of experimentation and exploration with highly profitable businesses in the traditional models, meanwhile totally new frameworks being pursued.

Doug Houser ([05:45](#)):

So just want to follow under that and pivoting a little bit like we'd like to do on this podcast. That was fantastic description of the entire landscape, right, in giving us an overview of the landscape. So you have the FX guys on here, hosting this. Why currency? And by that, I mean, we've heard about this being described pretty much for a long time. It's been as cryptocurrencies, but the diversity of the crypto assets, and the way that they function doesn't seem to be sort of unilaterally function even as closely to a currency as it does to other asset classes. So, I mean, do you see us moving away from that idea of it being named a currency and, kind of, broaden out the asset class? Or is there a very specific reason why these assets are best described by currency?

David Kinitsky ([06:35](#)):

Yeah, that's a great question. A lot of people approach it head on and say, hey, this doesn't look like what we consider to be a currency or money and start taking issue there. But I think you kind of have to zoom out a little bit. Whenever there's a new technological or social or economic innovation, whatever it makes you kind of question is kind of something to pay attention to. So when the Internet came out, it made us kind of rethink what does media, right? When Bitcoin and these other crypto networks come out and they make us think, what is currency, what is money, right? And I think it's important to note the frame of reference that Bitcoin and these other cryptos are serving as money or currency. And that is each one can be viewed as kind of a network or community or ecosystem or economy unto itself. The Bitcoin network is a closed loop insulated economy and the Bitcoin assets and tokens on that network are that economy's money and that economy's currency. So when you, kind of like, come at it, head on and say, well, this doesn't look like the US dollar. It doesn't function like it, right? I think you need to zoom out and reframe the context you're talking about it. And what we're talking about is digitally native economies and these tokens serving as the money or currency within that.

Mike Robertson ([07:48](#)):

So, in essence, if I just follow off from that, it's, sort of, tapping into the other answer you gave before Doug asked the last question. It's really understanding the fact that there's an economic aspect to, in essence, the underlying business models, I mean the store of value in Bitcoin, I think, tell you, argued, been debated kind of over there to a degree. And then there's the other direction, if you like of the platforms that you mentioned

before. So if I look at that, would it be right to look at the whole concept of, and it's a concept, I get it, of decentralized finance, defy, so to speak, being driven by a different economic model, whether its own economic thrust in, for example, Ethereum. Is that how you look at it?

David Kinitsky ([08:33](#)):

Yeah, I think that's fair to say. I think that, basically, these networks, because they are decentralized and don't have kind of like an authority or control to them, they develop economic incentives that make them work, right? And so what these tokens do is kind of serve a particular function for a particular network. For example, Bitcoin often, kind of, wrongly gets, kind of, correlated with, you know, the US dollar or, you know, Visa, MasterCard kind of payment transactions. Really it's more like physical cash or gold mixed with Fedwire settlement, right? And so it's all about the frame of reference you're using, to kind of compare these to money and currency. And I think historically or actually, we're kind of in ahistorical moment currently with the US dollar being a non-bank Fiat currency that serves as a global reserve. That's relatively new and probably ahistorical, if anything. And so I think Bitcoin kind of takes a little bit from the past, but also blends it with the future. And I think the key thing here is, it being digitally native, it being decentralized and using economic incentives to make the network work. And then it being a layered model. Whereas if you view kind of Bitcoin as the, the bottom layer of the stack, like physical cash, gold, Fedwire settlement, you then build layers on top of that to facilitate things like, you know, real-time settlement and payments and things like that ultimately to cash. And so I think, there again is a little bit of unbundling and rebundling going on. A lot of people, you know, talk about money having three uses of store value, unit of account and a medium of exchange. And we're kind of experimenting and pursuing kind of the unbundling of that. And then rebundling how it works. So I think it's all about frame of references here.

Doug Houser ([10:23](#)):

So, building off of that, though, it's true. It's a little bit of the old, a little bit of the new, but I'm going to pivot to the fact that you decided to become an old stodgy bank. Well maybe not an old stodgy bank, but you did decide to get a banking license. Certainly, and that's a big step forward, right? Well, I'll say it's a step forward, but so one, a little bit towards the traditional, in some sense in trying to blend those two worlds as you were discussing. So one, what made you want to make that decision? What did you decide? Okay, you know what; this is the next evolution of our business model. And do you think there're more crypto exchanges that are going to follow suit?

David Kinitsky ([11:03](#)):

Yeah, absolutely! I mean, hopefully we won't be a stodgy old bank, but it is true that we are the first crypto company to receive a banking charter in the United States. And in fact, it's a very specific and new type of banking charter; a state charter out of Wyoming called the Special Purpose Depository Institution that we found particularly attractive. We're pursuing this for a number of reasons. You know, the overarching one is Kraken has a mission to promote the adoption of crypto in order to enable more financial freedom. And we think that this Kraken Bank is a key tool to facilitate that by enabling us to more seamlessly integrate between crypto and the existing financial system. And then in the future, kind of, have a bank and full staff, financial services solution

that's crypto native or crypto centric at a minimum. There's a couple of very specific kind of business objectives that we're hoping to achieve here as well. Legal and regulatory positioning in certainties is a big one. Historically, certainly in the US, regulation has been pretty unclear and pretty burdensome, and there's not been a great model. You could try to go, you know, across 50 States and do a state by state kind of like money transmission license approach, or you could kind of try to have a trust company program. Neither of those kind of gives you a consolidated approach. And neither of those that exist have kind of a crypto dedicated framework, for example, for supervision and oversight, right? That just doesn't exist. This is the first, kind of, charter or legal or regulatory framework that does have that kind of crypto dedicated framework built in from the ground up. It also kind of harmonizes this legal and regulatory framework with some of the underlying legal concepts below financial services in banking, for example, bailments law and property and what these assets are, how they're classified and what the relationship between depositors or end users and the actual institution is, that sort of uncertainty, was persistent across the United States. This is the first framework and regime that I've seen that, kind of, create some clarity there. That's the first reason; the second reason is better infrastructure and result in customer experience. By and large in the crypto industry, getting banking partners has been challenging. Again, a lot of it because of that legal and regulatory uncertainty. Kraken's been fortunate that historically we've had a slate of great third-party banking partners that we've been able to integrate into the platform. But even though that's the case, we're still kind of having to use their systems, their APIs, having to deal with their risk management protocols and things like that. And that does kind of affect how we are able to integrate it into our products and customer experience. By getting direct access to the federal payment system and master accounts at the Fed, as well as other kind of correspondent banking services, we kind of have a direct connection to these things, and then control over how we integrate them into our products and services. And then the last one is we're able to offer new products and enter new markets with this, we're able to, for example, enter new institutional markets and provide qualified custody or good control locations for broker dealers. On the retail side, we can offer many traditional banking products, and then investment products and specialty accounts like a tax deferred or tax advantage ones, IRAs, 401ks, that sort of stuff, and connect it to real world use cases in payments and other things. So, that's kind of the whole reason we did this and from our view, we think it's going to be a lot more crypto companies and incumbents who entered the crypto space pursuing banking charters. Cause the bottom line is that banking is the bottom of our financial services stack. Everything is built on top of that, so you kind of need to be at that bottom layer. And frankly, it's great to have a seat at the table now to be able to, at least inform or help shape what the landscape looks like for banking and regulation for crypto in the future.

Mike Robertson ([15:07](#)):

Yeah, it's really interesting to see where this goes. You know, working in a large bank has Doug and I obviously do, you would appreciate that, the opinions at one hears in this, around this entire topic, very, very widely from, you know, absolute nonsense to, wow, it's going to change the world and everything in between. And one of the questions is, for a large bank, how does one sort of blend the old with the new? Leaving aside, you know, the fact that there's a regulatory issue in the background, always. I think an approach to understanding this from within a large institution would be healthy. I mean, what are your thoughts around the best ways to approach that blending of, what's possible with what's gone before?

David Kinitsky ([15:43](#)):

Yeah, and that's always the issue for innovation in larger institutions, and I had something of a firsthand look at this. Started my career, actually in securities law, but then quickly moved over to Fintech and financial services, and most of its been in startups and Fintech, but had a sojourn at Fidelity, where I saw firsthand kind of how they were working, struggling with these issues. They're a little bit of a unique situation as like a private kind of family owned and run company that has maybe a longer horizon that allows them to kind of approach these things a little differently, but it's absolutely still an issue at any big institution. You've got kind of this successful portfolio of products and businesses that exist. Why should we focus on this thing that, you know, is a drop in the bucket compared to that? How do we get ahead of it? And a lot of times, by the time it becomes big enough, maybe it's too late. I mean, that's always the issue. And then you kind of, these are real people making decisions, right, in the board room, and you know, risk and legal compliance is one thing, and then the executive side, we use to call it the IBGYBG problem. The "I'll be gone, you'll be gone" problem, which is basically executives who are in their fifties, sixties, who say a great, like this isn't going to matter, and I'm not going to be hit with the issues that might come, if we kind of miss the boat on this, I'll be gone, you'll be gone. Who cares, right? You've face a lot of that institutional, kind of, headwinds, right, when you're dealing with this. But I do think that now, you're starting to see some of these early moving big institutions who kind of saw the writing on the wall and said, hey, this is like a good asymmetrical bet for us. Look, if it doesn't work out like, oh, well, but if it does, we're kind of like a first mover. And then you're starting to see kind of newer institutional entrance come in as a result of demand. You're starting to see, kind of, a lot of these public corporations keeping, for example, Bitcoin, on their treasury. Who's going to custody that and serve it, you know, give it prime brokerage execution services and manage that treasury and provide services there. And you really, a lot of them are looking for institutions to do that. And you're also seeing kind of desks trading it and end user retail customers wanting it on your platform. And so that demand is what I would expect that ends up bringing most folks in.

Mike Robertson ([17:53](#)):

So do you think that "I'll be gone, you'll be gone" issue, which of course is a very real thing in a lot of institutions, not even, just banks. Do you think that's also true from a regulatory perspective because, you know, one could argue that the Internet was one of these things, which boomed and was a very big US centric topic for a long time? And then of course it spreads around the world very quickly. And at the moment, you look at the crypto space and you can see there's a lot of distinct activity outside of the US. Is there a danger that the US's approach to this versus say other jurisdictions is slightly slower?

David Kinitsky ([18:29](#)):

Yeah. I mean, this is something that's very top of mind for me, both, as somebody who works in space, and obviously like, as an American, I think that we are definitely risking, kind of, our position here. I think there's, kind of, the regulation and the underlying kind of like public policy and public opinion debate in the US has kind of been stunted and frustrated by these kind of absolutist perspectives that, oh, you know, Bitcoin is only used for illicit transactions or, you know, hey, this Bitcoin model is kind of antithetical to American interests, things like that, which are kind of both bunk in my mind. But it hasn't allowed us to actually have the policy debate that

would inform a proper regulatory and oversight structure. The bottom line is, in my view, well, of course, like Bitcoin is broadly used and very little of it is used in illicit activity. And certainly it's no different than the dollar or a lot of other kind of value mechanisms in the world today. But I think a core thing here is Bitcoin is fundamentally, in my view, American. It's as American as apple pie, free speech, free association, free enterprise, strong property rights, all of that in the digital world. It's kind of like what we've built; kind of, our society around and what our major growth engine has been, and we should want to see those same principles apply to the digital domain. The second thing is it's happening, whether you like it or not, even if everything I just said, you disagree with, it's happening, and there's a real risk that it happens more in Asia or elsewhere in the world. And in my view, it becomes pretty quickly a national security interest for the US to maintain a strong position in this space. Just like our strong position in the Internet has benefited us immensely across the world. And then I think if you take it from a non-US perspective, it's true of other countries, too. Folks who are smaller countries looking for something that can help leapfrog them into the 21st century, countries who may not want to rely on a US dollar denominated reserve currency system any longer, or want to kind of maintain more control. It sounds funny to say more control when you're moving to a decentralized network, but some countries do view it that way, either way this is happening. And I think it's important to kind of regulate this the right way.

Doug Houser ([20:46](#)):

So getting to that, I mean, you know, again, a fantastic overview of how the landscape is changing in general, but let's look at this from the standpoint also of central banks. So, when you think about the control that they want to have, right, fundamentally, I think there's multiple layers of this. When there's control over bad actors and all of those kinds of things, I think that's something where, we agree, there's many models that will happen, that could potentially help the cryptocurrency space. But the other one for control is of course the actual money supply issue, right? So I think there is a bit of a challenge, you know, as you said previously, these are their own economies. So, as a central banking authority, thinking to yourself, oh, great, now I'm in charge of a multitude of different little sub economies. How am I actually going to make policy decisions when that's the case? So, talk a little bit about, should they be worried about that? Is that how they should be thinking about it or does it matter it's happening anyway, and there's ways that we have to figure out how to resolve it?

David Kinitsky ([21:48](#)):

Yeah, no, I mean, they should be worried about it from the sense that it's happening. And those that adjust best will be rewarded. I don't know that it's like necessarily a direct threat to them immediately, but yeah, there's, some of their concerns are certainly valid, but again, this is happening. I mean, I think look at the world around us today. And in my view, at least, a lot of the tumbled or turmoil you're seeing is the fact that the Internet happened, and it's been rolling out and infiltrating every aspect of our society. And we have simply not adjusted our society and our institutions to it in a good way. And so we're seeing the fallout from that now. And so, I think that similarly, you'll see something where, hey, if you don't kind of adapt to this new world, we're going to face the consequences here. I think with, you know, bad actors or, you know, illicit transactions, yeah, there's this argument, as we said, you know, a Bitcoin's used for illicit transactions. Well, one, look at the numbers, not

really, but two, they're having to deal with something they've never had to deal with before regulators and policy makers, and that is the existing financial system doesn't have an opt-out mechanism. The bottom line is if you want to hold value and transport it or send it or transfer it over time and space, you need to use the financial system. I mean, otherwise you need like airplanes and suitcases of money or bullion or whatever. But by and large, you can't opt-out of the financial system. Here with Bitcoin and these other crypto networks, consumers have an opt-out mechanism. If you put too much burden on them or make it hard for them to use the Bitcoin in the system, they can do it themselves. They can host their own wallets and send transactions themselves. There is some level of burden of regulation and oversight put on the system that will drive users away. And guess who the first ones to go away are; it's the bad actors that you want in the system so that you can oversee them. That's kind of the double-edged sword that they're facing there. Then you have kind of the monetary policy side. And there's a lot of gripe about monetary policy from already from Fintechs, right? You see Fintechs and narrow bank concerns and things like that. This is another kind of potential threats that I don't think in the near term it is, but yeah, I think this is happening regardless. What you're seeing, even aside from Bitcoin is a host of new assets, and long tail of assets serving as store of values and transactional mechanisms? You're seeing people basically put their money in to equities or gold and commodities or art or sneakers even, right? And actually start to use them as the mechanism by which they hold their assets in, and they transfer their assets in. So I think they're going to have to deal with some version of this issue anyways, right? And of course they have all these economic concerns they have to deal with. I think the bigger question in monetary policy terms is kind of structural. What is the role of the actual private market banks? They play obviously a, such a critical role in our system today, both in terms of kind of being the intermediaries between the Fed to the economy. And I think this is an important thing to note here, and especially when you talk about things, like central bank, digital currencies and whatnot. These banks, these private market banks, one, they create credit, create money themselves, and actually act as kind of a check and balance to the federal oversight of our monetary policy and our economy. I think that's important, two, they serve as, kind of, deputized entities for our policy objectives. They are why we can enforce embargoes and sanctions and oversee, kind of, the financial system. And so I think the bigger question in my view, at least, than monetary policy is actual like monetary system structural elements and what role the Fed versus private banks, versus kind of, end users have in this new space. In my view, that's the bigger question.

Mike Robertson ([25:45](#)):

Yeah. It does call into question the role of different entities. I mean, clearly over time, decades, millennia, etc., the roles of institutions have changed, and no doubt they will again, of course they will. You know, there's something around the decentralized part being a very nice idea. And there was an example back in the day where things were very decentralized, just the sheer nature of how communication work made it that way. But now banks are more centralized and have this sort of purpose. And to what extent then does this decentralized finance idea and the role of a bank play into the narrative that, and I was listening the other day to a conversation around how one could actually influence behaviors through digital mechanisms. You know, for example, you might've said the stimulus checks come to you in the form of a cryptocurrency, which expires after a certain point in time, if you haven't used it. I mean, there's a lot of things that you begin to think about when

you move away from the obvious way things are done. So, what role do banks really play then in this decentralized world?

David Kinitsky ([26:45](#)):

Yeah, no, it's a great question. I mean, to start obviously in a lot of the country in the world, banks and the financial industry in general, certainly gets a bad rap, and look there's enough valid reasons for that to be sure, certainly recently, 2008, today. But, you know, historically finance has played a critical role in our society and has contributed massively to our welfare and kind of our economic growth over the centuries. The financial industry is key. Every time you, kind of, have like a new technology, whether it's the industrial revolution or anything, you, kind of, need a corresponding financial mechanism like capital markets, like the joint stock corporation, these are social and economic innovations that need to pair with new technologies in order to move our society forward. And so I don't know that a lot of the narrative around Bitcoin is like do away with banks, do away with intermediary, so on and so forth. I don't know about that, I think their role does change, but I think they're still critical. Banks, you know, providing a safe place to hold assets, and the ability to use those assets in transfers and actual transactions and payments and commerce, and then all sorts of kind of lending and other mechanisms that help grease the skids for the economic and commercial system to work effectively. I still do think they play large roles there. I think what they look like is a little different. I think there's a lot more, kind of, transparency, you know, with these assets like Bitcoin, for example. You have this open network that anyone can use and anyone can see in some respect and you can do things like providing a cryptographic proof of reserve. So basically you can hold Bitcoin and conduct like a cryptographic kind of audit, if you will, to say yes, this bank holds this much Bitcoin and even at a sub ledger level, and it's allocated to these addresses, that is a pretty slight, but pretty massive change in the ability to kind of oversee the safety and soundness insolvency of critical financial institutions. I do think that a lot of the banks also, can get more automated, cause you kind of have this on-chain digital network that you're interacting with and beyond automation, eventually we get to automation, which means that you're building scripts or kind of machines that can handle a lot more of the actual day-to-day operations and processes of an organization. You're obviously seeing that with machine learning and AI and other parts of financial services, like customer support and portfolio management and things like that. But the core processes and operations that's been the case less so. I think that this enables banks to kind of streamline themselves and get back to kind of the core functions that they're so important in providing, but then providing them even better than they have in the past and more cheaply and effective, and being able to then serve more customers as their cost structure changes, so that they don't have to like lock out, kind of, lower tiers of like barbell classes in our economy.

Doug Houser ([29:56](#)):

So, following up on that point, which is, banks serve, as you said, many, many different purposes. But I want to talk a little bit about that, you know, it sounds to me like you are saying that the purpose of the bank has, even though you have a currency that is decentralized, let's say, or an economic asset that is decentralized, right? To a certain extent, the aggregation of those assets and the ability for them to then offer, for example, credited, etc. There's something there that actually is efficient in a way. Or if it's not efficient, what it does allow is that

the governing body can regulate it and say, you can't have predatory lending, you have to lend to everybody, you have to do that, right, so there is a reason to have that aggregation piece. First of all, speak to that, if that is the case? And, you know, second, do you see that as being, what's going to be a driver of crypto in banking sort of becoming closer? And is that philosophical or is that practical? And by that, I mean, do you think we should be thinking about it that way because that's the right way to think about it for society? Or is it practical because that's the only way it's going to go forward because the banks have power in the space?

David Kinitzky ([31:07](#)):

Yeah. It's probably both. So the aggregation component, I think everything is a trade-off, right? The aggregation of assets and services and things within these institutions is a function of efficiencies, and the model and infrastructure that are available to us today. There's kind of no other efficient way to have done it in the past, then to kind of have this consolidated, concentrated organization that collects assets and services and provides them in a more cost-effective way. In fact, if you kind of subscribe to the theory of the firm, it's why institutions exist at all, right? Is because of transaction costs and aggregation efficiencies, but there's a trade-off to that. You are seeding control, and power and transparency away; you are consolidating that to a bank. Obviously, we put laws in place around fiduciary responsibility. It's another kind of constraints there, but there's still issues, right? And so there may be, now that there is kind of like a new technology, a new system, an opportunity to revisit those trade-offs and kind of get a more pareto, optimal kind of blend, so to speak, right? So you still definitely need aggregation for some things, right? But like, why do you need the aggregation? It's either to provide services, efficiently and cost-effectively, it's to be able to have kind of a fuller insight, or kind of handle on the system, and the potential risks that it faces and other things like that. There's with these new technologies ways to potentially achieve that without seeding as much control over that to the bank, right? So for example, with Bitcoin, yeah, you can give it to a bank or other institution, and let it just sit there and seed control like the traditional model, but perhaps there's other mechanisms where you can, kind of, use a bank as like custodial agent that maybe provides like a backup key to your own wallet that you can take with you and use, however you see fit. And the bank just kind of serves as a recovery mechanism, or maybe they are providing like partial custody over transactions, and then plugging in their risk services to kind of wherever you want to use these assets. Similarly, on the data side, rather than getting call reports and all this stuff, and like aggregating them across the space and looking at the system, kind of, in the centralized places, you can do things to query the actual Bitcoin or other crypto networks to get certain insights around the systemic structure and some of the risks that it may pose without having to say, hey, all that has to happen to these institutions. You have these open online digital networks that serve as kind of very rich and robust sources to fulfill a lot of the reasons why we have this kind of aggravation and concentration in the first place. And you're seeing this in the technology industry as well. We have a lot of questions around Facebook and Twitter and Google and these other kind of, institutions that similarly concentrate and aggregate customer data and services and things like that. And we need to find a way to get the same benefits, without all of the negatives, and potentially there's a chance to do that here. So, I do think that banks play an important role going forward. One, look, banks and regulation, the structure we live in today, it exists and is the kind of environment you have to play in. So from that kind of like path dependency and kind of momentum point of view, it's gonna matter that look banks in the way you do things today are going to start out as the default. But then going forward, yeah, it depends. It depends on

regulation and it depends on technology and business models and some of these new startups coming up the pipe that are providing these new models for doing things, as well as some of the incumbents, big banks and other financial services and wirehouses and brokerages that are getting into the space. Can they reinvent themselves? So a lot to be determined, just like the Internet look, it happened everyone, most people, many people knew it was going to be big, but it plays out over decades. It's not like a flip of the switch.

Mike Robertson ([35:10](#)):

Yeah. And you know, you've said a lot of things in there, which I've found absolutely fascinating. The future possibilities are really, really interesting, I think for all of us, and having an open mind to exploring them without just shutting them down through some sort of dogma is probably useful. So with that in mind, coming to the end of this thing, and it's been fascinating. I want to go out with two questions for you and they're quick-fire questions. The two questions are this; the first question is what is the question that you get asked the most about cryptocurrency? That's the first question, and the second question, what is the question that you think you should be asked more than any, but aren't?

David Kinitsky ([35:43](#)):

Yeah, so I think that the first questions you tend to get asked are something around, is this real? Is this hype? Like what is this, does it matter? Usually, quickly followed by something about price and investing into it from folks who maybe are interested in the opportunity there. And then a lot of times, you get questions around, what is this or how it works, is the big one, and that's the tough one because it's really hard to explain from zero to 60 in how things work, but that's true of everything. If you ask most people how a light bulb works or the electrical grid or the Internet or any number of things they use on an everyday basis, it would be similarly complicated to explain. And that's usually where then the discussion trails off people say, hey, how does this work? It's a challenging endeavor to explain simply and clearly how it works. And as a result, maybe folks say, who don't kind of have a historical reference point of, kind of, dealing with new technologies or innovations say, well, I mean, they can't even explain it. Like, I don't even understand this, this is bunk, this doesn't make any sense. And that's a lot of times where the breakage is. And then, again, a lot of it is like, well, how does this work with something that exists today, monetary policy, banks, regulation, yada yada, yada. I think in all of those, I'd love to kind of have people take a step back and understand like the different frameworks and mental models for what these things are and what they might enable, or that is possible. And actually kind of start there because I think that wherever you start with your initial frame of reference dictates oftentimes where you go from there. And I think a lot of people start from this kind of what is it? Well, I don't understand it and hey, that doesn't look like what exists today, or how does that work with what today, and so kind of write it off and that's a frustrating thing for sure. But you know, it's tough to kind of get people on that abstract level, and so, that's a really challenging thing. I will say, to conclude, I've never met honestly, a well-informed, big time Bitcoin or crypto bear. There are many reasons to be skeptical and potential issues or flaws you can point out, but I've never met anyone who is pretty well informed, just write the whole thing off.

Mike Robertson ([38:01](#)):

Yeah. It's fascinating. Isn't it? It's a, as you say, it's where we start from our context of so often drives over your pace, even listened to. It's been really, really interesting. David, thank you so much. You know, it's been great to look at this so much broadly. I feel we could talk for a lot longer and I feel like you're one of those people we feel like having a beer with it would be a really fascinating conversation. I want to thank you so much for your time and for joining us to talk about the future and cryptocurrencies.

David Kinitsky ([38:25](#)):

Yeah. No, thanks for having me! Yeah, I could definitely go on all day. Maybe we will, in some time in the future, grab a beer.

Mike Robertson ([38:30](#)):

That's great. Well, I'll take you up on that, and Doug as always, thanks very much for joining us as well.

Doug Houser ([38:35](#)):

Thanks so much, Mike. This was great. Thanks so much, David.

David Kinitsky ([38:37](#)):

Yeah. Thank you.

Mike Robertson ([38:38](#)):

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