PATRICK NICOLET

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I am now going to address a very serious topic with my friend Patrick Nicolet. We are going to talk about the token economy and explain what it is because it is a very sophisticated concept.

Patrick Nicolet

Thank you, François. When François and Song-Nim asked me to join the panel on post-crisis technology, I started looking back at the previous crisis we all had to face, which is the financial crisis of 2008. The first Bitcoin was launched on January 3rd, 2009, as a clear response to the financial crisis: the message of the founder, whose identity remains unclear, was that traditional authorities and intermediaries had failed and a new model was needed. Then, as we all know, the economy recovered, and we enjoyed it for more than 10 years. At the beginning, cryptocurrencies went down a bit as the equity economy recovered strongly and there was also, from a technology perspective, a flaw in the initial blockchain, as it was designed around something called *proof of work*. That is an energy intensive process, for every transaction on your blockchain must be validated by every participant. Provided the number of transactions involved, one can easily imagine that the system is hardly sustainable.

The Covid-19 pandemic acted as a catalyst to a drastic shift in digitization, not only in the way we work, but also in the way we define value. The emergence of what is now referred to as *the token economy* can be summarized using the following three categories. First, there are cryptocurrencies, which we have previously discussed. Some of these, like Bitcoin, have attracted a lot of capital, yet remain very volatile. The second part is the so-called *non-fungible tokens* (NFTs), and I am sure most of you have read about someone paying USD 2.5 million for a video clip of Michael Jordan in the NBA final. Why would anyone pay this price when it is readily available for free on YouTube? The answer resides in the fact that the non-fungible token is the digital securitization of an asset. People investing in NFTs believe there will be a market for such digital assets that could potentially drive profit. The third component of this token economy is the blockchain, which represents the underlying infrastructure and presents some limitations, as well as some benefits.

I am going to focus on the last two categories, as Benoit already answered the question of cryptocurrency, money, and sovereignty.

I believe that the token economy is a sustainable development if there is a business market, and I will give you some of the examples that I am exposed to through my companies. One practical application of non-fungible tokens is loyalty programs. There are a lot of loyalty programs involved with e-commerce, and it’s becoming increasingly difficult gaining or maintaining the loyalty of the participants involved because they are illiquid. People think they have all these miles, and yet cannot fly, so the value is null. Furthermore, if you are a distributor with franchises, one franchisee will often refuse to accept the loyalty programs of other franchises, but clients do not realize this and do not understand why they cannot monetize their loyalty points. You have a lot of these problems with loyalty programs so what you can do is package through securitization and tokenization. You can then trade those assets on a digital exchange platform. Through securitization and tokenization, you can eliminate these problems because everybody has the same currency. Another aspect in business that is also linked to commerce is warranties. Warranties are liabilities for the companies, people do not know what do with them and they are often badly managed. In the same way, and I have projects on this, you can manage and tokenize your warranties. That is one element linked to business where we see traction with real projects emerging.

You can also find opportunities within the operations of enterprises such as long-term incentives for employees. It is usually in the form of stock options, share grants, etc., and these bear significant costs. I was approached by a renowned bank in Paris renovating their headquarters in the capital city, thus adding value to it. They wanted to know if there was a way to share the added value with its employees as an incentive. The answer is yes. You can tokenize your real estate, as you have the underlying asset. Of course, your building is illiquid, but through tokenization a company can allow their employees, not everybody in the group but at least locally, to share some of the added value. You can see that it is all about unlocking value, and new use cases are identified every day.

The blockchain is a closed system limited to its participants, as well as a distributed database. Transactions on the blockchain are fully automated, making the outcome predictable and immutable. The inherent speed limitation associated with proof of work architecture is now being addressed through the proof of stake approach, which consumes less energy and proceeds faster. Blockchain can drive a positive impact for society, as the technology infrastructure upon which it is built allows for new circular business models to thrive on. It is for instance a way to address corruption in poorer countries.

For these reasons, I believe this is here to stay, and we will see this evolution, transfer of value and businesses coming in. The regulators will rein it in, because as Benoit said, money is sovereign. My big caveat here is that they should not destroy the entire token economy just because they want to fix the question of sovereignty on the money. There are a lot of side benefits and opportunities to create value in this token economy.

François Barrault

Thank you, Patrick, for sharing your vision of this sophisticated concept. It was really very interesting.