Point of View Paper

Three Cryptocurrency Actions for Financial Institutions

Navigating the Innovative Cryptocurrency Venture as It Gains Popularity

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Consumers are clearly interested in holding cryptocurrency, and evidence shows they're particularly interested in holding it with their trusted financial institution. Providing cryptocurrency solutions can be a valuable tool for attracting consumers and provides financial institutions with a tool to grow noninterest income.

The significant market capitalization of cryptocurrency and its growing popularity are creating a strong movement to incorporate cryptocurrency into payments, investments and banking capabilities. As mainstream curiosity and interest in cryptocurrency increases, more companies are facing strategic decisions around how to accommodate the use and consumer demand of the new currencies.

Understanding the Cryptocurrency Market

According to PYMNTS.com, nearly three-quarters of consumers view cryptocurrency as an investment opportunity. Consumers aren't viewing cryptocurrency solely as an investment, however. The study also found 60 percent of current and former holders want to transact with it.

Younger and middle-income individuals currently make up a significant percentage of cryptocurrency holders. The PYMNTS.com report indicates that 19 percent of millennials and 16 percent of middle-income consumers, defined as those earning between $50,000 and $100,000 per year, currently own cryptocurrencies. On the whole, the report shows that approximately 12 percent of all U.S. consumers, a projected 30 million Americans, own cryptocurrency.

Additionally, emerging evidence shows that cryptocurrency may be a more accessible investment than traditional stock market vehicles. According to a July 2021 study from NORC at the University of Chicago, there are considerable demographic differences between cryptocurrency and retail stock traders. The data indicates that cryptocurrencies may open and diversify investing opportunities for women, investors of color and investors with annual household incomes below $60,000.

As cryptocurrency acceptance has risen, consumer preferences have emerged for accessing and interacting with cryptocurrency through their financial institutions. According to a January NYDIG report:

- Fifty-one percent of nonbitcoin holders want to learn more about bitcoin through their financial institution
- Eighty percent of bitcoin holders would choose to store it with their financial institution if offered

Understanding Cryptocurrency Demand

Those findings, from multiple sources, indicate that cryptocurrency solutions offer a valuable opportunity for financial institutions to embrace and meet consumers' emerging needs, especially those of younger and broader consumer segments including women, people of color and lower income individuals.

Financial institutions can leverage the trust accountholders have in them and provide their customers or members an avenue to participate in this ever-evolving industry. Providing educational materials to help consumers learn about cryptocurrency and explore ways to buy, hold and sell cryptocurrency are two ways financial institutions can signal to consumers that their financial institution is committed to meeting their needs in this new space.

Furthermore, providing cryptocurrency solutions for consumers can boost financial institutions' bottom-line results by increasing noninterest income through fees charged on cryptocurrency services. Cryptocurrency solutions can offer a valuable revenue stream for financial institutions in the current low-interest rate environment, which is projected to endure for the foreseeable future.

To date, many cryptocurrency use cases have centered on holding it as an asset, but it's critical to think about second- and third-level effects as consumers begin to accumulate cryptocurrency. As amounts build, so will the need to transfer cryptocurrency to family and friends and use it to purchase items.

The PYMNTS.com report shows a healthy appetite among U.S. consumers for using cryptocurrency to make purchases:

- Ninety-three percent of cryptocurrency owners would consider making purchases with it in the future
- As many as 46 million consumers (18 percent of the adult population) would consider using cryptocurrency for retail purchases, regardless of whether they currently own cryptocurrencies

Building on Consumer Trust With Innovative Technology

Financial institutions have a tremendous opportunity to provide cryptocurrency access to an expansive number of consumers. Financial institutions can provide accessibility through existing core platforms and digital channels to help develop a digital currency identity that mitigates security concerns and reduces barriers to entry. Cryptocurrency as an asset and as a payment option are two areas that have caught the attention of consumers.

Cryptocurrency as an Asset – Offering the ability to buy, hold and sell cryptocurrency or enabling consumers to see their cryptocurrency holdings alongside their traditional bank accounts sounds straightforward, but it will require collaboration between cryptocurrency platforms, core platforms and financial institutions. To that end, Fiserv is committed to developing capabilities that will allow financial institutions to enable consumers to buy, hold, and sell bitcoin and other cryptocurrencies through their financial institution relationships. Fiserv is working to provide ways for financial institutions to connect to or white-label cryptocurrency wallet software.

Cryptocurrency as a Payment Option – Cryptocurrency payment capabilities are already cropping up as various payment vehicles incorporate cryptocurrency options. Merchants such as Walmart are also exploring cryptocurrency payment options, in addition to large technology companies, including Apple® and Amazon®.

Cryptocurrency also has the potential to disrupt the cross-border payments industry, which is hindered by technology limitations. While demographics of early adopters highlight younger generations' enthusiasm for cryptocurrency, interest in this new, innovative payment option is gaining traction among all age groups. The PYMNTS.com report shows similarities in cryptocurrency transaction size across generations:

- Thirty-one percent of owners made a purchase between $100 and $1,000
- Among boomers, 45 percent of current and former cryptocurrency holders made purchases in that range, compared with 30 percent of Gen Z

It's important to note that cryptocurrency payment solutions can come in several forms. The most traditional uses cryptocurrency, such as bitcoin, as a medium of exchange the same way we use dollars and other fiat currencies. Where things can get more interesting, however, is using cryptocurrency and blockchain solutions to improve the speed, security and availability of payments.

Three Areas of Focus for Financial Institutions

Understanding what's out there is a critical step to identifying how your financial institution fits into this emerging environment. Education and awareness are key moving into 2022, especially in these areas:

1. Cryptocurrency Education for You and Your Staff

You're not alone if you feel blindsided by talk about cryptocurrency. Many disregard cryptocurrencies as a fad, but they are here to stay. Tens of millions of Americans hold cryptocurrencies through a variety of wallets, and bitcoin's market cap is sitting at nearly a trillion dollars. It's not a question of if cryptocurrency goes mainstream; it's a question of when and how quickly financial institutions will provide cryptocurrency services.

Do your research and share your knowledge with your staff. Have conversations about cryptocurrency and encourage others to learn more about it. Leverage industry contacts to hold educational sessions for your institution. The more you and everyone at your financial institution understands this emerging currency and technology, the better prepared you'll be to move into this innovative territory.

Fiserv continuously updates our website with cryptocurrency educational materials for you and your staff. Additionally, you can subscribe to Raddon® Research from Raddon, a Fiserv company, for insights on the cryptocurrency industry.

2. Gauge Technology Readiness

Digital channels and your digital experience are important considerations when adding a cryptocurrency option. Does your digital delivery strategy need to evolve? Do you need to improve operational efficiency to support your digital experiences? With a solid digital strategy and an updated branch technology, you'll be better prepared to adapt to changing behaviors.

Does that mean your institution will need to build out a complete cryptocurrency stack to serve your accountholders? Absolutely not. When gauging your technology readiness, consider which cryptocurrency capabilities interest your accountholders. If they're interested in investing in cryptocurrency, it may make sense to develop partnerships with firms that offer those capabilities on top of your existing platforms. If your accountholders already hold cryptocurrency and are more interested in seeing how those holdings relate to their overall financial position, you may want to consider data integration capabilities that allow consumers to view their cryptocurrency holdings with their more traditional assets.

3. Ascertain Your Accountholder Readiness

   Understand your current market. Do you have consumers in the age groups in which cryptocurrency is popular? Is this a market and age group you're looking to expand or grow?

   Surveys or campaigns to measure the level of cryptocurrency interest in your community or region will help you make decisions around strategy or product offers and help you determine future consumer appetites for cryptocurrencies. Results can help you determine what kind of changes you might need to implement to ensure consumers work with you in this growing space. Capitalize on the industry's continued evolution and be prepared – at the starting block – if there's a sudden surge in cryptocurrency demand from your consumers.

   Fiserv has explored the cryptocurrency landscape and we continue to monitor the overall market appetite for cryptocurrency. As your financial institution evaluates its accountholder readiness, Fiserv can be a valuable resource in helping you discover your customer base's demand for cryptocurrency. Additionally, Fiserv can host sessions to help you and your consumers get more comfortable with new currencies.

Innovation Creates Potential

Buying and selling cryptocurrency today can position financial institutions to capitalize on future-use cases that may emerge. Relatively early adoption can help financial institutions gain credibility as cryptocurrency solutions become more mainstream.

With that in mind, it's crucial to keep an ear to the ground to see what developments occur in cryptocurrency from technological and consumer-demand perspectives. Communicating and collaborating with your technology partners can help you stay mindful of the latest developments. As cryptocurrency and blockchain continue to evolve, it's important that financial institutions keep a forward-looking approach to the industry.

Understanding Cryptocurrency Terms and Concepts

Bitcoin was the first cryptocurrency, created by an anonymous computer programmer named Satoshi Nakamoto. It is generally considered the gold standard among cryptocurrencies, as other cryptocurrencies are known as "altcoins." It currently has a market capitalization of just under $1 trillion.

A blockchain is a shared ledger of transactions between parties in a network not controlled by a single central authority. A ledger can be thought of as a record book that records and stores transactions and information between users in chronological order. Not all blockchains are the same, as they can be public or private. Blockchain and cryptocurrency are often used interchangeably, but it's important to note the difference between the two. Blockchain is the technology that enables cryptocurrency to exist.

Central Bank Digital Currency (CBDC) are digital payments instruments that are a direct liability of a central bank, denominated in the national unit of account. In theory, the coordination of national CBDC designs could lead to more efficient cross-currency and cross-border payments.

Cross-Border Payments are payments where the payer and the payee reside in different jurisdictions. Many involve two currencies where the payer and payee are debited and credited in different currencies, in which case the payment is also considered a cross-currency payment. Cross-border payments are commonly criticized for their high cost, low speed, limited access and insufficient transparency.

Cryptocurrency is a digital medium of exchange that uses encryption techniques to control the creation of monetary units and verify the transfer of funds. Cryptocurrencies are generally not issued by any central authority, which theoretically makes them immune from government interference or manipulation. Some cryptocurrencies, such as bitcoin, have fluctuating values like traditional investment vehicles. Others, such as USDC or USD Coin, are stablecoins backed by fixed assets to have a stable value.

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In his executive role, Vielehr leverages his extensive experience in global operations and a keen understanding of technology at scale to drive integrated digital and data strategic growth initiatives across Fiserv, Inc. His key responsibilities include the execution and delivery of new digital capabilities and data, analytics and fraud solutions. Vielehr has broad experience across multiple Fiserv lines of business having served in several key leadership positions. Additionally, Vielehr has more than 25 years of technology and financial services experience at companies including Dun & Bradstreet (D&B), Northstar Systems, Merrill Lynch Private Client and Merrill Lynch Asset Management.

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