

Washington Update
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Cryptocurrencies: Unlocking Banking's 'New Frontier'

In case you haven't noticed, cryptocurrencies are an increasingly hot topic of conversation in this country.

According to a Pew Research Center survey fielded in November, 86% of Americans said they have heard about cryptocurrencies, and 16% said they have invested in, traded or used them. Cryptocurrency use is growing particularly rapidly among younger Americans, with 31% of Americans between ages 18 and 29 telling Pew they have participated in crypto transactions.

More often than not, these trades are happening through financial intermediaries—and consumers are increasingly turning to banks to hold these digital assets. In fact, I've heard from a growing number of bank leaders that their customers want to buy, hold and use crypto—and they want to do it through their banks.

Banks have already begun making inroads into the crypto services business—offering a responsible pathway for consumers to adopt these novel financial products. Take for example Vast Bank, a community institution based in Oklahoma that recently launched a crypto custody account that bank customers can manage in their app alongside their FDIC-insured dollar account. Or Quontic Bank, which offers a checking product that provides rewards in bitcoin, offering consumers an opportunity to wade into the crypto space without buying it themselves. Large custody banks—like the Bank of New York Mellon and Northern Trust—are also developing custody services for crypto.

Bank customers know they can rely on their banks to steward their finances and keep their financial data safe. A recent Morning Consult poll highlighted that banks are the most trusted among all financial services providers. Given that, it's no surprise that consumers want to receive cryptocurrency services from their bank. But don't just take my word for it: a survey from NYDIG, a bitcoin services firm, confirmed that whopping 81% of bitcoin holders would shift their bitcoin to a bank if it offered secure bitcoin storage. Undoubtedly, this "new frontier" of cryptocurrency represents a huge opportunity for banks.

But in order for banks to successfully navigate this new frontier, the bank regulatory architecture needs to catch up—quickly. More clarity is needed from the banking agencies about how banks can offer these services in a safe and sound manner. Without this clarity, the unlevel playing field between banks and the rapidly growing cadre of firms seeking to operate as banks while evading the full scope of bank regulations, will continue.

There have been some positive developments, with the OCC issuing an interpretive letter clarifying its approach for approving crypto-related activities for national banks. Additionally, a report by the President's Working Group on Financial Markets highlighted the risks of stablecoins, recommending that they be issued by insured depository institutions that are subject to consolidated supervision, and that any providers of custodial wallets be subject to appropriate federal oversight as well.

For our part, ABA is taking a deep dive into what we can do to support banks' participation in crypto and other digital assets through both our advocacy and through technology partnerships. Additionally, in

December, we made an investment in NYDIG, a leading provider of bitcoin services for banks. This investment will support banks' ability to meet customer demand in this rapidly evolving market, so that as we unlock this "new frontier" of cryptocurrencies and digital assets, consumers can continue to place their trust in America's banks to meet their financial needs.

We understand that expanding into cryptocurrency products and solutions won't be for every bank, and that's okay. We firmly stand with banks in their right to decide, according to their own judgment and market strategy, what products they will offer. However, even with mixed opinions on the value of cryptocurrency as an asset class or as a basis for a product set, ABA believes strongly that banks should have access to the tools, partners and regulatory frameworks that allow them to meet their customers' needs.

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Email Rob at nichols@aba.com.