Cryptocurrencies Are Growing – Is It Worth Jumping In?

regulatory cryptocurrencies

Summary: Cryptocurrencies are growing in interest and several players in the financial industry are jumping in. Currently, 21.2MM US adults own cryptocurrencies. This updated primer on digital currencies explores currency owners, industry players, benefits to community financial institutions, and mitigating the risks.

It was recently announced that Broadway theater tickets are on sale for shows, such as Lion King, Wicked, and Hamilton, due to open to full audiences starting September 14th. As the theater scene gets back to business, we thought it curious to find out that actors are only allowed 90 seconds between scenes for costume changes. Talk about fast changing!

For more fast changes, we look to the world of cryptocurrencies. With the fast-changing landscape surrounding digital currencies, it can be hard for community financial institutions (CFIs) to keep up. To help you stay up-to-date, here's a primer.

More interest and activity around cryptocurrencies

Crypto owners and crypto-curious. An estimated 14% of the US population owns cryptocurrency, according to the Gemini - 2021 State of Crypto in the US Report. This means that there are currently 21.2MM US adults who own cryptocurrency. The report also indicates that the average demographic for someone who invests in this growing currency market is a 38Y old male making around $111K annually. Still, 53% of females polled are crypto-curious, so the gender balance may eventually become more equal.

Industry participation is soaring. The market is quickly growing. Just look at industry participants like Venmo who rolled out the ability for customers to buy, hold, and sell cryptocurrencies directly in its app, similar to its parent, PayPal. There's also the recently launched Coinbase Visa debit card that allows cryptocurrencies to be used worldwide for online and in-store payments.

Morgan Stanley launched access to three funds and Wealthfront, the popular robo advisor, recently said it was exploring options to allow customers to add these currencies to their portfolio. Furthermore, My Digital Money (MDM) launched a cryptocurrency IRA platform that supports several digital currencies and is backed by Equity Trust Co.

What's more, published reports suggest hundreds of US banks could soon jump on the bandwagon, making it easier for customers to buy bitcoin and other cryptocurrencies through their existing bank relationships. CNBC recently reported that crypto custody firm, NYDIG, has teamed up with Fidelity National Information Services to facilitate US banks offering bitcoin in the months ahead.

Even Bank of America, which has had a policy since 2018 prohibiting its wealth advisors from helping clients with cryptocurrency investments, is reviewing this policy in light of the growth. "*We're always looking at what's going on in the market to understand … do we need to rethink our position,*" CEO Moynihan stated at an annual meeting in April.

Warnings still around

At the same time, many banks are taking a more cautious approach. In early May, the Bank of England warned investors to be wary of the risks associated with buying cryptocurrencies. Also in the UK, NatWest said it doesn't want to do business with clients and customers who deal in these currencies.

Certainly, there are inherent risks — money laundering, ransomware, government evasion, to name a few. So, it's not surprising that banks would want to — and should — tread carefully.

Benefits to CFIs

If explored and used wisely, cryptocurrencies can provide benefits to CFIs, in capitalizing on developments in this space. Growing demand alone is a reason not to turn a blind eye, especially among younger customers. A Seeking Alpha study from last year showed a notable 37% of the mostly Gen Z respondents expressed interest in owning cryptocurrencies in the future. It opens doors to new payment opportunities that young people are craving. Of course, any actions taken to help this along have to be steeped in caution and under the guidance of regulators.

How to deal with the risk

Start by getting educated about cryptocurrency and what's happening with it. Be sure to monitor accounts for crypto activity and establish processes to track and assess these ongoing risks. Also, staying on top of regulatory developments will help ensure proper risk mitigation. In July 2020, for instance, the OCC said federally chartered banks and thrifts may provide custody services for crypto assets. Still, keeping a close eye on any accounts and discussing the proper risk mitigation with your regulators is paramount.

The way we see it, the crypto wave is far from ending. There can be a significant upside, but CFIs that are interesting in riding these crests need to be careful to avoid the fallout of a sudden crash.

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ECONOMY & RATES

Rates As Of: 05/20/2021 05:14AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	0.01	0.00	-0.08
6M	0.03	0.00	-0.06
1Y	0.04	-0.01	-0.07
2Y	0.16	0.00	0.04
5Y	0.86	0.01	0.50
10Y	1.66	0.03	0.74
30Y	2.36	0.07	0.72

FF Market	FF Disc	IORB
0.06	0.25	0.10

SOFR	Prime	OBFR
0.01	3.25	0.05