

Deconstructing the Digital Assets Revolution – What Financial Institutions Can Learn from the Meteoric Rise of Coinbase

June 2021: Complimentary Abstract / Table of Contents



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Background of the research

- Digital assets have come a long way from being just cryptocurrencies to a complete array of financial assets with more use cases. These assets are designed using blockchain technology, a technology that is revolutionizing the way business is done in every sector
- In the last 12-18 months, retail and institutional investments have been rising in cryptocurrencies and related crypto assets, forcing banks and governments to consider crypto market's value as real. Regulators have started to design clear frameworks so that institutions can develop crypto or hybrid banking models
- The global COVID-19 pandemic has not only changed the way we interact, but also the way money moves. The pandemic has accelerated digitalization of payments and prompted consumers and businesses to rely on digital and contactless payment options when buying and selling goods and services. This has given wind to the adoption of blockchain technology
- With the rise of Alternative Payment Methods (APMs), such as cryptocurrencies, digital wallets, and Central Bank Digital Currencies (CBDC), regulators are amplifying their scrutiny of new players and offerings. Some regions such as Africa, South America, and Asia are seeing a rise in crypto transactions, mainly for cheaper and secure global remittance, a hedge against fiat currency, and as a speculative asset. In developed regions, crypto assets are mainly used as speculative assets and to a lesser extent, payments for good and services
- To cater for the demand of crypto financial services, IT service providers, FinTechs, and some banks are investing in next-generation digital technologies such as Blockchain-as-a-Service (BaaS) and independent banking services (point solution or complete crypto banking solution). Several start-ups have come up globally to provide unregulated services
- Overall, crypto assets industry is going through radical growth, and multiple new technologies and products are being introduced with consequent rise in demand for these services. In this report, we take a closer look at the crypto asset market trends across products, trade, infrastructure, regulations, platforms, traditional/hybrid banking, and technology themes. We also study what financial institutions, such as traditional banks, can do to build a hybrid banking system

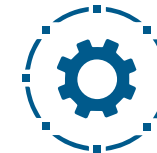
Scope of this report:



Geography
Global



Service providers
26 leading application and digital service providers in banking



Services
Application and digital services in banking

Executive summary

Evolving investor demands, rise of FinTechs such as Coinbase, and venture capital investments for seamless services across digital assets is making traditional banks realize its importance as the future of money

Rise in investor pool for digital assets has led to an increase in cryptocurrency valuations

The cryptocurrency market experienced a more than seven-fold growth in the last 12-18 months, making it a key area of focus for global financial systems. The digital asset market is a thriving ecosystem comprising several digital assets including privacy coins, stablecoins, cryptocurrencies, security tokens, utility tokens, and CBDCs.

Coinbase has spearheaded some of the generally-accepted asset listing frameworks throughout the digital assets network

Coinbase continues to explore support for new digital assets that meet certain technical standards and built a Digital Asset Framework (DAF) to assess factors such as security, compliance, and custody in the open finance market.

Banks need to invest early to capture high-growth pockets and investor mindshare in this market

Increased participation from traditional financial institutions, such as BNY Mellon, JPMC, and Goldman Sachs, in listing digital assets and FinTechs partnerships will pave the way for digital assets in mainstream banking and payments system as regulations improve.

BFS firms face challenges around lack of regulations, disaster management, private key recovery mechanisms, insurance-backed custody, and fraud prevention

FIs need to adopt a compliance-by-design approach to build platforms to manage the digital assets transactions and the associated mid- and back-office operations. This requires building of new systems for compliance initiatives as there is no off-the-shelf software commercially available in the market for scaled risk and compliance operations on digital assets.

Banks, IT service providers, and FinTechs must invest in hybrid platform model to serve specific investor needs for a large asset pool

A hybrid model for banking-as-a-service, which seamlessly integrates value-added processes for traditional and digital assets, is the future of this industry.

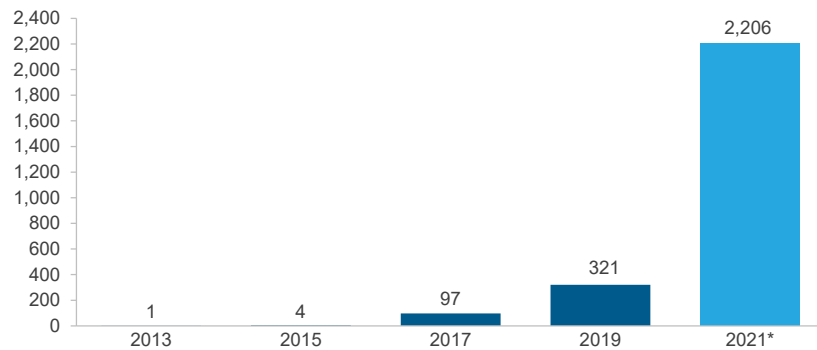
The keys to success for driving results from a hybrid platform-based financial model for BFS firms include unification and simplification of trading avenues

Traditional financial institutions will be saved from losing this huge market to newest players without developing an entire network on their own. Hybrid system should help in reducing banking costs and increase transaction speed and security for traditional assets; however, it needs to be tested in real scenarios.

This study offers three distinct chapters providing a state of the market into key aspects of the digital assets revolution; below are four charts to illustrate the depth of the report

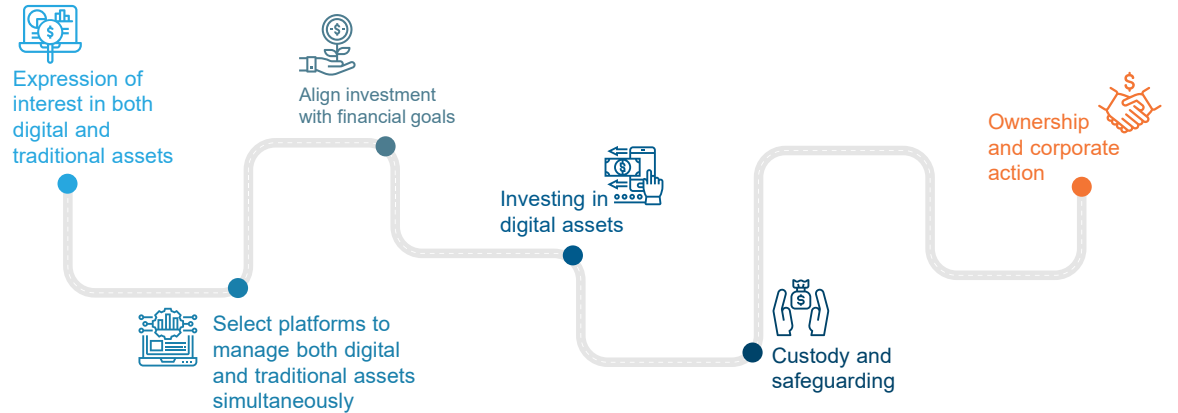
Crypto market overview - what is all the buzz about?

Cryptocurrency market capitalization globally
2013-2021, US\$ Billion



Increased investor demand, pandemic-fostered digitalization, and clarity in regulatory tenets are the primary reasons for more than seven times growth in the cryptocurrency market in the last 12-18 months

Transformation plan for banking systems



Deconstructing financial services offerings from digital assets market



Personal cryptocurrency trading

Investor interest

Individuals invest mainly to hedge against fiat inflation, speculate prices, and for better remittance and payment benefits globally, compared to traditional banking

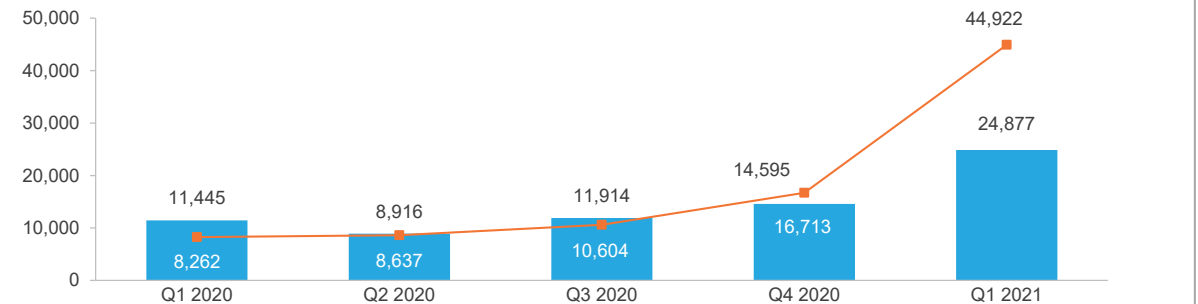
Commercial cryptocurrency trading

Investor interest

Investors use cryptocurrencies as a speculative asset and portfolio diversification with latest financial technology innovations

Impact of digital assets on BFSI

High correlation between Bitcoin price and volume of large value transactions (>US\$100,000), representing 50% of total market
2020-2021, US\$



Research calendar

Banking & Financial Services ITS

Published Planned Current release

Flagship Banking & Financial Services ITS reports

Release date

BFS Risk and Compliance IT Services PEAK Matrix® Assessment 2020: Building Cloud-based Data Infrastructure for Intelligent Real-time Controls	June 2020
Open Banking IT Services Service Provider Compendium 2020	June 2020
Risk and Compliance IT Services in BFS Service Provider Compendium 2020	June 2020
Capital Markets State of the Market Report 2020: Automation, Data, and Cloud Trends for Buy-side Firms	July 2020
Banking IT Services State of the Market Report 2020: Hyper-segmentation Strategy Enabled by Digital Capability Platforms and Data Exchanges	July 2020
Application and Digital Services in Capital Markets – PEAK Matrix® Assessment 2021	December 2020
Healthy Rebound in BFS IT Services Spend – Growth Themes and Cautions	March 2021
Modernizing Data, Applications, and Infrastructure for the Next Phase of the Payments Revolution	April 2021
Application and Digital Services in Banking – PEAK Matrix® Assessment 2021	June 2021
Deconstructing the Digital Assets Revolution – What Financial Institutions Can Learn from the Meteoric Rise of Coinbase	June 2021

Thematic Banking & Financial Services ITS reports

Release date

Financial Risk Management Platforms Assessment and Vendor Profiles	March 2020
Assessing the Trade Life Cycle Management Technology Platform Landscape	March 2020
State of the Market for Third-party Enterprise Platforms in Banking and Financial Services: Ecosystem Collaboration for Modernization at Speed and Scale	April 2020
BigTechs in BFSI Industry: The Theory of Co-existence for Market Expansion	August 2020
Lending Technology: Assessing Loan Origination System Vendors – The “One Lending” Model for Journey to the Cloud	September 2020

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