

Fintech Adoption of Cryptocurrency

The Past, Present and Future

July 2020



zabo

Connect any cryptocurrency account to your application

Zabo is an API for connecting to any crypto exchange, wallet, protocol or account.

Aggregate your users' cryptocurrency balances, transaction histories, market prices and more inside your fintech application.

Get free access and API keys:

[Learn More](#)



Once upon a time...

Bitcoin and cryptocurrency were a fringe element of financial technology



Bitcoin: A Peer-to-Peer Electronic Cash System

Satoshi Nakamoto
satoshin@gmx.com
www.bitcoin.org

Abstract. A purely peer-to-peer version of electronic cash would allow online payments to be sent directly from one party to another without going through a financial institution. Digital signatures provide part of the solution, but the main benefits are lost if a trusted third party is still required to prevent double-spending. We propose a solution to the double-spending problem using a peer-to-peer network. The network timestamps transactions by hashing them into an ongoing chain of hash-based proof-of-work, forming a record that cannot be changed without redoing the proof-of-work. The longest chain not only serves as proof of the sequence of events witnessed, but proof that it came from the largest pool of CPU power. As long as a majority of CPU power is controlled by nodes that are not cooperating to attack the network, they'll generate the longest chain and outpace attackers. The network itself requires minimal structure. Messages are broadcast on a best effort basis, and nodes can leave and rejoin the network at will, accepting the longest proof-of-work chain as proof of what happened while they were gone.

In those days, respectable fintechs told themselves:

“Bitcoin is not a real asset”

“Customers don’t want or use crypto”

“It’s just a bubble”

“Too complicated”

“Not a market for us”

But some defied the narrative and
created crypto products anyway

Many of them grew to be unicorns ¹

coinbase

kraken

Liquid
by Quoine

BINANCE

DIGITAL
CURRENCY
GROUP

BitMEX

bitFlyer

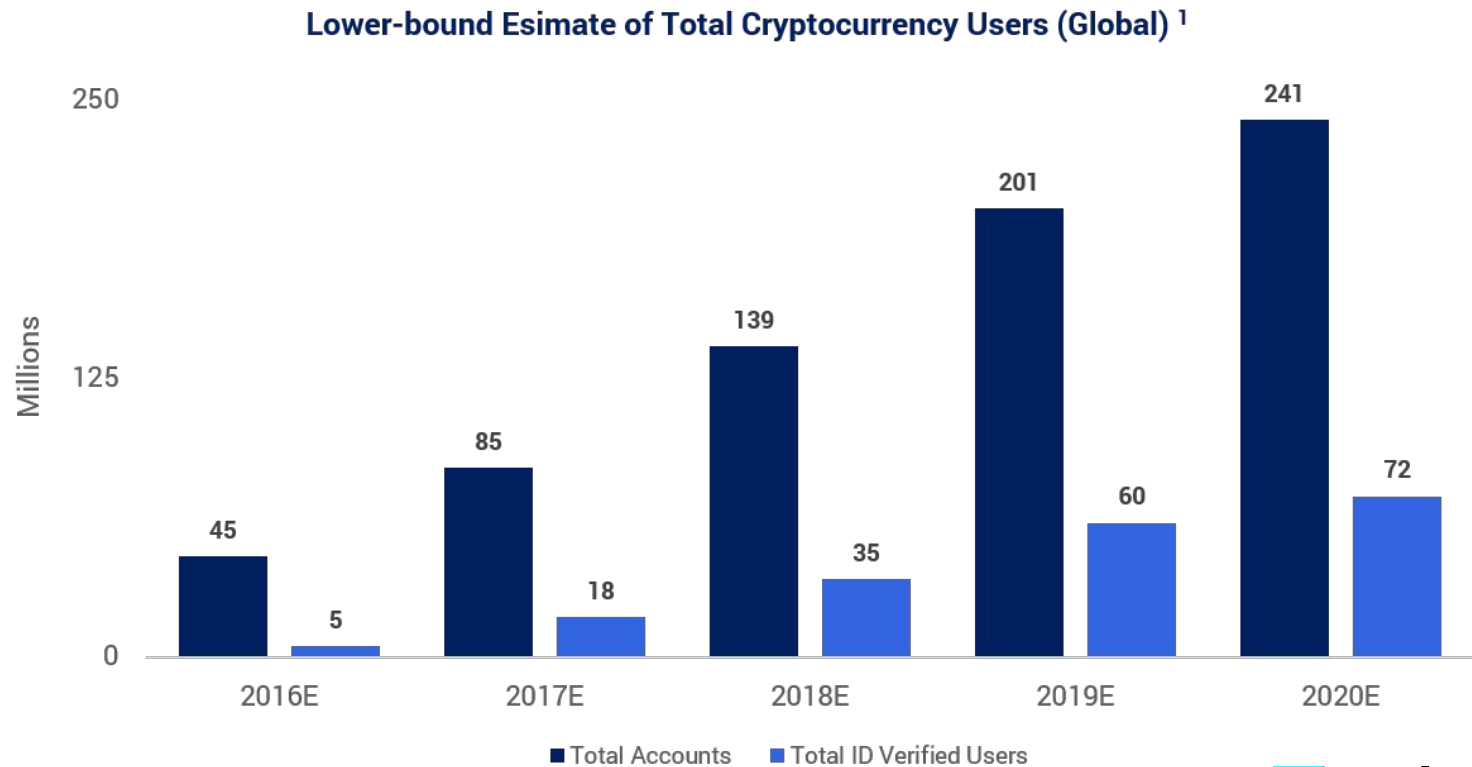
bithumb

Huobi

1) Companies with public or privately estimated > \$1 billion valuations.

Fueled by these early adopters, crypto grew.
It stopped being fringe

It became a huge, global market, with
hundreds of millions of accounts



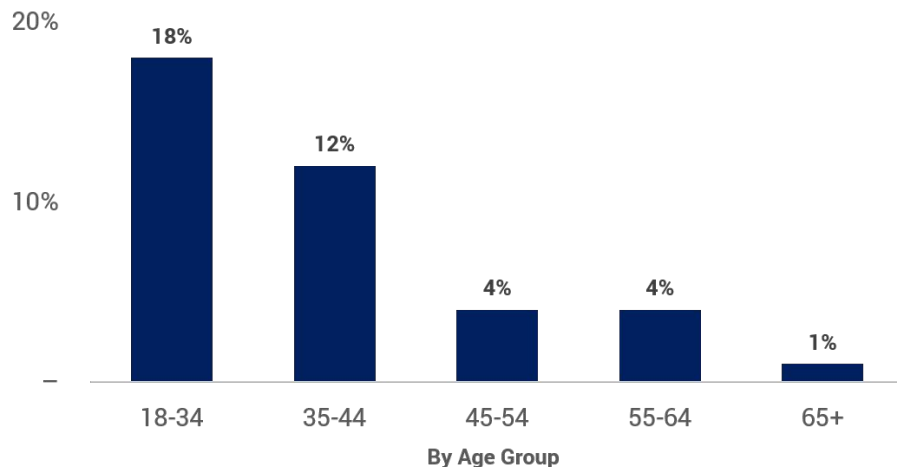
1: 2016 - 2018 estimates from Univ of Cambridge 2nd Global Cryptoasset Benchmarking Study 2019 - 2020 estimates are extrapolations of same data. These are lower bound estimates - actual figures are likely to be higher. .

It was a generational shift, with millennials leading the way

18% of U.S. millennials already own cryptocurrency

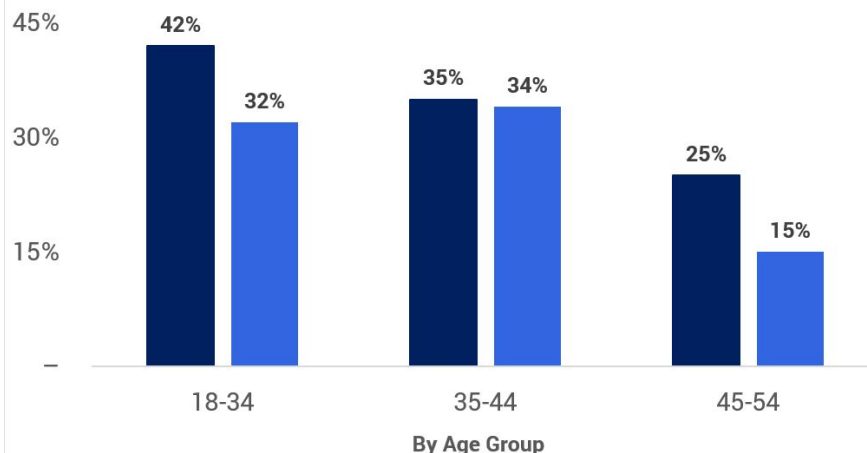
42% plan on buying Bitcoin in next 5 years

Bitcoin Ownership Rates (Spring 2019)



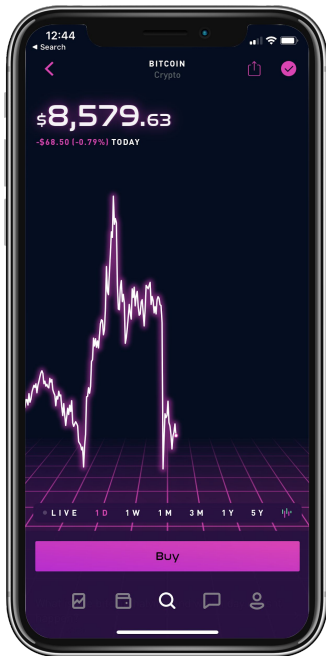
% Likely to Purchase Bitcoin in next 5 years

■ Spring 2019 ■ Fall 2017

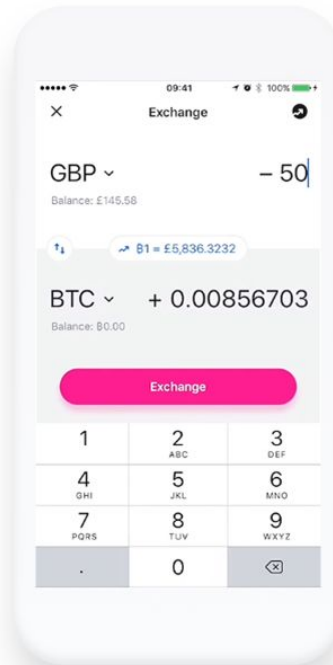


Leading fintechs saw the growth in their target demographic and **rolled out crypto products of their own**

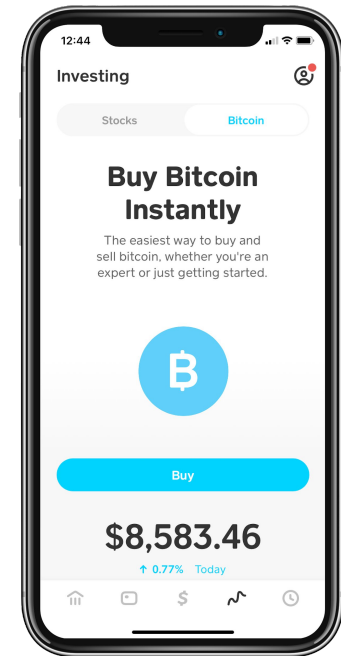
Robinhood 



Revolut

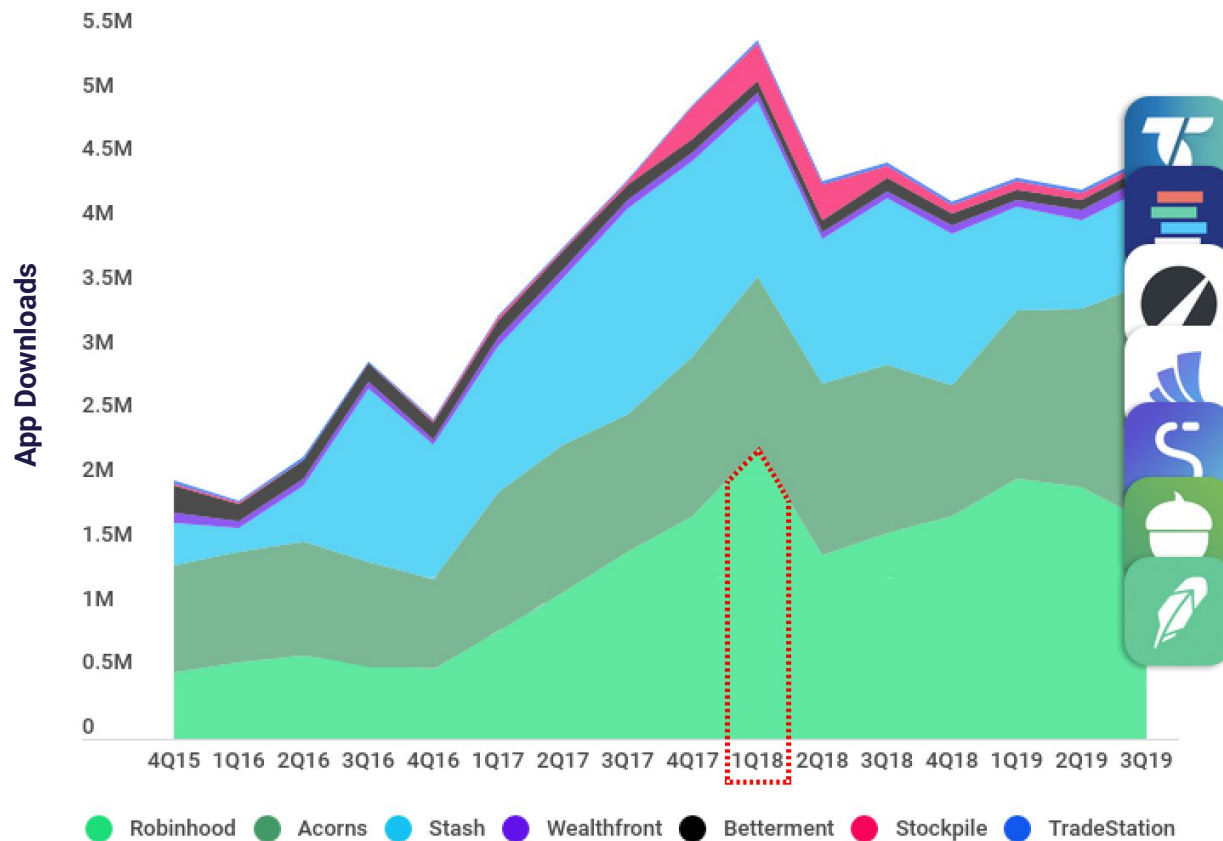


 Cash App



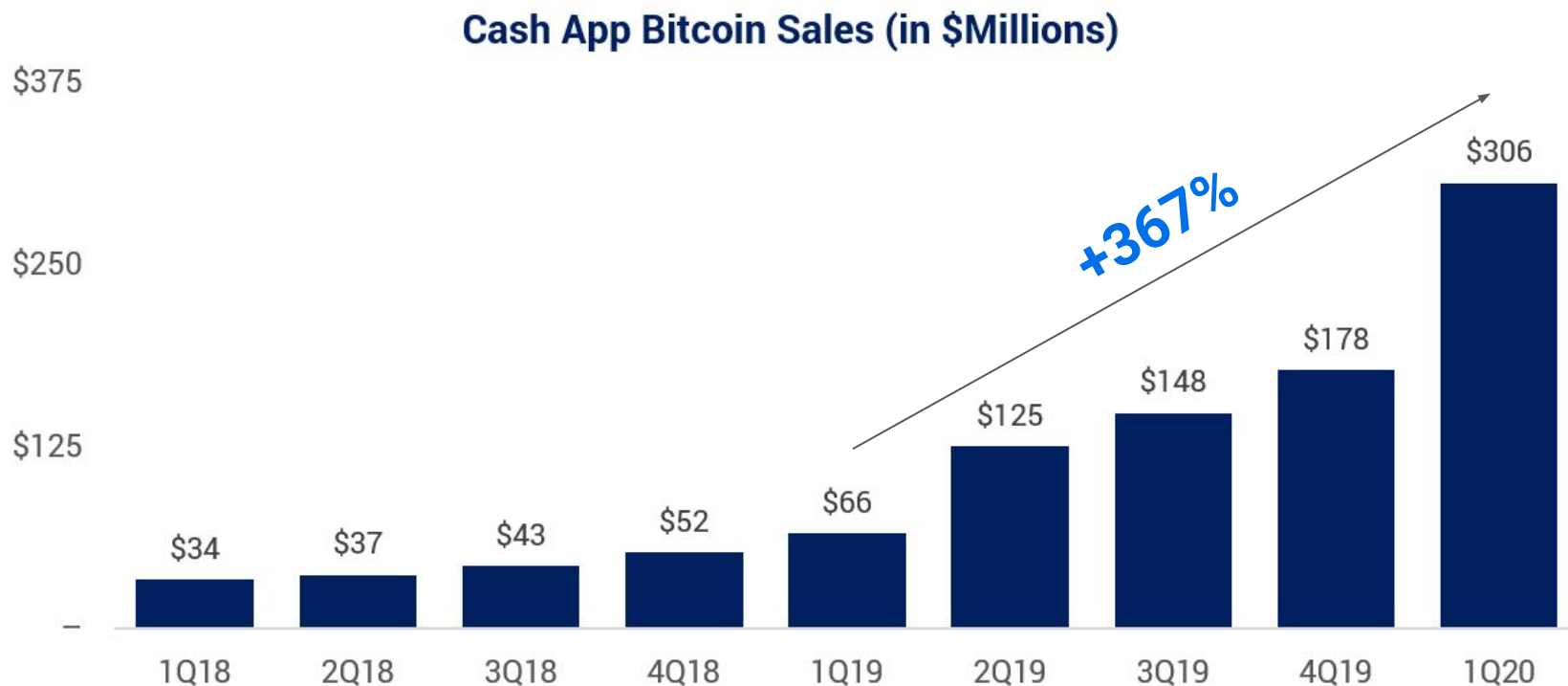
And it paid off. Big time

Robinhood had 2M+ downloads in the quarter (1Q18)
they released Robinhood Crypto, **their highest ever**



And it's still paying off

Square's Cash App did \$306M in Bitcoin Sales in 1Q20, a **367% increase over 1Q19**

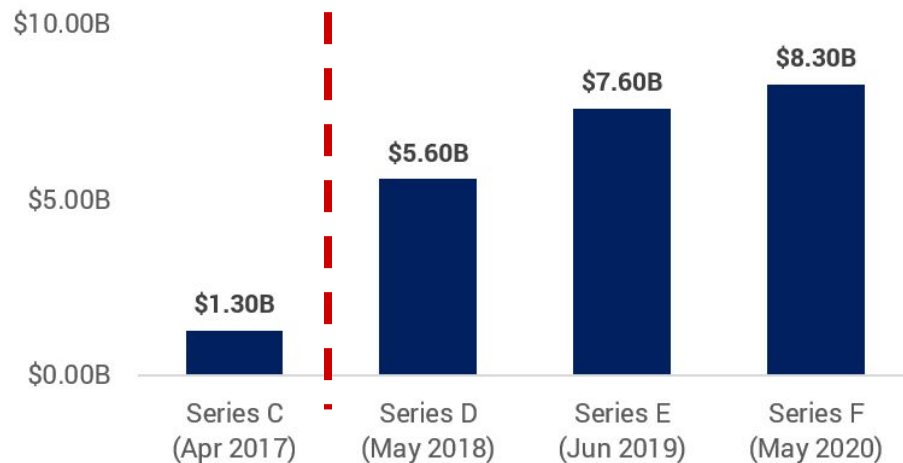


These crypto products accelerated growth and user acquisition

Which was rewarded by investors

Robinhood 

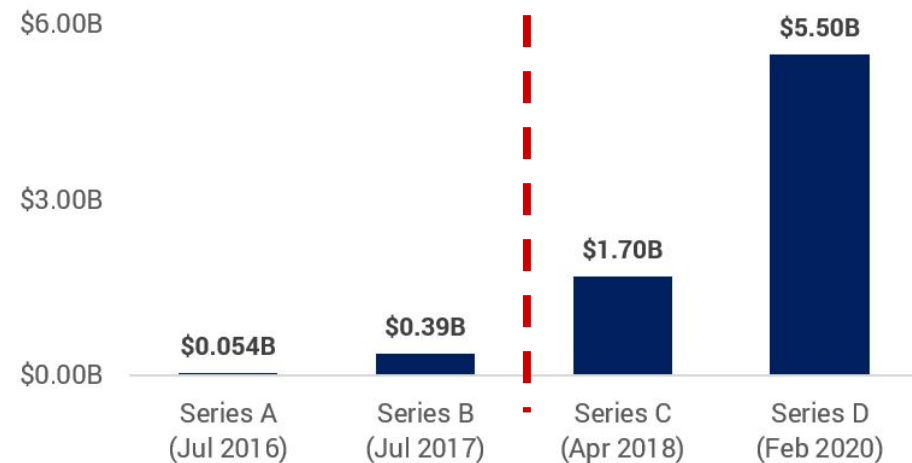
Robinhood Valuation



--- Launched Cryptocurrency

Revolut

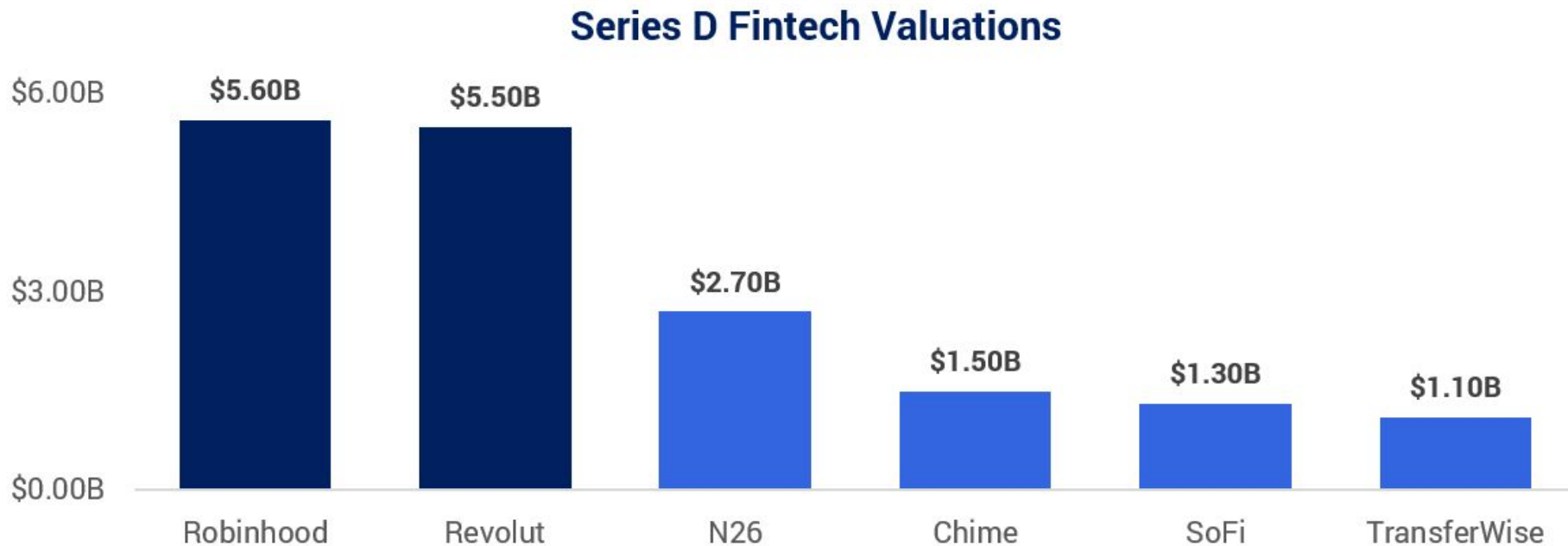
Revolut Valuation



--- Launched Cryptocurrency

Fintechs with crypto outperformed peers

Robinhood and Revolut vs non-crypto peers at Series D:



This success caused other leading franchises to make bets on crypto

In the process, market changing infrastructure was created

SoFi

TD Ameritrade

Fidelity
DIGITAL ASSETSSM

Cboe

Ice Bakkt

TradeStation[®]

CME Group

MOGO

FACEBOOK

We know now that those old narratives are actually **myths**

OLD NARRATIVES / MYTHS

“Bitcoin is not a real asset”

“Customers don’t want or use crypto”

“It’s just a bubble”

“Too complicated”

“Not a market for us”

REALITY

Bitcoin adopted by top fintechs, investors and core consumers

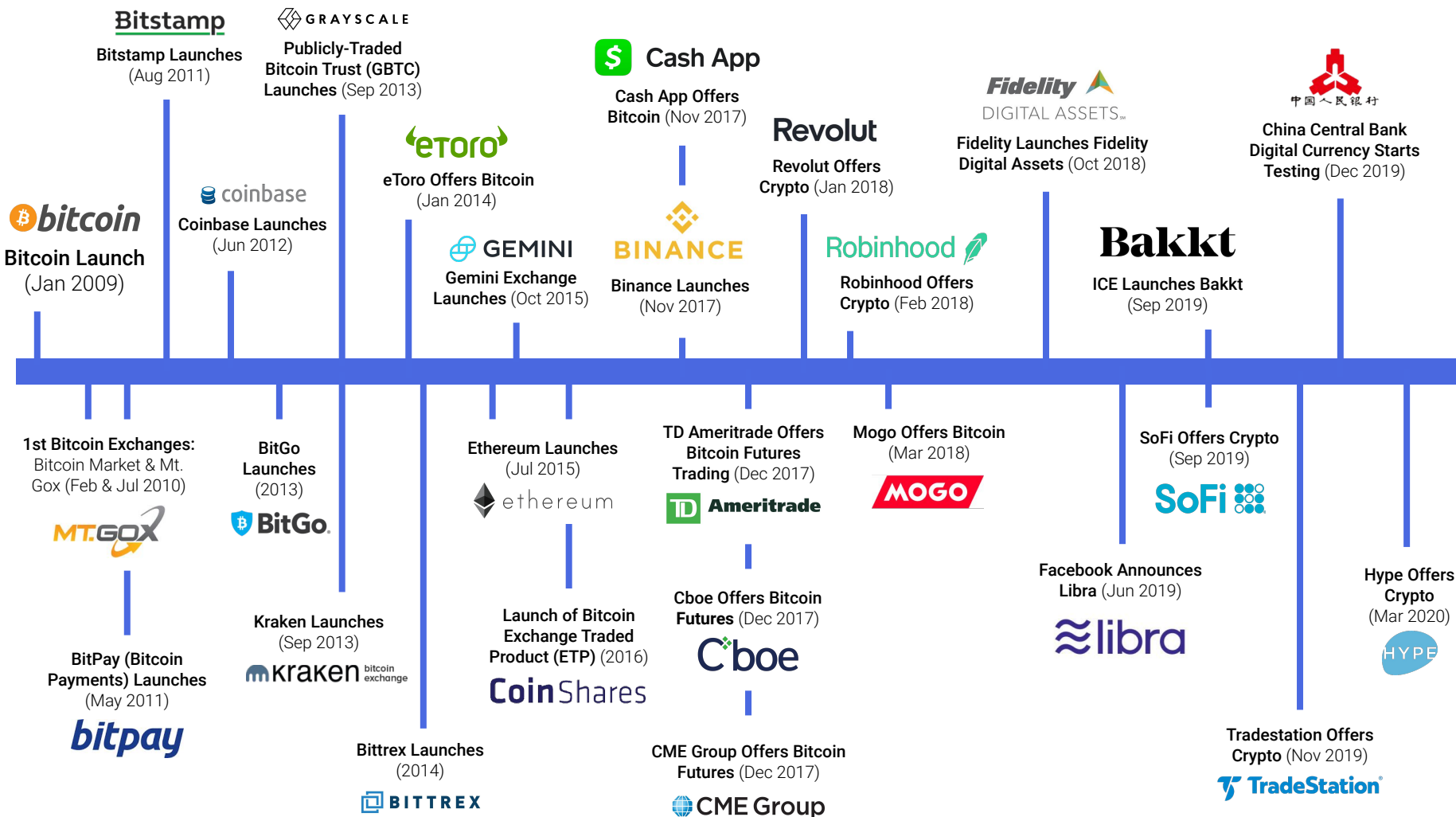
Huge mismatch between customer crypto demand (high) and supply (low)

Survived multiple cycles; bubbles don’t last over a decade

New infrastructure makes accessing and building with crypto easier

Every fintech product will have crypto, or they will lose customers and revenue

In a decade, the market had transformed



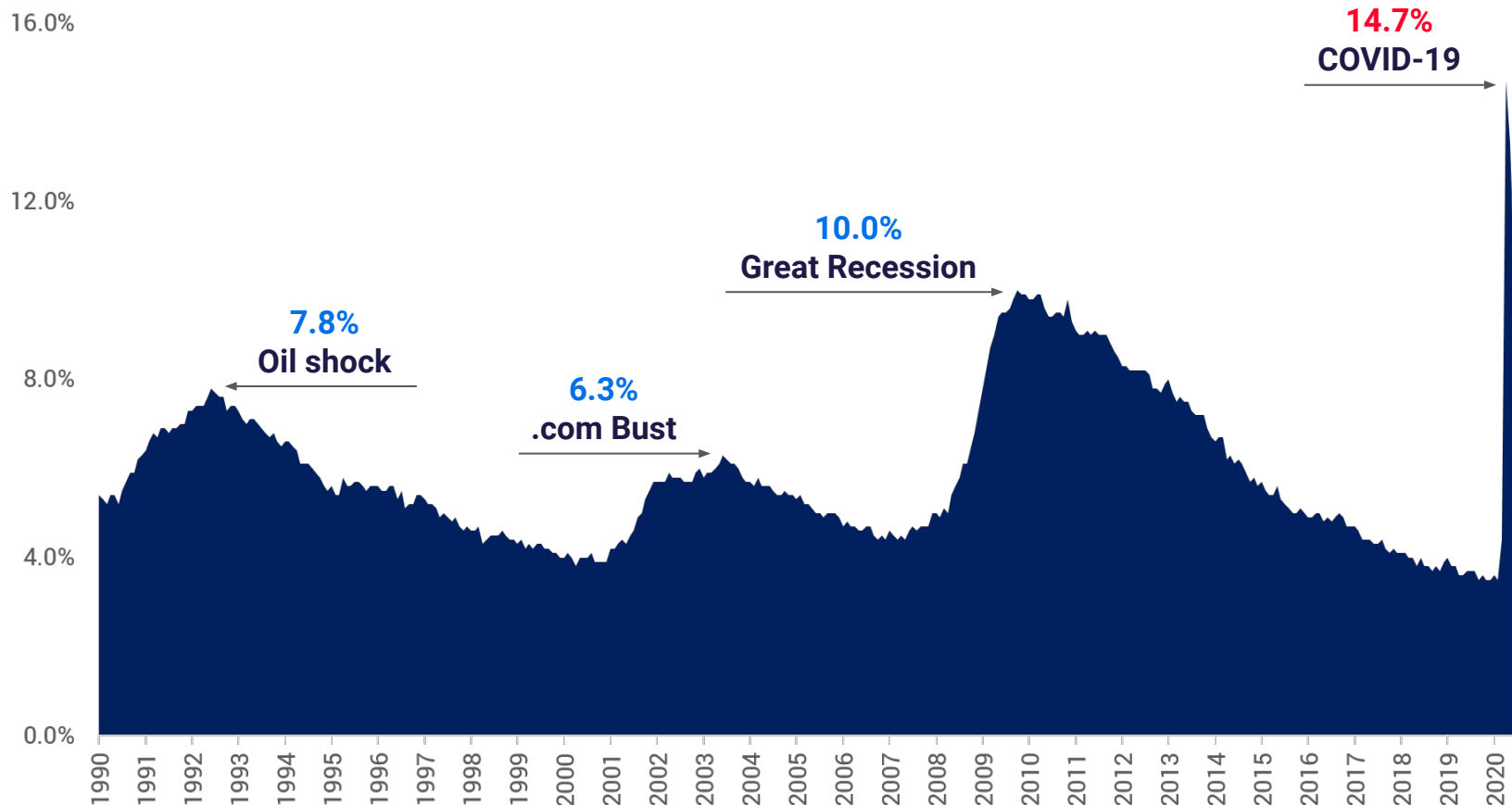
Enter COVID-19

Bitcoin during the crisis:
macro tailwinds pushing
adoption and validation

COVID-19 ended longest economic cycle in history

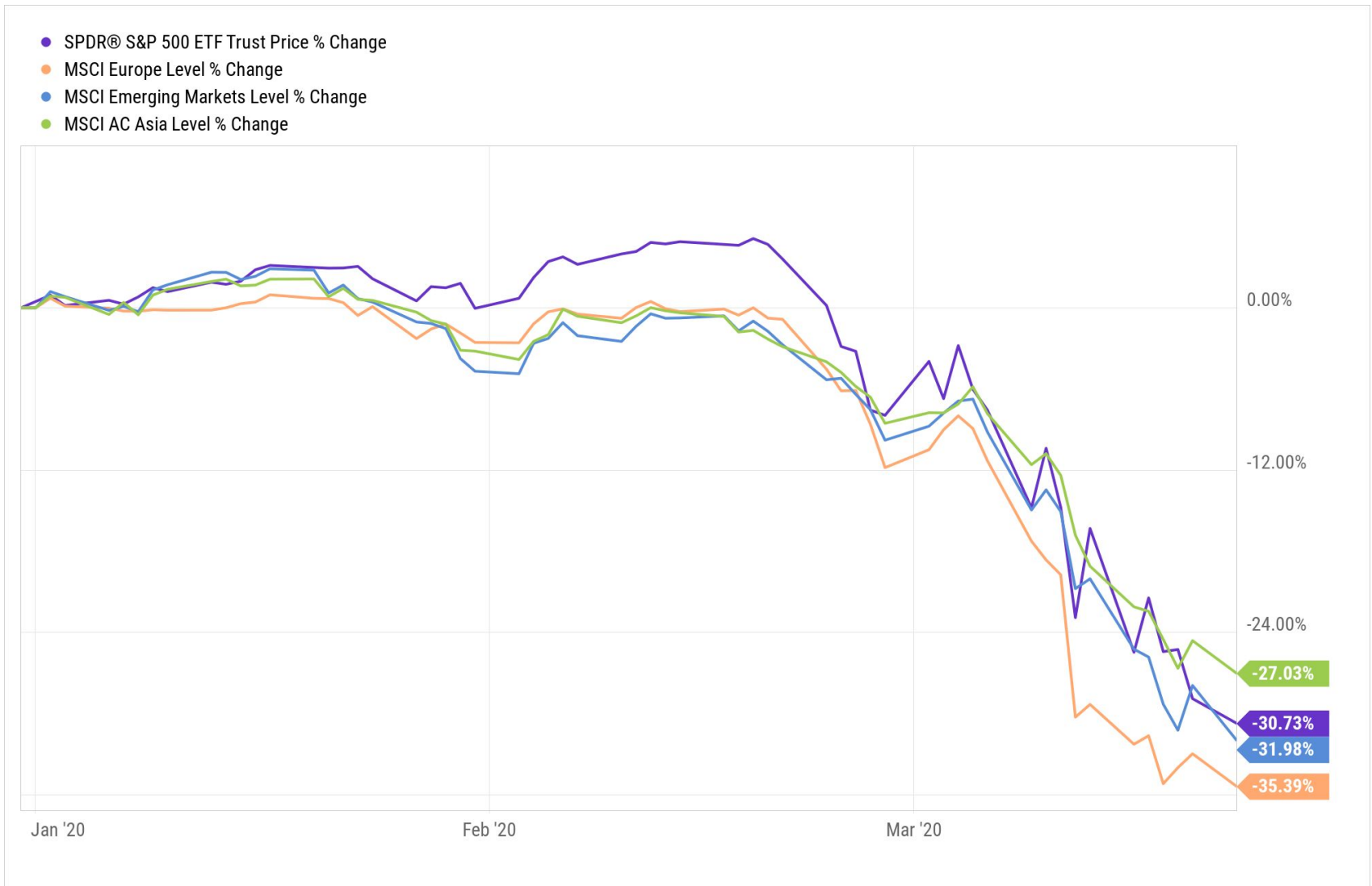
Unemployment soared to unprecedented levels

Unemployment Rate - U.S.



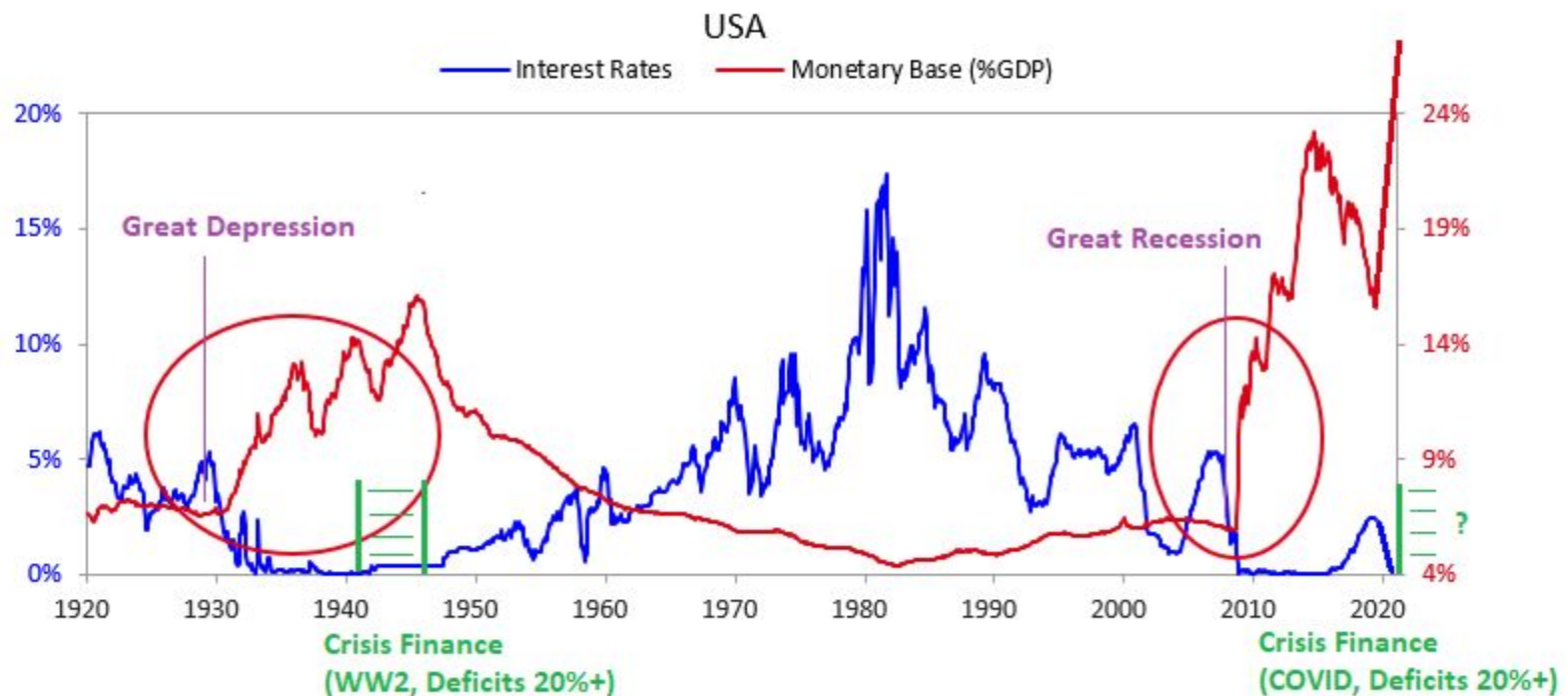
Note: Peak unemployment typically occurs 1-3 years after initial cycle-ending event.

Markets tumbled globally



Central banks responded with unprecedented fiscal and monetary stimulus

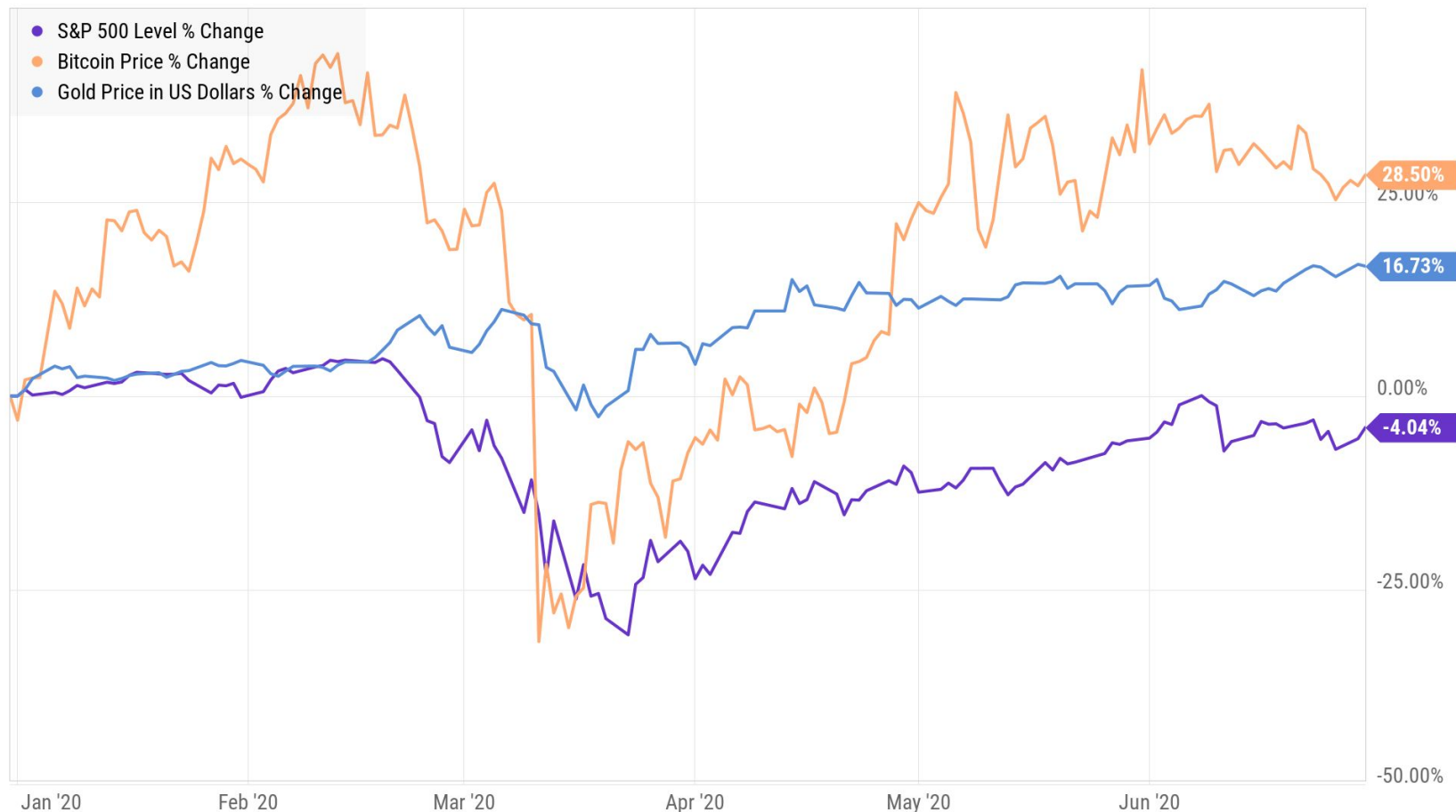
The result was staggering increases in the money supply



It was the perfect catalyst for Bitcoin, an emerging bet against monetary inflation

Bitcoin beat Gold and S&P 500 in the first half of 2020

S&P500 vs Bitcoin (BTC) vs Gold 1H20



Billionaire fund managers helped validate the narrative with endorsements



Paul Tudor Jones
Hedge Fund Manager
Tudor Investment Corp

“... the best profit-maximizing strategy is to own the fastest horse. Just own the best performer and not get wed to an intellectual side... If I am forced to forecast, **my bet is it will be Bitcoin.**”

“Owning Bitcoin is a great way to defend oneself against the GMI [Great Monetary Inflation], given the current fact set.”

- May 2020 Essay: The Great Monetary Inflation



Chamath Palihapitiya
Private Equity / Venture
Social Capital

“Everybody should have 1% of their assets in Bitcoin. I still believe that today. And I think it is just a fantastic hedge.”

- February 2020 CNBC Interview

What started as a retail-driven phenomenon is now going institutional

Data from Fidelity institutional investor survey :



36% are *already* invested in digital assets

60% believe digital assets belong in their portfolio

~80% found digital assets appealing

So what's next?

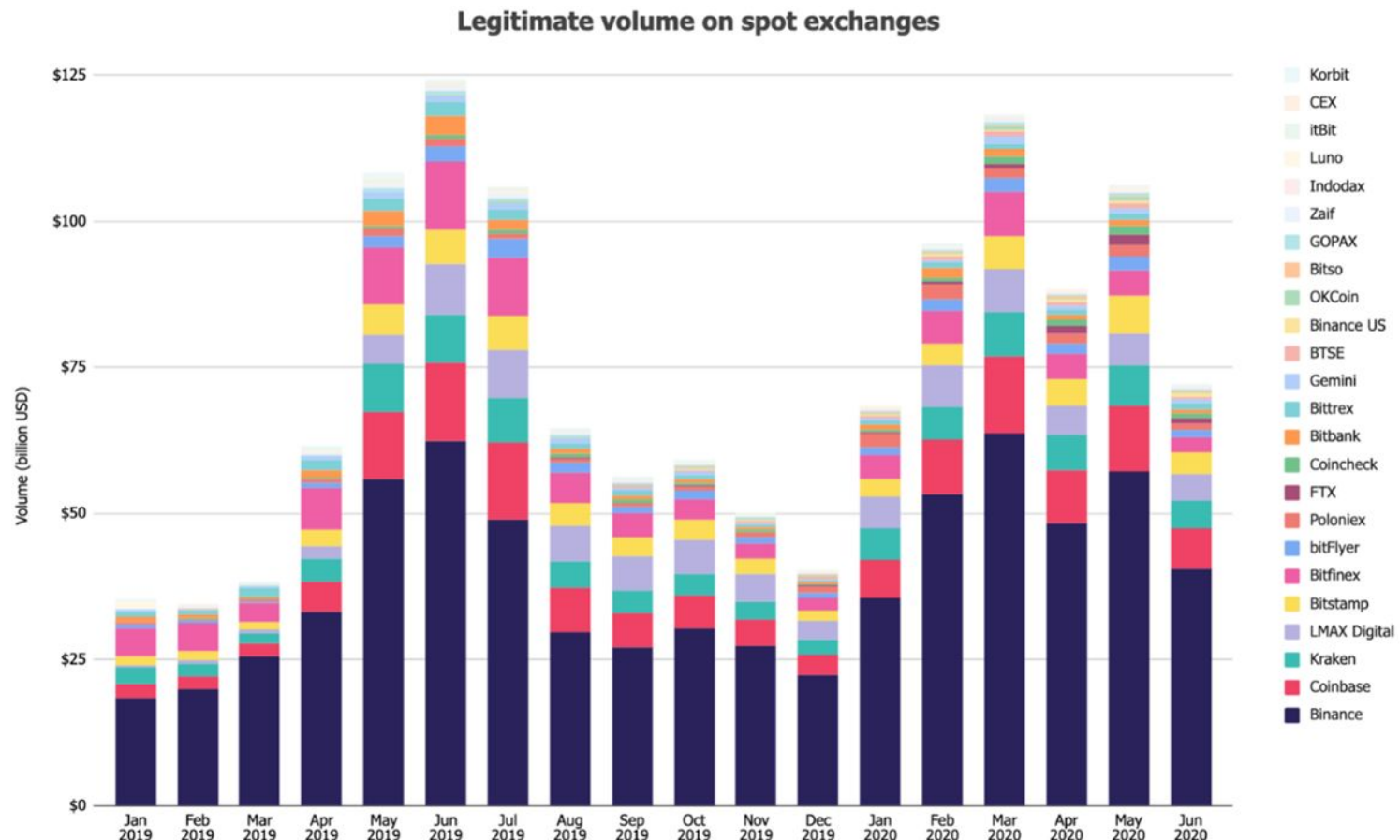
The future of
crypto in fintech

2020 - 2021 crypto product trends we expect to unfold in fintech:

- 1 More exchange (buy / sell crypto) products
- 2 Crypto account aggregation
- 3 Crypto credit & lending products
- 4 Continued maturity of stablecoins

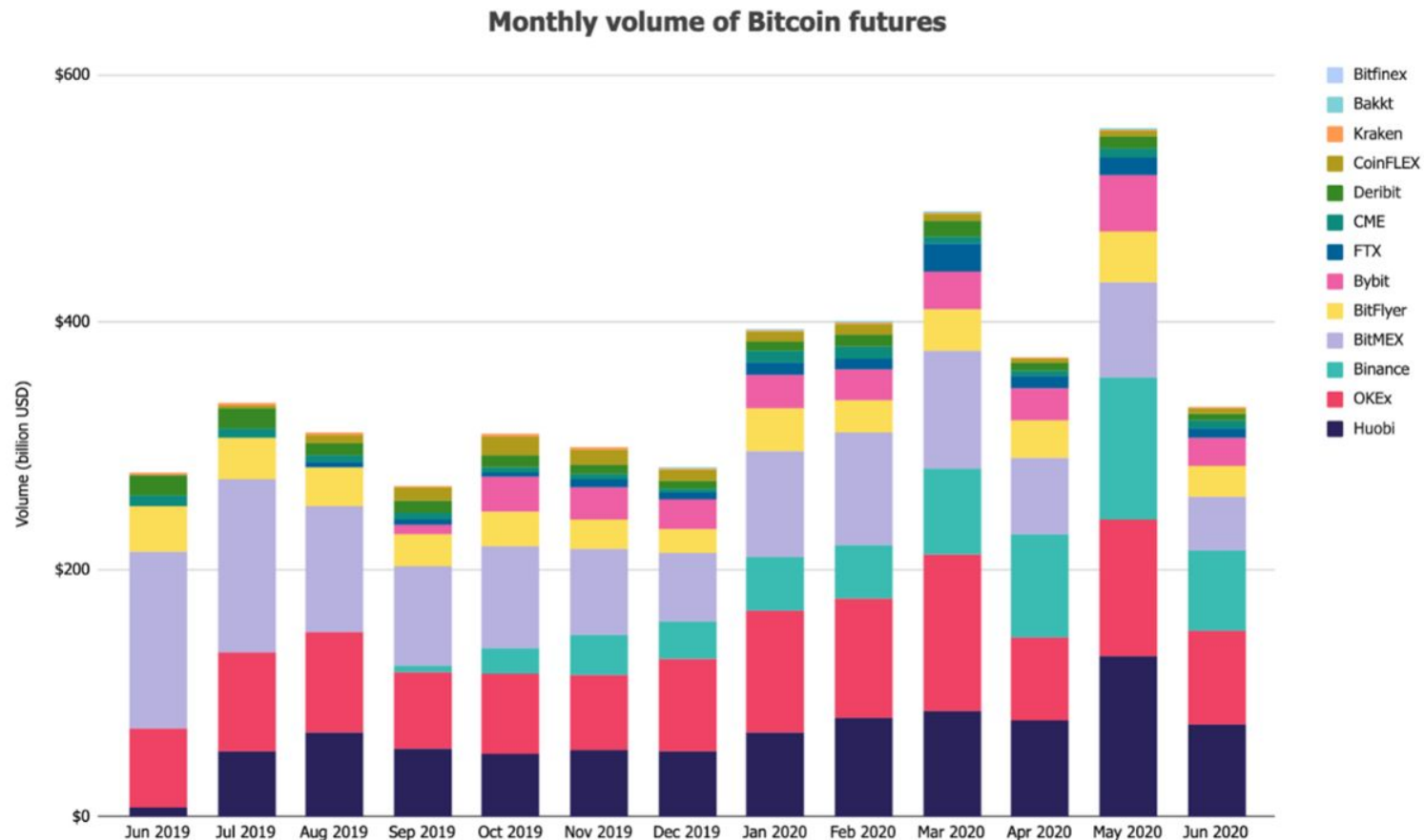
Exchange and Trading

Global crypto exchanges (spot) are producing volumes in the **hundreds of billions**



Exchange and Trading (Cont'd)

Derivatives are growing in parallel **as more sophisticated investors enter the market**



Exchange and Trading (Cont'd)

Despite this, some fintechs haven't realized they are giving up customers and revenue in crypto

Competitive forces and user demand will compel them to enter the market

OFFER CRYPTO EXCHANGE PRODUCT

Robinhood 

eToro

 Cash App

 HYPE

 MOGO

 TradeStation

Revolut

SoFi 

 TD Ameritrade

NO PRODUCT - LATE ADOPTERS

 acorns

 Webull

STASH

Betterment

 wealthfront

 Public

EXTRADE

 STOCKPILE

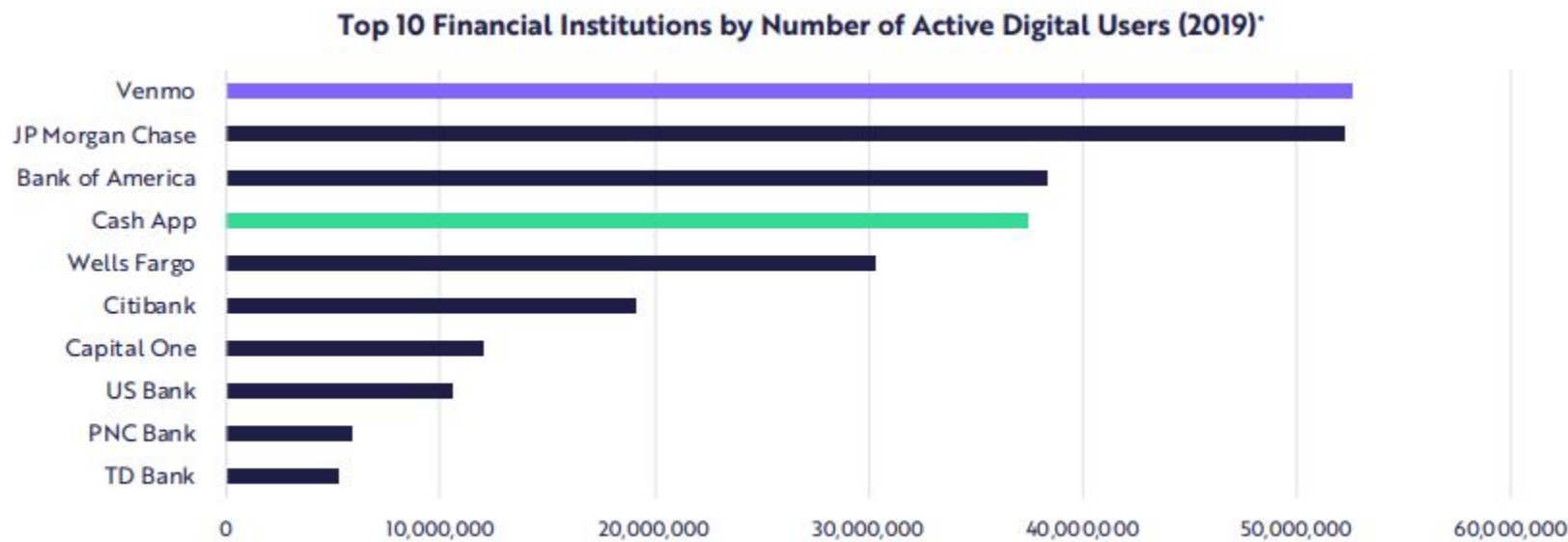
 M1 Finance

 zabo

Exchange and Trading (Cont'd)

Report: PayPal / Venmo to roll out Bitcoin exchange to their **325 million** users in 2020/2021

When it happens, two of the top five financial applications (by active users) support Bitcoin



Crypto Account Aggregation

None of the mainstream financial tracking or PFM tools support cryptocurrency

This creates a unique product arbitrage opportunity : 240M+ accounts up for grabs

personal CAPITAL ✖

intuit **mint** ✖

C ✖
Clarity Money

YNAB. ✖

N nerdwallet ✖

credit karma ✖

digit ✖

 ✖
everydollar

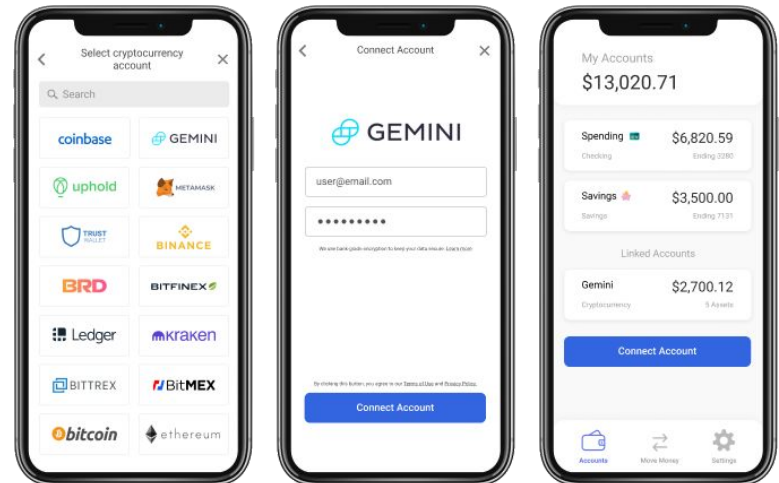
Crypto Account Aggregation (Cont'd)

Crypto account aggregation is now easy and accessible **using Zabo's API**

Connect Any Bank or Brokerage



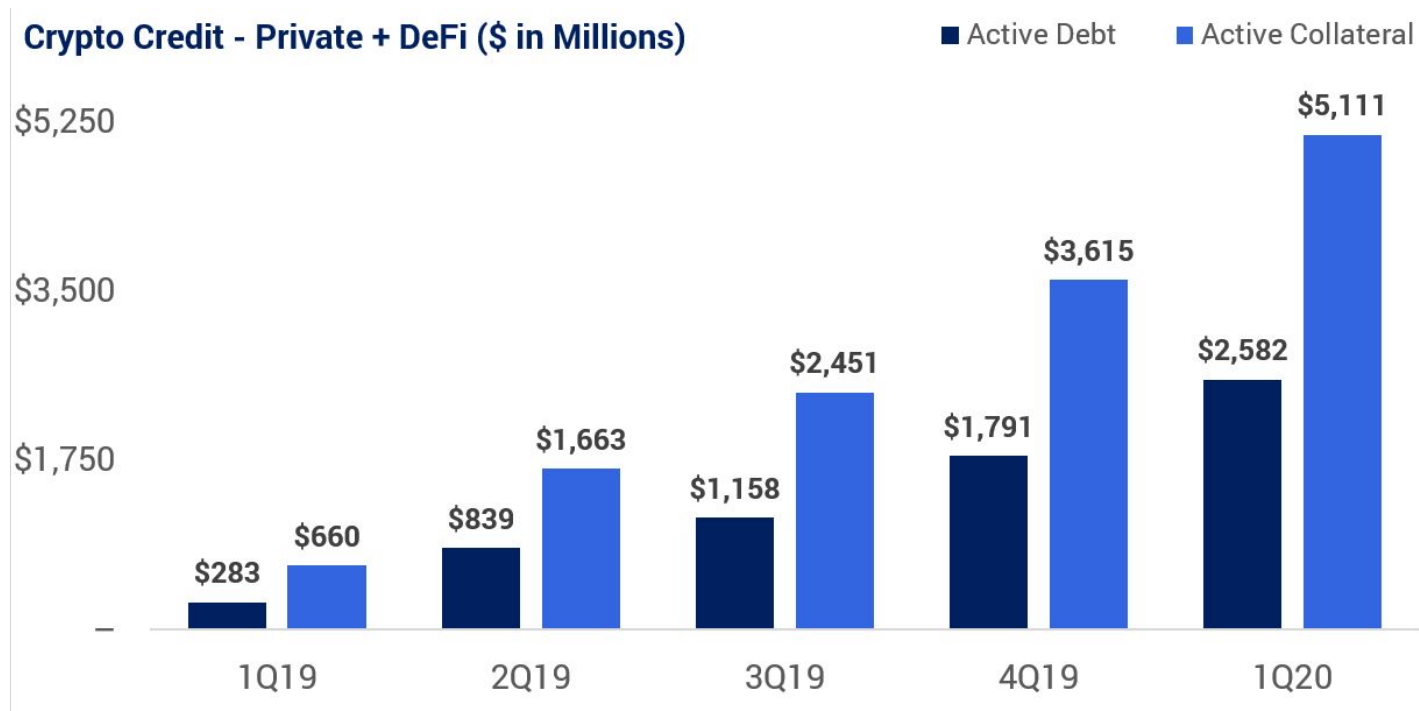
Connect Any Crypto Exchange or Wallet



Crypto Credit & Lending

At the end of 2019 there was **only \$2.2B (3.0%) of crypto holdings being used as active collateral**

This is likely to increase - crypto credit is booming:



Crypto Credit & Lending (Cont'd)

Today the entire crypto credit and lending market is driven by crypto-native private (custodial) and decentralized (DeFi) providers.

No fintechs or traditional financial players have entered the market. Yet.

Custodial Credit Providers



DeFi Credit Protocols



Crypto Credit & Lending (Cont'd)

Multiple companies in this space have businesses in the billions:



Crossed >\$1B in deposits

\$5.5B in cumulative loan origination to date

>100k active users



\$2B in 1Q20 loan originations

\$6.2B in cumulative loan origination to date

1Q20 was largest quarter ever

Crypto Credit & Lending (Cont'd)

The emergence of crypto credit **enabled interest bearing crypto accounts that offer relatively higher yields** than traditional accounts:

June 2020 interest rates:

USD Savings (bank):

1.0% - 1.3%



USD Stablecoins (crypto):

5.0% - 10.0%



Bitcoin:

4.0% - 6.0%



Crypto Credit & Lending (Cont'd)

We expect three major trends will drive crypto credit products going forward:

1. **Crypto will be accepted as collateral** in far more consumer and institutional transactions
2. **An unsecured and non-overcollateralized credit market will emerge**, along with the concept of crypto credit scoring
3. More customers will opt for **interest-bearing crypto accounts**

Stablecoins

Stablecoins are cryptocurrency representations of underlying assets (e.g. US Dollars, Euros)

There are broadly two types of stablecoins:

CONVERTIBLE

Typically convertible into assets held in reserve (e.g. USD at a bank).
Compete on trust and reserve status



USD Coin
USDC



Tether
USDT



Paxos
PAX



True USD
TUSD

SYNTHETIC

Attempt to target value (e.g. \$1 USD) programmatically without being directly backed by the target asset



Celo
cUSD



Dai
DAI

Stablecoins (Cont'd)

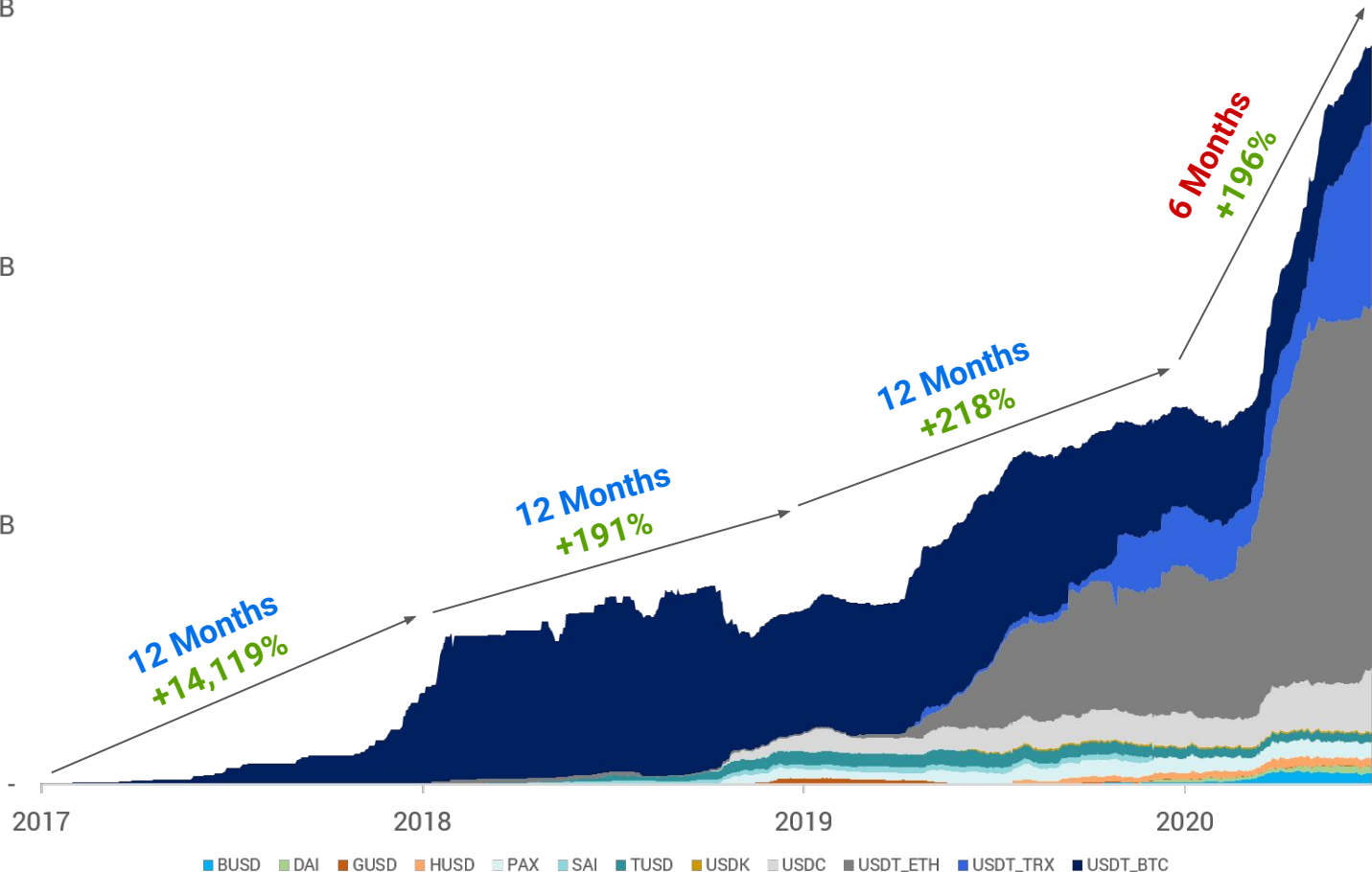
2020 has seen breakout stablecoin growth

Free floating supply, major stablecoins

\$12B

\$8B

\$4B



Stablecoins (Cont'd)

Today most stablecoins are used for trading purposes.

We expect three stablecoin trends going forward:

1. **Remittances and payments** utilizing stablecoins to bypass traditional payment rails
2. **Savings and wealth building** using stablecoins to avoid inflation and local currency devaluation
3. **Increased trading of digital assets** using stablecoins as the digitally native, base pair

Fintech Profiles

Insights from the current
fintech players in crypto

Fintech Adoption of Cryptocurrency

The Current Players - Robinhood



Overview

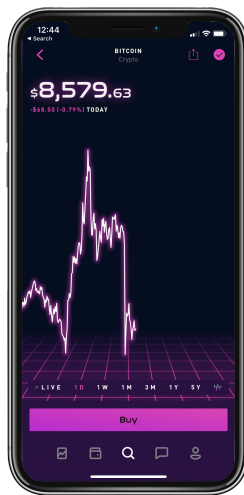
Userbase: 10 Million (all of Robinhood)

Crypto Launch: 1.25M user waitlist. Launched officially in February 2018

Product type: Closed exchange model (no transfers)

Supported Markets: U.S.

Asset Support: Bitcoin, Ethereum, Bitcoin Cash, Litecoin, Dogecoin



Discussion + Outlook

Robinhood is the leading investments-focused fintech driving cryptocurrency adoption in the U.S.

Their success is a stunning endorsement of crypto as a fintech user acquisition tool; **Robinhood grew from ~3M users in early 2018 when they launched Robinhood Crypto to over 10M users in early 2020, just two years later.** We know from app download data that crypto was a major driver of this growth.

We expect Robinhood to continue to be a major player in crypto going forward. They've made significant investments, including establishing their own state and federal money transmission licensing to distribute the product in all U.S. states.

Insights

[on Robinhood Crypto] **"We view this as an opportunity to expand our customer base and give our customers more access to functionality."**

Co-CEO Vlad Tenev



"We're passionate about cryptocurrency and we want to be stewards of the market and we're going to keep investing in it. We're going to be hiring lots and lots of people, building out the crypto team... So we're investing in it for the long haul."

Co-CEO Vlad Tenev



"Crypto has certainly added to our growth"

Co-CEO Baiju Bhatt

Fintech Adoption of Cryptocurrency

The Current Players - Cash App



Overview

Userbase: 24 million MAUs (all of Cash App)

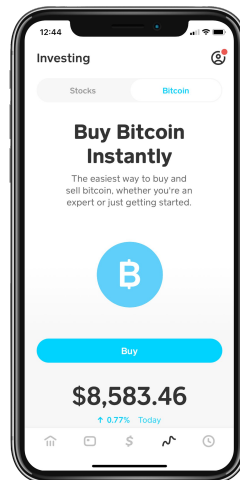
Crypto Launch: Limited launch in November 2017, full launch in January 2018

Product type: Exchange model (with transfers in and out)

Supported Markets: U.S.

Asset Support: Bitcoin

Parent: Square



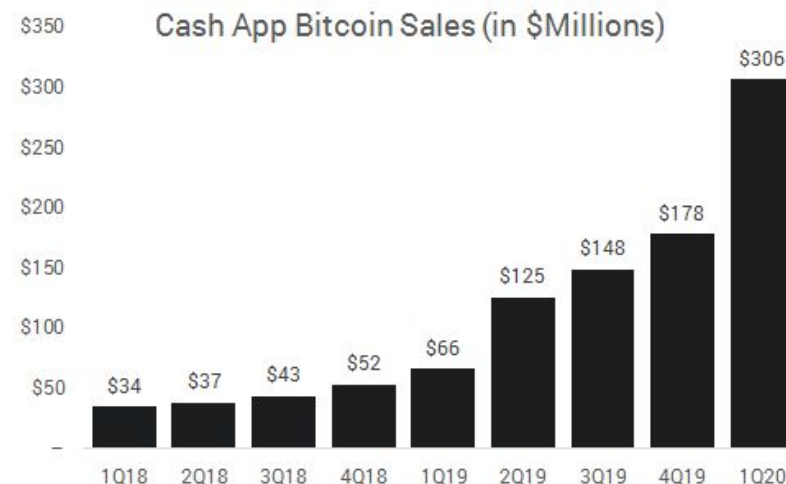
Discussion + Outlook

The fastest growing fintech in the U.S. might also be the most interesting crypto enabler. Square CEO Jack Dorsey is an enthusiastic supporter of Bitcoin.

Early adoption of Bitcoin has paid off in a huge way for Square / Cash App. **Bitcoin sales have grown from \$34M in the first quarter of 2018 to \$306M in 1Q20 (+798%).** The 1Q20 jump over 4Q19 was particularly sharp, both in nominal (\$129M) and percentage growth (72%). The numbers indicate an acceleration of Bitcoin adoption and interest.

Bitcoin has unquestionably become an important part of Square and Cash App's product strategy.

Insights



"So this is part of the reason why we think the ecosystem strategy is so strong. We're not just a peer-to-peer app. We're not just a stock purchasing app. We're not just a bitcoin app. We have everything in one"

CEO Jack Dorsey, 1Q20 Square Earnings Call

Fintech Adoption of Cryptocurrency

The Current Players - Revolut

Revolut

Overview

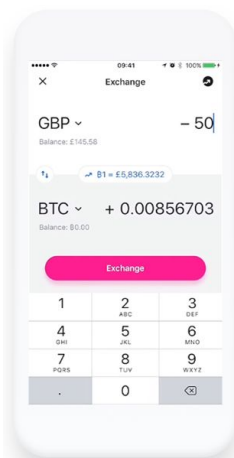
Userbase: 12 million (all of Revolut)

Crypto Launch: January 2018

Product type: Closed exchange model (no transfers) and closed loop crypto transfers to other Revolut users

Supported Markets: Europe

Asset Support: Bitcoin, Ethereum, Litecoin, Bitcoin Cash and Ripple



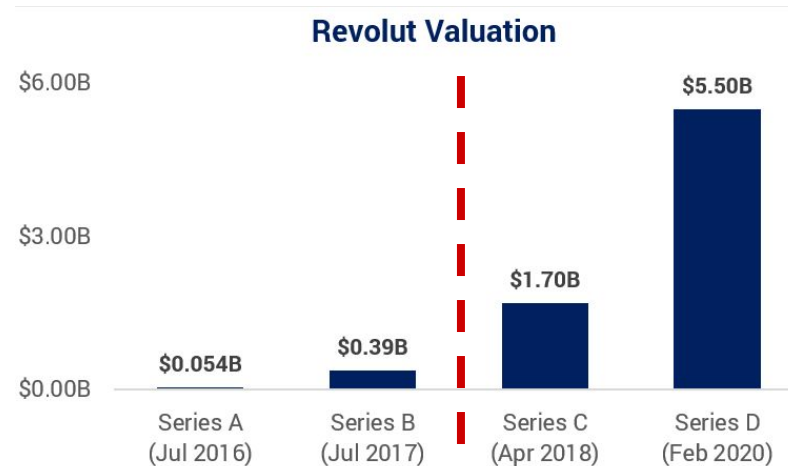
Discussion + Outlook

Revolut launched their crypto product into the European market at the same time as Robinhood and Cash App in the United States. Today Revolut is one of the largest non-exchange crypto providers in Europe.

To facilitate cryptocurrency Revolut partnered with Bitstamp, a London-based cryptocurrency exchange.

One of the unique elements of Revolut's product relative to fintech peers is that they allow crypto transfers to other users of the app. This enables crypto to be used in a peer-to-peer payments or even remittance capacity. It is likely Revolut's move to the U.S. market will prompt competitors (e.g. Cash App) to offer a similar product.

Insights



--- Launched Cryptocurrency



“We have been amazed by the incredible demand of our cryptocurrency feature and are delighted to begin opening it up to all Revolut users.”

CEO Nikolay Storonsky

Fintech Adoption of Cryptocurrency

The Current Players - SoFi



Overview

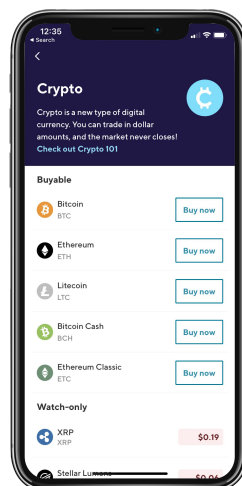
Userbase: 7.5 million (all of SoFi)

Crypto Launch: September 2019

Product type: Closed exchange model (no transfers)

Supported Markets: U.S.

Asset Support: Bitcoin, Ethereum, Litecoin, Bitcoin Cash and Ethereum Classic



Discussion + Outlook

SoFi announced their crypto product in a partnership with Coinbase as their cryptocurrency exchange partner. This enabled them to support a subset of Coinbase-listed assets immediately.

Comments from CEO Anthony Noto illustrate that SoFi considers crypto as part of its SoFi Invest umbrella. They want their users a choice of which assets to invest in in order to create a diversified investment portfolio.

Insights

"Feedback from our members has made it clear that a significant percentage are not only interested in learning more about cryptocurrencies but are also already buying and selling crypto"



CEO Anthony Noto

"Putting our members' interests first is our top priority at SoFi. That includes both offering individuals the products they want, like cryptocurrency within SoFi Invest"

CEO Anthony Noto

Fintech Adoption of Cryptocurrency

The Current Players - eToro



Overview

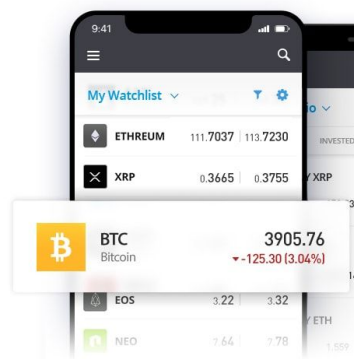
Userbase: 13 million

Crypto Launch: January 2014

Product type: Crypto wallet and exchange

Supported Markets: Global

Asset Support: Bitcoin, Ethereum, Bitcoin Cash, Litecoin, Ripple and 9 others



Discussion + Outlook

Founded in 2007, eToro is one of the pioneers of social trading. The company started “Copy Trading” with equities and successfully replicated the model with cryptocurrency starting in 2014.

eToro was one of the very first fintech / trading platforms to offer cryptocurrency, starting out with just Bitcoin using a Contracts for Difference (CFD) model doesn't require interacting with Bitcoin directly.

eToro's early moves into cryptocurrency have paid off many times over, as cryptocurrency has been a significant component of the company's explosive growth to 13M users.

Insights

“Consumers all over the world should have access to the tools they need to participate in cryptocurrency markets, regardless of their expertise”

CEO Yonia Assia



“Both eToro and Bitcoin were born out of the social revolution.

It's therefore very apt for us to take the lead in making Bitcoin – essentially the world's first crowdsourced currency – available to the masses”

CEO Yonia Assia (Jan 2014)

Fintech Adoption of Cryptocurrency

The Current Players - Mogo



Overview

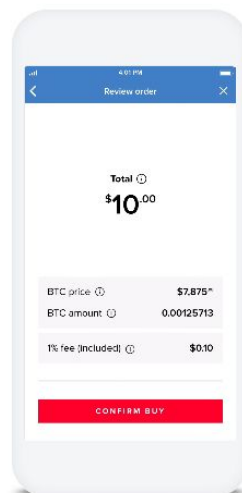
Userbase: 1 million (all of Mogo)

Crypto Launch: March 2018

Product type: Closed exchange model (no transfers)

Supported Markets: Canada

Asset Support: Bitcoin



Discussion + Outlook

Mogo delivers their crypto product, MogoCrypto, through a partnership with Canadian cryptocurrency exchange Coinsquare.

Their focus is on a simple, streamlined user experience where users can convert CAD into Bitcoin.

Mogo also entered into the cryptocurrency mining business in 2018, but later exited in 2019 according to public filings.

Insights

"Bitcoin trading volume increased 529% quarter over quarter, driving member engagement."

Mogo 2Q19 Public Financial Results

"Canadians are looking for a trusted and simple solution to buy and sell bitcoin, and that's the need we're addressing with MogoCrypto"



CEO David Feller

"As a public company with an increasingly recognized national brand and multiple innovative financial products that are trusted by over 500,000 members today (March 2018), we believe Mogo is uniquely positioned to bring bitcoin to the masses in Canada"

CEO David Feller

Fintech Adoption of Cryptocurrency

The Current Players - Hype (Banca Sella)



Overview

Userbase: 1.2 million (all of Hype)

Crypto Launch: March 2020

Product type: Self-custody, multi-signature
Bitcoin wallet with ability to buy and sell

Supported Markets: Italy

Asset Support: Bitcoin



Discussion + Outlook

Hype is a Italian digital bank that is part of Banca Sella. Banca Sella started Hype in 2015 specifically to attract a younger millennial audience.

Hype's growth to 1.2 million users is impressive given that's roughly 2% of the entire Italian population.

Hype partnered with the Italian Bitcoin wallet Conio to create their Bitcoin wallet. Their product is unique in that it is the few fintech products that relies on self-custody (in this case using a three-key approach).

Insights

"Over 13% of our customers demanded bitcoin. We heard them, and we did our best to bring them the best solution."

CEO Antonio Valitutti



"The cryptocurrency and Bitcoin market in particular continues to arouse interest, especially among the public that constitutes our customer base — by definition young and smart and who, increasingly, expect to be able to access this world through the tool that they use to manage money on a daily basis."

CEO Antonio Valitutti

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zabo