

Visa Consulting & Analytics

Digital currency in Europe – What is the opportunity for issuers?


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Digital currencies have developed significantly since the launch of Bitcoin in 2008. Now, digital currencies have started to move into retail payment and investment products creating an opportunity for innovative banks. The space is evolving rapidly, and it can be challenging to keep up with the pace of innovation as the worlds of fintech, banking and crypto continue to converge.

Digital currencies


Cryptocurrencies




Cryptocurrency


-  **1980s; 2008 (Bitcoin)**
-  Attempt at creating a currency that did not rely on central banks
-  High volatility, limited acceptance, and interoperability
-  Generally not used as a form of payment

Examples:





Bitcoin


Ether


FIAT-Backed Digital Currency




Stablecoin


-  **Mid 2010s**
-  Developed to migrate the volatility and limited use of crypto for payments
-  Issued by private entities and can be backed by assets, i.e. pegged to fiat currencies or gold, or non-collateralized

Examples:





USDC


Diem


Digital version of cash




Central Bank Digital Currency

-  **Late 2010s**
-  New form of money issued by a central bank directly to its citizens, exists exclusively in digital form
-  Basically cash but in a digital form, able to be received and spent directly

Examples:


eCNY (China)


e-Krona (Sweden)

Visa's approach to cryptocurrencies is to:

- i. Enable consumers to purchase cryptocurrencies using their Visa credentials.
- ii. Grow our network of over 50 crypto platform and wallets to enable their consumers to off-ramp from crypto to a Visa credential, and spend fiat at any of our existing network of 70 million global merchant end points.

Example Visa partners include BlockFi, Circle, Coinbase, Crypto.com, Fold and Xapo.

Stablecoins are growing rapidly, with over \$100 billion of stablecoins in circulation powering billions in payment volumes each month globally.

CBDCs are also poised for significant growth. Research shows 86% of central banks are exploring the creation of central bank digital currencies (up from ~65% in 2017), as a new form of digital cash for their economies¹.

Visa sees stablecoins and CBDCs as emerging payments innovations that have the potential to be used much like the existing fiat currencies in everyday purchases of goods and services. Stablecoins running on public blockchains are effectively additional networks for our system, just like Real Time Payments (RTP) or Automated Clearing House (ACH) networks.

¹ Bank of International Settlements Central Survey on CBDCs

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1. Cryptocurrency: What is the opportunity for European issuers?



Cryptocurrencies represent two opportunities for issuers:

Additional revenue generating products/services

Consumers across the world are increasingly looking to get exposure to cryptocurrencies, driven by growing liquidity in the crypto ecosystem and regulatory push to make “digital commodities” mainstream financial assets.

There are over **300 million cryptocurrency users worldwide**, with daily trading reaching ~\$80B in early 2021².

Across all Visa's global products, cryptocurrency purchasing has reached 15-20% monthly PV growth in most markets³. Robinhood, for example, reported⁴ its investment platform saw c. 9.5 million customers trade cryptocurrency during the first three months of 2021, representing an **increase of ~460%** when compared to the last three months of 2020.

Europe represents one of the largest markets for cryptocurrencies globally, with many local exchanges and fintech players already offering these assets to their consumers. Visa market research demonstrates consumers in England, Germany and Spain see cryptocurrencies predominantly as instruments for savings and investments⁵.

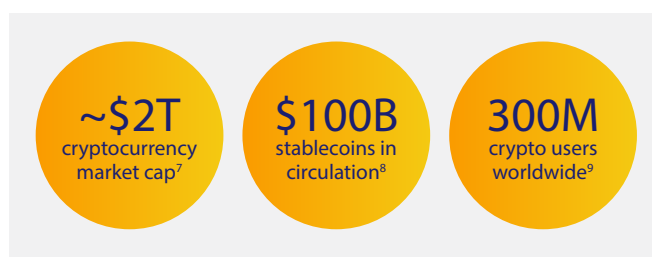
As liquidity within the crypto ecosystem has improved steadily year on year, new applications have been developed to enable consumers access to cryptocurrencies with simple and intuitive user interfaces and engaging experiences.

While most of the consumer interest in cryptocurrencies has been captured by the global and local crypto exchanges, leading regional and global fintechs are also looking to capitalize in this growth.

These players and neobanks have started offering buying and selling of cryptocurrencies, making the service essential in the race for consumers, especially millennials.

As the exchanges and fintechs have enabled easy access to these new assets for consumers, they have also solved for custody and purchase on the open market through a trusted intermediary.

Today, the main source of income for exchanges and fintechs comes from the cryptocurrencies **exchange markup charge** to end users to access these assets, which can be several percentage points. For example, in its 2020 annual report⁶ Square, a leading fintech, has reported ~\$4.57 billion of Bitcoin sales and ~\$97 million of **gross profit, approximately ~2% of total revenue.**



As with standard digital wallets, digital currency wallets use the full range of Visa's capabilities. A key feature is Visa Direct, which makes it faster and easier for consumers to convert digital currency and push those funds to their Visa credentials in real-time.

Visa has become one of the preferred network for crypto wallets as they deepen their value to users by making it quicker and easier to spend digital currency.

² <https://triple-a.io/crypto-ownership/2021>

³ Visa data

⁴ <https://www.theblockcrypto.com/linked/101233/robinhood-more-crypto-traders-than-coinbase-q1-2021>

⁵ Visa research carried out by Appinio in June 2021 among 1,405 individuals in UK, Germany and Spain

⁶ <https://www.sec.gov/Archives/edgar/data/1512673/000119312521052320/d128971dex991.htm>

⁷ coinmarketcap.com/charts, August 2021

⁸ The Block, May 2021

⁹ <https://triple-a.io/crypto-ownership/2021>

User engagement

In addition to direct revenue, cryptocurrency functionality can bring increased engagement from customers.

A number of leading digital wallets and platforms have seen a surge in user engagement after enabling their users to buy, hold and sell cryptocurrency, and there are further indications that this growth will only accelerate in the future.

Square reported that its Bitcoin offering is driving significant growth. In 2020, more than three million customers purchased or sold Bitcoin on its Cash App, and, in January 2021, more than one million customers purchased Bitcoin for the first time. Compared to the average Square Cash App customer, Bitcoin users have higher engagement across the platform and higher gross profit per active user¹⁰.

Visa consumer research showed that of those that had purchased crypto, the majority are doing so through exchanges and fintechs, and **more than three quarters of respondents were doing so at least on monthly basis**, representing a tremendous opportunity¹¹.

75% of crypto asset holders are trading at least on a monthly basis¹¹

While European consumers today purchase and custody their crypto in wallets and platforms, many would prefer to use their existing banking relationship. Our research shows nearly 40% of existing crypto users would be interested in storing their cryptocurrencies with a bank while nearly **70% of customers new to crypto would prefer to use a bank**¹¹.

There is an opportunity for innovative issuers to address this demand and drive consumers to their mobile banking apps.

To address this growing interest from consumers, Visa is conducting a pilot with First Boulevard Bank¹² to test our Crypto APIs. Visa Crypto APIs enable consumers to purchase, custody and trade cryptocurrency assets held by our partner, a federally chartered digital asset bank, Anchorage.



¹⁰ <https://www.sec.gov/Archives/edgar/data/1512673/000119312521052320/d128971dex991.htm>

¹¹ Visa research carried out by Appinio in June 2021 among 1,405 individuals in UK, Germany and Spain

¹² <https://usa.visa.com/about-visa/newsroom/press-releases.releaseId.17721.html>

2. Fiat backed digital currency: What are the use cases for European issuers?

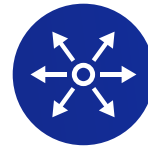
The key use cases are:



Money transfers
(Remittance & B2B flows)



Crypto asset
marketplaces



Decentralized
finance

In the near term, we see money transfers (remittances and B2B flows) as a strong opportunity for our European banking clients.

The Remittance Opportunity

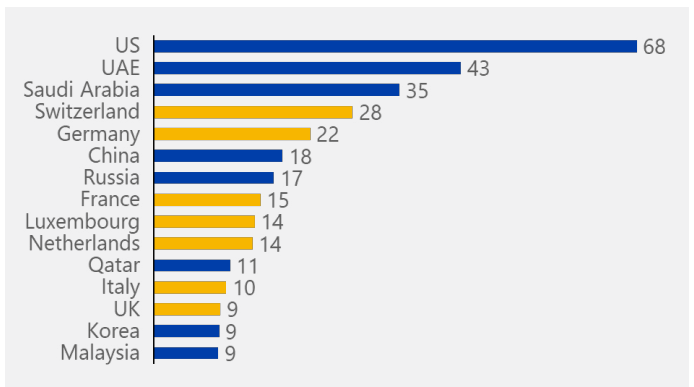
A large segment of the world population remains outside the existing financial ecosystem, remaining “unbanked”, without access to capital flows. Remittances have proven resilient during the COVID-19 pandemic, with ~\$540B of officially recorded flows from high to low and middle income countries representing a mere ~1.6% decrease year on year. European countries remain the key contributors to outwards remittances flows.

The market is dominated by several large, well-known players who still typically command high transaction fees for their services.

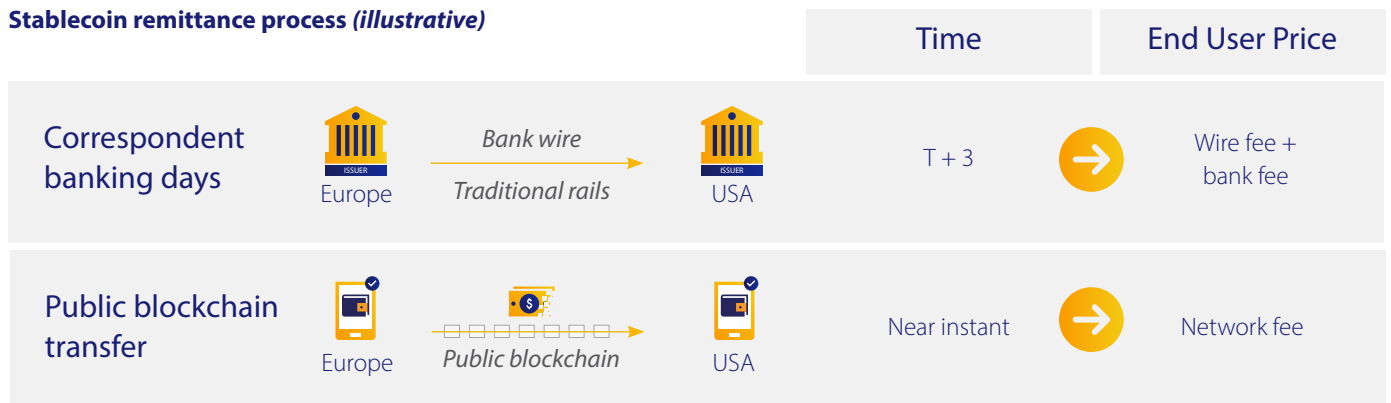
New challengers have emerged in recent years and gained market share from the incumbent solutions, by greatly improving customer experiences while lowering price points.

Utilising stablecoins to send remittances across public blockchain rails could flatten the cost of these financial transactions and represents a more cost efficient way to move money due to the end user price and time advantages.

Top 15 Outward Remittance Flow Markets Worldwide 2020¹³



Stablecoin remittance process (illustrative)



¹³ Top 15 Outward Remittance Flow Markets Worldwide 2020, www.knomad.org. Source for data: IMF BOP statistics.



While there are significant limitations in geographies and corridors today, developing a solution now can help issuers drive additional revenue streams and increase user engagement via stablecoins.

To offer these services, issuers require capabilities to:



(i) custody digital currency



(ii) operate wallets where these assets can be stored



(iii) safely and securely transfer digital currencies over public blockchain processing networks to other wallets globally

Business to Business (B2B) Flows Opportunity

In addition, digital currency payment flows could address the existing needs of small and medium businesses and prepare them for the future.

Meeting customer needs:

As CBDC projects globally are edging closer to reality, the ability to transact in stablecoins over blockchain rails is becoming increasingly important to all businesses as it helps prepare them for the future payment systems.

Immediate settlement 24/7:

Borderless payments that settle in minutes, are irreversible, nearly free and highly secure can be much faster and more efficient than sending money through the existing channels, especially for some markets with very limited existing payment infrastructure.

Powering new consumer experiences:

As cash is being moved to a digital form, new use cases supporting fractionalized commerce (i.e., pay as you consume) could emerge and become significant for business banking customers.

Through our partnership with Circle, a peer-to-peer payments technology company, Visa is enabling our clients to leverage USD coin (USDC) for cross-border payouts to emerging markets and to connect to Visa.

In the future, we see the emergence of stablecoins denominated in EUR and central bank digital currencies on the Visa network to power new user experiences and new payment flows.



Longer term: What could digital currencies bring to the financial sector in Europe?

We see future potential in two additional areas:

Crypto asset marketplaces

Stablecoins are used increasingly to purchase other digital assets issued on the same public blockchain networks, with “non-fungible tokens” (NFTs). NFTs, which enable end users and businesses/brands to build unique collections on blockchain, have seen recent interest with the initial success stories focusing on sports and entertainment collectibles. **Issuers can get ahead of this trend by designing propositions to power these new experiences for European consumers.** Our recently **published white paper** shares further observations on today’s NFT landscape, as well as actionable guidance on how to evaluate and scale NFT opportunities.

Decentralized finance

The world of digital currencies has evolved with innovations such as smart contracts and new lending protocols, driven by developers looking to increase utility of the existing digital assets. We have seen a special focus on making it easier for consumers across the world to access a wide variety of financial services and applications, creating the ecosystem known as decentralized finance (or DeFi).

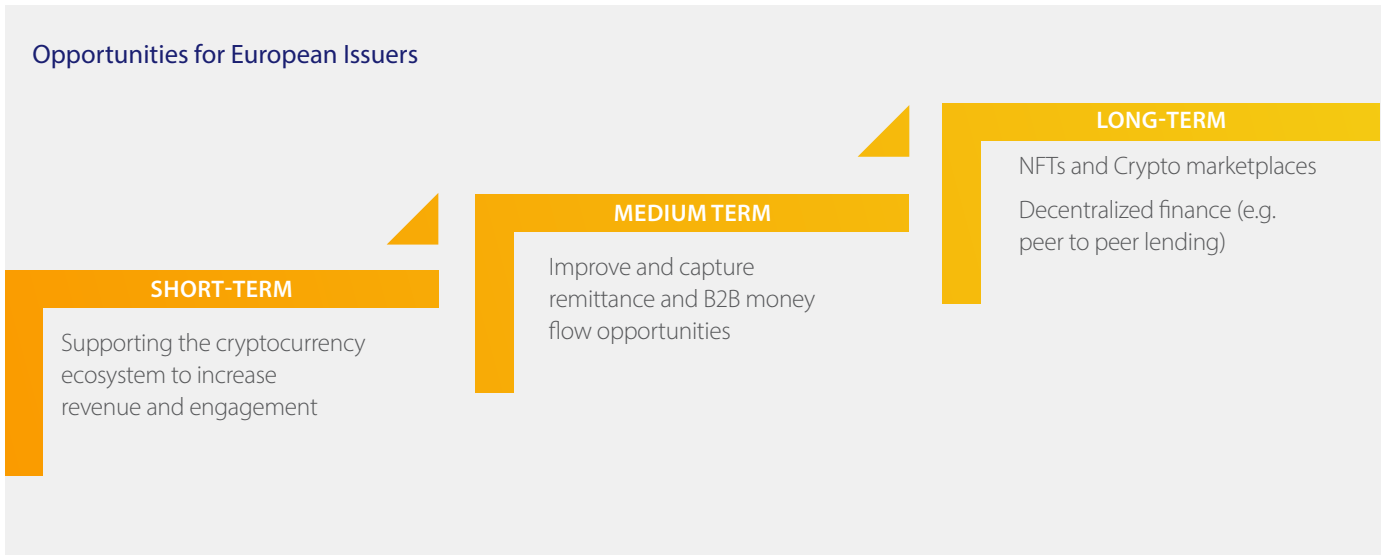
We see potential here for pioneering banks to find new and innovative ways to offer services to consumers, including Peer-to-Peer (P2P) lending and enabling access to new investment products.

As part of our broader strategy and long-term vision, Visa has made additional moves in our journey to become the bridge between the digital and fiat worlds, and we have recently announced the first test transactions settled with Visa in USDC over public blockchain rails¹⁴.

¹⁴Settlement* refers to the daily exchange of funds between Visa’s issuing and acquiring partners over VisaNet to exchange value for cleared and settled transactions—it does not refer to the movement of funds from individual consumer accounts.

Summary

The digital currency space provides opportunities for innovative banks to engage early and position themselves as market leaders.



Cryptocurrencies represent an immediate opportunity to unlock new sources of revenue and to **increase user engagement** while **lowering the acquisition costs** by appealing to Millennial and Gen Z users. European consumers expect their retail banks to provide access and custody of these new assets, and first movers who respond to these needs will capture the market.

Stablecoins represent an opportunity to provide additional means for money movement, and they can provide banks with the tools to experiment today and take advantage of the **Central Bank Digital Currencies** tomorrow.

Stablecoin growth and usage will also be driven by crypto asset marketplaces, innovative lending platforms using smart contracts, new financial products on stablecoins and emerging consumer to merchant and B2B payment use cases based on the public blockchain rails.

Initiatives between central banks and stablecoins will need collaboration between the government and private sector to determine their impact and find the right ways to integrate them into the existing payments ecosystem, and innovative banks need to be a step ahead of the curve.

Visa Consulting and Analytics Support



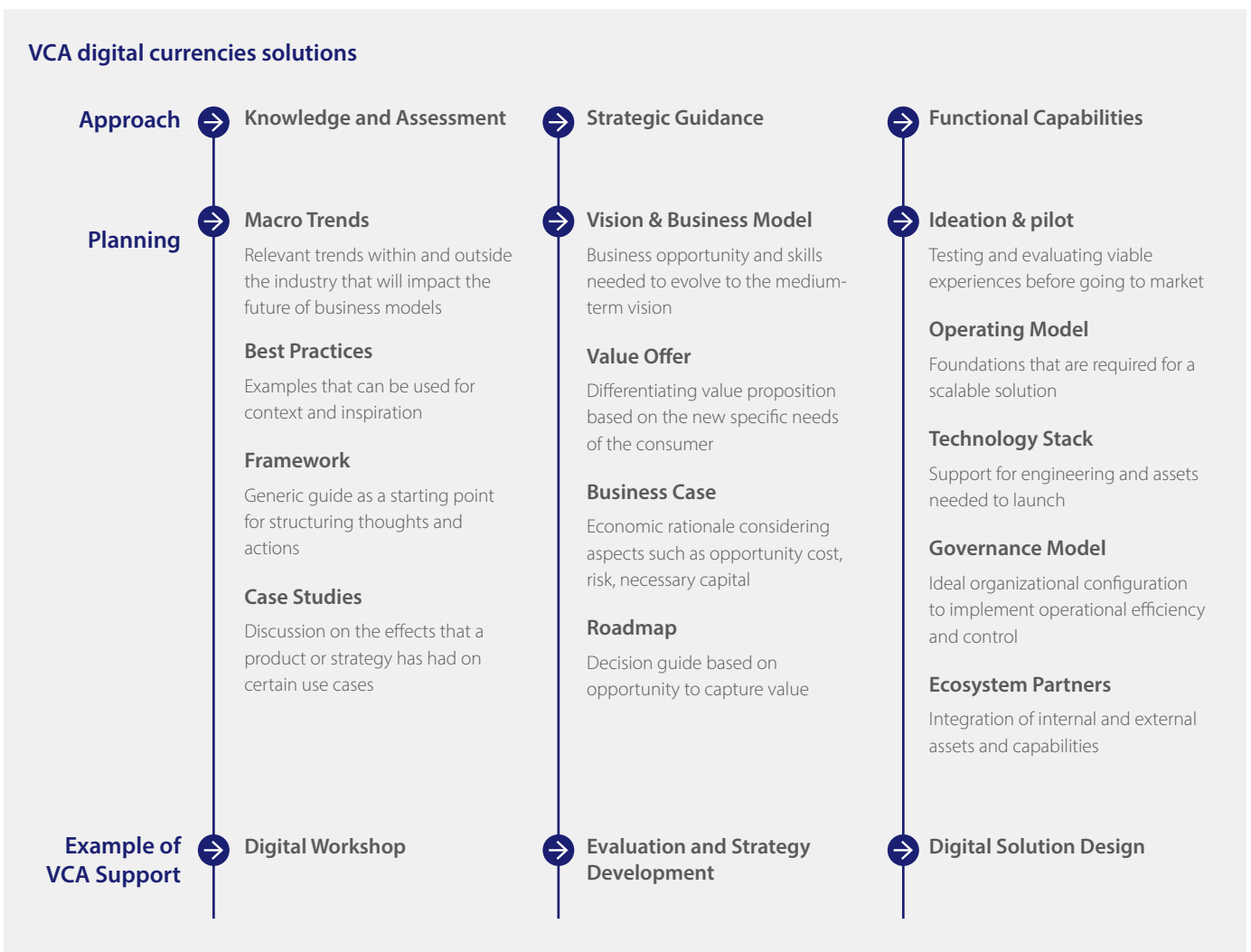
As you commence your digital currency journey, Visa's Consulting and Analytics team has significant global capabilities to support you with your strategic thinking, capabilities assessment, commercialization and go to market plans.

We believe that every bank needs a digital currency strategy, and we can help you start your journey today.

How Visa can help

Visa can help in several ways including serving as a bridge to connect our network of clients to new digital currency products and blockchain networks. To this end, Visa has forged a wide range of partnerships, is extending settlement services to digital currency transactions, and making it easier for clients to offer digital currency capabilities by building the Visa Crypto APIs. A digital currency innovation lab has also been established to help clients and partners discover, co-create, and build digital currency concepts and pilots.

Meanwhile, VCA is ideally positioned to work with clients to help formulate a digital currencies strategy, capabilities assessment, business case, and go-to-market approach, including build-partner-buy considerations. Similarly, subject matter experts can assist in areas such as product development, innovation and design, and marketing strategy and execution.



Organizations in all sectors must start to plan how to capitalize on the opportunities that this new digital revolution will bring, just as online marketplaces two decades ago revolutionized the way consumers shop. One thing is clear, digital currency will change the rules of the game as we move from an internet of information to an internet of value.

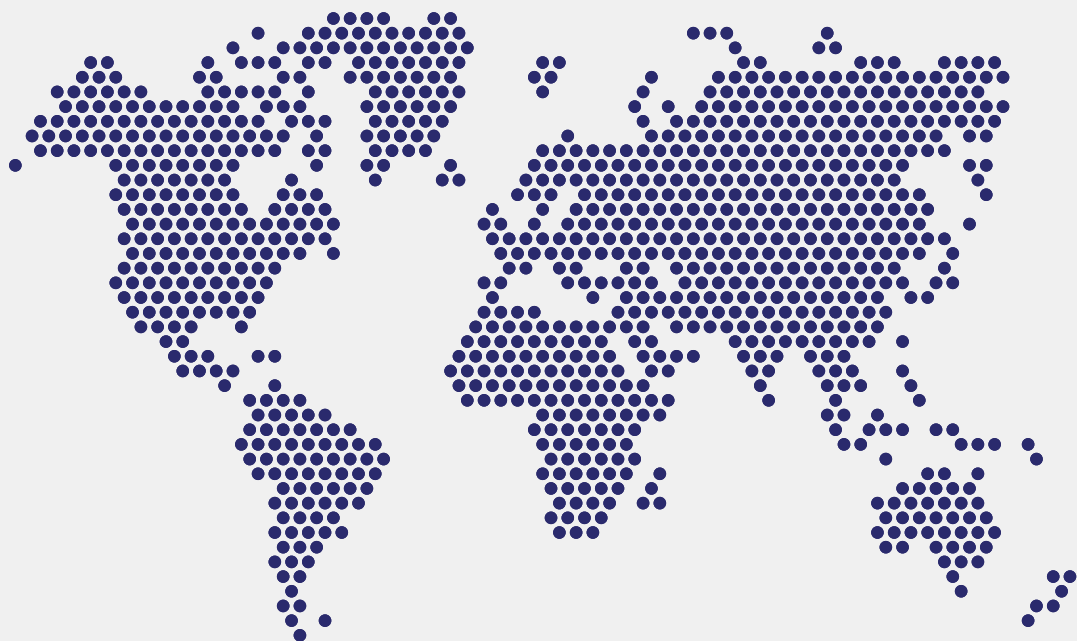
About Visa Consulting & Analytics

We are a global team of hundreds of payment consultants, digital marketing specialists, data scientists and economists across six continents.

- Our consultants are experts in strategy, product, portfolio management, risk, digital, marketing and more, with decades of experience in the payments industry.
- Our data scientists are experts in statistics, advanced analytics and machine learning with exclusive access to insights from VisaNet, one of the largest payment networks in the world.
- Our economists understand economic conditions impacting consumer spending and provide unique and timely insights into global spending trends.

The combination of our deep payments consulting expertise, our economic intelligence and our breadth of data allows us to identify actionable insights and recommendations that drive better business decisions.

To find out more about this topic, please read VCA's global whitepaper "[Digital currencies go mainstream – how to prepare](#)"



For help addressing any of the questions raised in this paper, please reach out to your Visa Account Executive to schedule time with our Visa Consulting & Analytics team or send an email to VCA@Visa.com. You can also visit us at [Visa.com/VCA](https://www.visa.com/VCA).

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