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WHY BANKS FEAR BITCOIN & HOW THEY CAN JUMP IN

A STRATEGIC ANALYSIS FOR COMMERCIAL BANKS

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The Big Fear: Bitcoin Threatens Banks' Core Products

Apple makes iPhones. General Motors (GM) makes cars. Commercial banks? They make money, fiat currency, through loans. Just as the iPhone is Apple's core product and cars are GM's, money itself is the product banks create. This isn't just handling cash; it's generating dollars, pounds, or yen by issuing loans, a process baked into fractional reserve banking.

Company	Core Product
Apple	iPhone
General Motors	Cars
Commercial Banks	Fiat money (via loans)

Table 1: Core Products Across Industries

On top of this core product, banks layer high-margin services like insurance, treasury management, wealth management, advisory, brokerage, forex, and credit cards, which often pull in 30-50% margins compared to the single-digit margins on loans in developed markets. It's like Apple selling App Store subscriptions or iCloud storage, which rake in 70-80% margins compared to 30-35% on iPhones. If customers stop valuing iPhones, Apple loses not just phone sales but those juicy add-ons. Similarly, if customers stop valuing fiat money, banks don't just lose their ability to create loans, they lose the high-margin services built on top.

That's why cryptocurrencies, especially bitcoin, scare banks silly. It threatens the existence of their core product. [1]

Why Bitcoin Is a Game-Changer

Imagine a world where bitcoin becomes money. When customers need to borrow, they'll want bitcoin, not dollars. No big deal, right? Can't banks just lend bitcoin like they lend dollars? Not quite. Banks can create dollars through fractional reserve banking: a $100 deposit lets them lend $90, which becomes a deposit elsewhere, enabling another $81 loan, which becomes a deposit elsewhere, enabling another $73 loan, and so on. It's a money-making machine.

Bitcoin is different. Banks can't create it: only proof-of-work mining can. To lend bitcoin, banks need to own it first. That's a huge shift.

[1] **Disclaimer:** I'm not saying bitcoin will replace fiat money overnight, but its growth and mainstream acceptance in just 16 years suggest it could become a credible alternative in time.

Aspect	Fiat	Bitcoin
Creation	Banks create money by lending	Only Proof-of-Work mining creates bitcoin
Lending Capacity	Amplified by fractional reserve	Limited to owned bitcoin
Competitive Edge	High (regulatory privilege)	Limited (competes with crypto firms)

Table 2: Fiat vs. Bitcoin Lending

Banks can offer crypto services like custody, trading, or lending, but they're on similar footing with crypto-native firms.

So, their instinct? Lobby for rules that slow or block the new technology. Think taxi companies fighting ride-sharing apps or telecom giants trying to stifle VOIP services like Zoom. In crypto, China's bitcoin mining ban, the SEC's regulation-by-enforcement approach, and the collapse of Silvergate and Signature Bank suggest attempts to hinder bitcoin by incumbents.

But you can't stop an idea whose time has come. [2]

Are Banks Doomed?

Not necessarily. Netflix killed its DVD rental business to dominate streaming. Microsoft became a cloud giant even though cloud computing ate into its software license revenue. IBM went from punch cards to mainframes to enterprise hardware. Nokia morphed from a paper mill to rubber, cables, and mobile phones. GE shifted from electrical equipment to industrial products to consumer goods.

Banks have had a solid run, but it's time to level up. The ones that survive will build new moats, even if it means shaking up their core business.

What Banks Have Going for Them

Banks aren't starting from zero. They've got:

- **A huge and loyal client base** already using their digital and physical infrastructure for borrowing and investing.
- **Trust**. Non-crypto-savvy customers feel safer with banks than with some crypto startup launched five years ago.

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[2] **Disclaimer:** A bitcoin-backed financial system may resemble narrow banking. I'm not judging whether narrow or fractional banking is better.

- **Infrastructure.** Their trading and payment systems can be tweaked for crypto, saving setup costs.
- **Big balance sheets** to take on massive crypto positions and execute trades without rocking the market.

How Banks Can Jump into Crypto

Here's how banks can get in on the action:

1. Lending and Borrowing

Offer crypto-collateralized loans, using their lending know-how to generate interest income.

2. Stablecoins

Launch their own stablecoins.
Or let customers use stablecoins like they use bank deposits for payments and lending.

3. Low-Risk Yield Generation

For customers, parking cash in banks for interest is comparable to staking proof-of-stake coins in crypto. Both are low-risk methods to earn yield, similar to a traditional savings account.

4. Crypto Trading Desk

Offer forwards, options, and structured products for crypto, like they do for commodities or mortgages. With their balance sheets and trading expertise, banks can move billions without breaking a sweat.

5. Custody

With SAB 121 gone, it's no longer a hassle for banks to offer crypto custody services.

6. Onboarding and KYC Services

Simplify onboarding for crypto exchanges, OTC desks, or custody providers with KYC/AML expertise.

7. Payments Gateway

Build systems for merchants to accept crypto payments, converting to fiat instantly to dodge volatility. Revenue comes from transaction fees, conversion fees, and merchant subscriptions.

Strategy	What It Looks Like	Revenue Streams
Crypto-Collateralized Loans	Loans backed by bitcoin or other crypto	Interest income
Stablecoin Integration	Launch or support stablecoin transactions	Transaction fees, lending income.
Staking	Offer proof-of-stake yield options	Share of staking rewards
Crypto Trading Desk	Forwards, options, structured products	Trading fees, product margins.
Custody	Secure storage for crypto assets	Custody fees
KYC/AML Onboarding	Streamlined compliance for crypto services	Service fees
Payments Gateway	Merchant crypto payments with fiat conversion	Transaction, conversion, subscription fees

Table 3: Crypto Opportunities for Banks

Building a Bitcoin Stockpile

MicroStrategy used cheap borrowing to amass bitcoin. Banks, with even cheaper borrowing, could build their own crypto reserves, hedging against fiat's decline and positioning themselves as crypto powerhouses.

The Bottom Line

Banks fear bitcoin because it threatens their ability to create money, their core product, and the high-margin services stacked on top. But the game's not over. By jumping into crypto with lending, stablecoins, staking, trading, custody, KYC, and payments, banks can use their client base, trust, infrastructure, and financial muscle to stay ahead. Bitcoin is here to stay, and the time for banks to pivot is now.

Author

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About Fiscus:

Fiscus provides financial institutions and corporations with a secure, compliant platform for precise control over digital asset reserves. We offer tailored solutions for Central Banks and Corporate Treasuries, combining robust security measures with user-friendly tools to transform digital asset management into a strategic opportunity. Beyond technology, Fiscus delivers clarity, control, and a clear roadmap for effective digital asset utilization.


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