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Crypto’s banking problem isn’t what you think

Article

The trend: After the largest crypto-friendly banks collapsed, industry leaders were quick to deride the so-called “Operation Choke Point 2.0”—an allegedly coordinated effort from regulators and the White House to squeeze crypto out of the banking system.

Commentators have now turned their attention to “what it will take for the regulatory freeze to thaw,” per Fortune, and how to get banks back on board with crypto. But that’s a somewhat misguided approach to addressing the issue at hand—and one that fails to capture the current dynamics of the splintered crypto industry.

Crypto is doing just fine without Silvergate, et al: While some startups may have reported difficulties getting business bank accounts, per Reuters, the industry as a whole is hardly in a tailspin.

- The price of Bitcoin—often regarded as a barometer for the industry's health—has gone up **nearly $10,000** since the banking crisis unfolded.
- Likewise, the market capitalization of Tether has **surged by more than $10 billion**.

Other crypto execs also suggest that the banking cutoff has been overstated: A CEO of an NFT investment firm told the Intelligencer that the largest US banks are "all being more open to banking us."

Banks are already working on crypto tools: If banks are meaningfully curbing their relationships with crypto firms, it's in no small part because they want to make sure their own crypto products make the biggest splash.

- **JPMorgan** has a trademark for a digital asset wallet and operates a blockchain services division, Onyx.
- **Wells Fargo** and JPMorgan both offer private Bitcoin funds to wealthy clients, per CoinDesk. Wells Fargo is also piloting internal blockchain transactions, per Reuters.
- And **Citigroup** is building out its digital asset team, per CoinDesk.

The big picture: The crypto industry labors under divergent delusions.

- On the one hand, its most ardent supporters want to completely replace the traditional financial system—and therefore shouldn't need banking connections to begin with.
- On the other hand, it wants crypto adoption to be ubiquitous—which means it needs to be easy for consumers to move money from their current financial intermediaries to the new digital economy.

If regulatory warnings and the SEC's regulation by enforcement were really scaring banks away from crypto, they wouldn't commit their in-house resources to developing the tech.

- Companies that comport themselves within the existing regulatory regimes will continue to enjoy banking relationships.

- But there will never be a fluid connection between traditional and decentralized finance—because not everyone in the crypto industry wants that.