CU Benefits ALLIANCE

CREDIT UNION EXECUTIVE'S GUIDE

Cryptocurrency and Blockchain:

Building Credit Unions' Financial Future

Thinking Ahead on Tech Integration

Credit unions will need to invest in digital currency and new ways of transaction processing to meet member demands and compete with other financial institutions.

As digital currencies and decentralized ledgers gain steam, credit unions face a growing urgency to develop plans for managing and integrating cryptocurrency and blockchain technology into operations and member services. Although the National Credit Union Administration (NCUA) greenlit the use of cryptocurrencies in May 2022,[1] it doesn't necessarily make the path forward any clearer for credit unions.

Planning innovation around a still-developing technology requires transformational thinking and the kind of organizational agility capable of assessing opportunities, mitigating risk, and making forward-thinking investments of time and resources.

Partnering with a third party may prove to be a temporary fix, but credit unions will need to explore more meaningful direct involvement and participation in the process or risk disintermediation.

The need to prepare for a crypto/ blockchain future

Many people may still think of blockchain and crypto as future technology, but that future is here. According to Travis Hoban, cryptocurrency expert and chief technology officer at digital technology provider FTSI, Inc., who spoke on the topic during a recent CU Benefits Alliance roundtable,[2] 88% of the top 100 publicly traded companies in the U.S. are researching blockchain or developing a strategy for potential implementation.

And while blockchain technology may sound like a foreign concept to some, it is built on the idea of democratic, decentralized financial management — similar to the community-fueled philosophy that drove the development of credit unions.

The Financial Impact of Crypto

Consumers have already shifted billions of dollars away from traditional financial institutions into cryptocurrency accounts. Twenty percent of American adults have owned or invested in crypto,[3] and an additional 46 million say they're likely to buy crypto in the next year.[4] These funds are leaving traditional financial institutions and being held in crypto accounts — potentially without the conventional safeguards and security of a credit union or bank account.

Specifically, credit union members are moving funds to crypto at a disproportionate rate. Nearly 40% of credit union members own crypto, as opposed to 17% of the general population.[5]

Nearly 70% of crypto buyers and/or sellers have used a nonbanking app to complete their transactions.[6] Once they consistently use and develop a level of trust with another service provider, it may be a challenge to bring them over to a tool created by a financial institution.

Who's Investing in Crypto?

16%

of Americans

43%

of men ages 18 to 29

39%

of credit union members

Source: Pew Research, PYMNTS.com

These same younger generations who are embracing cryptocurrency are strategically important to credit unions' future growth.[11] Active members want to expand their credit union relationships by bringing crypto into their credit union portfolio. They, along with other unbanked crypto investors, would benefit from receiving crypto-focused support, tools, and educational resources from a financial institution they already trust.

Develop a plan for regulatory development and changes

Preparing for crypto/blockchain also requires preparing for imminent regulatory changes and potential regulatory burdens.

In March 2022, the White House issued an executive order focusing on digital assets. The order requires several governmental agencies to investigate and report on the effects of crypto (including stability, security, and investor protection).[12]

Amid the continuing adoption of crypto, credit unions have the opportunity to position for success in the digital currency realm by:

- **Participating in the legislative process:** Staying informed on leading-edge technology provides credit unions the chance to educate and advocate for the role of credit unions in the crypto development process. Elected leaders need to understand the potential of crypto and blockchain and the technology's impact on credit union members.

- **Staying abreast of industry news:** For credit unions preparing to launch a crypto offering, leadership should be keenly aware of its potential impact on operations and conversant on the challenges and benefits that may be awaiting.

- **Thinking creatively and strategically:** When it comes to crypto and blockchain adoption, everyone is still experimenting. A few credit unions actively offer crypto, including Idaho Central Credit Union and Stanford Credit Union.[13] While others indicate their intention to start offering crypto services soon, the low number of institutions currently participating means credit union leaders may need to look to other industries for examples of innovative thinking.

3 Trends Driving the Crypto Shift

A number of factors have combined to make cryptocurrency more attractive to consumers, including:

1. **A lack of trust in institutions.** Recent Pew Research Center's studies indicate eroding trust across all types of institutions, from the government to school leaders to businesses.[14]

2. **Decentralization of other industries.** The music industry is a popular example of a system that's created public benefit from decentralization. The introduction of technology, dating back to file sharing site Napster, disrupted a previously closed industry, where decisions were centralized among a few record executives. Now, 78% of music consumption occurs through digital streaming services. Proponents of crypto/blockchain envision a world where people have the same independent and unfettered access to funds and record management through decentralized sources.[15]

3. **An overall shift to web 3.0.** With web 3.0, consumers will benefit from greater ownership, security, and transparency in online transactions. In a web 3.0 environment, money will become inextricably linked with blockchain-based transactions.

The demand is there for credit unions that step up to the task. For example, Stablecoin — a cryptocurrency option pegged to a traditional currency — is already popular with consumers who want to take less risk but still experiment in the crypto arena.

Many stablecoin holders are using the funds and considering their investments very similarly to how they'd handle traditional dollars. They're "waiting to move into other use cases for higher yields, higher dividends, better financing, better returns, less inflation," Jonathan Ungerland, chief operating officer at DaLand Solutions and cryptocurrency scholar, noted during the CU Benefits Alliance roundtable.

Architectural requirements for handling crypto

Credit unions considering managing cryptocurrency need to have a thorough understanding of how the industry is advancing, as well as the multi-layered requirements necessary for integrating crypto into their business model.

Designate a thought leader

Thanks to innovation and regulatory adoption, the world of cryptocurrency is evolving fast. For a credit union to find its footing in the space, FTSI's Hoban recommends designating a thought leader to head up crypto strategy within the credit union. "Find somebody within your organization that's bright and smart and forward-thinking, and they can start to educate themselves," Hoban said.

This person will not fill the role of sole decision maker for the credit union. Rather, they can serve as a subject-matter expert who gathers information and analyzes trends in the crypto market, and who will have a seat at the table for discussions on innovation.

As your organization's considerations of crypto evolve, it may make sense to form a coalition of several subject-matter experts who can confer with the crypto thought leader. For example, professionals from compliance, marketing, operations, and risk management will all have valuable viewpoints that can integrate into discussions as the credit union determines how to harness the potential of crypto and blockchain.

Consider operational technology strategically

Cryptocurrency didn't gain traction in a day, and financial institutions shouldn't expect to be up and running with crypto in a matter of days, either.

It took decades of work, innovation, and strategy to develop the systems we use for traditional, centralized financial management. Technology speeds up processes, but credit unions still have considerable decision-making ahead to create frictionless processes that integrate crypto and blockchain technology.

To make these changes, it helps for credit unions to look at the adoption of crypto and blockchain as another round of digital transformation. This time around, however, some of the techniques credit unions have historically relied on to gain velocity may not be effective, specifically because of their challenges with data transparency. For example, credit unions have often worked with vendors and third parties to add tools and enhancements to their digital banking functionality. However, the increased efficiency for members can also create gaps in data visibility.

Credit union executives must think strategically about data processing and how they'll use or find alternatives to current processing mechanisms (like ACH and EFT) and payment rails. These systems are also not always able to provide or process real-time data to empower efficient decision-making.

One of the biggest benefits of blockchain is the ability to store and process data quickly and transparently. Credit unions must build internal infrastructure to harness data and act on it instead of gaining access to information from a vendor only after it's too late for action.

"Credit unions are going to have to look at, strategically, how they store and process real-time data, And, [look] at money becoming data and how they're going to tie it into these digital networks for delivery and connection to their consumers," said DaLand's Ungerland. "If they just rely on vendors and platforms and third-party providers, they're strategically cutting themselves out of the equation for being in the money business in the future."

How to find the funding to get started

Planning for cryptocurrency — even before the implementation stage — will require adequate funding as a multifaceted process. For example, credit unions may need to allot money for:

- **Staffing up.** When a credit union chooses a person to lead the charge on crypto services, it could be a new hire with existing expertise in crypto or someone internal who knows the credit union's technology and capabilities. Either way, it means shifting or adding responsibilities, which can require additional headcount or higher salaries. As a credit union's crypto efforts grow, dedicating resources to building a cross-functional team will naturally pull employees from their existing responsibilities and increase the need for support.
- **Consulting partnerships.** When working with new technology, it often makes sense to consult with experts in the field. That's even more true when implementing a technology like crypto and blockchain that's very much in the public consciousness yet often surrounded by misinformation. Qualified consultants can support credit unions from a technical perspective and provide training and education for front-line staff and end users.

Innovation comes with a cost, but bringing members' crypto investments into the credit union, and preparing for a financial future powered by blockchain technology, can be well worth the expense.

Credit unions looking for digital innovation funds can often find them by changing how they fund their employee benefits programs. For example, many credit unions save up to 30% in the first year when they transition to self-insured health plans, freeing up funds that can move the credit union's crypto and blockchain plans forward.

Sound appealing? **Schedule a free consultation** with our team to learn more about how your benefit plan can drive potential savings and prepare your institution for the future of digital finance.

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