

Why you should store your bitcoin at a bank

Be your own bank! Bitcoin and cryptocurrencies are repeatedly promoted with this motto. This is primarily because blockchain, the underlying distributed ledger technology, combined with public-key cryptography, enables self-custody. Digital assets can be held independently with the help of corresponding software and hardware solutions. In the bitcoin community, which is meanwhile spread all over the world, this self-custody – true to the original philosophy of bitcoin – is attributed great importance.

What sounds fascinating in theory is by no means a piece of cake in practice. Self-custody requires a lot of knowledge. Hardware wallet, private key or seed phrase – these are all terms that you need to understand for the self-custody of cryptocurrencies. Finally, freedom and independence in the safekeeping of one's own money need to be practised!

Two sides of the same coin

As nice as the option of self-custody is, it comes at a price: the independence and self-sovereignty that one gains by independently holding one's own digital assets go hand in hand with a high degree of personal responsibility. Anyone who holds their digital assets independently is their own bank – and consequently must implement and comply with all those precautionary and security measures themselves that are taken care of by the bank in an ordinary set-up.

One should not be deceived: Even with bitcoin and other digital assets, somebody has to take the responsibility. In the case of self-custody, it is you yourself. This responsibility is not an easy burden and can quickly take away one's peace of mind, especially when it comes to larger sums. If the custody is dependent on oneself, even the smallest of mistakes are unforgivable. For example, if you make the mistake of sending your bitcoin to the wrong recipient address or losing your access keys, there is no hotline or contact point that can help you find and retrieve them.

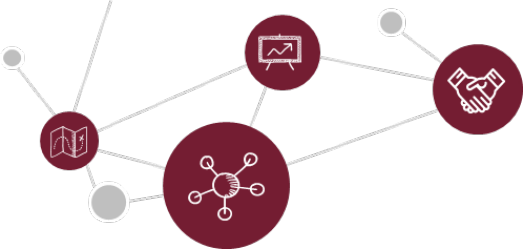
Of course, the risks of self-storage can be reduced by acquiring knowledge and experience. From the point of view of an end consumer and bitcoin user, however, it is not desirable to learn the hard way and lose money in order to recognise, learn and ultimately avoid the potential pitfalls associated with self-storage. At the same time, it takes a lot of time to establish a secure set-up for self-custody. Only very few people have the time, the motivation and the perseverance to actually walk this gruelling path in its entirety. Nevertheless, professional self-custody requires it.

As reality shows today, many individuals are primarily interested in bitcoin's non-correlation and asymmetric return potential. Cryptocurrencies are held mainly for the purpose of portfolio diversification. To these investors, the ethos of self-sovereignty means little, which is why they have no need for self-custody. As the traditional world teaches us, banks exist for this purpose – and they do their job excellently.

Custody as core business

The safekeeping of assets is part of the core business of every bank. This has grown so historically¹. Wells Fargo provides a famous illustrative example. Still one of the largest American banks today, Messrs. Wells and Fargo started out in the 19th century with a small transportation company in New York. When the gold

¹ Wells Fargo History Museum: Ein Stück amerikanische Geschichte: <https://www.historizing.at/wells-fargo-history-museum/>



rush broke out on the American Gold Coast, Wells Fargo transported many gold prospectors and miners from Western America to California.

Wells Fargo soon realized that it could safely transport and store not only people, but also their gold findings. In just a few years, Wells Fargo built an excellent reputation as a safe carrier and custodian of gold and other valuable items. Then, when the North American railroad network came into widespread operation, the transportation service became superfluous, leaving safekeeping and the banking service which was based on it.

Without doubt, Wells Fargo was not the origin of banking. But the example illustrates the centuries-long tradition of banks in custody business. Custody is simply one of the core activities of a bank. This proof of trust, proven over decades, should also be deployed in the area of digital assets. InCore Bank offers a turnkey solution for other banks. It enables other banks to expand their core competence to the custody of digital assets.

Furthermore, banks are under regulatory supervision and have to follow clear and proven rules. For this reason, it goes without saying that banks' custody solutions are based on a secure and resilient infrastructure, also in the area of digital assets. A regulated Swiss bank is likely to be accustomed to far higher standards than various third-party custodians in the crypto space.

In terms of a profitable division of labor, it therefore makes sense to have one's own cryptocurrencies and other digital assets managed by a bank. Their employees are the specialists in this field. If they are familiar with the subject and have established a functioning crypto custody business, they have the necessary knowledge as well as the infrastructure required for secure storage. Those who store their digital assets at a bank theoretically always have the option of self-custody as well. The blockchain makes it possible to take the digital assets into one's own custody at any time. Merely knowing about this possibility may be enough self-control for many an investor.

An additional benefit for the bank and its customers

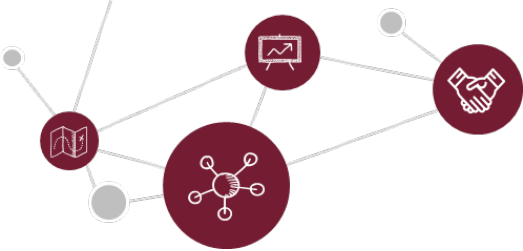
It doesn't have to end with a simple custody service provided by a bank. Those who hold their digital assets at the bank have around-the-clock access to them via their usual e-banking. The bank also fully integrates the digital assets into the corresponding asset statements that it provides. This service creates convenience and helps the investor have an overall view of his digital assets at all times.

In addition, the bank is able to assist the investor with the proper taxation of his digital assets. In the same way, income that an investor generates from owning a cash flow token, for example, can be reflected in the customer's portfolio by the bank.

In connection with custody, banks can also offer traditional banking services such as payment transactions with bitcoin, crypto credit cards, borrowing against collateral with digital assets or comprehensive investment advice on crypto assets.

Interest income thanks to digital assets

Another important reason for keeping one's own digital assets at a bank could also be that one can earn interest on them there. For example, some blockchains – depending on the consensus mechanism – offer the possibility of staking. With so-called proof-of-stake (PoS) blockchains, holders can entrust their coins to the blockchain itself. In doing so, they provide security to the blockchain and are rewarded with new coins. Since these processes require technical know-how, banks can excel here with innovative solutions.



As a bank with expertise in the blockchain space, one could also provide curated and filtered access to the new world of decentralized finance for its customers who store their digital assets with the bank. Various high-yield DeFi projects and products could be offered directly to customers through the bank.

Based on their experience, banks are therefore predestined to offer custody of digital assets for the benefit of third parties. Switzerland, in particular, offers the best conditions for this: A high level of legal certainty, low political risks and a vibrant banking system, but also advanced DLT regulation and a flourishing blockchain scene make the Helvetic Alpine republic an excellent location for the safekeeping of digital assets.

Summary

- Self-custody requires a high level of personal responsibility.
- Few people actually want to be their own bank. Banks can help out here.
- Custody is one of the core functions of a bank. This historically justified proof of trust should also be deployed in the area of crypto assets.
- Banks can provide a safe and regulatory clear custody solution for digital assets.
- Customer convenience can be enhanced by the bank being able to assist clients at any time with consolidated asset statements or advice on crypto matters.
- Based on their custody service, banks can offer other services such as mapping income from cash flow tokens. Interest income from staking is also possible.
- Switzerland offers optimal conditions for innovative custody solutions in the field of digital assets due to advanced DLT regulation and a stable political climate.

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Since February 2020, Michael Baumgartner is responsible for global customer service, new business development and the expansion of existing relationships in the «Transaction Banking» segment, which combines the traditional and digital world of finance.

Michael Baumgartner has more than 30 years of professional experience in investment banking and wealth management. During his previous professional career, he has worked for many well-known financial institutions such as BNP Paribas (Suisse) SA, Deutsche Bank (Schweiz) AG, UBS AG and Nomura Bank (Schweiz) AG in Switzerland and abroad.