

Building Crypto Products

A Primer for Institutions



**ANCHORAGE
DIGITAL**

As a crypto partner for institutions, Anchorage offers an unparalleled combination of secure custody, regulatory compliance, product breadth, and client service.

IS CRYPTO INTEGRATED INTO YOUR BUSINESS?

Can clients use your products to perform the following tasks?



Custody crypto assets including NFTs while maintaining usability



Trade crypto through buy, sell, and hold opportunities



Receive staking rewards when staking proof-of-stake assets



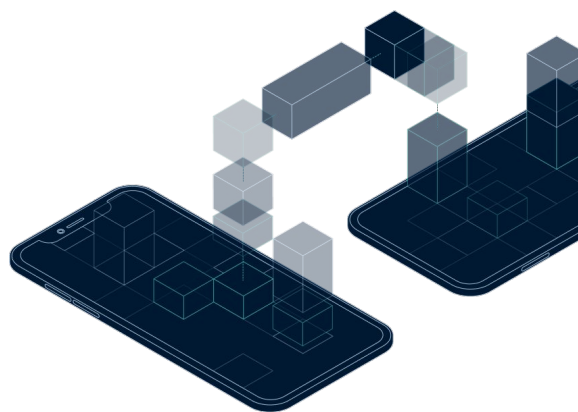
Earn yield by lending crypto, or borrow against it



Participate in governance and vote on the future of crypto

If not, you may be falling behind:

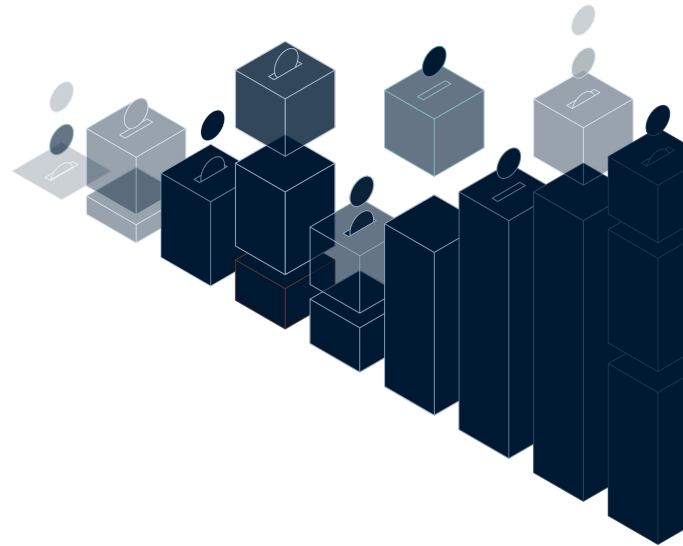
- **52%** of institutional investors participate in crypto
[Fidelity](#), 2021
- **\$59.6B** in digital assets under management by funds
[Crypto Fund Research](#), 2021
- **40M** Americans have used cryptocurrencies
[Pew](#), 2021
- **75%** of crypto owners are interested in paying with crypto
[FIS/Crypto.com](#), 2022
- **60%** of merchants are interested in accepting crypto payments
[FIS/Crypto.com](#), 2022



AN IMPETUS FOR NEW OFFERINGS

Why build digital asset products?

- **Demand:** New and existing customers are looking for ways to gain access and exposure to the digital asset ecosystem
- **Trust:** Existing customers want the ability to participate in the crypto economy, but may be reluctant to trust new apps and technologies
- **Efficiency:** Customers value ease-of-use, and have pre-established relationships and routine with their existing financial institutions
- **Consolidation:** Management of one's digital and traditional asset portfolio through a single institution offers a more secure, sensible, and seamless customer experience



- **Growth:** A new era of digital asset holders and crypto users are in constant search of the best products
- **Opportunity:** A relationship that starts with crypto-related activity can quickly extend to other services and directly impact the institution's share of wallet
- **Prevalence:** As a growing number of financial institutions embrace digital asset products, it's becoming increasingly apparent that such offerings will be the status quo

CHALLENGES TO EXPECT

External challenges

Digital asset products face two foundational challenges that traditional financial products do not:



Decentralized tools: Traditional financial products are set up so financial institutions around the world are interconnected. But blockchain technology is much more decentralized – with thousands of different protocols and cryptocurrencies.



Redefined rules: The global financial system was built around fiat currency, meaning its design is ill suited to the unique nature of digital assets. The pseudonymous and intangible nature of crypto poses new legal and regulatory challenges.

Internal challenges

Developing crypto products is a complex process, requiring technical expertise to build and maintain a safe and secure platform. These products also pose significant legal and regulatory challenges for institutions. Before designing such products, organizations must answer questions such as:

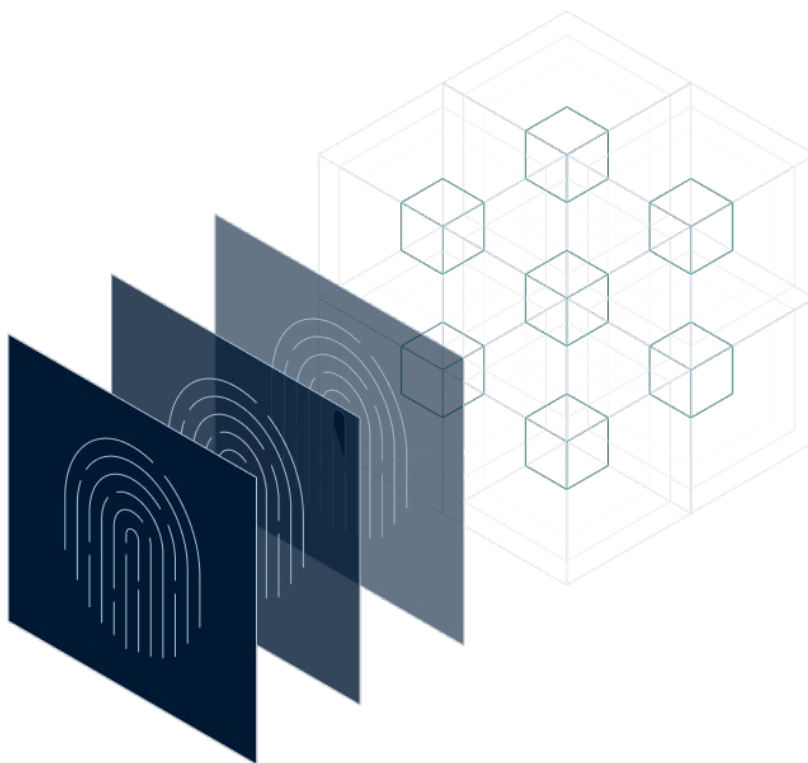
- ❑ Do we have the technical expertise to build these products?
- ❑ How do we bring these products to market quickly and respond to growing customer interest in digital assets?
- ❑ Who will maintain the platform as the crypto ecosystem continues to evolve?
- ❑ What does building these tools mean for our regulatory and legal compliance?
- ❑ How do we ensure security of customer's digital assets given the inherent complexity?
- ❑ Are we providing the requisite speed of transaction needed for effective participation in digital asset markets?
- ❑ Are we providing enough educational information for customers to understand the nuances related to these digital asset products?



Cultural challenges

Digital asset product *builders* should also operate with the instincts of digital asset product *users*. Not to be overlooked, social complexities can further hinder the ability for financial institutions to effectively navigate the digital asset ecosystem:

- Financial institutions typically must operate as risk-averse organizations. Shifting directions and making changes at the requisite pace can be difficult in this environment.
- The digital asset landscape is evolving quickly and changing much more rapidly than traditional finance. Developing products requires agility and innovation.
- Evaluating emerging digital assets demands a nuanced understanding of past developments, the future trajectory of innovation, and consumer interests.
- Internal bureaucracy can stall progress; technologists are most effective when 100% of their focus is on technology, not on education or onboarding. For a product team to operate unhindered by the need for crypto “conversion” and onboarding, an intrinsic buy-in and universal product fluency is essential.



THE PATHS FORWARD

Institutions building a digital asset product have three paths:

HIRE

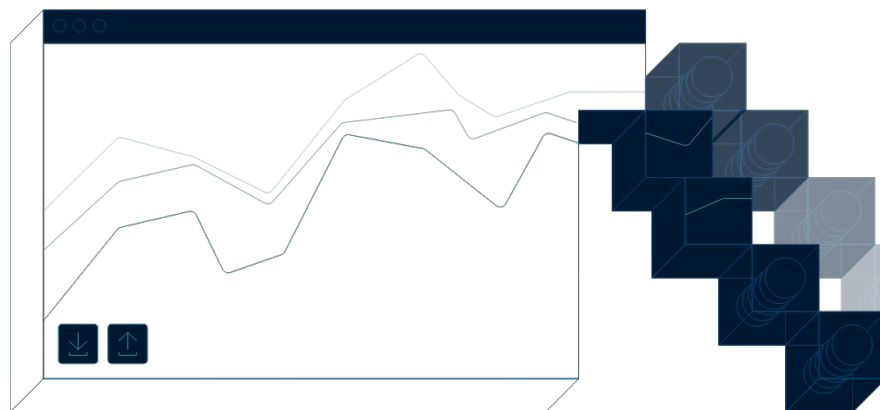
The immediate instinct is to hire a team of digital asset engineers and experts to build and maintain the digital asset product in-house. Meanwhile, the market for talent in the industry is extremely competitive — a problem that is compounded by the reality that candidates who are most experienced in digital assets may not be attracted to in-house opportunities at traditional financial institutions. Building out a team in addition to building out a product severely impedes speed-to-market.

ACQUIRE

After it becomes apparent that hiring an entire new product team is unfeasible, the next thought may be to explore an acquisition of a digital asset product provider. This would not only prove to be expensive and time-consuming; if an acquisition was ultimately successful, the risks and regulatory compliance also assumed by that provider would also be taken in-house. A number of cultural differences inherent in traditional financial institutions and digital asset service providers could also pose an obstacle to assimilation.

PARTNER

Choosing a digital asset product partner then emerges as the clear choice. Selecting the right partner — one who will help effectively navigate external, internal, and cultural challenges — will be what distinguishes a passing digital asset product from one that is the industry gold standard. Doing so will prevent headaches and hiccups before they occur, and give the institution a competitive edge that will pay dividends in the future.



PARTNERSHIP

Elements of a successful partnership

The success of any digital asset partnership hinges on a holistic, integrated approach. The ability to tackle multiple security, regulatory, and design prerequisites simultaneously—and interconnectedly—will define an effective digital asset product partnership. If an institution loses sight of a single individual component, the integrity of the entire product can be jeopardized.



Robust, integrated product **security** allows institutions to:

- Safeguard client funds and information.
- Eliminate the risk of wider reputational damage due to a breach.



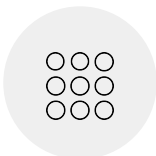
Superior product **engineering** solutions allow institutions to:

- Vastly accelerate speed-to-market in a highly-competitive peer market.
- Confidently deploy crypto products without ever having to keep digital assets on their own books.
- Maintain a product that can be adapted for both changes in the digital asset ecosystem and customer demands.



Proven **regulatory expertise** allows institutions to:

- Be met with the immediate comfort of knowing that their product is already examined under intense government scrutiny.
- Proactively stay abreast with the latest regulatory changes.
- Mitigate customer fear, uncertainty, and doubt.

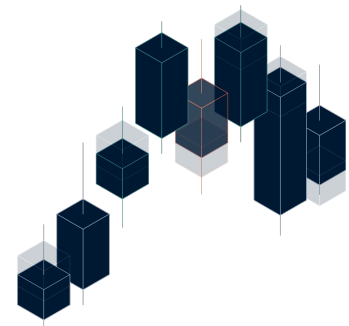


Seamless product **design** allows institutions to:

- Offer customers a streamlined way of gaining exposure to digital assets and meeting the developing demand.
- Guide customers' exploration of the emerging digital asset landscape through their existing relationships with trusted financial partners.
- Provide customers the full functionality of digital assets—like buying, selling, hold, lending, or staking—without advanced technical understanding.

The benefits of finding a partner to execute digital asset product development, service bundling, and go-to-market execution:

- Built-in **security** expertise: The unique characteristics of digital assets introduce new security challenges
- Built-in **engineering** expertise: Building digital asset products (and then navigating the complexities of customized integration) requires extensive in-house blockchain engineering talent – expertise that takes years to develop
- Built-in **regulatory** expertise: Legal, compliance, and reporting requirements in the digital asset ecosystem are unique, complex, and constantly evolving
- Built-in **design** expertise: Crypto-native partners know what makes for a seamless user experience



FINDING A PARTNER

How to vet a digital asset product partner

When assessing a digital asset product provider, ensure the answer to the following questions is an unambiguous “yes”:

Security

- Was the product partner founded with a driving mission of offering the highest possible levels of security?
- From the C-suite to the engineering team, is security their key differentiator?
- Are their security features proprietary, or can they be replicated in-house?
- Are they able to offer my customers a full suite of integrated custody, settlement, lending, borrowing, and staking solutions? (If the addition of these services in the future would require movement to another platform, resulting in an additional layer or vulnerability, the answer is “no”)

Accessibility & Access

- ❑ Is the partner committed to the full life-cycle of the product buildout as a “white-glove” service?
- ❑ Does the partner have long-standing relationships with relevant counterparties in the crypto ecosystem—including market makers, exchanges, consulting firms, fintechs, and more?
- ❑ Can we tap into their network to execute transactions with best-in-class speed and efficiency?
- ❑ Before the product starts, will they work to develop a transparent and predictable timeline so all stakeholders understand their place in the effort?

Speed & Functionality

- ❑ Can we build the digital asset product that we want together?
- ❑ Do they offer off-the-shelf solutions that can be quickly adapted to fit our needs, accelerating our speed-to-market?
- ❑ Can the digital asset product they’re offering be integrated with our existing technology?
- ❑ Do they offer service bundling, and can they recommend approaches to product package offerings that will meet end-client expectations?

Trust

- ❑ Is my partner offering to take on all of the regulatory responsibility for the product?
- ❑ Is the product partner subject to the highest regulatory and legal standards?
- ❑ Has the digital asset platform supported partnerships with other reputable financial institutions?
- ❑ Does the product partner have trusted relationships with market-makers?
- ❑ Will I sleep easier knowing my customers’ security is in the hands of my partner?



ABOUT ANCHORAGE

Anchorage Digital is a global regulated crypto platform that provides institutions with a full range of digital asset financial services and infrastructure solutions. As the first crypto-native company to receive a banking charter from the U.S. Office of the Comptroller of the Currency, Anchorage offers institutions an unparalleled combination of secure custody, regulatory clarity, product breadth, and institutional service. Founded in 2017, Anchorage is valued at more than \$3 billion and is backed by leading institutions including Andreessen Horowitz, GIC, Goldman Sachs, KKR, and Visa. Learn more at anchorage.com and [@Anchorage](https://twitter.com/Anchorage).