

Is Crypto Right for Your Business? Observations Based on Experience from Paxos

Cryptocurrencies, or crypto, is a burgeoning, fast-paced and constantly evolving asset class. We witnessed companies that recently launched crypto services benefit from increases in top-line revenues, company valuation, user engagement, and customer retention. Before your business dives in to capture these advantages, we want to help answer some of the most commonly asked questions from companies inquiring about crypto. We hope this perspective can also help empower your company's strategy moving forward.



What types of customers want crypto?

Interest in buying digital assets has skyrocketed since late 2020. Since Paypal launched their crypto offering, powered by Paxos, to more than 300 million users last October, the cryptocurrency market cap has more than quadrupled to more than \$1.5 trillion in value. Today, crypto is not just for early adopters anymore, but for any investor – retail or institutional. As the ecosystem for digital assets grows, we expect to see even more use cases emerge that highlight crypto's ability to provide utility, a store of value, and even act as a global monetary network.

We're also seeing an expansion of crypto's investor base. Today, the average crypto user is 34 years old, according to [research from Binance](#). The demographics of crypto investors will continue to broaden as asset managers [now recommend allocating 1%](#) of an investor's portfolio toward bitcoin.

What sorts of companies benefit from supporting crypto?

In our experience, companies large and small can benefit from adding crypto capabilities. Whether you're a bank, fintech, brokerage, payments platform, retailer or marketplace, if you allow users to transfer value in any way, then crypto can benefit your business.

However, that does not mean your business should add crypto right away. Every company must have a thoughtful strategy before getting started. Because this is such a new space, Paxos often consults with companies about how they should approach their individual crypto roadmap.

What benefits have companies seen once they've added crypto to their applications?

Given the growing demand in crypto, companies that integrated crypto capabilities into their product offering have unlocked new revenue streams, attracted new customer segments and increased user engagement and revenue per user among existing customers. One example is PayPal, which recently reported that customers who purchased cryptocurrencies engaged with their app twice as much as prior to purchasing cryptocurrencies. Square tells a similar story, stating, "Bitcoin has helped increase engagement in our broader ecosystem, as bitcoin actives use other products, such as Cash Card and direct deposit, more frequently compared to the average Cash App customer." Square has also reported significant increases in revenues from their crypto transactions – for the full year of 2020, Square Cash App's bitcoin gross profit was up 12x year over year from 2019, bringing in \$97 million in gross profit.

What kind of regulatory licenses are needed to offer crypto?

Companies offering crypto buying and selling to US customers must have at least a Money Transmitter License (MTL), which is issued on a state-by-state basis. Other regulatory licenses are also available – like a Trust charter or BitLicense from the New York Department of Financial Services (NYDFS) – but these designations are often more challenging to secure. Alternatively, if you do not have an MTL, BitLicense or NYDFS Trust charter, then you can also partner with a provider that has the proper licensing to offer crypto services to your customers. Paxos is an NYDFS-regulated Trust company and was the first digital asset company to obtain a Trust charter. Our Trust charter, along with several other designations, allows customers to rely on Paxos' regulatory and compliance stack to offer crypto to end users in all 50 states and in many countries abroad.

Do I need to conduct Know-Your-Customer (KYC), Anti-Money Laundering (AML) monitoring and sanctions screening if I offer crypto?

KYC/AML onboarding procedures and ongoing transactions monitoring and sanctions screening are required for all regulated financial services providers, including crypto. However, there are varying degrees of KYC/AML that are required based on a company's licensing and oversight. Every company handles these procedures differently. For Paxos, we're required by the NYDFS to abide by the highest standards of regulatory compliance, customary of a financial institution. When a company relies on our regulatory stack, we're required to obtain KYC/AML information directly or through a file sharing mechanism and conduct our own sanctions screening on an ongoing basis.

What assets should I support

There are hundreds of crypto tokens available today and each has its set of unique properties. Bitcoin (BTC) and Ethereum (ETH) are two of the most well-known cryptocurrencies and comprise nearly 80% of the entire crypto market capitalization. If you're going to support crypto, your customers are likely expecting that you support these two assets. Paxos also supports other NYDFS "greenlisted" assets, such as Litecoin (LTC), Bitcoin Cash (BCH), and Paxos tokenized stablecoins like PAX and PAXG, whose issuance is also regulated by the NYDFS.

What features should I offer customers?

The initial capabilities of many crypto-enabled apps will allow customers to buy, hold, and sell crypto assets directly from the app. From there, future releases may include the ability to deposit and withdraw crypto from external wallet addresses, as well as the ability to earn yield or borrow against customers' crypto assets.

How does custody work?

Custodying cryptocurrencies involves storing and securing the private keys and crypto-addresses associated with crypto assets. Custody is core to the cryptocurrency ecosystem and there are technical and regulatory components. Do you have the technology and security expertise to custody crypto? Do you have the proper licensing to custody crypto? It is a complex aspect of this industry – if crypto is not your core business, then we believe it is best to partner with a crypto custodian like Paxos to ensure you have the highest levels of safety and protection for your customers' assets.

How does tax reporting work?

Anytime a customer sells a crypto asset, it is considered by the US Internal Revenue Services (IRS) as a taxable event. Any gains are considered taxable income and subject to short-term or long-term capital gains taxes. This means that individual crypto users are responsible for reporting their profits to the IRS on a yearly basis. Every company takes a different approach to crypto tax reporting, but Paxos currently provides its customers with 1099-B tax forms for users to report earnings to the IRS.

What is Paxos Crypto Brokerage and is it right for me?

Paxos Crypto Brokerage is a fully regulated turnkey crypto custody and liquidity solution that enables any business to add crypto capabilities to their desktop, web or application platform via APIs. If you'd like to learn more, please feel free to [contact us](#). We'd love to hear from you, be a friendly resource, and help you determine if crypto is right for you.