What do crypto businesses need to know about fiat payments?

A practical guide to how payments technology can differentiate and drive growth for crypto businesses.

**tribe** the payments people

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Foreword

Today, many see cryptocurrency as an investment. Buy the dip, hold until it's profitable, then sell—it's a vehicle to make money, not move it. After all, it's rare to be able to use cryptocurrency as a currency, despite its name. And while its main use is not to buy illicit goods from the dark web or pay off ransomware, this reputation is how most people know cryptocurrency.

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After all, a fiat scam is a "scam", but a crypto scam is a "bitcoin scam".

This is changing, though change is slow. I believe that cryptocurrency is the future, but I have no illusions that there are huge barriers between where we are now and where we need to be.

Some of the barriers that lie between cryptocurrency and the mainstream will simply be broken down by time, others by technological advances, others still by education.

For example, there's a great deal of difference between countries when it comes to the regulation of cryptocurrency. Regulation can be a dirty word to some, but it's a powerful tool to create a level playing field for new businesses and new technologies. Critically it stops incumbent players from winning by default. Not every regulator knows this, of course—only a handful of regulators in the U.S "get it", whereas the president of the European Central Bank is far more welcoming to the use of digital assets. Crypto needs a good regulator to succeed, but it's far from clear how long we need to wait for them.

Some technical problems have been solved, others just need a little more time. Bitcoin is often criticised for being slow and not scaling well, but other cryptocurrencies do just fine. The problem of energy use is going to be tough to crack but some of the best minds are working on it.

We don't expect the future use of cryptocurrency to resemble the way it's used today. In fact, we think its use will be mostly invisible, just as much of the mechanisms of payments are invisible to consumers today—few people outside payments know what you mean when you start talking about card rails or interchange fees. Even those who knowingly use cryptocurrencies regularly will probably use it as part of a mix of currencies.

While I believe that cryptocurrencies are a key technology of our future and solve many of the problems of fiat currencies, I'm a realist: Cryptocurrency isn't going to replace fiat currency. We will likely see fiat currencies using blockchain rails, but the two will still exist, and what is critical is that there is fungibility between the two.

This means that crypto businesses can't only be in the business of crypto. We need to have the very best in fiat currency technology to bridge the gap between the two worlds, and most importantly, meet our customers' needs now and in the future.

**Daniel Gouldman,
CEO, Ternio.io**

Introduction

Cryptocurrency, as it stands, has grown into a widely traded asset class. People buy it and sell it, but it has not reached its potential as currency—despite its name.

There are many evangelists that see crypto both as a currency and the future of money. Some of these zealots have, in the past, done cryptocurrency harm in their ardour, but as the market has matured, so has the messaging. Serious people are making solid and believable predictions on how cryptocurrency will change the nature of money and commerce.

A big question remains: When will crypto go mainstream?

Coinbase in its look ahead sees the need for better scalability before crypto will truly become a currency, but predicts that many problems will be overcome by governments getting involved.

As such, Central Bank Digital Currencies (CBDCs) are critical to legitimise cryptocurrencies—trusted institutions will lend their authority to them and facilitate this move to the mainstream. However, crypto-to-crypto exchanges still see the need for fiat-to-crypto exchanges. And CBDCs are still years from becoming an everyday reality.

Cointelegraph is more bullish. It sees the potential for crypto to replace fiat currencies. But that future is, it admits, "a long way off".

One could always look to The Simpsons, a source that has been uncanny in predicting future events. According to Homer & co, cryptocurrencies will be mainstream in no more than 15 years.

Market challenges: Why can't crypto go it alone?

Some futurists and fintech leaders see cryptocurrencies as either taking over as the main way people use currency, or, more commonly, being one of the major currencies in use. But this is highly unlikely to happen in the short-medium term as there are major obstacles that need to be overcome before we can realise this crypto-utopia.

Understanding

Most people still don't fully understand what cryptocurrencies are and why they should use them, and they are far from simple to explain. With some people still suspicious of online and even card payments, education might not solve this problem. We may be stuck with a generation gap.

Usability

Cryptocurrencies are a long way from user friendly, especially compared to other payment methods. The need for new accounts and new wallets turns some people off immediately. They are also not widely accepted and are stuck in a vicious circle that's going to prove tough to break. Why should a business accept a such minor currency? Why should someone use a currency accepted in so few places? And so on…
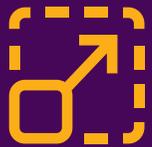
Scalability

If more people adopt Bitcoin, the slower the underlying network is. While other payment methods are getting faster and faster, crypto's success may cripple it. While this is can be solved, and is not true of every cryptocurrency, it is true of the best known and the most mainstream. Either another cryptocurrency needs to quickly become as famous as Bitcoin, or this problem will be around for some time to come.

Environmental impact

This could be crypto's most intractable problem. What makes cryptocurrency so compelling is what underpins it: Blockchain. But Blockchain is incredibly wasteful by design, demanding that lots of energy goes into the mining process. This needs to be solved before crypto can be seen as part of a future where Environmental, Social and Corporate Governance (ESG) issues are paramount.

Volatility

Cryptocurrencies are seen as risky investment vehicles rather than currencies, and as such lack stability. While stablecoins exist, they are not as popular as the top cryptocurrencies quite yet.

Links to criminality and scams

If environmental impact is the biggest problem, this is likely a close second. The popularity of Bitcoin has given some the opportunity to scam people out of millions through cryptocurrencies that never really existed, while anonymity has made it the currency of choice for criminals across the globe. Neither has endeared crypto to the mainstream. These associations are going to be difficult to shake.

Crypto businesses are not naïve. They know these problems exist. What they don't know is how long it's going to take to fix them. There's no real consensus.

Whatever prediction is used, and however realistic it is to overcome the distance between the here and now and potential crypto-utopia, crypto businesses need to recognise that they are in this for the long haul.

This means fiat currency will remain important to their businesses. And if handled strategically, can be a source of differentiation and a dramatically improved user experience.

Strategic consideration: Why fiat payments are key to usability and differentiation

If a crypto business has a first-class crypto exchange, and fiat payments systems that are average at best, it will be judged on the latter rather than the former.

> " Payment technology, whether fiat or crypto, will never be "done"

Crypto businesses won't win business based on how good the crypto side of their offering is, which is highly commoditised. They'll be won over by ease of access and the user experience.

This is where crypto businesses can differentiate and better compete.

And it is not enough to have good access to fiat payments today. Fiat currency payment technology isn't going to stay still while crypto technology marches on. Payment technology must be updated continuously between now and when cryptocurrency truly becomes a currency. If a crypto business ignores this, it risks becoming a business of two halves: one future-looking, one stuck in the past.

To avoid a Jekyll and Hyde crypto business, and ensure its fiat offering creates differentiation and improve sales, crypto businesses must explore the latest payment technology.

What crypto businesses need from fiat payments - a practical guide:

So, what do crypto businesses need from fiat payments? They need a partnership with a provider that will offer them what they need now, and in the future—making it possible to meet the high expectations of their customers in all parts of their business.

"Giving the customer what they need today is just part of the puzzle

Keeping up with regulation and fraud

All financial service providers need to keep up with regulation and ensure they are compliant, but crypto businesses find that they are under scrutiny more than most. Bad actors have given the crypto sector a bad reputation, with the result that good businesses have to work hard to not just be compliant, but show that they are compliant. Blockchain analytics firms like Elliptic and Chainalysis are trying to increase transparency and decrease fraud, but there's still a lot of work to do.

Crypto businesses will have carefully developed their compliance procedures for the crypto side of their business—collecting data where necessary to meet KYC rules, verifying identities, flagging transactions that meet AML criteria, and so on. But it also has a regulatory burden when dealing with fiat currencies. The last thing a crypto business wants is to be so focused on ensuring that the crypto side of its business is compliant, that problems on the fiat side occur. Crypto businesses need to work with partners that can handle fiat payment compliance, and make the on ramp and off ramp as simple as regulation allows.

The cryptocurrency sector is also one targeted heavily by fraudsters, who see the anonymity of transactions as a good way to cover their tracks when phishing or using other scams. Again, while crypto businesses focus on securing the crypto side of the business from criminals, they need a partner that can protect fiat payments, demand the right authentication, and detect fraud as soon as possible.

Keeping up with modern technology

Every business needs to deal with technology cycles that are only going to accelerate. Payment technology, whether fiat or crypto, will never be "done"—there will always be innovations that will make these payments faster, more convenient, more secure, or better in some other way.

Crypto businesses need to keep up with this changing technology, and it's worth looking at incumbent financial service providers to better understand what not to do. Many of these providers, particularly banks, have systems that have been built on with no thought for the future—these systems are like Jenga. The legacy technology that underpins them has reached the end of life, and like a tower of Jenga pieces, any sudden change could see the whole tower fall.

To be fair, these systems were built without the knowledge that they would need to be updated so often. But we now know better. To this end, crypto businesses need to ensure that their fiat payment technology is modular and disposable. (They should also do this for their crypto payments, of course).

Modular, disposable technology means that parts of the system can be replaced when needed, and new technologies added. There's no need to worry about the entire system collapsing because one part has been replaced. The ability to ditch technology when it is no longer fit for purpose is also vital. For example, a physical card is an important offering today, but in the future a virtual card may be a deal breaker and physical cards might be as much a relic as cheques are today. Keeping physical card technology in place can be an expensive exercise, so it makes sense to ditch it if there is no call for it. Payment infrastructure without this modular and disposable ethos means this isn't possible.

Ever faster technology cycles are only going to make this problem worse. Crypto businesses need to leave outdated payment technologies behind when needed and embrace the new.

Keeping up with the customer

Technology changes, and so does customer expectations, but the two are not in lock step. Crypto businesses know this better than anyone, given that they deal with a technology with the potential to revolutionise finance, yet are still on a journey of winning hearts and minds.

The fiat payments side of a crypto business needs to reflect this. The customer experience needs to offer not only what the customer demands, such as all payment types they might want to use, but offer them in a slick, intuitive interface. Challenger banks and other fintechs have influenced the market so much that minimum expectations are now sky high. For a crypto business to be taken seriously as a modern, forward-looking proposition it needs to reflect this, with real-time access and as little latency as possible.

But this is actually the minimum requirement to get this right. Giving the customer what they need today is just part of the puzzle. Figuring out how customer needs are changing is also vital, and the key to this is data.

Payments provide all kinds of rich data sets. Where is the payment being made from, and how? How are payments technologies changing? What habits are the same, and which are being broken. For crypto businesses these are clues as to how their customers are interacting with their business. And for those that want to lead the charge for crypto to become a currency as much as an investment, these clues will help discover how far along this journey their customers are. But again, the data available will depend on the fiat payment partner.

Ultimately, just as crypto businesses need to understand fiat payments, they need a fiat payments partner that understand crypto.

To sum up
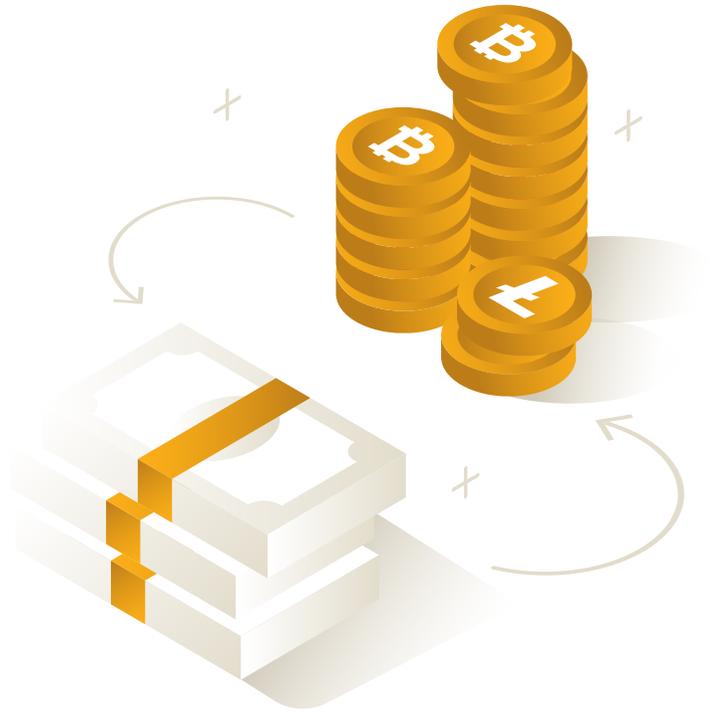
Crypto businesses are in an uneasy, but necessary alliance with fiat currency. They need to work together in harmony to truly benefit consumers, enterprises and the wider economy. A business that excels in one but not the other will not be a popular choice for customers.

Things are likely to change in the future. Cryptocurrencies may become more popular, but they will never replace fiat currencies completely. We will however see worlds collide as fiat currencies move onto blockchain rails.

Until then, crypto businesses should arm themselves with the best possible fiat payment technology.

Final thoughts

With ever mounting changes within the financial industry, as well as a confluence of macro-economic factors like the COVID-19, fiscal stimulus and global economic uncertainty, cryptocurrencies allow for an added layer of financial security and a hedge against traditional investments for all individuals regardless of their wealth status.

**Bryan C Woods,
President, Spend**

Technology innovations in digital wallets coupled with a Transaction Authorisation Interface, remove burdensome worries of maintaining a trading mentality allowing cryptocurrency holders the ability to seamlessly spend their digital assets as needed using traditional banking products such as debit and prepaid cards.

Spend looks beyond its client's current needs and works in tandem with partners like Tribe Payments to create an easier, more simplified banking future. Blockchain or Distributed Ledger Technology will continue to metamorphosize the industry, strengthening the communities in which both companies serve and to help provide fresh and exciting products ensuring everyone who wishes to participate in the blockchain revolution can do so with minimal effort and worry.

About Tribe

Tribe Payments is an issuer and acquirer processor, and payment technology provider to banks, fintechs and any business that wants to offer payment services to merchants and consumers. Created by the best payment experts in the world, Tribe offers a digital wallet, access to banking systems and rails, a payment gateway and a host of third-party services from KYC to fraud prevention via its online marketplace.

All aspects of Tribe's products are provided via a modular platform, meaning functionality can be mixed and matched without risking disruption or downtime. Tribe's disposable technology means it is the only provider to fully break the 'legacy-cycle', ensuring zero-obsolescence and use of containerisation to minimise risk.

As Europe's first issuer and acquirer processor working with Mastercard, Visa, JCB and UnionPay International, Tribe offers unrivalled market connectivity. It helps its customers to build global scale, securely—with PCI Level 1 compliance and Level 3 data centre support.

To find out more visit:

🌐 https://tribepayments.com/

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