

Small banks set to go live with bitcoin trading

By [Penny Crosman](#)

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A group of community banks is poised to fulfill a high-tech goal it set last year: to let customers buy and sell bitcoin on mobile banking apps.

An estimated 300 banks, some of which unveiled their plans in June, will go live in the first or second quarter with this service with the help of the fintech NYDIG. The banks, the American Bankers Association and the Independent Community Bankers of America have made investments in the company as part of the effort.

Several regulatory and security concerns have been worked out in the months since the initial announcement, and partnerships and integrations between NYDIG and the banks' existing technology vendors have been completed, according to participants.

The initiative addresses a need customers have clearly expressed, banking and trade group officials said.

"We have seen significant activity in cryptocurrency transactions from our customer accounts, and a few investments have been rather large, so that is obviously getting our attention," said Harold Reynolds, CEO of the \$1.3 billion-asset BankSouth in Greensboro, Georgia, which is among the banks aiming to roll out bitcoin trading in its mobile app by midyear.

[A blog post Tuesday](#) by ABA CEO Rob Nichols cited a Pew Research Center survey that found 16% of Americans have invested in, traded or used cryptocurrency.

"While there remains significant uncertainty about the future of these assets, one thing is certain: They aren't going away," Nichols wrote.

Besides helping retain customers, bitcoin trading can produce revenue growth and keep banks competitive, industry officials said.

The first bank to blaze the trail is not a client of NYDIG. Vast Bank in Tulsa, Oklahoma, partnered with Coinbase and began offering support for cryptocurrencies purchases through its checking accounts in October. It currently supports 12 types of cryptocurrency.

"The Vast crypto banking launch has gone well," said Brad Scrivner, CEO of the \$783 million-asset bank. "In the first four months since launch, we added approximately five times our historical retail customer base and those customers are in all 50 states and three U.S. territories."

Getting ready

BankSouth is beta-testing bitcoin trading with its digital-banking provider, NCR, and with NYDIG. It also invested in NYDIG recently but declined to say how much.

"We're using investments to get more exposure to things that are coming and where the bank can be a value-add," Reynolds said. "So we hopefully get a good return on our investment, but we also hope it lifts the banking experience for our customers."

BankSouth is constantly looking for ways it can bring in fintechs to better serve customers instead of disrupting the bank-customer relationship, said Keith Sebade, its chief strategic officer.

The bank has recently been going through the recommendations made in the book ["The Three-Box Solution: A Strategy for Leading Innovation."](#)

The book's so-called third box is building a business model for the future.

"We really think the future will be led through a lot of fintech innovation, our box three," Sebade said.

Synovus Financial in Columbus, Georgia, also is planning to launch bitcoin trading in its mobile banking app and said it has made an investment in NYDIG. It declined to say when the new service would start or how much it has invested in the fintech.

Synovus has seen customers pull money out of the bank and put it into digital-asset exchanges like Coinbase.

"We know that our customers have an active current interest in these business models," said Matt Maxey, head of innovation at Synovus. Rather than sit and let a fintech take that business, "we're fighting for wallet share."

Zack Bishop, executive vice president of technology, operations and security at the \$56 billion-asset Synovus, also sees digital assets in general becoming more important to banks. Banks lend today based on physical assets like trucks, farm equipment and commercial real estate, he noted. But as the movement continues toward digitizing assets and putting them on public blockchains that have irrefutable records of ownership and value, as well as blockchain-based security, the banking industry will follow.

Cryptocurrency is the flavor of the moment, in Bishop's view.

"That doesn't mean that it will go away, in any sense," he said. "But we think that that's the beginning point of how the operational structures on the back end of the bank need to start to pivot toward working on blockchains. Cryptocurrency was the first place we wanted to be."

When looking for partners, Synovus' leaders considered safety and soundness, Bishop said, including security protocols, risk programs and thoroughness with regulators and examiners.

Every purchase of bitcoin involves a public key and a private key. The public key is akin to an email address at which a buyer can be sent bitcoin. The private key is like a password.

"But unlike a password, if it's lost, stolen or hacked, it can't be reset," said Patrick Sells, chief innovation officer at NYDIG. "And that's why you hear stories about people who lost \$200 million of bitcoin or a crypto exchange was hacked and people lost their bitcoin. It means that someone was able to get a hold of those private keys."

Bitcoin buyers can keep their private keys in a hot wallet — in other words software or an app on the internet — or cold storage, a device or server that is not connected to the internet.

NYDIG uses only cold storage.

“Because of that, we can eliminate cybersecurity risk, and that makes it an exercise in physical security,” Sells said.

Another point Sells makes about NYDIG’s security is that it works in a closed ecosystem. A bank customer can use funds from their bank account to purchase and store bitcoin with NYDIG, but the bitcoin cannot be transferred out to a different wallet. This mitigates the risk that bitcoin would be stolen from a bank partner’s mobile app. The bitcoin stored with NYDIG can only be sold for cash, and that cash is then deposited back into the customer’s bank account.

Vetting NYDIG

The ICBA has been investing in fintech startups for five years through its sponsorship of the ThinkTech accelerator program in Little Rock, Arkansas.

“That has gotten them more comfortable with the idea of having a small, angel-type investment in startups,” said Carey Ransom, managing director of BankTech Ventures, a venture fund created for and by community bankers with support from the ICBA.

The ICBA brought the idea of investing in NYDIG to BankTech Ventures and endorsed it, Ransom said. He declined to say how much BankTech Ventures has put into the company.

Many banks that invest in BankTech Ventures are interested in working with NYDIG, Ransom said.

“Our banks have tremendous interest in bitcoin,” he said. “They want to have a solution, so they aren't just letting that money leave the bank. They want something they feel confident is secure and compliant.”

That confidence comes from the people that work at NYDIG as well as its investors, partners and customers, he said.

The fact that NYDIG limits its support to bitcoin also gives bankers comfort, Ransom said.

“Risk management is a critical part of how banks think about their world,” he said. “They want to continue to evolve and innovate, but they have to do it in a risk-managed way.”

In his blog, Nichols said the American Bankers Association invested in NYDIG because of its compliance-first approach, its partnerships with tech vendors that serve community banks and its focus on supporting banks rather than competing with them.

“ABA believes strongly that banks should have access to the tools, partners and regulatory frameworks that allow them to meet their customers’ needs,” Nichols said.