Not Your Keys, Not Your Crypto!

On November 13, 2013, the first key swindler was born. Quadriga Fintech Solutions was Canada’s largest cryptocurrency exchange until 2019 when it ceased operations and declared bankruptcy with $215.7 million in liabilities with only $28 million in assets (Wikipedia, 2022). The quick fall from top to bottom came after CEO Gerald William Cotton was found dead after a trip to India. With his death also came the loss of passwords to offline cold wallets that held around $250 million in cryptocurrency. As these assets were stored in a cold wallet, they could never be recovered, and hundreds of thousands of people lost the bitcoin they paid for. Why does this matter? This story may seem like one where ill-fortune leads to an unfortunate outcome, but events like this could still happen today on many exchanges. A common phrase in the crypto world describes this phenomenon, not your keys, not your crypto. Wealthsimple, one typical exchange that millions of Canadians use, fits into this category. It is not because of shady tactics, but it is not yours when you buy crypto on their platform!

Wealthsimple was incorporated in September 2014 to provide Canadian investors with a better and more effective investment method. The companies Co-Founder and CEO, Michael Katchen, began the multimillion-dollar company with a simple spreadsheet intended to help his friends and colleagues invest better (Gobin, 2022). This spreadsheet was an easier way for Katchen’s colleagues to do things like setting up a portfolio of ETFs and how to rebalance it and manage their investments to save them money on fees that traditional investment firms charge. Brett Huneycutt, Co-Founder and COO and Karney Li helped Katchen gain the attention of their largest initial investor, The Power Corporation of Canada. The owner of the company Paul Desmarais funded most of the early operations leading to him gaining a stake of over 70% of Wealthsimple ownership (Unrau, 2022). Wealthsimple makes its goal clear with its mission “to help everyone achieve financial freedom, no matter who they are or how much they have” (Wealthsimple, 2022). In recent years the company has expanded their ventures from fee-free Robo-advising to personal trading, tax returns, money transferring and most recently, cryptocurrency. Since the company’s incorporation, they have seen exponential growth and adoption, with more than 1.5 million people using their services, equating to over $15 billion in assets under the company’s management (Wealthsimple, 2022). Wealthsimple is a private company funded through individual and corporate investors. In their last funding round, Wealthsimple Financial Inc. raised $750 million in a financing round with firms such as Meritech Capital Partners, Greylock Partners as well as celebrities like Drake, Ryan Reynolds and Michael J. Fox, helping push the company to a $4 billion evaluation (Naqvi, 2021). With these investments, the company has consistently innovated and expanded beyond robo-investing.

The purpose of the company and its innovative business model targets and eliminates two main problems, fees and the complications behind creating a portfolio. The company achieves this not-so-humble goal by using proprietary algorithms and advanced technology allows Wealthsimple to provide custom portfolios based on risk and amount invested. Like all successful companies, Wealthsimple continues to innovate to stay on top. Their most recent venture has been the addition of cryptocurrency trading as part of their Trade app. Traditionally, investing in cryptocurrency has been confusing and separate from typical investing activities like buying stocks or bonds. Wealthsimple has made diversifying one’s portfolio easy with small fees and a user-friendly interface that supports fractional trades. Wealthsimple has also solved one problem that left many investors nervous, the lack of regulation when buying and selling crypto. On their website, Wealthsimple proudly states that they are “Canada’s first regulated crypto trading platform” (Wealthsimple, 2022). The primary demographic for Wealthsimple users are 67% men between 30 and 35 and with a university degree (Wealthsimple, 2018). In a study conducted by Wealthsimple, they found that their demographic matched the industry standard and men are generally more included to invest and save more than women. In the Wealthsimple ecosystem, they found that, on average, men invest almost double that of women, with men investing about $60,700 and women investing only $36,000 (Wealthsimple, 2018).

As for crypto, various sources such as Forbes have broken down the demographics of investors and they too are primarily men. Assuming the demographics for Canada and the United States are similar, most crypto investors are young, with an average age from 18 to 29 years old (Dellato, 2021). Another macro trend that a recent Forbes article identifies is that men use and trade crypto over twice as much as women, with 22% of all men in the United States having used crypto compared to only 10% of women. As of 2021, the market size of cryptocurrency is USD 1.6 billion and is expected to have a compounded annual growth rate of 7.1%, which will lead the industry to $2.2 billion by 2026 (MarketsandMarkets, 2021). MarketsandMarkets also identifies two factors that will make or break crypto in the following years. Firstly, the transparency of the widely distributed ledgers that power blockchain will drive cryptocurrency and blockchain technology. It will prevent fraudulent transactions and attract those who want to know precisely how the monetary system they are investing in works. The biggest constraint for cryptocurrency will be the regulatory status in various markets because many countries and legislative bodies have yet to release laws on taxes and trading these currencies. As for the Canadian market, the biggest question that both the crypto market and Wealthsimple crypto face is the monetary policies that The Bank of Canada and governments impose in the coming years.

Wealthsimple Crypto has two main advantages for gaining market share; its user-friendliness and convenience. These two aspects go hand in hand as their user-friendly interface makes it easy for customers to understand what they are buying, how much they are buying and in a format that isn’t cluttered with tickers. This allows for even the newest of users to experiment with buying cryptocurrency. This user-friendliness is also because buying crypto directly links to customers’ existing trading accounts, which means setup is fast and straightforward. Wealthsimple knows these are its main advantages and, because of that, advertise their trade app often with crypto at the forefront of the shown features. Once signed up, they also have an easily accessible tab that shows off their platform's crypto section, incentivizing people to explore the feature. Currently, Wealthsimple Crypto employs a few different technologies to ensure their customers are happy and have the best possible experience when trading their crypto. Like traditional stocks and securities, Wealthsimple uses an automated matchmaker approach where the buyer bids on a particular asset and if a seller meets them at that price or lower than the trade is executed. One question that often comes up with crypto exchanges like Coinbase and Wealthsimple is where is this crypto coming from, and where is it stored? Well, as mentioned earlier, crypto can come from people selling that asset or crypto can also come from what they call their giant Wealthsimple wallet. On the question of where purchased crypto is stored, Wealthsimple uses specifically hosted wallets meaning that Wealthsimple holds your crypto for you in a wallet that you don’t need to manage or keep private keys to. This technology is not Wealthsimple but rather their third-party custodian, Gemini. Recently, the company has implemented a bridge allowing crypto owners to withdraw their assets to an external crypto wallet so that they can interact with various blockchains and do more with their crypto. Even more important than the details of how these assets are stored is how the prices are created; for this, they have real-time on-demand quotes for all stocks and ETFs that are provided by a market data provider (Wealthsimple, 2022). These technologies allow the company to provide a smooth user experience without all the complications associated with crypto.

Wealthsimple is currently in the financial services industry, where they are “building the world’s most human financial company” (Wealthsimple, 2022). The financial services sector provides services to individuals and corporations and consists of everything from banks to insurance. Wealthsimple targets the financial services sector in a few main areas: investing, trading, crypto, taxes, and money transferring. As Wealthsimple expands its repertoire, they move from a small firm helping people invest into a neo bank, which provides only online services in various financial industries. Regardless of the specific subdomains, the financial services industry has seen a few significant changes in the last five years. The first major change that arose in the financial world was digitization, where what used to be physical became digital. Then the formation of foundational partnerships arose, where the increased depth of information allowed financial service providers to grow exponentially (King, 2021). These partnerships allowed for big data collection, which in turn led to more customization and personalization for customers (King, 2021). These two changes have allowed companies like Wealthsimple, big banks and insurance companies to acquire big data from partners like Google or Facebook and then use this data to know their customers better. By doing this, they can advertise better, thus knowing their customers better, allowing them to design their platform around the needs of those they serve. Looking more in-depth at personal finance, some immense changes have broken the old status quo of letting the big banks run the show. At the forefront of these changes is the automation of financial tasks such as Robo-investing, this and increased freedom of choice has led to people choosing how their money is managed and not banks choosing how their customers' money is managed (Taylor, 2019). A Forbes article titled “11 Finance Experts Predict Big Changes Coming To The Banking Industry” looks to the future with some assumptions that neo banks and other emerging markets in the broader finance ecosystem will change the way people bank, save and invest. In this article, the main areas of impact they expect to see are the expansion of digital currencies, few physical bank branches, a focus on security for digitized assets, and the growth of non-traditional lenders (Forbes Council Member, 2021). This article also notes that much of this change has been and will continue to stem from decentralized finance (DeFi). A report by The Economic Times illuminates some of the changes in crypto and because of crypto in an article titled “The year that was for Crypto: 10 era-defining events that changed investor sentiment for the better”. Looking at the changes in the world of crypto was the expansion of coins and tokens. The first was Bitcoin, then Ethereum, and now many coins are part of a growing ecosystem. On top of these coins and blockchains was the age of Defi, where digital payment systems allowed people to cut out the middleman like a bank and send and receive crypto directly.

In more recent years, the Nonfungable Tokens (NFTs) came along, and what was once a fad became part of mainstream culture. With the rise of crypto also came the rise of various platforms to trade crypto and NFTs and digital wallets to hold these assets. This growing market attracted Wealthsimple and competitors such as Robinhood, Coinbase, Binance, Crypto.com, Kraken, and many more (Tepper & Schmidt, 2022). Though there are seemingly endless competitors for Wealthsimple, the main competitor is Robinhood. Both Wealthsimple and Robinhood allow users to trade securities and crypto on one platform, which makes ease of use much greater when compared to businesses like Coinbase or Binance. Overall, Wealthsimple’s innovative nature has allowed them to constantly stay on top by offering practical solutions and services for their customers’ financial needs.

Since the introduction of Wealthsimple Trade in 2019, the company has seen incomparable growth, with the company seeing 9x growth in 2020 followed by 2x growth in two weeks at the start of 2021 (Boughton, 2021). The main metrics of success in the financial services industry are the number of clients, assets under management, revenue and net profit margin. As Wealthsimple is a private company, no data is available for revenue and net profit margin; thus the measure of success for the company will be measured through the number of clients and assets under management. The business impact of the company has been profound, with the company’s client base growing from 1000 users in 2015 to 1.5 million in 2021 (Wikipedia, 2022). According to Katchen, two prominent firms, “Meritech and Greylock ... are leading a $750-million investment round to help Wealthsimple do what we always believed it could: revolutionize the way we make money, and become the biggest consumer finance company in Canada in the process,” (O’Hara & Silcoff, 2021). With words of praise like this, it is obvious how Wealthsimple has managed to grow its assets under management to over $15 billion in 2021 (Wikipedia, 2022). One important consideration is that the introduction of Wealthsimple Crypto began in August 2020, and much of the growth in assets under management has been from late 2020 to late 2021. Though much of this growth can be attributed to traditional securities trading, the crypto aspect of their platform has been a significant contributor to the growth and incentivizing them to offer 30+ coins to their customers (Wealthsimple, 2022). When comparing Wealthsimple’s success to Robinhood’s, it becomes apparent that the company still has a lot of work to do to work up to goliath status. Looking at the number of users, Robinhood currently has 22.4 million people trading on its platform as of 2021 (Statista, 2021). This has led the company to a total of USD 98 billion under its management (Brokerage Review, 2022). One factor not considered in this comparison is the market size for where these products are offered. Wealthsimple has been primarily focused on the Canadian market since its creation in 2014 both the population and number of people within the people who invest are smaller than the American market. This comparison is relative but may start to square up as Wealthsimple continues to expand into other less saturated markets like the United Kingdom. Wealthsimple has seen great success in the last eight years and continues to have tremendous growth, but they will need to find a way to expand into larger markets if they wish to see the success of Robinhood.

Wealthsimple has taken Canada and other countries like the United Kingdom by storm, amassing a large following with its solid product line. Still, some necessary changes are needed to make their most recent product Wealthsimple Crypto both an exchange and a way to interact with Web 3. Web three is the next generation of the internet that supports decentralized protocols that are less focused on the user as the product and more focused on the product for the user. As mentioned earlier, Wealthsimple uses hosted wallets created by their third-party partner Gemini. As these wallets are not non-custodial wallets, they have a 1.5% maintenance fee, and the assets must be exported to interact with various blockchains. As the crypto ecosystem continues to grow, users will demand no custodial fees and a way to interact with all the DeFi applications they know and love directly through the Wealthsimple platform. To do this, Wealthsimple will need to create the Wealthsimple Wallet, another part of their ecosystem that helps users interact with Web 3 and take control of their digital assets.

Though this may seem counterproductive revenue-wise for the company, it will help increase the volume and viability of their app. How will it do this? The first challenge is creating these wallets, and to do so, all the company needs to do is change the terms of their partner Gemini so that their users can access their wallets through the Wealthsimple app. But how will this help with volume and viability? By creating a wallet with a private address and access key, Wealthsimple could directly link to Defi applications for lending, staking, and even NFT trading platforms like Opensea. Allowing customers to do more with their crypto directly through the company’s ecosystem will lessen the hassle of creating external wallets and provide a competitive advantage over companies like Robinhood as they would be the first centralized exchange to support DeFi applications and do things like store customers’ NFTs. This will also provide a second layer of security that companies like Quardiga so desperately needed. By having independent wallets, if Wealthsimple ever collapsed, the wallets containing people’s crypto could still be recovered using the various blockchains of each token or coin. The company can easily do this by either renegotiating with Gemini to allow users to link their wallets on all applications that Gemini currently supports or become a sub-category of Gemini when linking wallets to applications. This will enable users to export their crypto to a different wallet or use a secure Wealthsimple wallet, which simplifies interacting with Web 3. This freedom and simplicity create a one-stop-shop for people to buy and sell securities and crypto, file tax returns, send money, and much more within the Wealthsimple ecosystem. Even though the company may lose money on management fees, it will gain revenue from the other business segments through the increased volume created. The technologies needed for this change are straightforward as their partner Gemini has already made the necessary bridges and deals with various applications to support their wallet. By extending their partnership with Gemini, they eliminate the complications associated with creating non-custodial wallets, transferring funds from Gemini to their platform, and immediately granting access to all the perks that a Gemini wallet provides Web 3. This slight change to the kind of wallet creates endless opportunities for the company and allows people to trade their crypto and use it on Web 3 while supporting all current and future ventures.

Wealthsimple has helped millions in their journey to achieving financial freedom with various services, but to remain the fan favourite, they must innovate, especially in the cryptocurrency sector. Innovations in this area will allow them to deepen the use case for their platform and provide something that thousands of Canadians so desperately need: a trustworthy, secure and immerse cryptocurrency platform. However, this may seem like a large feat, but Wealthsimple can quickly expand their existing platform and further into the emerging Web 3 marketplace by building upon their current partnerships. This, in turn, will provide more value to both customers and shareholders and allow them to gain a clear technology advantage in the crypto and Web 3 space over their competitors and incumbent financial service providers. They will leapfrog some significant competitors in crowded marketplaces. Wealthsimple is a great trading platform for anyone who likes simplicity and ease of use, and with the addition of features that expand the use case for their platform, the company is bound to see further success with a new segment of clients who want to invest in cryptocurrencies and NFTs easily, autonomously, and safely.

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