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FEATURE CUSTODY

# Anchorage's Diogo Monica on what it means to be a crypto bank



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### Quick Take

- This year Anchorage became the first “digital asset bank” to receive a conditional federal bank charter.
- Armed with new regulatory status and an influx of cash, it is now aggressively expanding beyond its roots as a crypto custodian.

What does a “digital asset bank” do?

The search for the answer brought me face to face with Diogo Monica, co-founder and president of Anchorage.

In January, Anchorage announced that it had become the first-ever

federally chartered digital asset bank in the U.S., thanks to a [conditional approval of its application](#) for a national bank charter.

Founded in 2017, the firm is best known for its secure cryptocurrency storage service. But according to Monica, Anchorage is now aggressively expanding beyond its roots as a crypto custodian — and into a full-fledged crypto bank.

The \$80 million the firm just raised in a round led by Singapore's sovereign wealth fund GIC has been earmarked for "strategic growth," says Monica.

"We had more than enough money, in fact we hadn't even spent half of our Series B money because the business has been doing so well," he said. The firm's Series B in July 2019 netted \$40 million.

But besides custody, what kinds of digital asset banking services is Anchorage targeting?

## **Borrowing and lending**

The borrowing and lending tools that Anchorage has built for institutions are now its fastest-growing business line, according to Monica.

Anchorage first [teamed up with Silvergate Bank](#) to offer lending secured against cryptocurrencies in June 2020.

"Anchorage allows you to borrow fiat — US dollars — collateralized by crypto," said Monica. "Silvergate is the one extending the dollars, and Anchorage is doing collateral administration."

In this setup, Anchorage also manages all the brokerage for trading, any potential liquidation, and risk management — including managing price volatility and executing margin calls.

Monica said more banks — as yet undisclosed — will soon join Silvergate in lending through the platform in this way.

“One of the very interesting things that I was not expecting in 2021 is that banks are coming to us with specific asks, specific projects they want in crypto, and this has been one of them which is pretty interesting,” he explained.

“So bulge bracket banks, very large players, are coming in and saying, ‘Anchorage you already have a collateral and distribution solution, you’re already marketing it, you’re already offering it to banks, we’d just love to be able to plug it in and also be able to capitalize on this,’” Monica added.

Anchorage’s second cornerstone lending product takes the form of two lending pools — one filled with dollars backed by crypto, the other with crypto itself.

“Our clients are sitting on billions of dollars’ worth of assets and they want to generate yield on them, and so we allow them to put their crypto into our lending pools and then we go out into the market and generate returns for them,” Monica said.

He added that certain cryptocurrencies — especially those that are rarer — can be lent out at Annual Percentage Yields of between 20% and 40% over short durations.

## **A bridge to the familiar**

If this sounds very much like a traditional banking business plus cryptocurrencies, that’s because it more or less is. But Anchorage’s crypto banking model has its own quirks.

For one thing, capital parked by institutions on the Anchorage platform cannot be lent out without the express permissions of the institutions

themselves.

“By default, when you use Anchorage, your crypto is yours, you own it, and you have to explicitly opt into our lending pools for you to generate yield,” said Monica. “That is different from a traditional banking structure.”

He was keen to emphasize, though, that thanks to the federal charter, Anchorage now sits level with incumbent banks in terms of regulatory status. That is not quite true, though, because the license is still conditional at this stage.

An Office of the Comptroller of the Currency document [published in January](#) shows that Anchorage has six months from the date of its initial approval to fulfill certain criteria – including purchasing “adequate fidelity bond coverage” and applying for membership in the Federal Reserve System – in order to convert its conditional approval into a full-blown license.

Nevertheless, it is already proving a big lure for institutional clients like GIC, the sovereign wealth fund with well over \$100bn in assets under management.

Monica said he would describe GIC’s investment in his business as strategic. “It was pretty amazing to see how they are thinking about crypto,” he added. “Their team is looking at this pretty closely.”

According to Monica, GIC believes the only route for institutions — itself included — to take into crypto is via trusted infrastructure.

“They see Anchorage as creating that, for themselves and other people,” he added. He would not say whether the sovereign wealth fund has invested directly in crypto.

Tools developed by Anchorage could also be in demand by established

neo-banks and new-brokers, which are increasingly looking to add crypto investment products for their users — often alongside existing stock market investment products.

Fintech companies large and small are interested in such services. PayPal has teamed up with Paxos to allow its users to buy, hold and sell cryptocurrencies within the app, with Paxos taking care of the trading and custody behind the scenes.

That's similar to a deal Visa announced earlier this year: [a pilot partnership](#) with First Boulevard to allow the neo-bank for black Americans to begin rolling out crypto trading and custody tools for its customers. Visa's new Crypto APIs connect to the infrastructure provided by Anchorage — which does “all of the crypto heavy lifting,” according to Monica.

Monica said Visa's involvement speaks volumes about the potential market for that kind of service. “There's no way that a company like Visa would ever offer a product like that unless there was already a validated market and a validated interest in the product.”

“I can tell you that the interest for that has been through the roof and not just in the United States,” he added.

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**Shark Tank star Kevin**