Discussion of
Competition in Crypto Staking
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Summary

- Paper considers Cardano staking markets to investigate intermediary competition in a fully digital environment

- Setting eliminates traditional intermediary frictions of the need for branches, makes fees and returns easily publicly observable on-chain, lowers switching costs, and allows unrestricted entry.

- The remaining frictions are investor inattention, returns to scale, search costs, and lack of financial sophistication – this is particularly important due to the complexity of the reward scheme

- Main results are (i) inattention is as important as with traditional intermediary competition and (ii) a small group with large holdings that is attentive disciplines the intermediaries

Comments

- Understanding intermediary competition is an important issue as incumbent banks and other intermediaries currently extract large rents
- The results are very interesting and suggest that the digital setting does promote significant competition, but the friction of investor inattention remains
- The complexity of the structure of the market and the reward scheme are clearly important
- My main comment on improving the paper is to make this complexity more transparent to the reader perhaps by using a diagram to illustrate it
- I will focus most of my discussion on considering how to remove this complexity restriction to try understand its importance for competition

The Role of Fintechs - Revolut

- Fintechs are another important set of players in the entirely digital space. A very interesting example is Revolut that Angela Gallo and I are looking at.

- Revolut is a UK bank that now operates in around 40 countries. It has roughly the same number of customers as J. P. Morgan. Its last valuation was at $75 billion making it the second most valuable bank in the UK after HSBC.

- Revolut operates in the US and is seeking a banking license there. While the UK banking license took four years to obtain, it is thought the US one will be granted more quickly.

- There is speculation that in a few years Revolut will IPO at around $200 billion.

The Operating Model of Revolut 1

- They started with an e-money license and then obtained a Lithuania banking license. Recently, they obtained a UK banking license.
- Their main feature is that they are entirely digital and have no physical branches at all - in contrast to Cardano staking they are simple to use. They introduce services based on technology that banks have not implemented.
- They offer foreign exchange rates near the wholesale rate. Their savings accounts have much higher interest rates than banks, even though these are subcontracted to banks and have deposit insurance. It is possible to have accounts in multiple currencies, with interest bearing savings accounts in dollars, euro, and pounds in the UK, for example.

The Operating Model of Revolut 2

- You can transfer US dollars from a UK Revolut dollar account to a US Revolut dollar account in a few seconds with no fees. It is better than stablecoins and traditional banks. This involves internal crossing, which any bank can do, but which as far as we are aware, is not done by any incumbent bank.

- Loans and mortgages are not yet a significant part of their activities in the UK and many other countries. However, it is possible to buy stocks and other financial products on their app. They were pioneers in introducing the possibility of buying cryptocurrencies easily online and this attracted many young people to open accounts.

- Interestingly, they have just announced a change in the availability of UK savings accounts – you have to take a positive action to change to get a higher interest rate, so it provides a very clean way of testing inattention

Concluding Remarks

- "Competition in Crypto Staking" is an interesting paper
- It is part of an important agenda trying to understand competition in fully digital markets and whether increasing this can lower the rents of banks and other financial intermediaries and improve consumer welfare
- It's well worth reading!