Just be honest, please: How crypto needs to change to transform personal finance

If crypto is to transform personal finance for the better, predatory practices must be thrown out and replaced with greater transparency on the risks for consumers, as well as careful regulation.

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Cryptocurrency and decentralised finance (DeFi) were created to offer millions of unbanked people access to the financial system, to transparently transform personal finance, and give more value back to investors by removing intermediaries and offering stable yields that can outstrip traditional saving accounts. This is exactly what many DeFi companies appeared to be doing before the recent period of market turmoil or ‘crypto winter’. However, when the market froze over, it became clear that some companies were only able to offer these very high returns by putting customers’ assets in peril.

These companies were taking excessive risks with peoples’ assets, and in many cases, customers were not provided with clear information on how their assets were being managed. At crypto’s November 2021 peak, the now bankrupt cryptocurrency lending company Celsius offered up to 17% annual returns on deposits. But, contrary to their ‘unbank yourself’ slogan, implying bank-level asset protections, buried in the small print of their terms and conditions it stated that crypto was a high-risk asset and it didn’t provide any details on how customers’ returns were generated. Unsurprisingly, this was not safe for customers. As the value of crypto fell, Celsius and other companies that took on excessive risks collapsed, resulting in a loss of consumers' money and confidence.

Despite the winter chill, the sector has retained its potential to have a positive influence on personal finance and can use blockchain technology to do this fully transparently. The sector must capitalise on this potential, but correctly this time – it won't be achieved unless the entire industry, rather than just a few good actors, changes its behaviour and practices to be more transparent and professional, and better protect its consumers.

Making transparency and professionalism the industry standard

To ensure that crypto can build a better financial system, it must learn the lessons from traditional banking. The first step is honesty about how the system works. Cryptocurrency markets are remarkably like the economic cycle in a conventional economy, rising and falling. In crypto, however, the trend is accentuated – the average crypto bear market sees a fall of 85% while the stock market only drops *36% on average*. The sector needs to make clear that there are both good times and bad. As a bonus, the inherent transparency of blockchain technology can make it easier to value the market and identify risk bubbles than in traditional finance – a key advantage which is not yet being effectively utilised.

Celsius demonstrated that there are serious problems with allowing crypto firms to generate returns for customers without providing information on what's happening behind the scenes. As such, crypto companies must be completely upfront about their activities, and provide customers with clear information on their platforms on how interests are generated, how risks are managed and how crypto can be incorporated into a diversified portfolio of assets. This is something that we've always done in our crypto yield and investment app, AQRU, as it's not only the right thing to do, but it revitalises trust in the industry, protects consumers and professionalises crypto. In the longer-term, this will be one of the factors that helps align the sector to the traditional financial system, instead of pretending that it is a replacement – or worse, a get rich quick scheme – and ensure that the next crypto cycle is led by companies providing unparalleled levels of transparency.

Implementing sensible regulation

As well as becoming more transparent and professional, the crypto sector needs to be sensibly regulated. Crypto's complicated nature has previously allowed experienced actors to take advantage of new investors in the sector through scam NFT projects, front-running, back-running, poor execution… The sector has already given regulators all the reasons they need to over-regulate the space. This needs to stop. If we are to increase the adoption of crypto, we need a safe space for new market participants to get involved and we need regulators to help create this space without stifling innovation.

Sensible regulation implemented as a result of detailed discussions with experts and companies in the sector could usher in the next crypto boom. And this is already proving true, with *Bloomberg* reporting in October that the more aggressively the US SEC investigates and punishes bad actors in the space, the more likely consumers are to invest. Regulation and enforcement make consumers feel protected, which builds trust. It's that trust that is required if crypto is to transform personal finance.

Crypto previously transformed its users' personal finances by helping them outstrip inflation and top up falling incomes. There's no reason why the sector cannot become that positive influence on consumers once again, but this time, it must do it correctly. By making the sector more transparent, and implementing sensible regulation to keep it so, crypto and DeFi can be a more inclusive helping hand to people across a range of experiences and financial profiles.

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