

In-Class Activity: Analyst's Canvas Drill, SOLUTIONS

Digital Finance, BSc Course

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Day 6A companion (Analyst's Canvas) | 25 min | Solo then pairs

The three Canvas questions (verbatim, from the Day 5 framework sheet).

Q1. *Who pays whom, and why?*

Q2. *Who needs to show up for this to work?*

Q3. *What can break this?*

Note on wording. The slide deck `lecture_day6a_analysts_canvas.tex` phrases Q2 slightly differently in its block diagram. The drill uses the framework-sheet wording, which is the canonical reference card students keep.

Worked answer: Wise (the solo target).

Q1: Who pays whom, and why?

(a) The paying customer is the cross-border retail sender (and increasingly the SME treasurer). Receivers pay nothing. (b) Fee mechanism: a small fixed fee plus a transparent FX margin (typically 0.4 to 0.6% mid-market, far below the 3 to 5% legacy banks bake into their FX rate). (c) Cost eliminated: *search* (best FX rate) and *verification* (bank-grade compliance done once, reused on every transfer). Wise self-clears via local accounts on both ends, eliminating the SWIFT-correspondent verification stack.

Q2: Who needs to show up for this to work?

(a) Sending-side retail users, receiving-side bank accounts, local-currency settlement banks in 70+ countries, regulators issuing payments licences (FCA in UK, FinCEN MSB in US, MAS in Singapore), card-network partners for funding rails. (b) Cold-start problem: senders. Recipients need no Wise relationship at all (money lands in their normal bank), so the only side Wise had to acquire was senders. This is why Wise grew fast. (c) Single participant whose removal shuts it down: the UK FCA payments licence. Lose that and the UK hub, where most of the platform's liquidity routes, is dark.

Q3: What can break this?

(a) Regulatory: PSD3 or a future EU instant-payments rule mandates a free, sender-side cross-border rail (e.g. TARGET Instant Payment Settlement covers Wise's spread). (b) Competitive: stablecoin remittance corridors (USDC + on-chain rails) compress Wise's 0.5% FX margin toward zero, especially USD to LATAM and USD to Philippines. Revolut, Remitly and Western Union are also racing margins down. (c) Technical/behavioural: an outage at a single local-settlement bank in a major corridor freezes transfers there for days, and the FT writes the story; trust loss spikes churn.

Worked answer: Coinbase (the pair target).

Q1: Who pays whom, and why?

(a) Retail traders, primarily. Institutional desks pay much less and 75% of 2023's \$3.1B revenue came from retail fees. About 90% of 110M verified users paid nothing in 2023. (b) Mechanism: retail trading spread (1.49 to 3.99%), plus float share on USDC reserves (Circle remits about 50%), plus Coinbase One subscription, plus staking commissions. (c) Cost eliminated: *search* (single venue), *verification* (KYC once), *custody* (no private keys), *enforcement* (regulated US entity). The TCE premium over a DEX (about 0.7%) is the price of trust.

Q2: Who needs to show up for this to work?

(a) Buyers AND sellers of crypto (two-sided), banks for fiat on/off ramp, regulators in all 50 US states + 100+ countries, token projects that list, institutional market makers that keep spreads tight, oracle/data providers, cloud infrastructure. (b) Cold-start: solved historically by being one of the first regulated US venues post-2012; today the cold-start is renewed token-by-token via listing approvals. (c) Single participant whose removal shuts it down: the US banking partners. If Silvergate-style banking de-risking hits Coinbase's fiat rails, the on/off ramp dies and the business is over.

Q3: What can break this?

(a) Regulatory: an SEC ruling that re-classifies all ETH/SOL listings as unregistered securities; a US stablecoin law that caps the float-share economics (kills the USDC line). (b) Competitive: a DEX wallet (MetaMask, Phantom) with embedded fiat on-ramp + UX as smooth as Coinbase. Migration would be silent because users keep custody. (c) Behavioural/technical: a 2022-style crypto crash compresses retail volume 75% while costs stay fixed; or a custody breach (the SQL Capital, FTX line). Both have historical precedent.

Comparison: Wise vs Coinbase. Both businesses earn from *eliminating transaction costs*, but Wise eliminates FX search

costs and Coinbase eliminates trust-and-custody costs. Wise's revenue scales linearly with corridor volume and is rate-insensitive; Coinbase's revenue is highly cyclical and rate-sensitive (USDC float). On Q2, Wise's bottleneck is regulators, Coinbase's is regulators AND banking partners. On Q3, Wise dies if the rail goes free; Coinbase dies if compliance changes faster than the business model.