# NOT NEW AND NOT IMMUNE: HOW CRYPTO RECREATED TRADITIONAL BANK RUN DYNAMICS

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## Abstract

The 2022 collapses of Terra-Luna and FTX showed that crypto-adjacent institutions are not immune to the bank run fragility, a problem that has long dogged traditional financial institutions. This paper explores why institutions that presented themselves as distant from conventional banking structures failed in a manner that mirrored the classic bank run dynamics of 100 years ago. Through the use of qualitative comparative case studies based on Diamond-Dybvig theory and shadow banking literature, the paper applies a five-factor run-risk framework (first-mover advantage, liquidity mismatch, confidence fragility, feedback loops, and absence of backstop) to understand both collapses. The analysis shows that algorithmic pegs, opaque financial structures, and continuous redemption access amplified panic in ways structurally identical to traditional bank runs. The paper concludes by proposing targeted regulatory reforms, including reserve audits, custody separation, stress testing, and liquidity requirements within the crypto space, to reduce the potential for run risk in bank-like crypto institutions.

## Keywords

Bank run fragility; Financial instability; Cryptocurrency; Crypto regulation; Banking regulation

## Introduction

Cryptocurrency's promise from its inception was that it offered a clean break from many of the problems and constraints of traditional financial institutions. Its strongest proponents highlighted characteristics such as how blockchains reduce intermediaries, the ability of stablecoins to protect value, and that crypto operates around the clock, thereby offering efficiency multiples no other assets could claim. However, the year 2022 was a harsh wake-up call for such predictions. When FTX and Terra-Luna collapsed, these two institutions did not fail in any new or novel way; they failed like banks, and they failed rapidly. This paper argues that the 2022 crypto collapses demonstrate that bank run fragility is not a relic of traditional finance, but a structural feature of any system built on demandable claims without stabilizing institutions.

This fact raised a crucial question: why did the organizations that did their best to distance themselves from traditional finance collapse in a manner that very closely mirrored a classic bank run from the 20$^{th}$ Century? Answering this question requires one to shift the question away from supposed technological innovation into an area that has gained less attention: structure. The key is to think of banks more broadly. Banks aren't simply about things like deposit slips or an imposing vault; they are institutions that offer a venue to place assets for a period of time, which can then be redeemed at full value (these are known as demandable claims). Due to a history of crises, modern banks have a number of safeguards in place to prevent runs; Crypto institutions, like FTX and Terra-Luna, did not.

Crypto's confidence, some would label it arrogance, that technology could substitute for these safeguards meant disaster was only one short panic away, and 2022 would reveal how true this was. Fundamental to any crypto assets' success was one crucial element – confidence – and when this dissipated, the collapse was rapid and catastrophic. Customers were highly rational: exiting early and leaving others with depreciating asset claims. Blockchain transparency, which was meant to improve confidence and clarity, supercharged this trend by making exits highly visible.

The collapse of Terra-Luna and FTX occurred very quickly. Terra-Luna collapsed between 7 May and 12 May 2022, losing more than $40bn after the peg collapsed. FTX filed for Chapter 11 bankruptcy on 11 November 2022, a mere nine days after CoinDesk's disastrous story on the company's financial status. This was a vivid illustration of a system built without circuit breakers, opaque balance sheets, and an expectation of constant, on demand liquidity, all in an environment where hesitation meant losing money when the tide turned. In such an environment, the panic was not an aberration or some malfunction, rather, it was the predictable outcome of a design. In the popular imagination, the 2022 crypto scandals were a result of managerial incompetence or fraud. While these elements were definitely present, particularly in the case of FTX, they don't fully explain why panic spread so rapidly and why these institutions collapsed so rapidly. This paper argues that the 2022 crypto collapse illustrates vividly that bank run fragility is not some artifact from the distant past that has no impact on the current crypto space. In fact, it is a structural feature that is highly relevant, since many crypto institutions are built on runnable liabilities that do not have backstops. So, rather than crypto escaping the risks of traditional finance, it has rediscovered one of its most dangerous lessons.

## *An Introduction to Bank run Dynamics*

In popular imagination, a bank run is usually thought of as a chaotic line of people lining up to withdraw money from a bank. While this image is partially correct, it misses the primary cause of the bank run in the first place, which is when the financial structure of an institution results in it being unable to satisfy short-run claims through assets that cannot be easily changed into cash (Friedman, 1977). In such a situation, when there is a lack of confidence due to endogenous shocks, people will have the incentive to rapidly withdraw their funds, leading to a self-reinforcing process that ultimately causes collapse.

The Diamond-Dybvig model shows how fundamentally solvent banks before a crisis can also collapse in such a situation (Diamond, 2007). The mechanics are as follows. Depositors need access to their money on short notice, but the banks have invested the deposits in longer-dated assets which have better returns. This works as long as there is trust that not everyone will withdraw money at once. When a crisis emerges, this trust cracks, and withdrawing money becomes the safest option for depositors. While banks do keep a certain number of reserves to cover such times, there are limits. Once these limits are reached, the bank will be forced to begin liquidating longer-dated assets. If this liquidation is not done quickly enough, panic ensues, and a bank run transpires. So this means that a bank run doesn't actually need a bank to be "bankrupt" because it is the panic itself that causes the disaster.

Deposit insurance is meant to provide peace of mind and limit the incentive to withdraw cash. Lenders of last resort, like Central Banks, stand ready to provide emergency liquidity should the need arise. Financial authority-mandated capital and liquidity reserves are aimed at providing some kind of buffer to banks that are facing increased demands for cash (Andolfatto et al., 2017). Together, these tools are meant to calm things when financial conditions are worsening.

As our financial systems have evolved, there has been a move toward a shadow banking system. The Financial Stability Board defines shadow banking as "credit intermediation involving entities and activities outside the regular banking system … Such intermediation can support economic activity by providing additional funding sources for the economy, including for riskier market segments that may find it relatively difficult to access bank funding" (Manalo et al., 2015). But these institutions are not immune to bank runs, and are arguably at even more risk. Due to the lack of traditional protection tools outlined above, loose to no regulation, and opaque financial statements, these institutions are deeply at risk of margin calls, refusals to roll over short-term funding, or greater collateral requirements when a crisis emerges, thus placing them in danger of collapse (Gorton & Metrick, 2010). The fundamental mechanism of collapse is the same: rapid claims for cash lead to instability when confidence breaks down.

Understanding this broader phenomenon is crucial for analyzing crypto-related financial failures. While many crypto institutions like to think of themselves as being new paradigms in the world of finance, the reality is that they have recreated many of the features of traditional banks. Stablecoins, centralized crypto lenders, and exchanges all share a common feature (along with banks): they issue claims users believe to be liquid and rapidly redeemable. In other words, the perception is that when you want access to your money, you shall have it. In parallel to this perception is the reality that these crypto institutions often use these funds and then invest them in other volatile, leveraged, or illiquid assets (Azar et al., 2024). This combination of a mismatch between demandable claims and institutionally difficult-to-access funding in certain conditions made crypto ripe for bank run type behavior. What makes things worse is that none of the traditional hedges against bank runs exist.

Thus, a completely new way of analyzing crypto failure is not necessary, because they share most of the characteristics of a traditional bank run. The World Economic Forum defines a bank run as "when a bank faces a loss of confidence, sparking many customers to withdraw their deposits … [with] massive withdrawals happening simultaneously put the bank's existence at risk … [creating] fears, and contagion [that] can spread from one institution to another, undermining the banking system as a whole" (Charlton, 2023). It is important to note that whether the institution meets the legal definition of a bank is irrelevant; the key is in terms of how claims and assets are structured, and how participants respond to uncertainty during periods of turmoil.

Five key elements are typically present and are important in building "run risk." Firstly, there must be a first-mover advantage during times of crisis. If there seems to be a crisis that can lead to collapse, then the depositors who withdraw their funds the quickest will have the biggest advantage. Secondly, there needs to be a mismatch in terms of liquidity/asset maturity, and this difference means that mass withdrawals cannot be satisfied with existing assets or only through selling these assets at a huge loss. Thirdly, there needs to be concerns about the solvency of the institutions, resulting in confidence being even more fragile. Fourth, there needs to be a vicious cycle that occurs as withdrawals force institutional asset sales at depressed prices that further weaken balance sheets and lead to further panic. Finally, there should be no credible support system that could step in and slow the chaos (Azar et al., 2024).

The crypto space intensifies these issues due to the characteristics of the institution itself. Many crypto-related institutions are very opaque, with little public information available about reserves, quality of assets, or interconnections within the broader crypto universe. In addition, many crypto platforms emphasize the fact that they run 24/7, which accelerates the speed of collective exits in times of crisis. Finally, as previously mentioned, there are no institutional safeguards behind most crypto institutions, unlike their traditional financial peers. As a result, once confidence erodes, there are few barriers to a rapid collapse. When considering crypto collapses through this lens, it changes the way policymakers examine these phenomena. Rather than isolated scandals or failures in management, these collapses can be thought of as predictable outcomes of structures that are ill-fitting and ripe for problems, primarily due to their fundamental design. While crypto enthusiasts might like to project an image of innovation and dynamism, the crypto space has important flaws baked into its DNA, particularly during times of crisis.

The collapse of Terra-Luna and FTX offers important lessons and a vivid illustration of how run dynamics can emerge even in decentralized systems built around stable-value promises. Together, these case studies demonstrate that the fundamental logic of bank runs remains powerful, even in financial systems that claim to have moved beyond traditional banking.

## Methods

I used a qualitative and theory focused approach to understand the causes behind the 2022 crypto market crash. Instead of using original data, this paper uses a combined approach from three different sources. First, the paper uses established frameworks from the existing banking and financial literature, in particular, the Diamond-Dybvig bank-run theory and shadow banking related literature. This background allows for an analytical framework that we can use to explore crypto institutional failures. It also allows us to identify structural parallels between the traditional banking sphere and crypto. Second, the paper uses a comparative case study between Terra-Luna and FTX. These cases were specifically selected because they represent particular institutional models of decentralized finance (DeFi) and centralized finance (CeFi). Despite their differences, they both exhibited classic bank-run dynamics. Each of the case studies are analyzed through the five-factor run-risk framework, which includes first-mover advantage, liquidity mismatch, confidence fragility, feedback loops, and absence of a backstop authority. Each factor was evaluated in terms of both cases through examining whether the structural conditions necessary for that element were in existence and, if they were, how they interacted with other elements to form or supercharge the run dynamic. Sources that were secondary in nature were chosen if they had proximity to the event and possessed methodological rigor. So, research studies that were widely cited were chosen, as well as reports from well-regarded institutions like the Federal Reserve or Financial Stability Board. Thirdly, this paper uses secondary sources to reinforce the research conclusions from the two case studies.

# Results

## *Case Study I: Terra-Luna*

The spectacular collapse of Terra-Luna in May 2022 offers one of the sharpest examples of how bank run dynamics can emerge in the crypto space, with devastating consequences. This collapse destroyed more than $40 billion in value and upended the entire crypto ecosystem, resulting in the failure of a number of crypto-adjoining institutions (Lee et al., 2023). Terra-Luna's collapse is now seen as an important cautionary tale of how bank run dynamics can occur outside the traditional banking system. While regulators have focused on the fraud and misrepresentation that occurred, particularly those of its founder, Do Kwon, the structural impetus behind Terra's implosion was driven by many familiar forces: erosion of confidence, a mad rush to redeem money-like claims, and the absence of any stabilizing institutions.

It is important to understand the mechanics of Terra-Luna because, while the company proudly extolled its innovation, this so-called innovation obscured real fragility. Terra was constructed around an "algorithmic stablecoin" called TerraUSD (UST). The Crypto Council for Innovation defines algorithmic stablecoins as "a digital asset that mirrors the price of a fiat currency, usually the US dollar. Using mechanisms that adjust the circulating token supply, these types of stablecoins attempt to maintain their peg with the underlying currency" (Ekshian, 2025). These types of coins are different from reserve-backed coins such as USDC or USDT, which are actually backed by real assets (US dollars, bonds, treasuries, etc.). The maintenance of value for UST was supported through its relationship with its sister token, Luna.

What was meant to occur was that when UST traded below $1, traders could buy UST cheaply (e.g., for $0.97). These same traders would then redeem that 1 UST for $1 worth of Luna, and then sell that Luna on the open market for US dollars, pocketing the difference. This process would burn (remove) UST from circulation, reducing supply and pushing the price back toward $1. When UST traded above $1, traders could buy $1 worth of Luna to mint 1 UST and sell that UST on the open market for more than $1 (e.g., $1.02), keeping the difference. This process would increase the supply of UST and push the price down toward $1 (Naudts & Jouanneau, 2022). This entire process created the illusion of stability within the system.

UST was essentially a demandable liability. Users treated it like "real" money: They believed it would always be available, always be redeemable, and would always retain its value. In addition, there was one other issue lurking within the Terra-Luna ecosystem—the Anchor Protocol. Anchor offered around 20% yields on UST deposits, which encouraged users to park their UST with Anchor in the face of excellent returns. There was a sense of complacency and confidence that UST would hold its peg and users would be able to attract very favorable returns at the same time. Over time, the supply of UST expanded dramatically, with many investors believing they had found an amazing opportunity, a low-risk and high-interest way to save money that seemed extremely liquid (Briola et al., 2023). This introduced further risk into the system when users began to treat Terra-Luna like a reliable savings product, akin to a bank. What many didn't know is that the favorable saving rates offered by Anchor weren't the result of standard bank lending practices but were, in fact, the result of subsidization by Terraform Labs (the originators of Terra-Luna) and outside investors. This subsidization would be a major problem later when withdrawals became so excessive there was no way to cover the promised interest payments.

A further weakness came from how withdrawals were funded. UST was redeemable for Luna at any time, meaning that whenever users exited UST, the protocol removed their UST and minted new Luna to maintain the peg. To turn that value into cash, traders then had to sell the newly minted Luna on the open market. When Terra was young, this was not a problem because Luna was valuable and there was a limited supply of UST. However, in 2022, UST had grown by orders of magnitude and, like the broader crypto market, Luna's price was becoming more and more unstable. Now, rather than acting like a stabilizing force or reserve that it was supposed to, Luna was injecting instability. When UST slipped its peg in May 2022 (this had happened on a number of occasions prior, but had self-corrected in the past), the system created a huge amount of Luna to compensate. With such a deluge of tokens entering the market, the price of Luna collapsed, and a classic bank run began as first movers all attempted to exit as quickly as possible. The innovation of Terra-Luna, its algorithm, created the fatal flaw through a faulty mechanism for how withdrawals were funded (Briola et al., 2023).

When viewed through the standard framework of run risk, Terra-Luna contained all the ingredients necessary for a destructive bank run, amplified by Anchor's incentive structure. The structure of Terra-Luna created extreme liquidity mismatches. While the vast majority of UST sat in Anchor for its excellent yield, withdrawals could only be met through the protocol's burn-and-mint mechanism, whereby exiting users burned UST and received newly issued Luna. In short, there were not enough funds but the system needed to create it if there was a demand for it. Once large-scale withdrawals began, the value of that newly minted Luna fell rapidly, making it increasingly difficult for users to exit at full value. There was also a distinct first-mover advantage. Those who withdrew UST and redeemed it earliest would receive the highest value because Luna was losing value as redemptions grew.

The system was driven by confidence in the system, and once that failed, it sent a cascade of withdrawals into the system. When news began to emerge that Anchor's yield was subsidized, users began to connect the dots and see that eventually they would not be able to receive their returns; this shook the community's confidence. There was no lender of last resort or insurance to backstop deposits. Once a run began, there was no way to slow it down or calm fears by appealing to a central bank. Each owner of Terra-Luna was completely at the mercy of the markets.

## *Case Study II: FTX*

2022 was a very difficult year for those in the crypto space. In November 2022, FTX, one of the world's largest cryptocurrency exchanges, collapsed in a matter of days. This collapse had many of the hallmarks of bank run dynamics from a hundred years prior and illustrated that these collapses could occur even in institutions that prided themselves on being distinct from traditional financial institutions. What made FTX's collapse particularly notable was its sheer size: At its peak, FTX was valued at tens of billions of dollars and had millions of customers around the world (Fu et al., 2024).

FTX prided itself on accepting consumer deposits in a number of cryptocurrencies and stablecoins. Customers were assured that they would access their funds 24/7 and in a rapid manner. This meant that FTX faced a very large pool of demandable deposits. Importantly, these deposits were believed to be highly liquid and safe by users. This would be crucial to the eventual collapse, and it matches the dynamic seen in other run scenarios: seemingly liquid deposits backed by illiquid assets. These illiquid assets would be a disaster for FTX (Fu et al., 2024). But FTX's issues did not end there. A major source of danger for the organization was its close association with Alameda Research. Alameda Research was extremely dependent financially on FTT, FTX's native token. FTT and other illiquid crypto assets created and promoted by FTX were the backbone on which Alameda was built. (Coquidé et al., 2025) Worse, the value of FTT was inextricably linked to a belief in FTX's continued financial soundness. The result was weakness and a liquidity mismatch i.e. the company's ability to meet its obligations to depositors was dependent on an asset whose value was tied to the perception of that exact organization.

On 2 November 2022, a report from CoinDesk revealed the extent of Alameda's FTT holdings. This report showed that rather than Alameda holding a basket of liquid assets, it had heavily concentrated its assets in FTT and other FTX-related tokens (Allison, 2023). This led to people worrying about the true financial status of both Alameda and FTX, and whether customer funds were being used in the right way. Around the same time, Binance, a major FTX competitor, announced it would liquidate its significant FTT holdings (TheNewsCrypto, 2022). This placed even more pressure on FTT's price, and confidence in FTX began to plummet.

At this point, just like a typical bank run, things began quickly unravelling. FTT's price collapsed and fell more than 80% within a few days of the news. This placed FTX's balance sheet under acute pressure. As users began to see how widespread the problem was, first-mover advantage took hold and withdrawals from the exchange surged in response. The fact that much of FTX's assets were locked away in illiquid crypto assets and comingled with money at Alameda meant that, as redemptions accelerated, they were unable to fund everyone's requests. Withdrawals surged, with reports suggesting that FTX saw nearly $6bn exit the platform within days of the CoinDesk report, overwhelming its ability to process requests.

FTX wasn't able to meet this overwhelming demand, illustrating the issue of liquidity mismatch and associated problems. Importantly, this mismatch was exacerbated by governance failures that existed even before the run started. Most alarmingly, FTX operated within a meaningful divide between customer funds and the business' own funds. Customer deposits were, unknowingly, being used to fund speculative positions at Alameda Research. This violated established banking custody norms and best practices. So, when FTX needed to fund a flood of redemptions, it was unable to because these funds were locked away within illiquid and risky bets that Alameda had made. The CoinDesk report did not merely raise questions of solvency but also destroyed the foundational confidence of FTX as a bank-like institution. Customers could no longer feel certain that the assets they had placed in FTX's care were being leveraged on risky bets elsewhere. This uncertainty is precisely the mechanism the Diamond-Dybvig model identifies as the trigger for a run: when depositors cannot verify institutional soundness, early exit dominates as a rational strategy. FTX's governance failures did not just accompany the bank-run dynamic in a vacuum; they activated it through removing the information asymmetry. The collapse of FTX also illustrated how rapidly these dynamics feed on themselves. As more customers withdrew, the price of FTT fell further, which influenced the perceived stability of FTX's ability to meet obligations, which led to even more withdrawals. This caused a spiral that matches a characteristic bank run. And it was only a matter of time until whatever liquidity remained would be completely drained. That moment arrived on 11 November 2022, when FTX's liquidity position deteriorated to the point where it ceased to process customer withdrawals altogether and filed for Chapter 11 bankruptcy, along with more than 100 affiliated entities (Yaffe-Bellany, 2022). Just like in the case of Terra-Luna, the lack of stabilizers amplified the collapse. FTX had no deposit insurance or a lender of last resort it could turn to when things went badly.

As the volume of redemption surged, the company was unable to turn to a central bank or some other monetary authority for help. The final result was a complete collapse that was the result of fraudulent management and structural fragility. This fragility happened because the system was built on demandable claims that could not be met with illiquid assets. This is where the similarity to bank runs becomes the most clear. In regular banking, a tidal wave of withdrawals forces a bank to liquidate assets to meet requirements. In FTX's case, there were insufficient assets to meet this demand either because the assets themselves had shrunk substantially in value (FTT) or the original deposits had been rolled into risky investments by Alameda.

FTX's collapse shows that bank run dynamics are not limited to entities in traditional finance labelled "banks." There should be warning bells ringing when customers think their deposits are safe but these deposits are mixed with other underlying assets that have unclear value. This is even more a problem when there aren't buffers and credible backstops, because a collapse in confidence can start a rapid withdrawal spiral that can lead to disaster. It also shows that, when there is a lack of regulatory safeguards and controls, crypto companies are just as vulnerable to the same fragilities that have brought down traditional financial firms.

# Discussion

## *Policy Implications and Recommendations*

What the collapses of Terra-Luna and FTX make abundantly clear is that crypto institutions can easily be overwhelmed by bank run dynamics in the right conditions. While crypto optimists believed their technology was immune to many of the problems of traditional finance, the reality has been different. In fact, a strong argument can be made that traditional banks are safer because of the many safeguards that are currently in place. This means that for crypto to go completely mainstream, it needs to accept some level of regulation in order to reduce the chances of massive failures on the scale of Terra-Luna and FTX. This means that policymakers should start exploring tools to lessen the impact and breadth of these problems.

An obvious place to begin would be to look at reducing the runnability of crypto assets. Transparency requirements and mandatory stress testing directly target confidence fragility and through lessening informational asymmetries that drive the incentive for early exit, also lower first-mover advantage. In the cases of both Terra-Luna and FTX, customers expected that their claims (deposits) would be instantly accessible 24 hours a day, 7 days a week. And not just accessible, but able to be withdrawn in full. In the case of mass withdrawal, there was no way either institution would be able to make good on such a claim. Policymakers should force crypto institutions to be more transparent about the fact that there is no such thing as guaranteed redemption and that these deposits face risks, just like any asset. This means these institutions also need to face stress tests (testing the institutions under a variety of hypothetical market situations), just like normal banks and the results of these tests need to be published. This also connects with crypto that markets itself as "stable," particularly in relation to real world assets like the U.S. dollar, gold etc. These types of assets should be required to have tangible reserves of the assets they claim they are linked to. These reserves need to be independently audited and the results published publicly. If crypto assets want to be seen as "money-like assets" they need to be subject to similar money-like assessments. Institutions that refuse to be part of such controls and assessments need to broadcast this fact widely, so people do not believe they are holding something safe when in fact they are holding an asset that has a high degree of run risk.

A second reform should revolve around creating limits on custodial institutions, like FTX. Mandatory custody separation targets both liquidity mismatch (by ensuring client funds are not redeployed in illiquid assets) and confidence by providing users with verifiable assurance that their assets are held separately from corporate positions. FTX's main weakness was that it had comingled customer assets with Alameda's trading positions. This goes against banking best practices, which mandate the separation of customer assets and corporate funds. These rules would be similar to the custody protections in stock brokerage accounts or money market funds, where the separation and independence of assets is of utmost importance (Black, 2000).

Another option would be to apply bank-like capital and liquidity requirements to any organization that issues a claim that could be runnable, irrespective of whether it calls itself a bank or not. Such requirements help address the absence of a backstop and ensure that reserves (that are sufficiently liquid) exist before a crisis rather than requiring institutions to liquidate assets at distressed prices once a run has begun. Mandatory liquidity buffers also slow negative feedback loops because asset "fire-sales" during a run further depress prices and accelerate withdrawals. Having ready reserves slows losses of confidence before they become a self-reinforcing spiral. While crypto adjacent organizations like to think of themselves as a new paradigm, regulators could examine them in terms of function, rather than whatever label they give themselves. This means that if a firm takes funds from a customer and that customer believes he or she can withdraw those funds at short notice, then that institution should be required to hold some form of liquid reserves.

There is a tension here that is constantly debated within crypto: stability is needed, but if this stability introduces too much regulation, it might inadvertently reduce innovation and introduce moral hazard. If, for example, governments began introducing deposit insurance or the Fed agreed to be a lender of last resort, people may feel emboldened to undertake even more risky crypto ventures, safe in the knowledge that the government will step in if things go wrong. At the same time, introducing the full range of bank regulations on the sector will limit the experimentation that attracted people into the crypto space in the first place. The solution seems to be that there needs to be a laser-like focus on a particular subsection within the crypto ecosystem: those institutions that function in a bank-like manner.

## Conclusion

The collapse of Terra-Luna and FTX shows how innovation cannot always escape poorly designed financial structures. While both organizations branded themselves as radical alternatives (through the algorithmic mechanisms, decentralization, 24/7 access etc.) to the traditional finance, both were brought down by problems that have plagued traditional institutions for hundreds of years. UST was a demandable claim backed by a volatile asset, while FTX used deposits to make illiquid bets on other crypto instruments. When confidence fell apart, neither organization was able to stem the mass withdrawals that collapsed both institutions. The result was something that anyone who lived through the bank runs of the 1920s would recognize: users rushing to withdraw deposits, assets proving insufficient to meet demand. This was a very old problem that has reccurred many times because the traditional guardrails that were meant to stop a failure of this sort happening were absent. Policies like lender-of-last-resort assistance, capital buffers, and tight custody rules were implemented in the 20$^{th}$ Century to stop these exact problems from occurring. Crypto seems to need to embrace at least some regulations and controls or face a future where this boom-bust cycle repeatedly plays out and destroys confidence in crypto as an asset for storing wealth.

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