How Many Cryptocurrencies Are There in the Crowded Market – A Complete Guide

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Cryptocurrencies (or crypto), is any form of currency that exists digitally or virtually and uses cryptography to secure transactions.

The number of cryptocurrencies has grown exponentially in the past few years. Investors are attracted by the potential for huge returns from volatile market transactions, and project developers have expanded their applications from digital currencies to decentralized finance (DeFi), play-to-earn games, non-fungible tokens (NFTs) and metaverse investment.

How many crypto coins are there? Why are there so many cryptocurrencies and what are the different types of coins and tokens?

In this guide, we look at how the cryptocurrency market has developed and the potential future of the industry.

The total number of cryptocurrencies worldwide

From the launch of bitcoin (BTC) in 2009 and ether (ETH) in 2015, the cryptocurrency market proliferated to more than 9,000 different coins and tokens in 2021. The total number of cryptocurrencies in the world has soared to more than 20,200 in circulation currently, based on CoinMarketCap data.

Some projects are unsuccessful and fold, and some launch new versions of their currencies, such as Terra's LUNA 2.0 token after a crash in May that reverberated throughout the crypto markets.

Why so many cryptocurrencies?

When the Bitcoin blockchain launched in 2009, it created opportunities for developers to create new applications and services using blockchain technology. Developers have sought to build on the strengths and solve the weaknesses of the Bitcoin protocol by launching alternative cryptocurrencies, known as altcoins.

Ether, which runs on the Ethereum blockchain, is the biggest altcoin. Unlike bitcoin, which aims to function as a digital currency, ether enables transactions on the Ethereum smart-contract platform, enabling developers to build applications on top of its framework.

As blockchain technology has developed, cryptocurrencies have moved beyond a digital store of value to enabling other financial services, health data management, supply chain logistics, social networks and asset ownership.

And as some blockchains have come up against issues of scalability, developers have launched new protocols to help expand their processing capabilities and reduce transaction costs. There are now different layers of blockchains, each with their own cryptocurrency tokens that enable their functionality:

Layer 0 – Data transfer architecture that runs protocols and supports Layer 1 blockchains. Polkadot (DOT) is a Layer 0 project that uses its Relay Chain to act as a bridge between Layer 1 blockchains

Layer 1 – Public, independent blockchain networks, such as Bitcoin, Ethereum, Solana (SOL) and Avalanche (AVAX)

Layer 2 – Blockchain solutions built on top of Layer 1 blockchains to solve scalability limitations. They often process tasks off chain to help simplify and speed up transactions. Polygon (MATIC), Arbitrum and Optimism (OP) are among the well-known Layer 2 projects

Development teams have also launched cryptocurrency tokens purely as a form of speculation, to

profit from the growing interest in the market and hype around new projects, as investors look for the next bitcoin.

All of that adds up to a massive crypto circulating supply and a total market capitalisation of $884m at the time of writing, based on CoinMarketCap data.

What is the difference between tokens and coins?

Some cryptocurrencies are referred to as coins while others are called tokens. The terms are sometimes used interchangeably, but they are not necessarily the same.

Coins are cryptocurrencies that run on their own independent blockchain, such as bitcoin and ether. Tokens are cryptocurrencies that run on another blockchain and operate on its standards, like the ERC-20 standard on the Ethereum blockchain or the BEP-20 standard on the Binance Smart Chain (BSC). Cryptocurrencies like shiba inu (SHIB), uniswap (UNI) and apecoin (APE) are ERC-20 tokens that run on Ethereum, while safemoon (MOON), bugercities (BURGER), PancakeSwap's CAKE are BEP-20 tokens.

Coins are continuously created by miners as they process and validate transactions on the blockchain. Tokens tend to be pre-mined and released onto the market at launch, or distributed at scheduled intervals over months or years.

How many different types of cryptocurrencies are there?

There are several types of cryptocurrencies depending on the aims of the project and their usage. Let's take a closer look at some of them and how they work.

Utility tokens

Utility tokens are cryptocurrencies that are designed to enable specific functions in an application. They are commonly used in DeFi applications to process transactions or provide liquidity. They are not designed to act as digital currencies to pay for goods and services from retailers.

As an example, the basic attention token (BAT) is a utility token that is specifically designed for users of the Brave web browser to tip content creators and receive rewards for viewing advertising. It can be used in other applications that have enabled the BAT wallet, such as Twitter (TWTR).

Utility tokens can also be used as part of a project's governance system. Token holders have the right to vote on proposals for the future direction of a project and implementation of suggested updates to the protocol. Some projects run dual structures with a coin to act as a currency and a utility token for governance.

Exchange tokens

Exchange tokens are the native cryptocurrencies used by exchanges to process transactions and reward users.

For example, binance coin (BNB) is the native token of the Binance exchange. Users of the exchange who hold BNB in their wallet receive a discount on their trading fees. They can pay the trading fees from their BNB balance, rather than fiat currency or the cryptocurrency they are trading.

Users of the NEXO exchange receive higher interest rates on their cryptocurrency holdings depending on the percentage of their portfolio's value they hold in NEXO tokens.

Payment coins

Payment coins are the cryptocurrencies that are designed to be accepted as a means of payment to merchants for goods and services. As well as bitcoin and ether, cryptocurrencies like Ripple's XRP, dogecoin (DOGE) and litecoin (LTC) are commonly accepted payment coins.

Payment processing gateways like Coingate, BitPay and NOWPayments enable merchants to accept cryptocurrencies as payment along with fiat currencies.

Stablecoins

Stablecoins are digital currencies that are pegged to a specific asset such as the US dollar or gold at a fixed rate. Collateral-backed stablecoins hold the asset in reserve and aim to provide a stable store of value for holders. Algorithmic stablecoins are more controversial, as they use algorithms to balance the price.

The Terra blockchain project's algorithmic stablecoins included TerraUSD (UST), TerraCNY, TerraJPY, TerraGBP, TerraKRW, TerraEUR, and the TerraSDR based on the International Monetary Fund's Special Drawing Rights (SDR) asset. Terra used its native LUNA cryptocurrency as a utility and governance token to provide the collateralizing mechanisms to secure the stablecoins, but this system collapsed when there was a run on the UST stablecoin that created hyperinflation in the supply of LUNA tokens.

There has also been controversy over whether the Tether (USDT) stablecoin is fully backed by a US dollar collateral reserve, but its latest quarterly assurance report showed its holdings in US Treasury bills and commercial paper as collateral in line with the value of the coins it has issued.

DeFi tokens

DeFi tokens are cryptocurrencies that are native to protocols that use automated smart contract platforms to provide DeFi applications and services on the blockchains. DeFi tokens are locked, or deposited, in DeFi protocols to represent the funds that users have tied up in staking, liquidity pools or lending arrangements.

Total Value Locked (TVL) refers to the amount of money deposited and is commonly used to indicate the value of DeFi assets overall and how much is held by a specific protocol.

The top DeFi tokens include the dai stablecoin, AVAX, UNI and chainlink (LINK), according to CoinMarketCap data. Total TVL across the DeFi space plunged to around $73bn at the end of June 2022, from its peak of $249bn in November 2021, data from DeFi Llama shows.

Security tokens

A security token is a cryptocurrency that does not carry its own value but instead represents ownership in a valuable asset. Security tokens are created on a blockchain through tokenisation, where the information about the asset and its ownership rights are recorded and stored.

Security tokens include equity tokens that represent stocks; debt tokens that represent bonds,

mortgages and other forms of loans; and asset-backed tokens, which represent the ownership of assets like real estate, cars and art.

Privacy coins

As blockchain transactions are required on public ledgers, privacy coins were created to protect the privacy of users and secure the data on the blockchain. Privacy coins offer such cryptography to hide the details of a user's wallet and make transactions anonymous. This can include stealth addresses; zero-knowledge succinct non-interactive argument of knowledge (Zk-SNARKs) to valid transactions without the details of the sender and receiver; and grouping signatures.

Some of the most popular privacy coins include monero (XMR), zcash (ZEC) and oasis network (ROSE).

NFTs

Non-fungible tokens, or NFTs, are not cryptocurrencies at all, but cryptographic assets that are stored on a blockchain. The metadata for each NFT can contain information about its characteristics and rarity. NFTs are non-fungible in that they are unique and cannot be exchanged for anything else in the way that a cryptocurrency token can be exchanged for another cryptocurrency token with the same value. NFTs are used to represent digital or physical assets and authenticate their ownership.

NFTs have famously been used to sell digital artworks for millions of dollars, and they are used as avatars for blockchain-based games such as Axie Infinity and Sandbox. There are hundreds of profile picture (PFP) NFT collections from CryptoPunks to Bored Ape Yacht Club (BAYC) and World of Women, with the characters that have the rarest features holding the highest value.

Why do cryptocurrencies matter?

Cryptocurrency markets attract attention from investors and the media – both positive and negative as the prices for coins and tokens can be highly volatile. The sector has seen a number of high-profile “rug pulls” – scams in which developers attract investors to their projects and then withdraw funds, abandoning the project and leaving the investors with a worthless asset. The collapse of Terra’s UST, which was at the time the third largest stablecoin, and the failure of the LUNA 2.0 token to gain value, has raised concerns about the future viability of cryptocurrencies.

But the emergence of blockchain and smart-contract technology in enabling fast, secure digital transactions is bringing changes to the financial services, health, logistics, art and other industries. Banks and other money transfer providers are using blockchain protocols to facilitate cross-border payments and some financial institutions are developing their own cryptocurrencies. Institutional investors are also increasing their exposure to cryptocurrencies and blockchain developers in their portfolios. And cryptocurrencies create new opportunities for the unbanked in many parts of the world to transfer and even earn funds through their mobile devices.

Blockchain protocols are likely to continue evolving to develop solutions to their limitations.

How many cryptocurrencies have failed?

More than 2,400 cryptocurrencies have failed, according to a list compiled by Coinopsy of dead cryptocurrencies that have been abandoned, identified as a scam, have no nodes, or no longer update.

Cryptocurrency outlook

The recent volatility in the cryptocurrency markets has raised concerns about the future survival of some coins and tokens and investors have turned their focus on bitcoin and other cryptocurrencies with perceived stability such as stablecoins and exchange tokens.

“Bitcoin and stablecoins continue to increase their market share amidst souring market conditions as traders continue their flight from risk-on investments to safer assets,” analysts Vetle Lunde and Oyvind Sjaastaad wrote in an Arcane Research market update on 12 July. “Ethereum dominance is declining, leading the Large Caps Index dominance to underperform bitcoin. Ether’s relative underperformance may be caused by selling pressure from lenders.”

“The stablecoin dominance has grown amidst the current market instability, currently making up around 16.8% of the total crypto market capitalization. While risky crypto investments often are punished by souring market conditions, stablecoins offer market participants a much-needed way to alleviate market volatility risks without having to exit the crypto space entirely,” the analysts added.

“USDC has seen its market share increase 0.19 percentage points over the last week—the biggest upswing among the three largest stablecoins. This occurs in an environment of increased regulatory scrutiny, which, combined with USDC’s proactive regulatory strategies, may have drawn positive attention from market actors.”

“We’re at the stage where there are basically far too many blockchains out there, too many tokens. And that’s confusing users, and that’s also bringing some risks for the users,” Bertrand Perez, CEO of the Web3 Foundation, told CNBC at the World Economic Forum in Davos, Switzerland in May.

“Like at the beginning of the internet, you were having lots of dotcom companies and lots of them were scams, and were not bringing any value and all that got cleared. And now we have very useful and legit companies.”

Events like the Terra crash “are very painful for the people who suffer the losses of their money though those events but it’s also a way to clean who is there for the wrong reasons and who are the projects who really are there for the long term and try to provide utility through their blockchain and token,” Perez said. “The token needs to have real utility and not just being there to pump in value.”

“Multiple failures among crypto companies should not be a surprise in the current backdrop of deleveraging given the crypto market lost 70% of its capitalisation cumulatively since last November,” J.P. Morgan analyst Nikolaos Panigirtzoglou wrote in a recent analysis.

“How much more deleveraging needs to still happen is hard to tell. But indicators like our Net Leverage metric based on futures suggest that deleveraging is already well advanced. And similar to the credit market deleveraging seen after the Lehman crisis, the bottom in crypto markets is likely to take place before the failure rate among crypto companies peaks. We also find two additional

reasons to believe that the current deleveraging cycle would not very protracted: 1) the fact that crypto entities with the stronger balance sheets are currently stepping in to help contain contagion and 2) VC funding an important source of capital for the crypto ecosystem continued at a healthy pace in May and June."

When looking for crypto forecasts, it's important to keep in mind that the high volatility on the market makes it difficult to accurately predict what a coin's price will be in a few hours, and even harder to give long-term estimates. As such, analysts and algorithm-based forecasters can and do get their predictions wrong.

If you are considering investing in crypto coins or tokens, we recommend that you conduct your own research to develop an informed view of what is a realistic market oulook. Look at the latest market trends, news, technical and fundamental analysis, and expert opinion before making any investment decision. Remember, past performance is no guarantee of future returns. Never invest capital you cannot afford to lose.

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