



# 5 digital / crypto / blockchain predictions for 2021

At the start of January 2020 GMEX Group made its top 5 predictions in this space and evaluated how these had played out at the start of January 2020. The results were very accurate. We try to repeat that feat with our key predictions for 2021.

## 1 Capital markets accelerate the move from analogue to digital

We expect some very interesting developments in the digital asset custody and exchange space following on from 2020 activity.

- Regulated digital exchanges and custodians will continue to be launched with additional ones emerging.
- DBS Bank is expected to go live with DBS Digital Exchange as well as digital custody for tokenised assets (cryptocurrencies and security tokens) for institutional and accredited investors.
- Investment banks Northern Trust and Standard Chartered have collaborated to launch Zodia, an institutional-grade custody solution for cryptocurrencies. Both banks said they expect to begin operations in London in 2021 subject to registration with the UK Financial Conduct Authority (FCA).

Traditional exchanges will seek to digitally transform themselves and seek both technological and knowledge enhancing partnerships recognising the keen interest in digital asset trading from both retail and institutional investors.

Traditional custodians, reacting to their competitors launching digital services as well as seeking to address client demand and market opportunity, will look to develop digital custody service offerings, which start to reflect the traditional types of custodial products the market is accustomed to.

The key will be how they avoid replicating old, silo-based models to truly embrace the digital revolution.

Digital Prime brokerage offerings will start to become more tangible with both existing prime brokers and new players coming into this space. Some of these newer players will also be invested into or form joint ventures with the more established existing players.

Expect regulation to be front of mind to enable all of this, in both key individual jurisdictions as well as standards development across jurisdictions.



## 2 Product innovation in terms of assets tokenised begins to succeed

Whilst there has been lots of hype around security tokens, they are still nascent and they will start to come into their own during 2021 as better products are developed in regulated environments.

The challenge to address is matching companies with a wider pool of funding be it investment into them in crypto or fiat currencies and ensuring the products placed be it through primary placement and public offer have potential demand in the secondary market.

As such key opportunities will emerge for well designed products that are debt based given many investors are long on cash and hungry for yield as well as structured products / portfolio based products, which provide diversity for investors.

Real Estate Security Tokens (RESTs) and areas such as asset backed securities as well as digital Islamic Finance are all areas to watch in 2021 as well as digital equities created on an underlying portfolio of assets, such as multiple FinTech investments held in funds.

ESG / Green initiatives will also see key developments as well as other areas where assets have been immobile to date, but have underlying cash flows to warrant securitisation such as numerous trade finance plays.

Given traditional investors such as family offices and investment managers are still finding their feet in the digital space, digital products which can be packaged with a traditional wrapper to create a hybrid product, that allows them to accommodate it with their existing processes, will also become more popular.

## 3 Demand for smart and digital hub solutions increases

Just as the world is experiencing a fourth industrial revolution (sometimes called 4IR), exchanges are beginning their own new phase. The 4IR concept is the driving force behind the Internet of Things (IOT), where AI, automation and web technology combine to create 'smart' versions of everything from cars to refrigerators.

A similar idea is taking hold in the world of exchange trading, as data driven smart contracts, tokenisation and DLT make it possible to facilitate true asset portability while linking far-flung liquidity centres. That will help form much more powerful ecosystems.

As such digital hub-based models, which can connect many participants from upstream to downstream as well as other services, will be the ones that start to see real traction as they bridge the gap between existing traditional infrastructure and fragmented multiple blockchain enabled digital infrastructure.

This will ensure what the technology fragments can be knitted together. Data, analytics and AI convergence with blockchain will begin to drive smarter solutions in 2021 supporting the predictions in a World Economic Forum published [report](#) titled 'Bridging the Governance Gap: Interoperability for blockchain and legacy systems,' which cited that, *"Decentralized oracle services can become the abstraction layer for legacy and DLT systems to interact with and unlock hidden value by combining the utility of both worlds."*

Centralised Finance and Decentralised Finance (DeFi) to date have been pretty much in parallel silos, but that will start to change in 2021 as use cases emerge that allow a greater intersection between the two and as a result greater opportunity.

Governance tokens and the ability to pledge (stake), borrow and lend digital assets more easily are both aspects we will continue to hear more of in 2021.

## 4 Convergence of B2C and B2B with digital exchanges and payments intersecting

Emerging markets opportunities to harness users and aggregate and match these with institutional activity, including a well-designed compliance construct to ensure proper KYC / AML, will be the key development of 2021.

- During the latter part of 2020 PayPal announced that it was launching a digital offering for its users in partnership with Paxos. This combined with activity Paxos was already undertaking in the B2B space.
- There have been high profile investments into payments in Africa with the likes of Goldman Sachs and Bezos Ventures active during 2020.

Innovative payments plays using stablecoins, reducing friction in fiat transfers, will attract large scale users. The ability for this form of digital payments to interface with digital exchanges, to ensure efficient dynamic asset exchange, will open up a wider degree of financial access and users to the firms that embrace it with positive benefits for retailers, merchants, payments operators, exchanges and institutions. These will be key factors which drive emerging markets growth.

## 5 Growth of CBDC and payments use cases going live

The digital payments space saw vigorous investment activity during 2020 and there have been a plethora of announcements about account based Central Bank Digital Currency (CBDC). Whilst some emerging markets have announced that they have either launched or are launching a CBDC, what many do not realise is that creating a digital currency is actually the easy part.

What is more important is how it is linked into the wider ecosystem to ensure the circulation of money and cash flows. Without it, it is a cart without a horse. It looks like the likes of China are making good progress having

understood this construct and other major nations will not stand by watching and as such here will be some interesting developments with numerous pilots in 2021 starting to develop.

We will also see some emerging markets beginning to embrace a proper CBDC and payments enabled ecosystem by starting pilots and within this construct large players will also start their own digital loyalty and utility token plays, thus creating a resurgence of the construct that was overhyped a few years back, but now has tangible commerce driven initiatives to justify its use and growth.