Digital Assets for Corporates

The Continuously Evolving Landscape

With cryptocurrencies, central bank digital currencies (CBDCs), and other digital asset types capturing the world's attention, organizations of all sizes are beginning to think tactically about the applications of digital asset technology across their business. In the same way that smartphones made the internet more accessible and helped drive new business models, the ongoing adoption of digital assets will help create new societal and business opportunities, according to Carol Grunberg, Head of Partnerships and Innovation, Treasury and Trade Solutions at Citi.

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Why are we reaching an inflection point and why should businesses care about digital assets?

As Steve Jobs famously said, "You can't connect the dots looking forward; you can only connect them looking backwards. So you have to trust that the dots will somehow connect in your future." Financial services have evolved enormously over the past few decades. Technology has helped accelerate transaction speeds, instant payment systems are proliferating, and direct-to-consumer (D2C) financial applications have grown at an unprecedented rate. In addition, although a large gap still exists, more people than ever have access to financial services thanks in part to the advent of mobile wallets (a virtual wallet that stores payment card information on a mobile device). The increased accessibility, and speed of financial services and transactions has created new business models and opportunities for organizations to not only improve efficiency but also grow their businesses.

Turning to digital assets. There has been a proliferation of headlines about cryptocurrencies and blockchain in recent years – especially during the pandemic. Yet, there's much more to digital assets beyond Bitcoin or Ethereum.

Digital assets exist in a digital form and provide the holder with a right to use – including content, infrastructure or currencies.

The three main types of digital currencies are CBDCs (digital versions of cash), stablecoins (cryptocurrencies pegged to tangible assets such as gold or USD), and cryptocurrencies (currencies such as Bitcoin that are not pegged to a central bank or issuer).

Although there has been ongoing hype surrounding digital currencies, the potential applications and risks are still in the process of being fully understood. To date, digital currency proliferation has been predominately driven by consumers – and many of them are likely to be less risk-averse than corporates. At the same time, organizations can't afford to ignore the digital currency phenomenon. Despite market volatility, the total crypto asset market was valued at $1.4 trillion in early May, 2022 – albeit well below its all-time peak of $2.9 trillion in early November 2021.[1]

What is driving the growth of digital assets?

It is not just an increased interest from institutional investors that is driving growth. Ultimately, it comes down to choices made by consumers, companies, regulators, and governments. If buyers, suppliers or consumers want to start transacting using digital currencies, then the market will enable that to happen. One of the most recent examples of the impact these stakeholders have is the increase in the retail adoption and use of digital wallets. In several countries, retail consumers now use digital assets held in their digital wallets as the primary mode of payment with local and global organizations facilitating this as a new payment type.

It's unlikely that these new forms of payment will slow down any time soon. What was non-existent two decades ago, has become mainstream in many parts of the world today. For example, governments, especially those in emerging markets, are using digital wallets to disburse aid, while airlines and hotels are using digital wallets to issue vouchers and faster refunds to their customers. The same thing could very quickly happen with digital currencies, such as stablecoins, cryptocurrencies, or CBDCs. Within companies, the push to think about digital currencies is therefore as likely to come from product, sales, or procurement as from treasury.

To some businesses, digital assets look like the Wild West: should they be worried?

Obviously, companies need to think about risk management in relation to every activity they undertake or even consider, especially new and fast-growing areas such as the digital assets.

Most importantly, the regulatory regime surrounding digital assets is changing rapidly. For example, in March 2022, US President Biden issued an executive order on the regulation of digital assets, paving the way for greater stability and protection for users.[2] In all likelihood, cryptocurrencies are likely to become regulated with most of the protections that people expect. This will build confidence in the currency, bringing them more into the mainstream and making them subject to the sanctions, anti-money laundering (AML), and other instruments of government policy. The path to regulated digital currencies is not yet clear, but already transaction volumes are increasing, and the pace is likely to accelerate.

What should organizations be doing now?

Growing consumer interest and more widespread government focus on digital currencies should prompt many companies to explore potential business applications.

The growth of digital currencies is likely to play into other global trends. For example, many businesses are moving into new business models based on subscriptions, single transaction use, or embedded interoperable platforms.

Digital content sales – especially during the pandemic when much of our lives moved online – have skyrocketed. These trends are likely to continue driving innovation by leveraging digital asset types.

At the moment, most digital assets transactions are not leaving the digital world, nor being converted to fiat currency.

While this is not yet a mainstream activity, one recent statistic in early 2022 indicated that 27 US publicly listed companies alone hold approximately 217,000 bitcoins in their treasuries with a total notional value of more than $8 billion.[3]

As digital assets become more mainstream – and especially in the light of President's Biden executive order and other similar regulatory developments across the world – more companies should start to consider the liquidity management opportunities that digital assets present.

What role will CBDCs play?

Of the 236 central banks globally, close to half have started to do some experimentation around CBDCs.

For instance, Nigeria has already gone live with a CBDC named eNaira and is extending it to merchants and consumers as well as making it compulsory for all commercial banks in the country to accept it.

Jamaica followed a 2021 pilot by announcing plans to go live with a CBDC in 2022 – albeit not compulsory. And the Monetary Authority of Singapore, known historically for its cautious approach, has experimented with CBDCs while China has live e-yuan pilots in several of its larger cities.

CBDCs have a number of potential implications – not least for commercial banks. At the moment, central banks have no direct access to consumers or merchants; commercial banks are responsible for distributing money. Some CBDC models mean that consumers and merchants have an account at the central bank. These models can create the ability for greater financial inclusion and provide opportunities to redesign the existing bank model, which could lead to disintermediation of the banks and limit the effectiveness of monetary policy tools.

Central banks are widely reported as having concerns about the potential uses of digital wallets and cryptocurrencies, and CBDCs offer an alternative digital asset option that enables them to stay in control and maintain financial stability. To some extent, merchants and other organizations would also benefit from this extension of accessibility because anything that helps to eliminate bad actors or nefarious activity in the system is an advantage. In addition, CBDCs (in common with other digital assets) provide corporates with greater visibility into their end users because money, and what that money is intended for, become linked in a way that is impossible with traditional cash or existing payment instruments. The tokenization that underpins digital assets makes everything traceable.

How is Citi thinking about this?

Citi consistently innovates to develop ways to move money safer, faster, and more efficiently to enable our clients to run and grow their businesses in a secure and scalable manner. As a result, we have long been exploring potential use cases for digital assets. For almost a decade, Citi has taken part and invested in numerous blockchain, CBDC and tokenization projects – all underpinned by a strong focus on the regulatory landscape, product governance, and risk management.

There are currently more than 60 initiatives underway across Citi and we have strategic investments in over 20 partners and ecosystems.

However, underpinning all these investments and use cases is our belief that quality beats quantity. We've been on a journey of creation through continuous learning, developing proofs of concept and building partnerships across the industry. In a nutshell, we've been thinking ahead and preparing for when our clients are ready to start making digital assets work for them.

In essence, we've got their back!

[1] CoinMarketCap -https://www.reuters.com/business/finance/crypto-assets-shed-800-bln-market-value-month-2022-05-10/
[2] https://www.whitehouse.gov/briefing-room/statements-releases/2022/03/09/fact-sheet-president-biden-to-sign-executive-order-on-ensuring-responsible-innovation-in-digital-assets/
[3] https://tradingplatforms.com/blog/2022/01/26/public-companies-bitcoin-dominance-stands-at-1-15/

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