

Digital Assets and the Future of Financial Services

3rd Crypto Asset Lab Conference – CAL 21

Milan, 5 November 2021



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Deloitte is part of a global FinTech ecosystem focused on the evolution of crypto market and blockchain technology



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FINTECH COMMUNITIES

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CATALYST



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TOP-NOTCH RESEARCH CENTERS



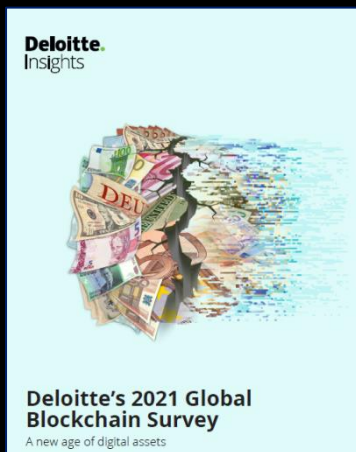
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DELOITTE GLOBAL
BLOCKCHAIN SURVEY

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In 2021 the Community published the IV Edition of Deloitte Global Blockchain Survey

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DELOITTE GLOBAL
BLOCKCHAIN SURVEY

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Insights



Deloitte's 2021 Global Blockchain Survey

A new age of digital assets



In **2021** Deloitte issued the **Global Blockchain Survey** for the IV consecutive year



1,280 Executives and Professionals in **10** countries of different geographies: **North America, LATAM, EMEA, APAC**



1,229 respondents believe blockchain technology is broadly scalable and has reach **mainstream adoption**

The results show an increasing focus on digital assets as a strategic component of maintaining a competitive advantage in the marketplace by Financial Services...

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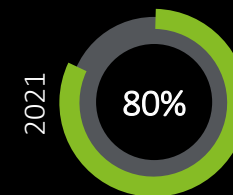
DELOITTE GLOBAL
BLOCKCHAIN SURVEY

Deloitte Global Blockchain Survey 2021 – Key Findings



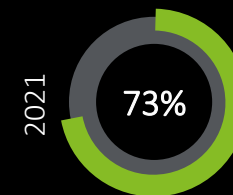
STRATEGIC PRIORITY

80% of respondents (up from 55% in 2020) said digital assets will be important or very important to their respective industries in the next 24 months



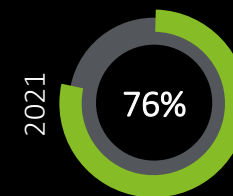
COMPETITIVE ADVANTAGE

73% of respondents believe their organization or project would lose a competitive advantage if blockchain was not adopted



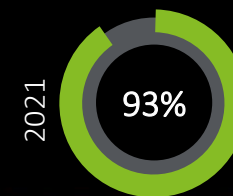
AN ALTERNATIVE TO FIAT CURRENCIES

76% of respondents agree that digital assets will be a viable alternative to FIAT currencies in the next 5-10 years (76% in the FSI world, 94% among FSI pioneers)



IMPACT ON VALUE CHAIN

93% of respondents (up from 85% in 2020) say with confidence that their suppliers, customers and/or competitors are working on blockchain solutions to address current challenges in the value chain



...as well as the urgency of addressing the barriers to change that are holding back the development of new opportunities to create new revenues for the sector

For **80% of Financial Services** respondents, the activation of services related to crypto assets (from trading to custody, up to the provision of payment services) **will lead to the creation of new revenues provided that certain constraints to change are addressed** (such as regulatory framework and security).

Key factors for change



The **Safe Custody of digital asset** ranks as top concern for 57% of FSI respondents



Cybersecurity is the main attention point on the road to **digital asset** wide acceptance for 71% of respondents (compared to 66% in 2020)



Regulatory barriers are the main blocker on the road to digital asset wide acceptance (60% of FSI respondents)

Spotlight on the Topic

Custody of digital assets is **very different** compared to custody of traditional financial services.

In August 2021 the De-Fi platform **Poly Network** suffered what was dubbed as “**the biggest cryptocurrencies theft ever**” worth \$600 million.

However, **criminals returned nearly half of the funds**, probably due to the transparency of blockchain that made **nearly impossible laundering and cashing them out**.

New regulations such as the *Regulation on Markets in Crypto-assets (MICA)* will lead to a **defined regulatory framework for the development of digital assets**.

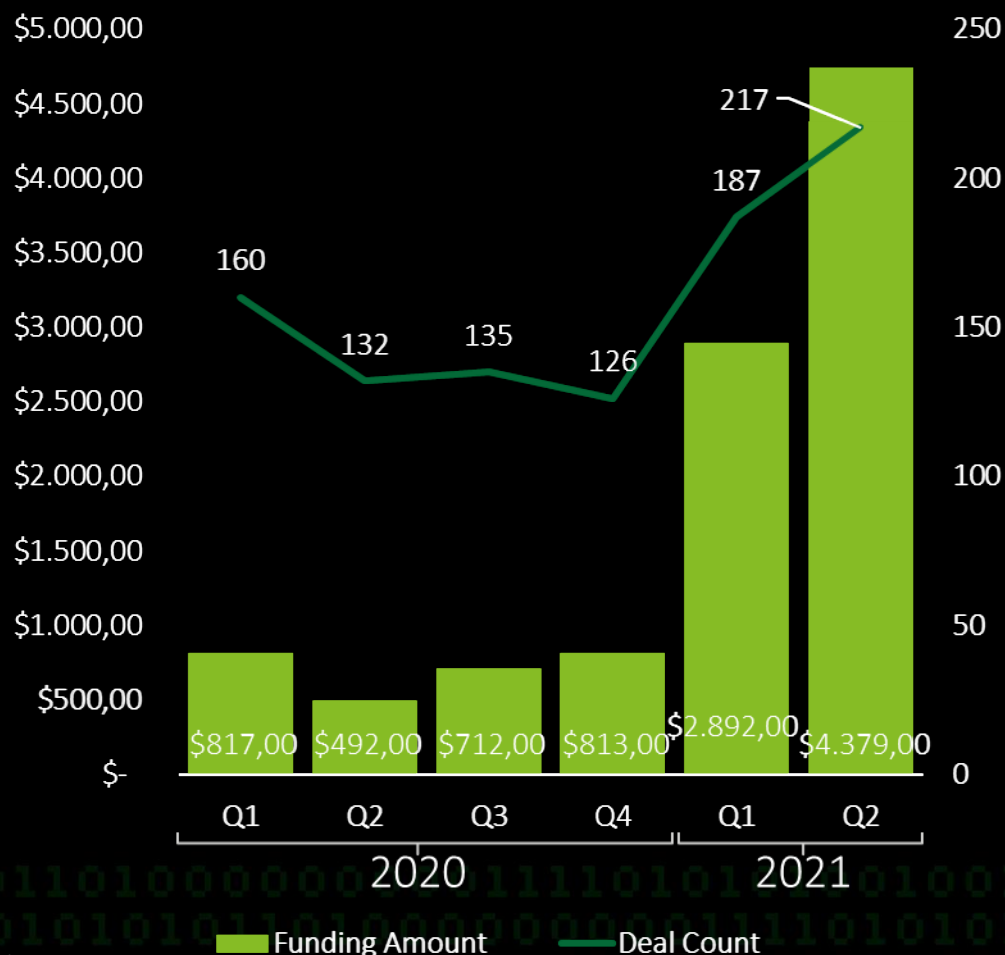
Countries like UK, Denmark and the Netherlands have developed a regulatory sandbox. **Italy will open its own starting from November 2021**.

Deloitte Global FinTech communities provide useful insights and first-hand information from the FinTech and Blockchain domains all over the world



FINTECH COMMUNITIES

Blockchain funding crosses \$4B in 2021 Q2



Top 5 deals raised by Blockchain FinTechs – Q2 2021

CIRCLE	May 21/\$440M	PAYMENTS
Ledger	Jun 21 - \$380M	CYBERSECURITY
PAXOS	Apr 21 - \$300M	BLOCKCHAIN SOLUTIONS
block.one	May 21 - \$300M	OPEN-SOURCE BLOCKCHAIN SOFTWARE
Bitso	May 21 - \$250M	CRYPTO EXCHANGE

Deloitte partners with top-notch Italian Research Centers to monitor DeFi and cryptocurrencies ecosystem



CRYPTOCURRENCIES



43%
Of Total Volume
BITCOIN

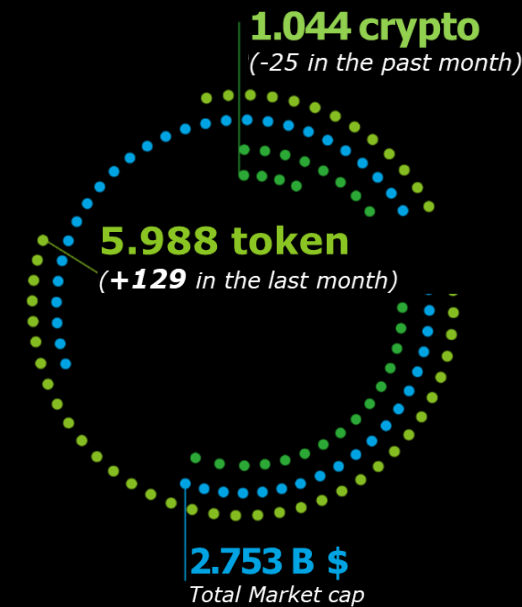


20%
Of Total Volume
ETHEREUM

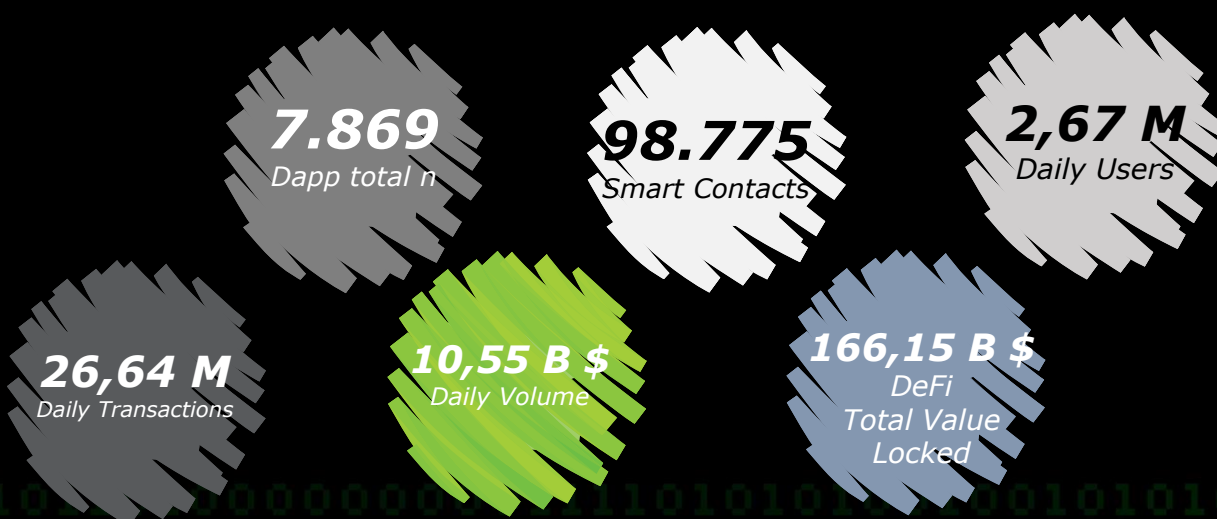


37%
Of Total Volume
ALTCOIN

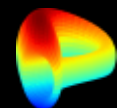
TOP-NOTCH RESEARCH CENTERS



DEFI AND DAPPS ECOSYSTEM



MOST IMPORTANT



Curve



Compound



Pancake swap



UniSwap

The activation of the "basic" service for the purchase and sale of crypto is only the first step towards the creation of an ecosystem of services for Retail and Corporate customers

OFFERING CRYPTO ASSETS AND ANCILLARY SERVICES

- Trading (Acquiring and Exchanging) cryptocurrencies within traditional channels (i.e. buying on digital channels online or in app via credit card/PayPal/ transfer/other payment processing)
- Custody and administration of cryptocurrency deposits
- Advanced trading platforms with functions such as stop-loss, take-profit and visibility on bid/ask books and multi-exchange access to optimize buy/sell orders



OFFERING FINANCIAL INSTRUMENTS WITH UNDERLYING CRYPTO ASSETS

- Creation of financial instruments whose return is linked through direct purchase or indexation to crypto assets (e.g. Funds, ETP, crypto-derivatives)



OFFERING CRYPTO PAYMENTS PROCESS SERVICES

- Provide the ability for customers to purchase goods and services by paying in crypto
- Guarantee to the shopkeeper to receive the payment in Euro exactly at the established price



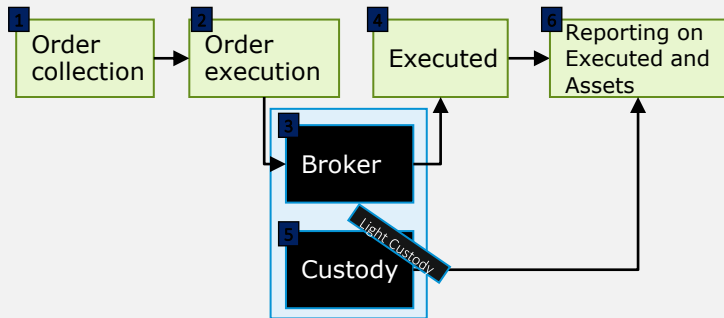
These innovative services insist on different moments of the customer journey and can be activated individually



Crypto Asset TRADING

Making available the service of buying/selling crypto assets in exchange for FIAT or crypto currencies, through Market Brokers offering a basic custody service (e.g. hot wallet or simple multisig wallet)

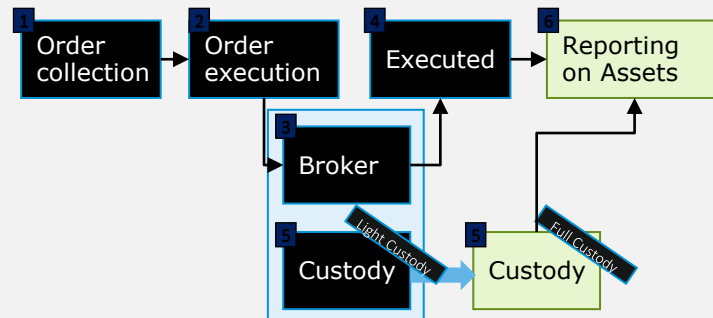
Customer Journey and the trading facility role*



Crypto Asset CUSTODY

Custody of crypto assets in dedicated wallets and on which superior and customized security measures are guaranteed (often reinforced by insurance coverage formulas) compared to basic custody services offered by market brokers

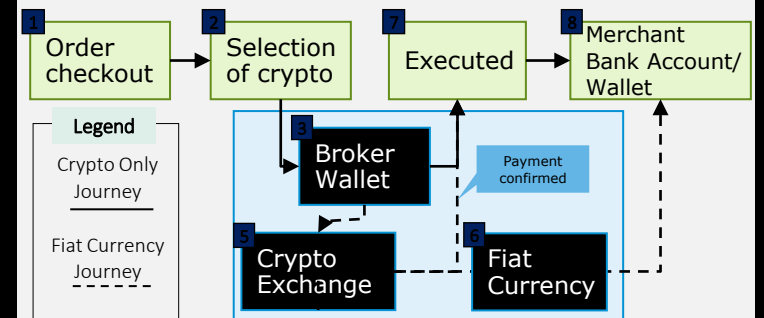
Customer Journey and the Custody role*



Crypto PAYMENT PROCESSING

Providing the ability for enterprises to accept payments in crypto. Guaranteeing to the shopkeeper to receive the payment in Euro exactly at the established price

Customer Journey and the Payment Service Provider role*



Already established for e-commerce, integrated on POS through QR code.

The market is working on contactless solutions

Legend Processes managed by the service provider

*Note: The basic assumption is that an external Broker is used to provide the Service. The evolution of the use case consists in the internalization of this capability.

Following the regulatory framework, FSs have the possibility to further develop their offering of digital assets and crypto services



Crypto Asset TRADING

Some of the major institutions have made investments in order to:

- Invest directly in cryptocurrencies and/or allow users to invest directly through the creation of special platforms
 - Create partnerships with direct access channels
 - Provide customers with cryptocurrency custody services
- Offer Multi-exchange access to optimize buy/sell orders



MICA

Regulations applicable only to crypto-assets other than financial instruments, therefore excluding all crypto-assets that can be described and/or qualified and/or assimilated as "financial instruments" according to MIFID.



Crypto Asset CUSTODY

Some of the major institutions have made investments in order to:

- Create derivative products related to the cryptocurrency market (ETFs/Derivatives)
- Allow customers to trade such purely financial products with cryptocurrency underlyings



MIFID

Regulations applicable to crypto-assets that are describable and/or qualifiable and/or assimilable as/and "financial instruments" and, therefore, qualifiable as security tokens



Crypto PAYMENT PROCESSING

Some of the major institutions have made investments in order to:

- Provide the ability for customers to purchase goods and services by paying in crypto
- Guarantee to the shopkeeper to receive the payment in Euro exactly at the established price



MICA

Identifies the Electronic Money Token category as "Crypto asset whose purpose is to act as a *medium of exchange* to maintain a stable value by referring to the value of a legal tender trust currency"

Doesn't Apply to CBDCs

NEW*

NEW*

Financial institutions should explore the world of crypto-assets, starting to offer services that cover this technology, so they don't run the risk of cut-off



To remain competitive, financial institutions should step outside their traditional positions to **explore other services that rely on the use of crypto-assets**, initiating specific **conversations with the Regulator** and seeking to guide the regulator's positions with respect to the services they offer

The cryptocurrency ecosystem is fast-paced and we expect it to continue to move quickly in the coming years. For this reason, financial institutions should increasingly recognize the need to **activate contacts with players in the crypto and Decentralized Finance (DeFi) industries**

Financial intermediaries should understand the strategic importance of digital assets and be increasingly aware of **the need for an open platform** with secure asset custody, cybersecurity services and tools to manage disputes

The Blockchain enables the tracking of multiple pieces of information about its users, **greatly reducing AML (Anti Money Laundering) risk**. Financial institutions should deploy appropriate verification tools and skills on Blockchain transactions as well, so as **to ensure adequate levels of privacy and anonymity**



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