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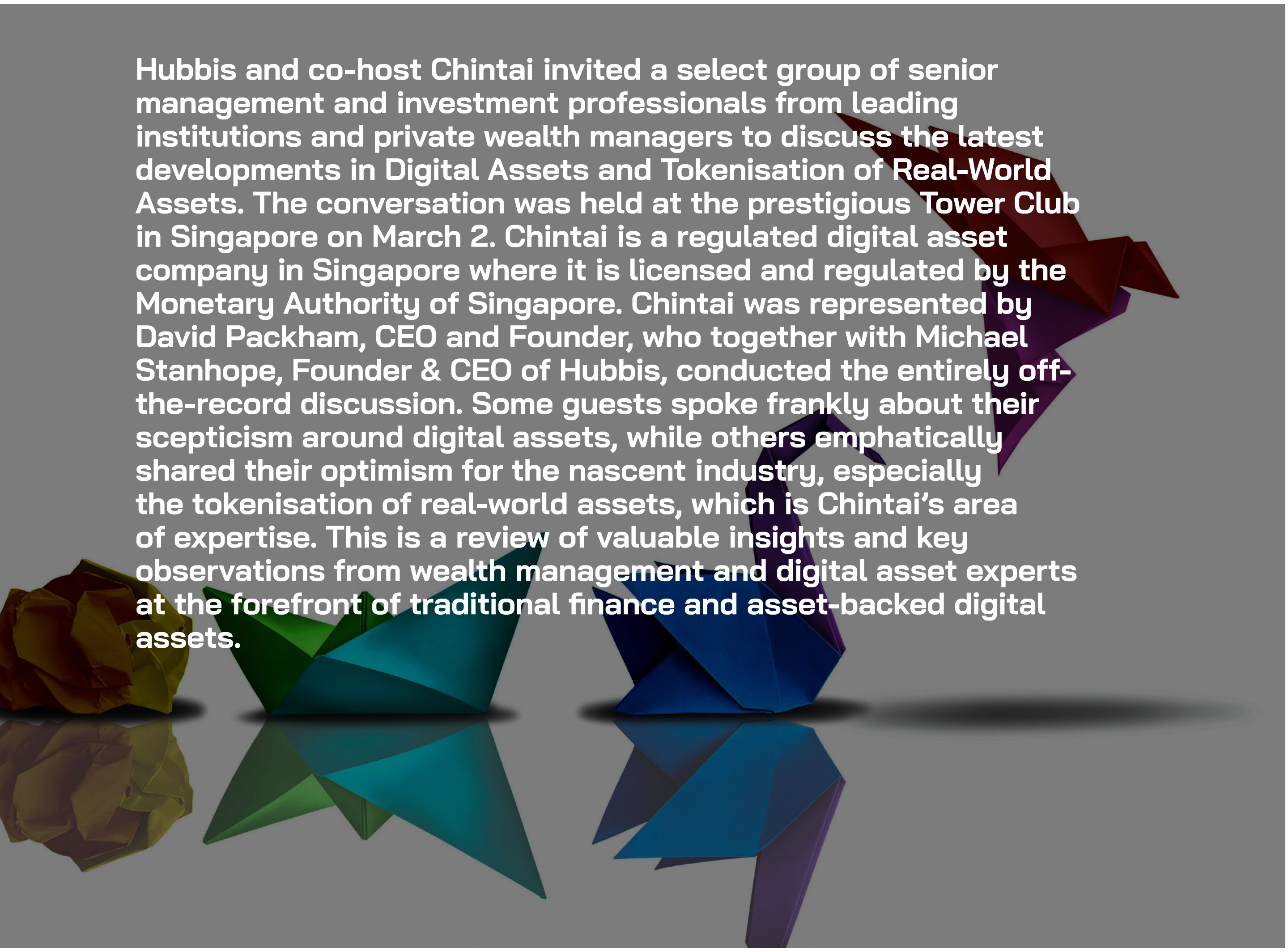
The Wealth Management Industry and the Evolution of Digital Assets & Tokenisation

Hubbis and co-host Chintai invited a select group of senior management and investment professionals from leading institutions and private wealth managers to discuss the latest developments in Digital Assets and Tokenisation of Real-World Assets. The conversation was held at the prestigious Tower Club in Singapore on March 2. Chintai is a regulated digital asset company in Singapore where it is licensed and regulated by the Monetary Authority of Singapore. Chintai was represented by David Packham, CEO and Founder, who together with Michael Stanhope, Founder & CEO of Hubbis, conducted the entirely off-the-record discussion. Some guests spoke frankly about their scepticism around digital assets, while others emphatically shared their optimism for the nascent industry, especially the tokenisation of real-world assets, which is Chintai's area of expertise. This is a review of valuable insights and key observations from wealth management and digital asset experts at the forefront of traditional finance and asset-backed digital assets.



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These are some of the topics covered:

- How is the market evolving, and how is it coping with the aftermath from the FTX crisis and associated systemic shocks?
- What is the relevance of tokenisation to institutional investors and private clients?
- How should they engage this opportunity?
- Is the regulatory landscape developing well?
- What role will Singapore now play in the further evolution of the market?
- Are the private banks and the wealth advisory community engaging with enthusiasm or scepticism?
- What key factors will lead to the greater adoption of tokenised securities?
- What will be the "breakthrough" asset classes of tokenised securities?
- What are the key barriers to launching a digital asset strategy for private banks and wealth managers?
- What key improvements would wealth management practitioners like to see in the nascent digital securities and tokenisation industry?

A Short Note on Chintai

Chintai is a leading one-stop solution for modernising capital markets. Regulated and licenced by the Monetary Authority of Singapore, the Chintai platform uses blockchain technology to enable traditional finance companies and innovative SMEs to harness the power of digital assets. The product suite includes all features and functionalities to streamline business operations and create a competitive advantage for enterprises. This includes dynamic security token issuance, high performance secondary trading, au-tomated compliance infrastructure for regulated digital assets and while-labelling solutions. Chintai's strategic aim is to bridge the gap between businesses and compliant blockchain technology with a Blockchain Platform-as-a-Service (BPaaS) model.

KEY INSIGHTS & OBSERVATIONS FROM THE THOUGHT LEADERSHIP DISCUSSION

The discussion spanned 90 minutes, and many different and often conflicting viewpoints were raised. Hubbis has selected some of the key points – both positive and negative – in this summary, with all comments relayed on an entirely non-attributable basis.

For some leading private banks and EAMs, engagement in digital assets by their private clients is patchy at best, and for others, non-existent

The discussion opened with the head of a leading Singapore-based EAM reporting that he and colleagues do not understand digital assets well and explaining that their clients are apathetic about them, at best.

"Maybe it is just our type of client, but we have seen no interest whatsoever," he told assembled guests. "Cryptocurrencies, as far as we are concerned, make no sense at all in any well-diversified portfolio. However, I am open to learning more [about other digital assets], and perhaps that will reduce my scepticism. Meanwhile, a survey we did with our clients last year continued to show zero interest. They are interested increasingly in private markets, in ESG-driven investing, but nothing digital or crypto thus far."

Another EAM Managing Director said their 'normal' clients also have no interest in any of this. "It is all remarkably challenging to understand, but having said that, we do know one investor who has invested in digital exchanges successfully, but it appears that he does not reinvest his gains in digital assets but in businesses representing the industry."

Other specialists in the wealth industry including the digital and robo-advisory platforms are more optimistic, but feel regulation lags well behind

An expert from a digital wealth management platform reported that their clients span well-to-do younger executives of 30 years old and below and the somewhat more established premier banking type clients largely in the 30-40 age bracket, right through to HNWIs with perhaps USD2 million to USD10 million to invest and who represent around 20% of the firm's AUM to date.

He said they find interest or lack of flowing in waves and cater to that through what they call

David Packham
Chintai

the 'Crypto add-on' where clients can simply click to add up to 5% of a given portfolio with allocations to a mix of 50/50 Bitcoin and Ethereum.

"So far, the regulators have only allowed us to do this for accredited investors," he reported. He added that regulation is a key element. While they operate and are regulated in Singapore, Malaysia, Thailand, Hong Kong, and Dubai, every regulator has a slightly different perspective, and partially, as a result, they are currently only living in Singapore for crypto.

"It is difficult because although we can only offer 5% allocation to accredited investors in Singapore, any retail investor can go to a regulated crypto exchange in Singapore and put all their money in cryptos," he remarked. "I don't necessarily think everyone should have exposure, but I do feel for those perhaps age 40 and below, a low single-digit allocation is worth considering." He said he has around 1.5% of his personal net worth in Bitcoin and Ethereum, and yes, it has been bad in the last year, but they have performed very well for some time before that and might stage a major rally in the future.

The Digital Asset Universe through tokenisation extends far beyond cryptocurrencies

A digital assets expert reported that he was not remotely surprised to hear that serious investors were highly sceptical about crypto. He said what is far more interesting is the utilisation of the blockchain and technology to connect to real-world assets, for example, obtaining digital and dynamic access to carbon credits or perhaps Singapore commercial real estate, and then trade those assets like any other mainstream investments.

"The underlying technology is just an enabler to help us fractionalise real-world assets and thereby make illiquid assets far more liquid," he explained. "You can fractionalise access to a private markets fund, allowing access to liquid exposure and removing that illiquidity barrier."

The head of a prominent Singapore EAM agreed with these views, adding that his firm is very receptive to these ideas and that they take the medium to long-term view, believing that new technologies will democratise access to many assets and at far lower costs than in the traditional financial markets ecosystem.

"I actually don't view crypto and digital assets as investable asset classes at the moment, but the fallout at FTX and other entities has helped the market mature in some ways," he commented. "It is a slow and ongoing process, but these troubles have shifted the conversations towards more centralised activity, and also tokenisation has come to the forefront, rather than crypto, which is as it should be."

Tokenisation, another specialist added, is seen as the background process that makes infrastructure cheaper and easier, facilitating distribution, management, and financing. "But until we have some sort of collective centralised [infrastructure] from amongst the big banks, it is going to be much harder to crystallise."

Some banks report finding it difficult to identify acceptable partners in the digital assets ecosystem

A senior banker from a major bank reported that they had explored digital assets in a positive, thorough, and professional manner but discovered that they could not identify acceptable partners with which to work, who would match up to the standards and the due diligence they needed. Then the FTX and Genesis crises hit, and confidence internally eroded further to the point where they abandoned their plans to enter the digital assets arena. "We remain open to this sector, but we now play a watch-and-wait game," he said.

He added that as to tokenised assets, the regulations, the tokenised assets themselves, the KYC, and the suitability hurdles are all so negative that their bank cannot translate all that to a sensible business case for participation.

Another banker said that until the major and top-rated banks offer custody and their stamps of approval, there would remain little or no interest. Having said that, he noted that Bitcoin had slumped in value but was already more than 40% above its recent low within only weeks.

A slightly different perspective came from a leading blockchain expert with a leading Singapore investment group, who commented that tokenisation for financial securities is a challenging topic, because there are so many regulatory hoops to jump through.

Then there are questions over the right distribution model, the liquidity and whether the whole effort results in enough scale and value for the originators and intermediaries. For the time being, he said the equation did not add up to a solid business case.

And other banks take a considerably more optimistic view of the evolution of digital assets

The representative from another global name bank with a strong presence in Asia, and one of the largest custodians in the world, reported that they provide market access and liquidity for digital assets.

He explained that he is involved in the bank's infrastructure and not advisory, so his perspective is that assets representation of all types is already today's digital entries in a digital ledger, so it is not a big leap to think of all the assets that they manage for clients as digital assets. "Most of our infrastructure is 25 to 30 years old, and tokenisation is a big theme internally in our organisation," he reported. "I have personally been involved in

about 15 tokenised fixed-income securities issuances across three jurisdictions. My experience there gave us a big learning curve, as it is not only the technology and innovation folks but also the legal and compliance side of things."

And this bank and other major financial institutions are building their use cases and building capabilities, always looking far beyond the short term and well into the future

This same banker said they are building their use case scenarios, such as the Hong Kong government's issue of a tokenised REIT bond. "Can we say entry costs for these assets are down dramatically yet?" he pondered. "No, but that will happen as scale as adoption and technological proficiency build."

"Suddenly, we can see a vast universe of assets that we have traditionally not custodised or provided services for being part of the addressable market that we can help manage," he concluded.

"Will that happen in the next couple of years? Absolutely not, but it will happen over the course of the next decade. And recognising that, I believe we need to start building that capability across all digital assets."

Another expert concurred, adding that as markets and new technologies evolve, there are always bad actors that rise to the surface and cause crises, as with the collapse of the Initial Coin Offering (ICO) market in 2018 and then the more recent collapse of FTX and troubles at other entities.

Regulation will gradually improve but it follows and does not lead, so shaking out the bad actors and bringing quality operators to the top of the pile are vital

"Is regulation going to help this out?" this same expert pondered. "No, the regulators are watchdogs, not hunt dogs. They are not proactive in stopping collapses," he stated. He said we have all seen in many instances and crises over many years in the mainstream financial markets and now in the nascent digital assets markets that bad actors come up and spoil things."

"My biggest issue [with digital assets and crypto] right now is there are too many bad actors in the marketplace today," he cautioned. "But I do also think the platform itself has a lot of value, and I think we need to look first at the fundamental, added value of blockchain more so than whether anyone should be trading cryptos. Actually, the money that is [purportedly] being made is mostly 'fake', created by a few players, and generally most of

them are bad actors. So, there is a fundamental problem with the marketplace. How can you fix it? I really don't have the answer."

There are vast opportunities in digitised real-world assets

Another expert said the fix is to work only with regulated, real-world assets and not cryptos. Ultimately, he explained, the client experience should be simply logging into his or her wealth portal, reviewing the different underlying [real-world] assets they have exposure to, and not worrying whether they are tokenised or not.

He explained: "The fact that some of it is then interacting with a blockchain underlying that – and actually in a very secure way - shouldn't matter to them. It should be completely seamless. With these technologies, we can give access to real-world assets at micro levels and entry costs that are not possible right now. For me, it is all about identifying what potential advisors and intermediaries can do that can add a unique competitive advantage for your clients and thereby seize opportunities to run new business lines, be more competitive, secure unique competitive advantages over rivals, and operate those at a low cost."

He reiterated that the carbon market is a major tokenisation investment opportunity and also positive for the planet. He said that through tokenisation and the blockchain, the tradable market in carbon credits and offsets could be fractionalised and also managed more effectively than by traditional market practices.

Composability is another opportunity, he added, as you can compose different digital assets into a composite asset.

"There are truly many areas which can be opened up and made accessible through digital assets, he added, but it all requires some more imagination looking ahead of how this technology could be used, and more regulatory support and consistency," he concluded.

Another guest pointed to the tokenisation of REIT property assets and the ability to raise additional leverage against those assets. He noted that standard REITs are speed limited to roughly 45% debt, whereas tokenised REIT assets can be leveraged up to perhaps 70%. The 2% debt cost compared to 5% gross yield on the REIT offers significant comfort and uplift.

Closing comments

David Packham closed the discussion by observing that this is all a work in progress and that developing the regulated tokenisation infrastructure and ecosystem will take considerably more time. He said this is a multi-year transition underway and that the next 12-24 will see significant progress and exciting developments that will further boost confidence by leading banks, financial intermediaries, and advisories. ■

The New World of Tokenisation and Bringing Real-world Substance to the Digital Assets Landscape

As Founder and CEO of Chintai, and a champion of the regulated tokenisation market, David Packham has some robust views and invaluable perspectives. We have extracted and summarised some of his key selected comments from the roundtable discussion below.

David shared with the guests his lack of surprise that most wealth management experts were reluctant to steer their private clients anywhere near cryptocurrencies or some of the strange 'meme' coins. He said that sophisticated investors would find it challenging to work out any way to justify an investment in those from a value perspective.

"What is far more interesting is the use of these technologies to connect to real-world assets," he said. "You can actually step back and stop thinking about abstract cryptocurrencies that have no link to anything, and instead focus on something like the carbon markets, and how to offer dynamic access to carbon as part of a wider portfolio, given the size and exposure and growth of those markets. Or perhaps your clients would be interested in buying and having liquid access to downtown Singapore real estate, which they could buy in and out of the same way you can with securities."

Other tokenised assets - for example, commodities, precious metals, real estate, private asset funds and so forth - are much more exciting, and the tokenised assets would be regulated for public distribution and trading.

"Technology is the enabler of all this. It is the way to fractionalise these real-world assets and more effectively transact that value and exchange them," he said. "And in theory, you can enhance them too, so you can have something quite illiquid and make it a lot more liquid, which in theory means bespoke products can be generated for an investor base."

He explained that one particular Chintai client raising money for a new fund would tokenise 20% of it for distribution, thereby creating an easily tradeable entry and exit ticket and removing the illiquidity barrier that sometimes makes the commitment of capital more challenging.

He explained that the marketplace for tokenised assets in the future should be driven by transparency, good governance, publicly available information, and so forth.

David observed that whether they are large financial institutions or smaller firms, most potential participants in the emerging tokenisation markets are taking small, measured steps, looking at proof of concept and then working outwards, for example, to analyse how to assemble, and work with the right types of counterparties, how to manage the technology and the risks involved.

"This is a multi-year transition in process," he said. "This is, to some extent, a discovery phase, working out the actual digital asset strategy. Then we will see a lot of the innovators doing things over the next 18 months to prove to some of the more prominent players what is possible, how and why, and that will build wider confidence in the technology, more belief in the specific use cases.

He concluded that Chintai is proactively spreading the word and knowledge on the tokenisation of real-world assets and peovided insights on why attention should be shifting from the abstract crypto universe to the tangible world of regulated security and other tokens.

A Brief Word on David Packham

David founded Chintai in 2018 to promote the adoption of compliant digital assets that utilise blockchain technology to modernise capital markets for banks, asset managers, and SMEs. A financial industry veteran with more than 20 years of experience in banking, finance and asset management with leading banks, including Credit Suisse, Goldman Sachs, Barclays Wealth and HSBC Global Asset Management. David also served on the Board of Advisors to several Singapore start-ups, including Credify Inc and Worbli, and Treasurer on the Board of Trustees for deafPLUS, an organisation championing integration and equality between deaf and hearing people in all areas of life. David graduated from the City University of London with MSc Business Systems Analysis & Design and a bachelor's degree in Business Economics from the University of Exeter.

And for further reading on Chintai and its proposition see the below Hubbis reports:

Chintai Founder David Packham on how the Wealth Management Industry Can Expand their Digital Assets Proposition

The Adoption of Digital Assets & Tokenisation Amongst HNW and UHNW Private Clients in Asia

Blockchain Platform & Enabler Chintai Ready for Explosive Global Growth of Digital Asset Issuances and Secondary Markets