



ICO-Fueled Fintechs: The New Disruptors?

This article is an extract of the CH Alliance yearly publication

This article is an extract of the CH Alliance yearly publication on Innovation for Financial Services. This 2019 edition includes several articles on the “Tokenization” of the economy, expressed by the Initial Coin Offering (ICO) wave, which is now becoming a semi-regulated activity in major financial centers - the first step to global recognition. The remaining articles provide insights on hot topics for several Financial Services sub industries: AI for Wealth Management, chatbots in B2C Banking, autonomous vehicles and catastrophe bonds in Insurance, hot Fintech for Real Estate finance management and data visualization in CIB.

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ICO-Fueled Fintechs: The New Disruptors?

Could leveraging blockchain technology through initial coin offerings (ICOs) revolutionize the fundraising process for fintechs?

Blockchain-inspired innovation will be impacting the financial services in two major ways for the next decade:

- Impose rapid streamlining of multi-stakeholders' processes, reducing operational costs, lowering entry barriers and increasing competition for incumbents
- Allow currently illiquid assets to be "tokenized" and traded in large numbers on primary and secondary markets, opening retail and institutional investors to a new horizon of asset classes

Innovation requires money, and all large incumbent banks and insurers are setting up massive corporate venture funds and scouting for hot fintech start-ups intensively.

Could initial coin offerings (ICOs) be the primary lever for kick-starting the blockchain evolution in financial services?

As a matter of fact, ICOs in financial services represent more than one third of the total ICOs for the first half of fiscal 2017–2018, with almost 3 billion USD raised.

For the first half of 2018 alone, 5 out of the 10 biggest ICOs were linked to financial services and represent 1.6 billion USD (39% for the first six months of ICOs), while in 2017 as well, 5 out of the 10 biggest ICOs were ventures targeting the financial services space for a total of 656 million USD raised (47%).

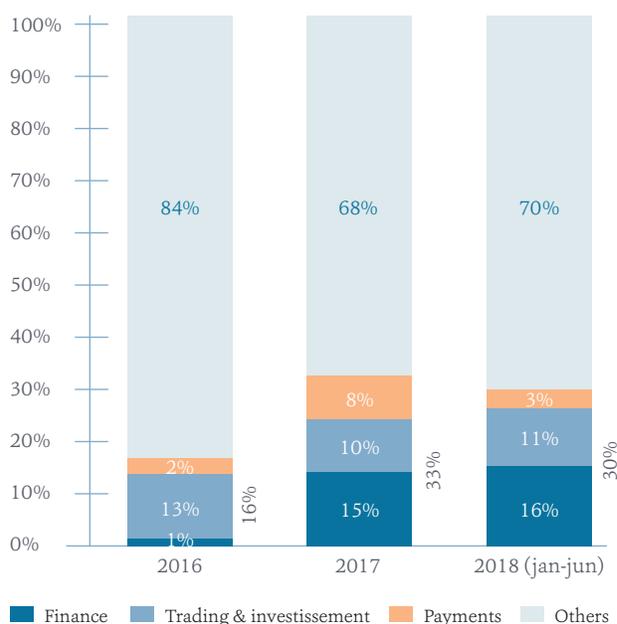
This CH Alliance paper is an attempt to analyze the major trends in the “crypto-fueled fin-techs” usually grouped together by specialized media under three wide categories:

- Finance: platforms or applications that work as a bank or an asset management solution
- Trading: develop a cryptocurrency or combine existing cryptocurrencies
- Payments: platforms or applications that allow payments using cryptocurrencies

At CH&Co., we felt the need to dig deeper, and we established a database of the 70 ICO’s related to those three sectors between January 2017 and July 2018.

After analysis, we selected about 30 “archetypes” and positioned them in five categories from the most crypto-centric to the most impactful on existing financial services

ICO’s sectorial repartition



1. CRYPTO HUBS

The crypto hub could be defined as “ICO for crypto by crypto”. The funds raised helped create the technology to empower the development of the crypto environment by offering specific services.

Archetypes in this space are:

- Cryptocurrency trading platforms offering to minimize the time and cost of transactions: Loopring or GoNetwork, which developed new protocols based on smart contract to lower time and expenses. Huobi, one of the most successful ICOs (300 million USD) also developed its own platform based on a loyalty point system that rewards users of Huobi’s cryptocurrency exchange platform.
- Assessment tools to track, communicate and assess on the cryptocurrency market: TrakInvest developed a platform that combines social media with a traditional compensation-based platform to provide, via a unique tool, a crypto trading platform, a communication tool and an AI trading engine that should provide superior insight to crypto investors.
- Enigma Catalyst created a platform allowing individuals to create and manage their own “crypto hedge fund”.

	1	2	3	4	5
	Crypto Hubs	Crypto Customer Services	Liquid Tokenizers	Financial Services Evolutionists	The Big Problem Solvers
> 100M	 	 		 	
30M - 100M	 	 	 	 	
20M - 30M					
	Crypto-centric		Financial Services		

2. CRYPTO CUSTOMER SERVICES

These aim to develop financial services dedicated to customers willing to invest in cryptocurrencies. Here is an overview of the services offered:

- Gold Bits Coin, which created a currency indexed on gold for online shopping.
- Monaco using the same processing platform as MasterCard and Visa to enable people to pay with its cryptocurrency. Swissborg and its cryptocurrencies wealth management platform based on blockchain where you can create and manage portfolio of crypto assets.
- Bankera, which collected through its ICOs 150 million USD, is aiming to develop a blockchain-based bank with all the classic banking instruments (deposits, credit cards, loans, etc.) but linked to coins and tokens. Interestingly, most of the funding will be used to increase the capital required under banking legislation to obtain a banking licence.
- Lendroid, an open protocol where you can lend, trade on margin and short sell on the Ethereum blockchain.
- Bloom connects borrowers and lenders, providing credits in fiat and cryptocurrency on its platform.
- The London Football Exchange even enables you to finance your favourite football club using tokens!

3. LIQUID TOKENIZERS

The tokenization of assets is the process of creating a new currency whose value will be indexed to the product so as to trade real assets on the crypto exchange, thanks to a dedicated cryptocurrency that ultimately acts as a derivative product or in a way similar to securitization. This category has become a hot trend. Here are three archetype examples:

- Acudeen connects SMEs and investors to provide liquidity for SMEs' short-term activities by offering investors to buy back their receivables.
- Bankex offers its technology (SaaS) to tokenize your assets and place them on the market for trading.
- Polymath guides issuers through the complex tech and legal process to achieve a successful token launch.

4. FINANCIAL SERVICES EVOLUTIONISTS

The fintechs under this category are targeting a financial services industry vertical and are trying to make it more efficient and customer friendly, thanks to the streamlining capabilities of the blockchain.

To name a few successful ICOs:

- Celsius created a platform allowing people to borrow fiat money (USD) and use coins as collateral on loans.
- ChainTrade provides a decentralized platform for commodity trading.
- KitToken uses the blockchain to channel international remittances.
- SPiCE is a liquid venture capital fund that uses indexed tokens to facilitate the trading of shares.
- Tzero uses security tokens to secure distributed ledgers with existing market processes to reduce settlement time and costs, increasing transparency and auditability.

5. THE (TOO?) BIG PROBLEM SOLVERS

In this category, maybe the most fascinating from a financial services perspective, and with funding above 75 million, fintechs or even governments are aiming to reinvent the rules governing the global financial industry with the help of blockchain technology:

- Basis is aiming to take on the role of a decentralized “crypto central bank” by implementing monetary policies to keep the purchasing power of their cryptocurrency stable.
- U.cash aimed to build a decentralized global distributed financial services network, thanks to the blockchain technology.
- Zen Protocol is a trading floor, a broker, and a tool for creating new financial instruments (crypto assets). It gives you control over your own financial assets.
- The Petro (the first governmental cryptocurrency), a cryptocurrency indexed on the price of oil and developed by Venezuela, which raised about 735 million USD through ICOs, is presented as a new way for citizens to pay taxes, fines and utilities!

CLOSING WORD

From an incumbent's innovation standpoint, the spaces to watch are clearly the liquid tokenizers and financial services evolutionists who may have in their hands interesting ideas for tomorrow, on how to connect the blockchain's tremendous capabilities with the current financial systems.