



# Delivery vs. Payments Resurgence of Tokenization

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## Delivery vs. Payments - Resurgence of Tokenization

We at Centiglobe have over the past half-year witnessed how tokenization, the process of creating a digital token representing an asset on a blockchain, has undergone a significant surge across various sectors, spanning from carbon credits and stocks to real estate and fish farms. Consultancy firms like McKinsey shed light on the resurgence of tokenization in their insights from August, and crypto newspaper Decrypt shared insights from Polygon that tokenization is back in the spotlight. But what's driving this renewed interest?

The advantages have long remained clear; improved transaction speed and settlement times, the potential for fractionalizing assets to create a more inclusive financial ecosystem, cost savings through automation, and the programmability of assets. Blockchains, in addition, establish an immutable record-keeping system that bolsters compliance, auditability, and transparency.

A glance at the Gartner Hype Cycle reveals that both "stablecoin" and "tokenization" are progressing towards a more mature phase in technology adoption. Words like "blockchain" and "decentralized ledgers" have left the curve, meaning that the technology has reached maturity and is at the right place for it to have a meaningful impact in society.

Together with the emergence of regulatory frameworks, such as the EU's MiCA and the recommendations outlined in the Financial Stability Board's recommendation, more and more banks and financial institutions feel comfortable to evaluate and adopt the technology.

### Settlement of tokenized assets

As mentioned, tokenized assets improve transaction speed and settlement time within its own network, but the second leg of the transaction, the payment for the asset, has been a missing link for the adoption. Today, settlement of the payment leg for tokenized assets is mainly carried out by credit card or cryptocurrencies. It has been effective in cases of tokenized assets like NFTs or smaller investments but it is lacking in use cases of settling payments for assets where trust and cost are important factors, like real-estate or high value assets.

Our observation is that with the development of cash tokenization and tokenized deposits, some of the previous challenges associated with settling tokenized assets are gradually diminishing. Tokenized deposits are a promising, emerging form of digital money. They are the equivalents of existing deposits, held by a licensed institution such as a commercial bank, but recorded on a blockchain. Examples of tokenized deposits range from J.P. Morgan's Onyx to our own fully collateralized asset token.

For example, today, a real-estate developer has the option of tokenizing a project within a special purpose vehicle (SPV) for enhanced accountability and transparency, and even utilize such tokenization for fundraising purposes. However, the prospect of expensive card fees, or high cost when converting fiat to crypto makes these types of payment methods inefficient and expensive. Especially when the ultimate need is for fiat currency to cover running costs like employee salaries and material expenses. From an investor's standpoint, it's often more reassuring to use conventional banking interface for transactions rather than engaging with a crypto exchange for a payment.

## **Delivery vs. Payments**

With secured tokenized deposits, the seamless movement of funds and tokenized assets can be synchronized, effectively eliminating counterparty risk between the involved parties and enabling a true Delivery versus Payment (DvP) mechanism. This innovation has the potential to become a pivotal catalyst for the wider adoption of tokenizations of assets.

These developments have sparked a resurgence of tokenization, McKinsey, in their paper linked below, to conclude that “banks, asset managers, custodians, and others can take some no-regret moves today to prepare for this possibility of a tokenized world—the strategic optionality may be worth it after all.”

We've reached the same conclusion, tokenized assets are on the horizon, and we strongly encourage banks and financial institutions to investigate the strategic opportunities they present, and where we at Centiglobe can provide the solution for the payment leg for tokenized assets.

To find out more feel free to reach out.

## **About Centiglobe**

Centiglobe are front-runners in offering DLT cross-border payment solutions, and advisory services, designed to unlock and accelerate business value by modernizing and transforming payments, resulting in instant secure transfer of value and data for banks, payment institutes and companies.

Our payment transactions platform, and unique technology, create trust and transparency in payments, enable financial flows, reduce counterparty risk, cost of capital and operating cost to compete more effectively.

Please contact us if you are interested in more information or a demo.

Further reads;

Tokenization: A digital-asset déjà vu

<https://www.mckinsey.com/industries/financial-services/our-insights/tokenization-a-digital-asset-deja-vu>

Financial Stability Board's "High-level Recommendations for the Regulation, Supervision, and Oversight of Global Stablecoin Arrangements: Final Report"

<https://www.fsb.org/2023/07/high-level-recommendations-for-the-regulation-supervision-and-oversight-of-global-stablecoin-arrangements-final-report/>