ASCENDANT STRATEGY

Your Digital Assets Pathway

April 2022

Strategic. Evolutionary. Practical.

Your Digital Assets Pathway

One of the fundamental challenges for any organisation trying to understand their digital asset future is how and what they are looking to offer. The emergence of this new asset class and the technology that underpins it has transformational potential for banks, but how and what to deploy varies wildly depending on where an organisation sees itself in the value chain. And as importantly, the right choices are critical to ensure that the legacy system and process complexity that characterises operating models for traditional assets is not repeated.

Here we outline different strategies for operating model design and some of the characteristics associated with each one:

Strategy 1 – Minimal changes to provide access

Investors demand access to various crypto or digital assets, looking for performance as opposed to underlying ownership. This looks and feels very similar to synthetic-style products that have been available for some time and where the performance of the asset is delivered to an investor via a synthetic product. Increasingly popular with banks and brokers looking to provide exposure to clients but without requiring significant operating model change. Intermediaries (such as brokers) sit between banks and the underlying assets and provide exposure through swaps or futures. Changes internally are more driven by governance and risk management (such as margin levels) as organisations leverage existing distribution channels and processes.

Strategy 2 – Outsource the entire processing chain, minimal integration to existing systems

Custody provision for digital assets – operating services such as hot and cold wallet storage and key management – creates a significant change to current state models of custody provision. Whilst some organisations have developed in-house solutions leveraging distributed ledger technology, the synergies with both traditional operating models and the systems that underpin them are often quite marginal. As a consequence, organisations looking to offer custody on a standalone basis or bundled with execution access are almost taking a 'green-field' approach to development of service models. The maturity of new entrants to the market has increased significantly, as the investment levels and potential returns within this segment stimulate growth. Leveraging a partner who has already developed capability can create best of breed, combining product innovation with the traditional strengths that banks have (brand, client base, balance sheet, regulatory compliance). This model requires integration at some levels into the existing infrastructure and process, but these can be minimised through careful design to accelerate time to market.

Strategy 3 – Outsource pieces to different providers, manage the overall process

The last decade has seen an increase in third party service adoption, as organisations have leveraged API-led approaches to integration of new innovations. This change has led to the growth of 'adopt and drop' strategies to capability development, as organisations select components from third parties to develop their offerings. Very much an approach of 'Lego-brick' style development, where different services are orchestrated to function together. We see a very similar approach being adopted by certain players within the marketplace, integrating (and in some cases also investing in) solution providers to build their offerings. For example, leveraging anti-fraud detection software from one organisation and wallet storage from another. Whilst requiring greater investment than the previous strategies outlined, this does create enhanced opportunities for competitive advantage to be embedded into the end state business model, where internal and external capabilities are optimally combined. The exact mix of these will drive the integration effort, which will also be heavily influenced by the flexibility of in-house architecture.

Strategy 4 – Full In-House Build

It is a struggle to determine why an organisation would look to develop solutions fully in-house, leveraging 'blockchain-in-a-box' style solutions. Some organisations will want to take full ownership for their technology assets, but this would be hard to justify given the maturity of the third-party landscape. Whilst this may enable them to develop solutions that integrate more easily into their legacy architecture, the technology debt associated with this development will be significant. Not to mention time consuming.

The exact strategy to be followed will vary depending on the aspirations of the organisation. But this clarity is essential to ensure that an appropriate operating model is delivered.

"If you don't know where you are going, you'll end up someplace else." – Yogi Berra

Talk to us to help you understand matching your digital asset ambition with the systems and processes that you need to support it.

Take control of change, with a partner you can trust.

If you need to deliver complex transformational change with fast positive impact, contact us today

Visit **ascendant-strategy.com** for further information
Email us at **contact@ascendant-strategy.com**