CRYPTO A.M.

Our series on AI, Blockchain, Cryptoassets and Tokenisation

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PARTNER CONTENT

CITY A.M.'S CRYPTO INSIDER

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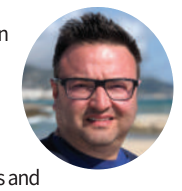

I met up with Benjamin Dives, CEO of London Block Exchange, in light of the allegations made publicly by Peter McCormack on Twitter. I have known Benjamin and many members of his team for a long time and he had this to say to me: "We continue to raise capital as we have done for the last six months and have both commitments and letters of intent from strategic partners". Benjamin will be writing next week's edition of *Crypto A.M.'s* 'Industry Voices'.

The market has been relatively stable since last week's edition of *Crypto A.M.* despite the allegations made by New York Attorney Letitia James that the operators of Bitfinex and Tether engaged in fraud to hide the loss of $850m from the exchange (see 'Market View', opposite). At the time of writing Bitcoin (BTC) is trading at US$5,220; Ethereum (ETH) at US$153.65; Ripple (XRP) at US$0.2916; Binance (BNB) at US$21.50; and Cardano (ADA) at US$0.06364. Overall Market Cap down at US$167.86bn (data source: www.CryptoCompare.com)

Last week saw the arrival at Olympia Grand London of Blockchain Expo, an event that was co-located with the IoT Tech Expo, AI & Big Data Expo and Cyber Security & Cloud Expo. It was pretty well attended and I was fortunate to meet some very interesting companies in the AI space, notably Darktrace and Squirrel AI Learning.

Darktrace (www.darktrace.com) was founded by mathematicians from the University of Cambridge and government cyber intelligence experts in the US and the UK and is recognised today as the world's leading AI company for cyber security. Squirrel (www.squirrelai.com) is a Chinese company with more than 2,000 employees focused on adaptive learning for after-school tutoring. I sat with Dr Wei Cui, co-founder & chief scientist, who explained that their aim is to provide every student with a personalised AI super teacher!

I spent several hours with the great and the good of the London Blockchain space to meet a new business with an interesting take of preserving wealth: Anchor (www.theanchor.io) is designed to preserve purchasing power and steadily enhance monetary value over time. Anchor is a stable financial ecosystem comprised of a stablecoin cryptocurrency and a non-flationary, algorithmic index. The index is based on the long-term, upward trend of global economic growth measuring real-world value using financial indicators such as the GDP of more than 190 countries, FX indicators of a basket of 16 currencies, and sovereign bond premium yields.

Anchor's tokenomics ecosystem is designed to be intrinsically stable with its algorithmic index called the Monetary Measurement Unit (MMU) and a safety-net of six stabilising mechanisms, which includes a two-token, burn-mint model to ensure stability regardless of market recession, volatility, inflation, and other dynamic economic scenarios."

WHY FINTECHS ARE BARKING UP THE WRONG TREE

Designed by Phill Snelling, Bowater Media

While fintechs wave the flag of disruption and chant 'financial inclusion for all', the knights that promise to save the masses from the vagaries of traditional financial services have a more pressing agenda – profit.

Both nascent and established players in consumer-facing financial service industries are searching for the holy grail that delivers droves of highly engaged, loyal, and more importantly, active customers to their platforms. This is what investors want, and this is what fintechs need to secure funding.

Virtually every form of financial service has been disrupted; lending, payments, personal finance, international money transfers, consumer banking, investing and insurance. They have all been given a digital facelift.

FINTECH'S STANDOUT GROWTH

Investors are bullish. According to a recent KPMG report, the growth of fintech investment is impressive: in 2018 global investment in fintech companies hit $111.8bn, with 2,196 deals being concluded.

But despite the market's growth, and significant amount of money allocated to customer retention, the attrition rate is high. The ease of switching from one service to the next is a double-edged sword for the industry. It's a crowded space and the competition is fierce.

Once the hype dies down around a new service, user engagement tends to drop off significantly. The email campaigns that clients saw as confirmation of the role they played in 'sticking it to the man' are soon relegated to the spam folder. Customer apathy is not in the fintech playbook and it's the pimple on the nose of the industry that no-one wants to talk about.

CHALLENGERS' VALUE PROPOSITION

The lofty claim of almost all financial services companies is to financially empower their clients. They also assume that everyone wants to build wealth and save money, but if you look at consumer behaviour, their real focus is on spending. Indeed, the biggest lament of Bitcoin diehards was the lack of ability to spend their coins.

Fintechs were quick to respond and now there are several players that provide a platform for crypto/fiat exchange: Wirex, Revolut and TenX are some of the companies that offer this service.

Broadly speaking, the value proposition of a challenger bank or crypto/fiat payment platform is savings on fees, ease of use, speed, the ability to monitor spending and an easy way to save money, and this fits with the financial empowerment agenda.

However – and this is the defining point of the argument – most people do not give much thought to long-term financial health: instead they care more about spending and instant gratification. The remittance arena is a notable exception, especially in emerging economies where moving money is expensive and logistically challenging.

Given that almost two billion people worldwide remain unbanked, companies such as WorldRemit, for example, have literally been lifesavers.

The founder, Dr Ismail Ahmed, launched WorldRemit off the back of his own frustrating and costly experiences of sending money to relatives in Somalia.

Cutting the cost of moving money and increasing accessibility is a key initiative of the World Bank – innovation in this space is well-received by governments and funders. For the rest of the fintechs, while in theory they are solving pain points such as saving and money management, they will have to negotiate the foibles of human nature.

In terms of consumer financial health, platforms that offer budgeting and savings tools have proliferated.

Challenger banks, retirement-saving platforms and budgeting tools enabled by 'open banking' are gaining popularity. Crypto-friendly payment companies encourage their users to 'save' crypto, and Wirex even offers rewards in Bitcoin.

The promise of a quick fix for our apathy towards saving and money management is appealing. However, there is nothing complicated about the process of achieving financial prosperity – earn, save, invest, protect your assets and spend wisely, it's a basic formula. Yet we have a nation that is in financial crisis.

UNSETTLING STATISTICS

The middle-class consumer may switch to a challenger platform to potentially save a few pounds on services. But juxtapose this with the average 18- to 35-year-old budgeting £100-£150/week for entertainment - clearly saving is not at the top of the priority list.

The statistics are unsettling. Money Advice Service reported that almost one in three people in the UK have less than £1,500 in the bank, and 15% of people have no savings at all. The average person saves under 4.4% of their income. More than 300 judgments for bad debt are issued every day, and UK households are the second most indebted of the G8 nations. Retirement prospects are grim for most Britons – the average time spent in retirement is 19 years, but the average funding capability is seven years.

The UK, and indeed the entire globe, is facing a calamity of epic proportions – millions of people are entering their retirement years with little to no money. The GenX-ers and millennials who will take their place are potentially even worse-off because so many are severely in debt. Many people in the UK carry student debt into their 40s.

ENCOURGING PEOPLE TO SAVE

While fintechs have solved many of the bugbears that consumers have with traditional financial services, they have neglected to address the biggest challenge of all. Humans are hardwired to pursue the quick fix - this means spending rather than saving.

> "Customer apathy is the pimple on the nose of fintech that no-one wants to talk about

Until we can confront and disrupt the core behaviour that sabotages an individual's finances, fintechs will continue to be in a bun-fight for customer loyalty.

Without a massive intervention in terms of recalibrating consumer behaviour, the fintech community will be applying a sticking-plaster rather than a cure.

Real disruption will take place when we can shift the consumer mindset from overspending and over indebtedness to saving and investing.

Iona Minton is part of the Crypto A.M. writers' pool

IMPORTANT INFORMATION: THE VIEWS AND OPINIONS PROVIDED BY CITY A.M.'S CRYPTO INSIDER AND IN THE CRYPTO A.M. SECTION SHOULD NOT BE TAKEN AS INVESTMENT OR FINANCIAL ADVICE. ALWAYS CONSULT WITH YOUR FINANCIAL ADVISOR.

CRYPTOCOMPARE MARKET VIEW

The alleged $850m 'cover-up'

The Crypto world was rocked last week by the announcement from New York Attorney General Letitia James of a court order against the operators of the Bitfinex exchange and Tether – issuers of the stablecoin of the same name.

The Attorney General alleges that the operators of Bitfinex and Tether engaged in fraud to hide the loss of $850m from the exchange to Crypto Capital Corp, a third-party payments processor used by Bitfinex. The court order alleges that Tether transferred funds and extended credit to cover losses. Crucially this meant, according to the allegations, that since November 2018 the Tether stablecoin ceased to be fully backed by USD.

Bitfinex was quick to respond, claiming that allegations were "riddled with false assertions", and explaining that the $850m have in fact been "seized and safeguarded", and is actively working to recover the funds from Crypto Capital Corp.

Crypto markets initially reacted quite strongly to the news with the Bitcoin (BTC) price dropping more than five per cent in under an hour. Losses extended to most leading altcoins, including Ethereum, Ripple and Litecoin.

The Bitcoin price has recovered substantially since the dramatic news, and at the time of writing is trading at $5,220, meaning that Bitcoin and the other top Cryptoassets have stayed relatively stable over the past week.

In less dramatic news, cryptocurrency hardware wallet company Ledger confirmed a EUR 2.6m investment from South Korean tech giant Samsung, a move that values the Paris-based company at EUR 260m.

Separately, a survey released this week revealed that 63% of Europeans believe that cryptocurrencies will still be around in a decade's time. The survey, conducted by Japanese exchange operator Bitflyer, quizzed 10,000 citizens across Europe, and showed that while most respondents think Cryptoassets will exist in 10 years' time, only seven per cent think bitcoin will be a good investment in the "long-term".

CRYPTO A.M. INDUSTRY VOICES

Regulating Blockchain and Crypto

The Financial Conduct Authority (FCA), US Securities and Exchange Commission (SEC) and others are working to provide regulatory guidance frameworks and structures in the ever-changing landscape of cryptocurrencies and blockchain technology.

The views on these activities run the gamut from the Establishment ('The sooner we get regulation, the sooner things will really take off') to the blockchain purists ('Those silly little bureaucrats. Don't they understand that you can't control crypto?').

Government regulation of banking products and services built on top of an Oracle database is understood. Governments do not regulate the Oracle database technology. Similarly, regulation of bitcoin or other services built on top of a blockchain make sense, but regulating blockchain technology is neither necessary nor appropriate.

If we look at the parallels in how regulation of the internet has evolved, there are lessons to be learned.

Regulations for the internet are specific to the endpoints – the on-ramps and the off-ramps where data joins and leaves the internet. There is very little regulation governing the myriad of independent connections that make up a global internet. And the reason is indeed that the internet is global. Many public blockchains are also global and as such their points of regulation are their on-ramps and off-ramps. The most important aspect of these access points from a regulator's perspective is also an antithesis to most purists – the most important aspect is a known identity.

The discussion around regulation is difficult because there is not a common set of terminology - a lexicon. Many people still confuse bitcoin and blockchain as being the same thing. Even people within the crypto and blockchain community cannot agree on the definition of coins vs tokens vs securities.

The boom days of 2017 where innovators (and scammers) made millions from initial coin offerings (ICOs) have come and gone. The latest SEC guidance on what defines a token such that it is exempt from securities regulation is coherent and complete. And it completely eliminates most of the advantages of using a token to raise capital. Under the SEC guidance tokens can't be sold or traded on an exchange for more than there were purchased taking away the speculator's possible gains. They cannot be used to fund the development of a platform, only used for the operation of a platform after it has been built.

All of these machinations and all of this angst in hope and fear about regulation makes others in the crypto community sit back and bray with laughter. Blockchain is more than just decentralised, distributed and immutable – it is unstoppable. Attempts to regulate or control blockchain or cryptocurrencies are a fools' errand and a hiding to nothing. Attempts to regulate by governments are almost as feeble and pointless as attempts by corporates to patent their own precious unique blockchain technology.

According to the purists, blockchain and cryptocurrency were born in the eye of a storm to provide true peer-to-peer engagement outside the confines of governments, capitalist enterprises and the wealthy few who pull the strings for the rest of the world. Blockchain lives by concepts of openness, transparency, collaboration and trust. In this utopian vision, regulation is not only unnecessary, but it is also irrelevant.

While regulators around the world attempt to get to grips with defining blockchain, cryptocurrencies and services which may run on top of blockchain, the rest of the community marches forward, working together and building the infrastructure, making the partnerships, establishing the networks, defining the governances and educating the world on what new things are possible with blockchain technology, ideology – and yes – even regulation.

By Troy Norcross, co-founder, Blockchain Rookies / @troy_norcross on Twitter and www.blockchainrookies.com

Crypto AM shines its Spotlight on Nodal

Oliver Hibbs-Brockway, CEO, Nodal

We all know the internet has created a space where we can claim to be the version of ourselves we had always imagined. And while social networks have enabled catfishing to the extremes, the world of recruitment isn't safe from these Walter Mitty's either. So how do you know someone is who they say they are? And have the skills they claim to have?

Well, British technology entrepreneur Oliver Hibbs-Brockway, thinks he has the answer. "I was tired of spending too much time and money on hiring freelancers, only to find they didn't have the skills I needed for the job in hand. The system is broken, it's lost any sense of trust – and I'm out to fix it," says Hibbs-Brockway, who is founder and CEO of Nodal, a London-based blockchain start-up.

Coding his own custom architecture, Hibbs-Brockway has developed Nodal, the world's first blockchain-powered freelance marketplace, and it's launching today.

Nodal has hit the ground running pre-launch by signing a £250m deal with Minstrell Recruitment that will see the construction recruitment specialists using Nodal's blockchain-powered platform to expedite the recruitment and employee onboarding process for some of the company's biggest clients.

Put simply, Nodal enables HR managers to search for freelancers based on skills verified by others. Further work undertaken via the Nodal platform is verified each time thus creating a trust-building positive feedback loop. This means HR teams no longer need to spend hours trying to work out whether people really have the skills they say they do, as they will be able to see whether other people are willing to vouch for them.

"I wanted to create a new economy based on trust rather than the 'it's who you know, not what you know' model that continues to plague many industries," says Hibbs-Brockway.

What's more, Nodal can offer businesses of all sizes a full end-to-end recruitment solution. From talent identification through to timesheets and invoicing, and into payment – it offers a single-view of all processes, allowing everything to be fully integrated. That means timesheets instantly reconciled against invoices, and payroll onboarding time significantly reduced. Nodal allows HR professionals to get on with what they do best – the human part of human resources.

> "The system is broken, it's lost any sense of trust – and I'm out to fix it

For freelancers, Nodal can guarantee that they'll be paid on time, every time, when accepting work through the platform. This is achieved through a system of smart contracts, the terms of which are automated once placed onto the blockchain. As long as the work is completed in the agreed timeframe, freelancers get paid on the agreed date.

"From Minstrell in the construction sector to The Mill in the creative space, we're already helping some of the best in the business to find the right talent. And this is just the start, there are big plans in place to grow into further sectors and markets this year, with a significant Series B funding round lined up for Q4 and a potential ICO, too."

So, next time you're struggling to find the right person for the job, you might want to start your search on the blockchain.

For more information, see http://www.nodal.com

£100K POT – WHO WILL BENEFIT?

Barry James, Founding Chair, BBFTA

Probably the best gift anyone in finance (and a wide range of other fields) could give themselves right now is a chance to start to get their head around the coming disruption from Blockchain/ distributed ledger technology (DLT). Then they can ride the wave – rather than be engulfed by it. But what if you could get paid for it, too – whether you're a tech or blockchain specialist or in an entirely different specialism?

Have you ever heard of an industry body giving away money – and not only to industry experts but to the wider ecosystem, too? Or one that provides an open network for the benefit of everyone involved... and rewards them for just joining?

Now's your chance – to do just that and take away your share of £100,000-worth of the asset backed currency BiPS. You'll learn a lot... and get Frontier Reward points. Post a question... you'll get some more. Invite a colleague who could also benefit – some more... and so on!

We're 'eating our own dog-food' because the potential of token such as these is vast – as anyone who's had a brush with nudge economics will know. The opportunity to share the benefits by incentivising people to do things that help them and help the ecosystem – the network – so they'll want to do them again.

Innovators are nudging us towards better health and healthier lives. We'd like to nudge you towards some fascinating insights and a better understanding of the future of both the internet and the future economy.

Go now to BBFTA.org/FR to find out how you can benefit by being part of our innovative network.

PS If you read this far... join today to get a one-off BiPS bonus!

By Barry E James, founding chair, British Blockchain & Frontier Technology Association (BBFTA.org)