Are we ready to tokenise the Syz Art Collection?

In a world where change is a constant, it's important for businesses to embrace innovation, challenge the status quo and try out new ideas. This is something for which we've always stood by at Syz Group. And so, when a group of colleagues suggested tokenising a real asset – in this case a piece of art – it felt like a natural next step to our digital asset journey. In a pioneering move, we have successfully tokenised a piece of art and distributed these unique tokens amongst our employees. This bold initiative is not only a testament to our commitment to innovation but also a development that marks a significant stride in the evolution of wealth management, for the long-term benefits of our clients and the Syz Group.

By Nicolas Syz *Head of Private Banking*

PRIVATE BANKING

Tokenisation, a concept born in the realm of blockchain technology, involves representing ownership or access rights to a real-world asset digitally on a blockchain. In our case, we applied this revolutionary idea to a piece of art, creating digital tokens that represent ownership of the value of the asset. The decision to begin with an internal test among our employees was strategic. It allowed us to thoroughly assess the mechanics of tokenisation before introducing this innovative approach to our clients.

The primary motivation behind this initiative was to explore the myriad benefits that tokenisation can bring to the wealth management industry. The first examples that comes to mind, are the new possibilities for legacy planning by allowing the fractional inheritance of real assets. Heirs can inherit specific fractions of tokens, making it easier to divide valuable assets among multiple beneficiaries. This can simplify the estate distribution process and reduce potential conflicts.

Another notable advantage is the democratisation of access to traditionally exclusive assets. Historically, high-net-worth individuals were the primary beneficiaries of investments in unique and valuable assets such as art, real estate, or infrastructure. However, through tokenisation, we are breaking down these barriers, enabling a wider audience to participate in the ownership and appreciation of such real assets.

Moreover, the fractional ownership made possible by tokenisation aligns with the evolving preferences of modern investors. The ability to own a fraction of a high-value asset allows for a more diversified, decorrelated and personalised investment portfolio. This flexibility is particularly appealing to a new generation of investors who value accessibility and customisation in their wealth management strategies.

By distributing tokens among our employees, we not only engage our team in a tangible way but also provide them with an opportunity to explore the potential of this transformative technology. This internal experiment serves as a learning platform, allowing us to better understand the dynamics of tokenisation, its challenges, and its impact on wealth management strategies.

Furthermore, tokenisation enhances liquidity and tradability of illiquid assets. Real-world assets, like art, are traditionally characterised by their lack of liquidity. Tokenisation introduces a new level of flexibility, allowing investors to buy and sell fractional ownership of these assets seamlessly. This increased liquidity benefits not only the investors but also the overall stability of the market, reducing the risk associated with illiquid holdings.

Our foray into tokenisation is not merely an experiment within the confines of our organisation; it is a strategic move towards offering our clients a new dimension of financial services. The insights gained from this internal pilot programme will inform the development of Syz Group's further offering in the digital world, following the announcement of the launch of a custody and trading solution for cryptocurrencies about a year ago.

To answer the headline of this article, we might not be ready to tokenise our family art collection quite yet, but we're definitely exploring what this possibility could entail and the paradigm shift it represents for the wealth management industry. By leveraging blockchain technology, we are not only adapting to the changing needs and expectations of our clients but also pioneering a more inclusive and dynamic investment landscape. As we embark on this exciting journey, we remain committed to pushing the boundaries of what is possible in private banking and delivering unparalleled value to our clients. The future of wealth management is here, and we are proud to be at the forefront of this transformative wave.

Firstly, it allows for the industry to move forward as institutional adoption accelerates and new exchange and custody alternatives emerge. The settlement also diminishes the systemic risk of the largest liquidity crypto exchange being taken out. The replacement CEO is a former regulator and marks a potential for a fresh start for the platform to do things the right way.

The saga also underlines the demand for Bitcoin. Many commentators had previously forecasted that Bitcoin could crash if Binance began to wobble. But in the face of the settlement, Bitcoin has demonstrated impressive resilience – after a brief dip off the years highs, just 48hours later it was back knocking at the $38,000 level.

There are two strong catalysts for the unique asset looking forward just a few months: Firstly, we believe the much anticipated BlackRock spot Bitcoin ETF will drive mainstream retail and institutional adoption, but more importantly it unlocks trillions of dollars of 401k money. Even a few basis points implies tens of billions in inflows for an already scarce asset that keeps getting scarcer.

To that point, the second seismic demand driver is the next bitcoin 'halving' in April 2024.

The total supply of bitcoin is capped at 21 million, and as of now, over 19.5million bitcoins have already been mined, leaving less than 1.5million yet to be issued. Bitcoin's protocol implements a mechanism known as halving, which progressively reduces the number of new coins introduced with each new block, meaning that that 1.5million will take another 117 years to be issued.

This is the first time in bitcoin's history that we approach a halving with less bitcoin available on exchanges than the previous halving. Exchange balances are approximately 600,000 bitcoin less than four years ago. On top of that a further 1.3mln bitcoin have been issued over that period. A quick back of the envelope calculation shows that 1.9mln bitcoin have been removed from liquid circulation in four years, we are at 3-4% adoption, less than 1% adoption by corporate balance sheets, and less than 1% adoption by nation states. And only 1.5mln bitcoin left to be mined forever.

All this against a backdrop of traditional financial market players creating a bridge into the industry. Banks the world over have been creating trusted third-party custody alternatives, and trading services. Swiss private and cantonal banks have been active here with names such as Syz, Maerki Bauman, Zug Kantonale bank and St Gallen Kantonale bank all providing services to their clients.

Meanwhile, in the hedge fund space, the recent volatility is providing an abundance of alpha for those employing volatility arbitrage, futures arbitrage, mean reversion and market making strategies. This is opening a door for traditional market investors to dip their toe into an asset class bearing the same opportunities that were harvested in the golden age of hedge funds in the eighties and nineties presented through diversified, highly diligenced vehicles like SyzCrest.

We are currently living through the scaling and adoption of a new asset class, Bitcoin, alongside an emerging but volatile digital asset industry. Institutional adoption will mean plenty more short-term pain for those participants who break the rules, but this period of industry maturation will benefit the digital asset space over the long term.

For further information

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