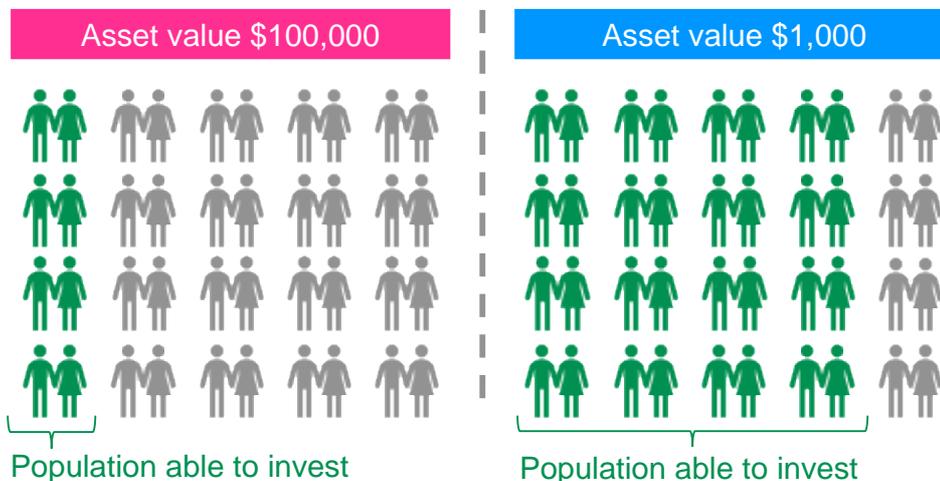




## Blockchain technology can boost investment and accelerate economic development – remittance dependent countries are best placed to benefit

### Blockchain security tokens broaden investor pool and support liquidity



Source: Veritas Global. Note: Illustrative diagram.



### What is blockchain technology and Security Token Offerings?

Blockchain technology offers a secure way to authenticate transactions and prove ownership over digital assets. Instead of relying on a single registry, blockchain relies on a network of computers to authenticate transactions and attest ownership rights. This ensures greater security of data without the need to rely on a single source. Blockchain technology has been used to issue and facilitate trade in digital tokens. An emerging trend is the issuance of STOs (Security Token Offerings), which are financial notes that are backed by securities and physical assets. STOs allow investors to participate in real physical assets and companies through ownership, earning streams, dividends or interest payments. In conventional terms, STOs can be thought of as digitized forms of equity, bonds or derivatives. Since they represent securities, they are usually subject to comparable regulatory oversight as other types of security issuances. This offers greater protection to investors and promises to avoid the repeat of the fraud and scam prone ICO (Initial Coin Offering) craze.

### Strong growth prospects for Security Token Offerings

[A study by BlockState](#), estimates that actual amounts raised in 2018 were about \$435 million, up from \$66 million in 2017, or an increase of 559%. The rapid growth is to be expected given the nascent nature of the industry and the relatively low starting base. Although STOs make a small share of the capital market, they have strong growth prospects. STOs have the potential to offer benefits in the form of greater liquidity to investors, an established compliance framework to issuers and a framework to facilitate oversight to regulators. Once regulatory hurdles are overcome, the full range of these benefits could be realized. In an [interview with the Security Token Academy](#), David Weild (former Vice Chairman of NASDAQ) highlights that 2019 will be an inflection point as the first public registration statements become declared effective with the Securities and Exchange Commission. This will offer a road map for others to follow and lead to a proliferation of STOs. [Chain Partners forecasts](#) that the STO market will grow to \$2 trillion by 2030.

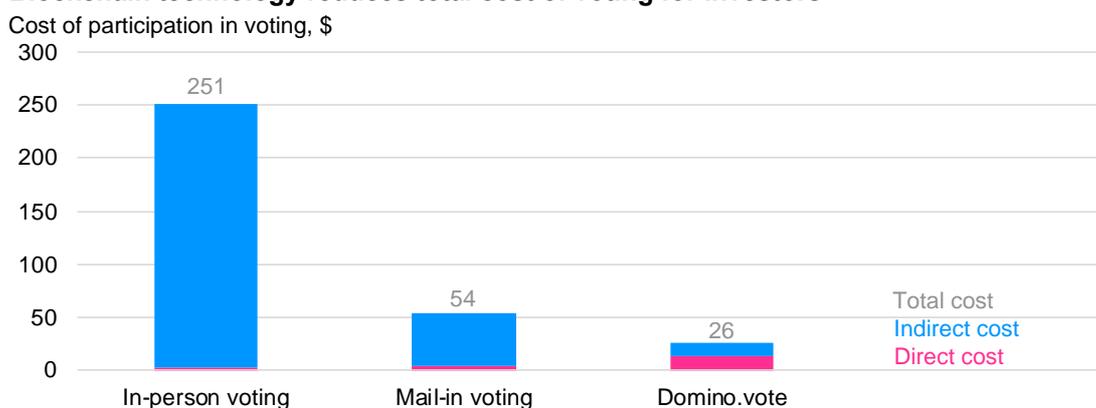
### Security Token Offerings can broaden the investor pool and support liquidity

Only accredited and identifiable investors can purchase STOs. The current process for accreditation and identification serves as a barrier to participation in STOs. However, as the process for accrediting and identifying investors becomes more simplified and automated the investor pool will broaden. Being able to offer assets and securities in small portions with an easier investor authentication process promises to be a major driver for facilitating investment. For example, a property in a developing country that has a market value of \$100,000 may only be accessible to a small portion of the population. Issuing 100 ownership tokens, each worth \$1,000, allows a much broader pool of investors to participate in the real estate market (see chart above).

## Reliable and tamper-proof digitized voting offers less costly ways for token owners to exercise ownership rights

As ownership of securities and assets become tokenized there will be an increased need to offer secure digitized solutions to enable token owners to exercise their ownership rights. Solutions have already been developed to tailor to this growing market. For example, [domino.vote](#) provides a turnkey mobile voting app that enables token holders to securely and legitimately cast their votes using blockchain technology. While tokenized assets may be the initial driver for deployment of digitized solutions to support voting, digitized voting may become a preferred method also for conventional shareholder participation due to the significant total cost savings (see chart below). These solutions offer significant time savings for shareholders and as a result reduce the total cost of participation in company governance while offering a transparent and tamper-proof decision-making tool. Furthermore, as the market for voting solutions matures and increases in scale these costs may come down further.

### Blockchain technology reduces total cost of voting for investors



Sources: Veritas Global using data on value of business travel time from Eurocontrol Standard inputs for cost benefit analysis and direct costs.

Note: Additional time spent for in-person voting is conservatively estimated at 5 hours, for traditional mail-in voting at 1 hour and for domino.vote at 15 minutes. Value of time is equal to \$50 per hour.



## Higher liquidity, improved access and lower costs of exercising ownership rights can boost investment, especially in countries with high remittance flows and diaspora

Investment in assets and securities will be boosted by a combination of simplified investor authentication, ability to transact small portions of an asset and lower cost options for exercising ownership rights. These blockchain enabled technological advances can be particularly beneficial when applied in the developing country context. They can serve to broaden capital market participation and support capital formation in a bigger proportion of the population. Furthermore, as the financial system evolves and STOs gain in acceptance, the purchased tokens could be used as collateral for accessing more finance. This can help boost financial inclusion. Countries with large remittance flows and diaspora could also benefit from facilitating inward investment with the help of these technological advancements. Overseas residents often enjoy near unrestricted investment privileges while at the same time exhibiting “home market” bias. Improving investment liquidity, reducing transaction and voting costs can serve to boost investment inflows. This will help support economic development and accelerate the process of helping developing countries realize their potential.



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