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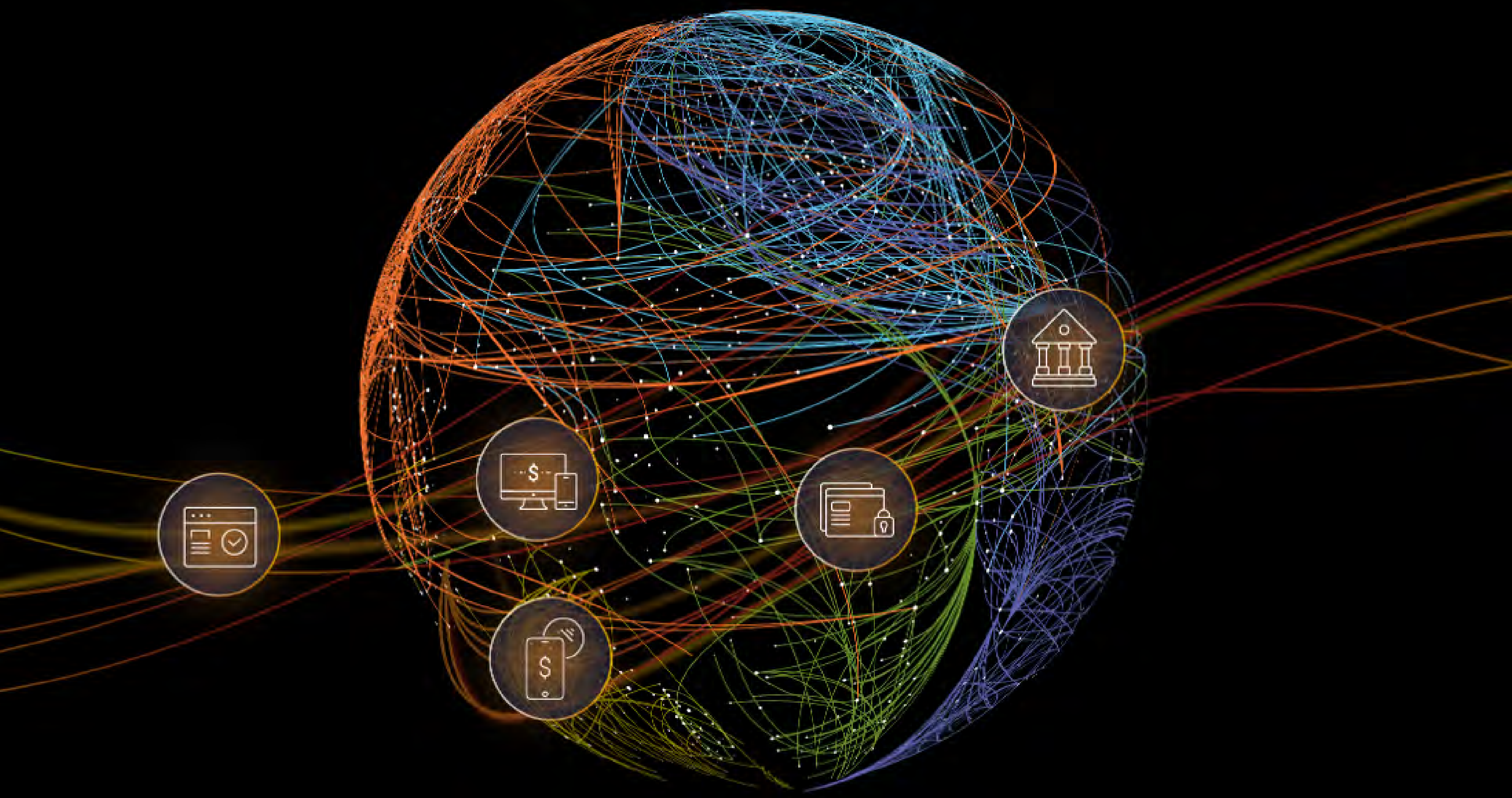

# The future of value transfer
## Empowering financial services

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Our lives are increasingly moving online. We purchase everything from groceries and entertainment to major insurance and investment products via online platforms, with the COVID-19 pandemic having accelerated that trend. These platforms are becoming broader and blurring industry lines, taking a page from China's BigTech firms, which bring rich ecosystems of lifestyle offerings as well as an ever-widening range of financial products and services to their massive user bases.

Many traditional financial services that were once available exclusively through established financial institutions, such as payments, credit, and asset management, are now supplied as "plug and play" elements embedded in digital ecosystems. Similar forces are at play in business-to-business ecosystems. Suppliers of financial services through these ecosystems are BigTechs and FinTechs rather than financial industry incumbents, which are at risk of marginalization in the new paradigm.

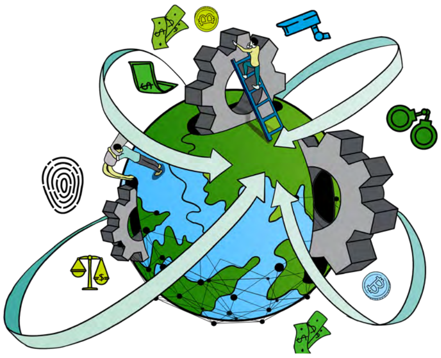
The financial services industry has to contend with a broadening definition of what constitutes value, from fiat money to digital representations of currencies, real assets, fractions of assets, entitlements to assets and more. But perhaps most importantly, the value of the ecosystems' underlying transactional data is also coming to the fore. There is an inexorable trend to shift control over that data away from banks and BigTechs and to empower customers to decide how value from their data is created, captured and transferred, that will redefine the future shape of digital ecosystems and the financial services that underpin them.

## The rise of value webs

Rapid advances in technology and connectivity have helped transform ecosystems in several areas – from manufacturing to media and entertainment – creating richer connections among a greater number of participants performing more specialized and, in some cases, completely new functions. This has seen the previous linear point-to-point interactions transform into dynamic, collaborative, cross-industry value webs ruled by many-to-many relationships.

*Financial services innovation has sought mainly to resolve residual friction among ecosystem players, but these innovations fall far short of addressing the issues and opportunities that are at the heart of the industry.*

Value webs have reduced costs, improved service and mitigated disruption risks, in addition to paving the way to better data gathering to fuel innovation.[1] Within these value webs, financial services innovation has sought mainly to resolve residual friction among ecosystem players. Recent examples include the evolution of payment providers, the introduction of crypto-currencies and less volatile stablecoins, digital wallets, the tokenization of assets, the introduction of open banking to facilitate data access and support data privacy, automation of identity verification and the move to digital financial services.



But these innovations fall far short of addressing the issues and opportunities that are at the heart of the industry.

Emerging technologies and ecosystems are expanding the scope of what constitutes value, combined with the push to give consumers control over the use and sharing of their data and the value it creates.

## The future of value transfer

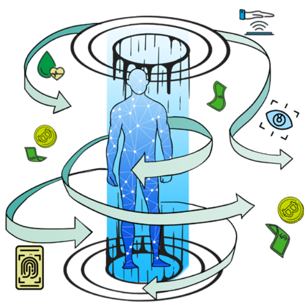
*The creation and representation of value in digital form will amplify the broader move from value chains to value webs.* The future of value transfer will thus encompass the exchange of value deriving from customer data, in addition to digital representations of currencies and other assets.

Digital identity will be a key enabler and accelerator of the future of value transfer. More and more, digital identities are not just attributed to individuals and entities, but to virtually all goods and services, effectively connecting the physical and virtual worlds. This is supported by distributed ledger technology, which provides the means to share digital identity without transgressing privacy laws, allowing individuals and enterprises to prove their credentials securely and easily while not oversharing data.[2]

Moreover, *digital identity is moving from a static concept based on validation and integrity to a broader, more fluid concept that encapsulates a detailed profile embodying value created from activity*, instead of merely ascribing the source of activity.

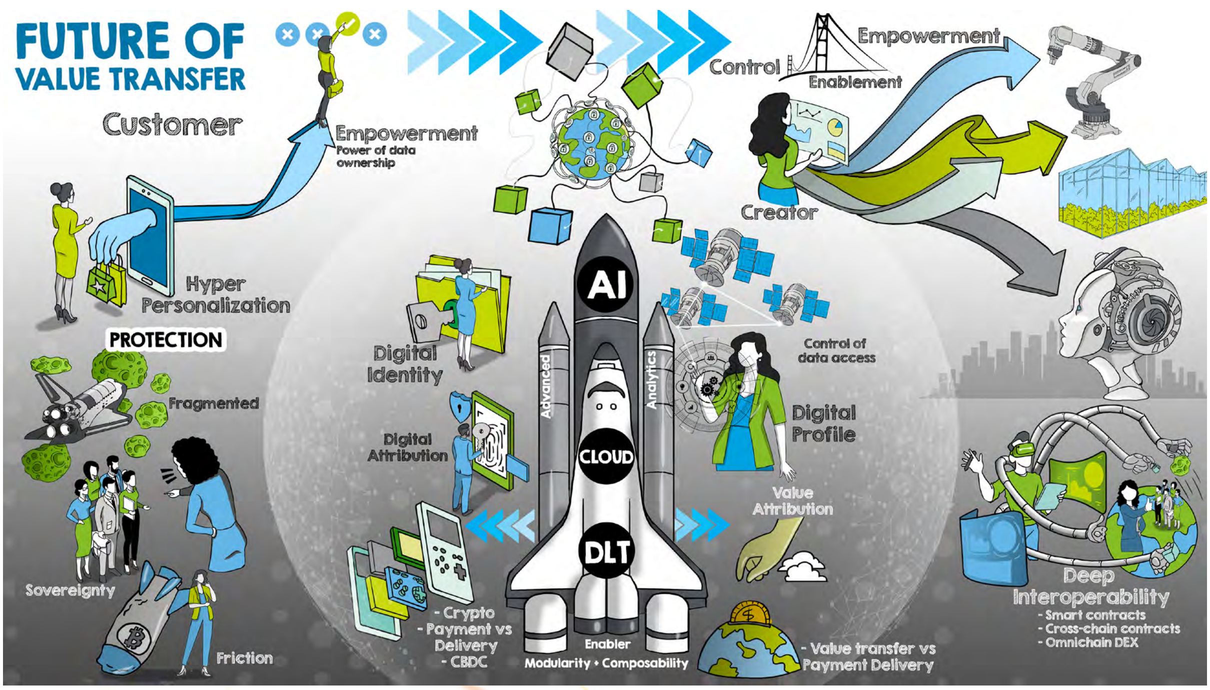
Opportunities for value creation, capture, and transfer will occur at every layer in an ecosystem. This, along with pervasive digital identity, giving rise to a virtuous loop. More activity will beget more detailed identity. More detailed identity will engender greater value. And greater value will spawn more activity.

The value of data within future value webs will be dictated by access rather than ownership. We are seeing a growing trend to separate the rights to access data from the ownership of data that comes from processing transactions, and to bestow on consumers greater control over their data through regulations and national infrastructure, as seen with Europe's Payment Services Directive 2, Australia's Consumer Data Right, and the Singapore Financial Data Exchange.



## The dawn of empowerment

The explosion of data has paved the way for the artificial intelligence-enabled hyper-personalization of the customer experience in financial services and other industries. However, as customers increasingly recognize the value of their activity and the data it generates, it is inevitable that they will demand more power to create, capture and transfer that value themselves. This will herald a new era of customer empowerment, with the value of data dictated by the ability to access it.



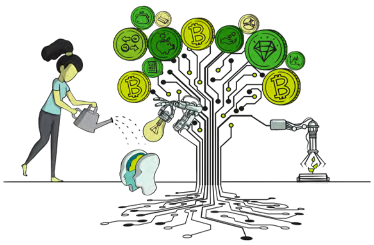
*Creating value with, from, and for empowered customers will require a different way of looking at many of the traditional components of the financial services industry.* The trend to modularization in areas such as credit provision, payments, insurance, investment management, custodial and security services, trading, and capital markets has already created building blocks for choice within a multitude of ecosystems. But empowered customers will want more than choice. They will also want to create, capture, and transfer their own value and manage that value on a seamless basis.

The financial services industry of the future will see the balance of power split more evenly between creators and customers. We are already seeing the beginnings of this in the development of non-fungible tokens – but this is just the start. Empowerment will mean many existing products, solutions and operating models become irrelevant.

Both incumbents and new players will need to reinvent themselves and their entire approach to value creation and capture. The industry will need to accept that in order to sustain its relevance and to enable the curation of digital profiles that integrate the creation, capture, and transfer of value at the same time. *Creation of value in the new financial services world will come as much from enablement as it does from empowerment.*

## The evolution of purpose-led regulation

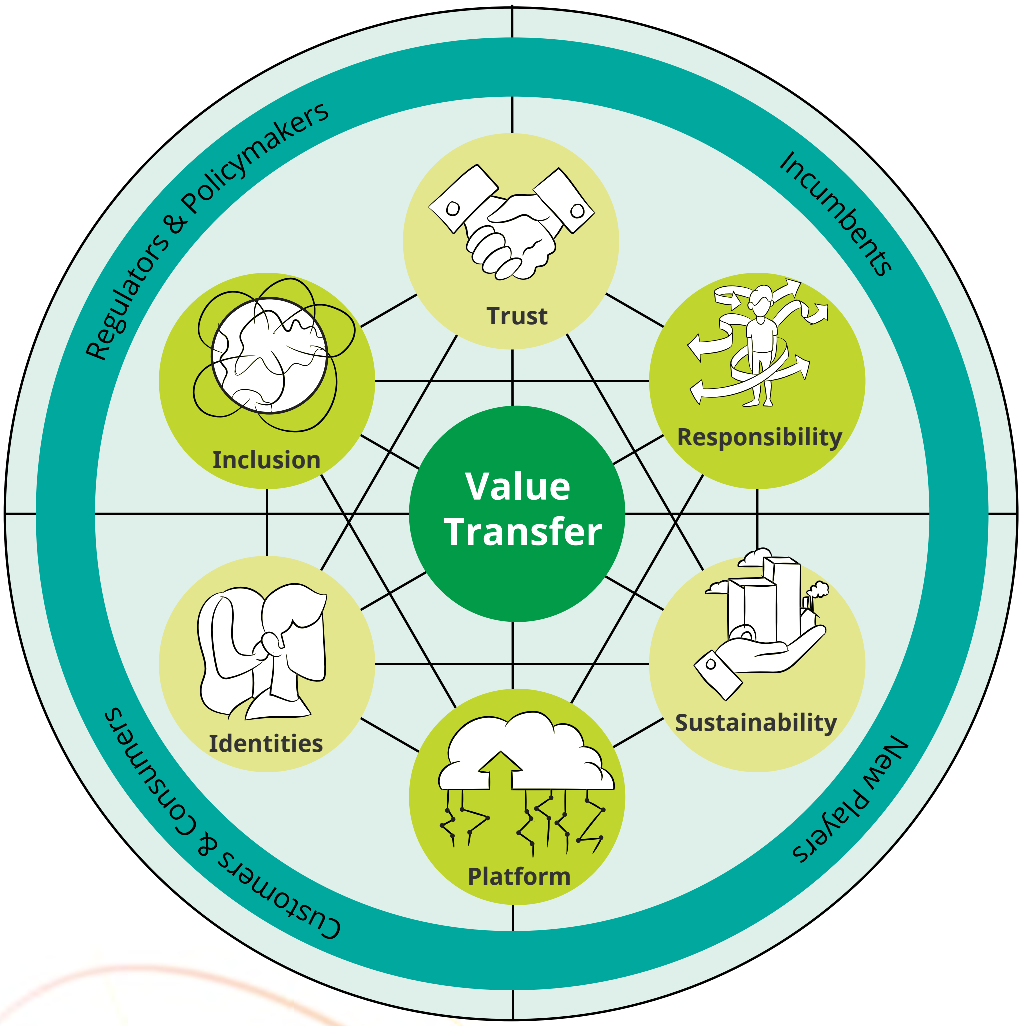
It seems inevitable that new players, and especially the BigTechs, will increasingly encroach on the traditional purview of the financial services industry. The advent of the future of value transfer will challenge even further the traditional entity-based approach to regulation as it becomes even less effective at maintaining control, supervision, and governance of financial services activities. Regulators will face pressure from many sides. Burdened with the task of balancing the need for protection with hastening innovation, they might consider adopting an evolved model of activity-based, "purpose-led" regulation, comprising an interoperable set of policies, principles and regulation driven toward the collective interests of trust and transparency.



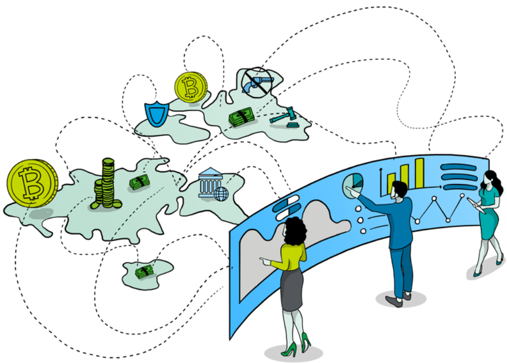
Both regulators and policymakers will grapple with the dilemma of decentralized finance, which promises many benefits, but brings with it significant challenges to accepted social norms, including the inherent erosion of regulatory oversight, control, transparency, and trust. At present, almost all regulation intended to protect customers seems to hamper the deployment of technology that could be a boon to those same customers. Regulation often serves to compromise rather than optimize innovation. Take the backlash against crypto-currency and stablecoins, and the concurrent accelerated adoption of Central Bank Digital Currencies (CBDCs). The desire to maintain sovereignty is prompting individual jurisdictions to push on with CBDCs, which, despite their considerable potential advantages, could also induce systemic risks – such as destabilizing incumbent banks – which will need to be carefully managed.[4]

Regulators can at least take comfort in the knowledge that protection of customers in future value webs will be enhanced by empowering them to make informed decisions, supported by giving them the ability to create and capture value from their own choices. But regulators must also give thought to value creators. The combination of the digital attribution of value to assets and activities with greater customer empowerment will drive the need to balance the rights and protection for those who are creating value in the value web.

We will also see continuing challenges from the unwillingness to relinquish jurisdictional sovereignty, with persistent geo-political tensions making it inconceivable that we will achieve the utopia of global harmonization of financial regulation. But there is a great opportunity to use the same advances in technology that are creating the challenges to step closer to ensuring inter-operability of regulations, thereby supporting incumbents and new players to link activities more effectively within and across borders.

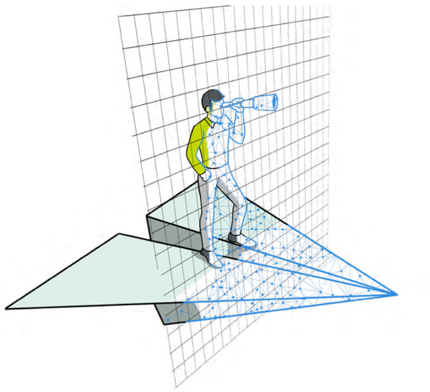


In light of all this, the financial services industry needs to fundamentally shift its thinking to acknowledge the inevitable: the simultaneous creation, capture, and transferability of value across sectors and activities will irreversibly alter the industry landscape. *The future of financial services will likely consist of interoperable value creation, capture, and transfer nodes between regulators, customers, creators, and intermediaries the world over.* And there is a good chance that interoperability will set the winners apart from the losers in terms of network operators.



## Looking forward

In a series of upcoming articles and discussions, we will delve further into the implications of the future of value transfer along six key dimensions: inclusion, trust, responsibility, sustainability, platforms, and identities. We will also examine the impacts on the key stakeholders in the journey: customers, regulators and policymakers, incumbents, and new players.



# Endnotes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# Contacts


## Author

**Tim Pagett**
Asia Pacific Financial Services Industry Leader
Hong Kong
tpagett@deloitte.com.hk

## Contributors

**Soumak Chatterjee**
Partner, Deloitte Consulting
Canada
schatterjee@deloitte.ca

**Rob Galaski**
Vice Chair, Financial Services Leader
Deloitte Canada
rgalaski@deloitte.ca

**Duleesha Kulasooriya**
Executive Director, Deloitte Centre for the Edge
Singapore
duleeshak@deloitte.com

**Radha Manogaran**
Director, Deloitte Centre for the Edge
Singapore
rmanogaran@deloitte.com

**Mohit Mehrotra**
Partner, Monitor Deloitte
Singapore
momehrotra@deloitte.com

**Patrycja Oselkowska**
Partner, Deloitte Digital
Hong Kong
poselkowska@deloitte.com.hk

**Siddharth Rao**
Strategy Leader, Asia Pacific Academy
Singapore
sidrao@deloitte.com

**Paul Sin**
Asia Pacific Blockchain Leader
Hong Kong
psin@deloitte.com.hk

**Janice Tan**
Strategy & Solutions Manager, Asia Pacific Academy
Singapore
janictan@deloitte.com

**Michael Tang**
Global Digital Transformation Leader for Financial Services
Canada
mtang@deloitte.ca

**Todd Roberts**
Partner, Deloitte Consulting
Canada
toddroberts@deloitte.ca

**Frances Yu**
Global Customer Strategy & Applied Design Leader
Deloitte Consulting
United States
francesyu@deloitte.com



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