Will Paige

Do banks and NFTs have a future together?

Article

What we've been noticing: As more financial institutions (FIs) explore nonfungible tokens (NFTs), we look at how they could impact the financial services industry.

The backdrop: The wealth management sector already views clients' high-end physical collectibles as an integral part of an investor's portfolio. And now more banks are also exploring digital collectibles like NFTs as assets, tech solutions, and marketing tools. Primarily, banks are looking at them within the context of the metaverse, where real-world assets can be bought and sold as NFTs.

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- **Goldman Sachs** said it is looking into "NFTs in the context of financial instruments," according to the bank's global head of digital assets Mathew McDermott.
- **JPMorgan** opened up a lounge in the metaverse where users can buy virtual plots of land with NFTs.
- And Japanese bank **Nomura** is seeking to grow its presence in cryptocurrency and NFTs.

Finding NFTs' use in finance: The tech underpinning NFTs could be useful for FIs, as American Banker points out.

- NFTs let companies record and transfer digital assets on the blockchain so that owners can store data while protecting it from loss or corruption. This system could help banks and FIs more easily deal with the challenges associated with handling and securing sensitive data.
- This could be helpful in allocating royalty payments, for example. Sometimes royalties have more than one owner and it's not obvious who should be paid. With NFTs, it's obvious who owns an asset.
- NFTs could also potentially help banks bring in new customers who don't trust crypto and are put off by blockchain tech's complexities.
- Fintechs and banks can benefit from trading NFTs in the same way that anyone can benefit from selling collectible assets. For example, **Konvi** gives investors exposure to rare assets like fine wine and watches and plans to add NFTs in the future.

What are NFTs' limitations?

1. **Volatile prices:** Much like crypto, NFT prices have fallen off a cliff this year. **The average NFT price dropped from $3,894 in May to below $300 in August, per Chainalysis.**
2. **Public apathy:** 41% of US adults have never heard of NFTs, according to YouGov, and just 3% of adults in Great Britain said they would feel more positively about a company if it started offering the digital tokens.
3. **Hackers:** Like all digital data, NFTs are potentially at risk of being hacked, particularly if they're stored on a centralized exchange. If they're stored in a decentralized wallet, they could still be hacked in a phishing scam that secures the user's password.

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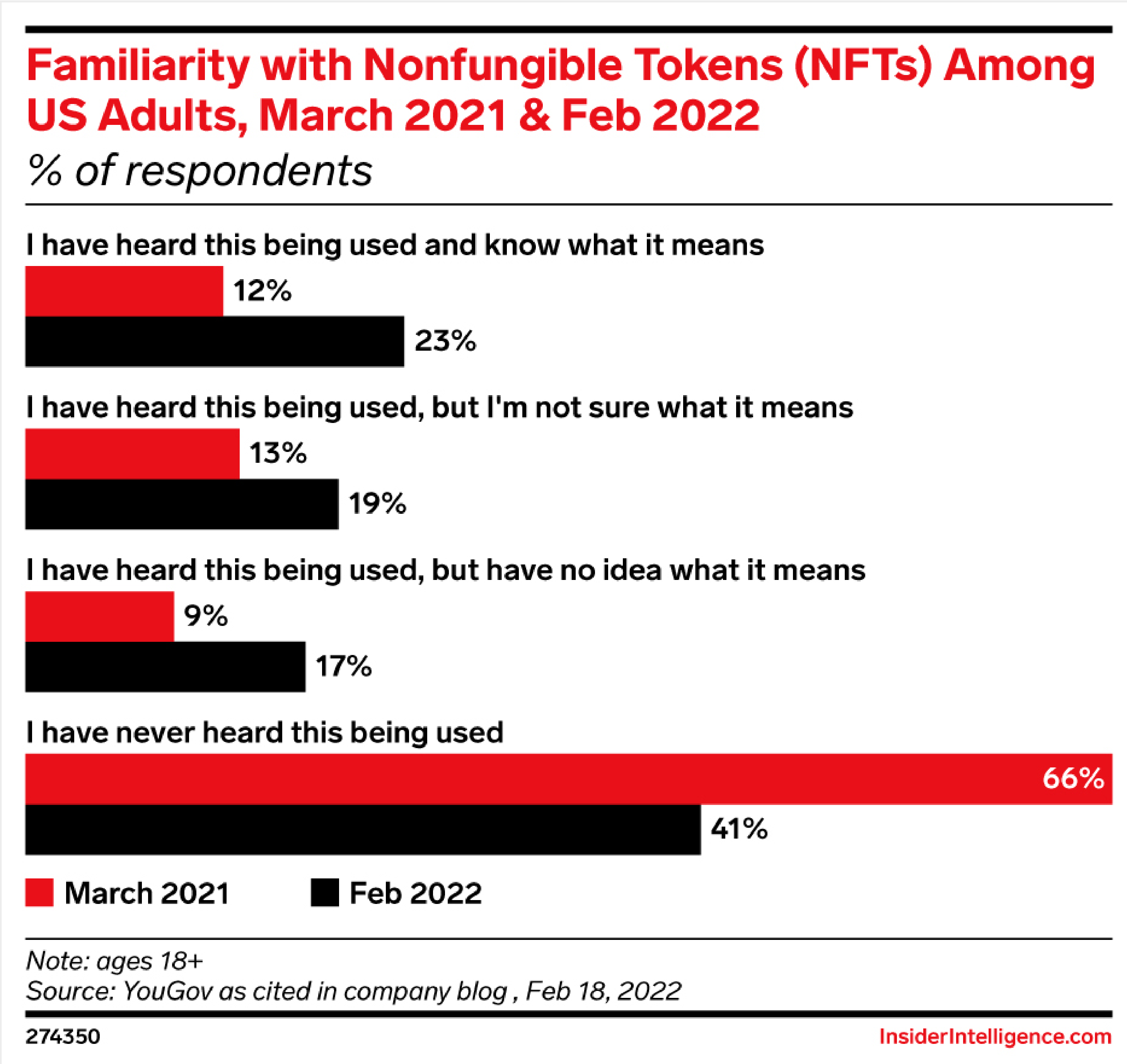

The big takeaway: NFTs and blockchain have real-world uses in financial services that major banks are now exploring—whether as part of a marketing strategy, to assert themselves as digital innovators, or because they want to expand their presence in asset management. FIs should think seriously about whether a division within wealth management should develop expertise in NFTs, or if they should build relationships around services targeting token

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owners, similar to those they've developed with the industry that serves collectors of fine art, antiques, and high-end collectibles.

NFTs might not achieve the explosive growth that some analysts are predicting, but banks should have a strategy in place to reap the rewards if the market does mature.

Read on: *Check out our report on* ***What the metaverse should mean to the bank*** *to find out how FIs can embrace the metaverse and NFTs.*

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Do US Adults Think that NFTs Are Mostly Hype or the Real Deal?

% of respondents, by demographic, Jan 2022

	Mostly hype, only a fad	Only useful for a small number of people	The real deal, will become mainstream
Gender			
Female	31%	48%	13%
Male	38%	41%	16%
Generation			
Gen Z (18-25)	36%	37%	22%
Millennials (26-41)	33%	42%	19%
Gen X (42-57)	33%	45%	14%
Baby boomers (58-76)	36%	48%	8%
Seniors (77+)	38%	52%	4%
Income			
<$50,000	34%	43%	16%
$50,000-$99,000	34%	47%	14%
$100,000+	37%	45%	13%
Total	**34%**	**44%**	**14%**

Note: responses of "no answer" not shown
Source: Momentive/SurveyMonkey as cited in company blog, Jan 10, 2022

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