Session 4: Plunging into Deep Water: An Immersion in FinTech, Defi (Decentralized Finance), & Web3

Summary of Proceedings by Michael Incorvaia

Moderator: Joseph M. Vincent, Adjunct Professor of Law, Seattle University School of Law
Panelists: Ron Oliveira, Kory Hoang, Jonathan Blanco

Abstract: This panel featured entrepreneurs providing their expert insight into the background, workings, and expected developments of the FinTech industry. The panel provided insight on topics regarding: (1) the fundamental changes in financial services since the advent of FinTech; (2) background on the Stablecoin industry including a background of what Stablecoin is, and why it has been under recent scrutiny; and (3) the NFT market and the direction the NFT space is heading. In a Q&A session, the panelists also offered their opinions regarding the necessary attributes for an attorney working in the FinTech space, unique ethical dilemmas and environmental impact of the industry, and where they see the Crypto and NFT space going in the next 2-5 years.

I. Introduction

FinTech, Crypto, Stablecoin and NFTs have been around for many years, but are an industry that is often misunderstood or ignored by customers and regulators alike. As the emergence of the industry becomes more and more prevailing, entrepreneurs, corporate giants, and regulators are all grabbling to garner a greater understanding of how the technology can be used and utilized to provide customers with a new market.

Moderator Joseph Vincent opens the discussion by reviewing symposiums of previous years, and by laying a foundational understanding of how this new industry and the key issues within the industry have changed over just the last five years. This year's discussion will be different from previous years because it will focus on the perspective of an entrepreneur and how they are handling the challenges and changes of FinTech.

The panelists provide their backgrounds and the extensive experience they each have that makes them experts on these topics. As the CEO of Moonstone Bank, Ron Oliveira discusses how the downsizing of traditional banking raises questions on where the industry is going, and how the Crypto/FinTech space is prevalent in taking on this transformation. Ron provides the opinion that while the industry may scare you a little, it should excite you a lot and there is great opportunity for banks to embrace the next evolution. Kory Hoang is the Founder & CEO of Stably, and believes the service model that Stablecoin offers for banks and FinTech is an emerging ecosystem. Jonathan Blanco, Founder & CEO of TFLabs and their NFT project Niftmint, believes that NFTs could be a loyalty mechanic, in the same way that Crypto is used, and that NFTs will evolve to be integrated into purchases and consumers lives in the same manner as an HTTP is part of a domain.

II. Changes in Financial Services

FinTech has been the transformation of the original model of banking turned digital, so in a sense banks are FinTech. What makes it different today can be attributed partly to timing. Modern customers expect digital transformation, the technology now exists to make it happen, and regulators recognize the transformation. These three factors coming together have developed the perfect storm for change. It has become cheaper for the consumer to participate in the FinTech space and cheaper sells to a broader spectrum of consumers opened the consumer base, making it more enticing to participate. Traditionally, fragmented industries conduct M&A deals where larger institutions buy out smaller competitors to maintain the industry and its status quo. However, in FinTech, calibration of value is difficult so traditional methods are unlikely to be viable, and partnerships will be more prevalent for businesses to be and stay competitive.

III. What are Stablecoins?

Four types of Stablecoins currently exist. First there is Fiat-backed Stablecoin. A Fiat-backed Stable coin is a deposit of currency that is fully collateralized and backs up the Stablecoin itself, providing value. Essentially, this type of Stablecoin provides a receipt that entitles the owner to an amount of money. The Stablecoin can be understood as a token representing that amount of money. Second, Cryptoback Stablecoin has actual collateral in digital assets. Typically, this kind of Stablecoin is still pegged to the USD or another currency. Algorithmic Stablecoin as a token is supposed to pegged to something stable (typically USD or another currency) and the supply is automatically adjusted to remain at the pegged value. Removing or adding supply of the Stablecoin to meet the pegged value is performed through a "smart contract." Hybrid Stablecoins are a final, lesser-known type of token. Hybrid Stablecoins combine various pieces of the other three categories and adjust collateral ratio to be supported by the more stable market in the same manner an Algorithmic Stablecoin is adjusted.

As the Founder and CEO of Stably, it is Kory's belief that the true future of this crypto will be decided by regulation. He is a strong supporter of the industry and believes there is more to be offered, which customers are not taking advantage of, but regulation will affect whether the industry is able to flourish.

IV. What is the NFT Market and Where is it Headed

A Nonfungible Token (NFT) provides a unique element with a unique value. Bored Apes were first to think of NFTs as a brand in the same manner that the typical consumer would. With the revelation of the NFT market, the sense that anyone can create an NFT that will rise in value and the sense that NFTs are securities were created. As the Founder and CEO of Niftmint, Jonathan cautions that nobody can promise future value or tradability on an NFT or that participation in the market will inherently create value. However, Jonathan does see the value in NFTs as a digital product that a business can utilize and does not require a crypto currency backing [??] create and sell to customers.

V. FinTech and Law

In the NFT space and in a self-funded company, Jonathan believes that an incoming attorney at FinTech brings value when they arrive in the space with multiple talents. Someone who is not just a legal advisor and knowledgeable about the law, but can also act in roles such as product management and take a business development approach provides the greatest value. As someone in a new emerging industry with little regulation, Kory believes an attorney with knowledge and certifications in anti-money laundering and its applications in a digital currency space, including regulations both upcoming and existing, brings undeniable value to the business. As the CEO of a traditional bank excited about the evolution of the industry, Ron finds that an attorney who can understand crypto and blockchain and their application to traditional banking regulations brings value. An attorney who understands both how the standard regulations may apply to an emerging industry and where that allows customer utilization is important.

VI. Ethical Dilemma and Environmental Impact

Ethics is always a topic of concern, and the panelists feel when a new market space is developing it is even more important to set standards with ethical backing. For example, being able to disclose the information in language that a customer can understand, and properly identify and provide the customer with the necessary information they require to make informed decisions is an important challenge that needs to be addressed.

Environmental impacts of mining blockchain and creating these crypto spaces are often seen as a major ethical dilemma from outsiders that must be addressed. It is Kory's personal opinion that there is [are??] energy inefficient blockchains such as Proof of Work, but Proof of Stake and other blockchain mechanisms can reduce energy consumption and make the blockchain industry greener. Energy used in the United States to mine blockchain comes from otherwise wasted energy as opposed to operations in China where coal/carbon energy is used in consumption for mining. The United States primarily uses natural gas and hydroelectric, which results in otherwise lost energy. The energy being consumed by crypto is comparatively not as large as perceived when compared to other industries. Jonathan also notes that blockchain's energy consumption needs to be put into perspective in terms of what the blockchain is using compared to other industries, and that there is an expectation that energy consumptions will come down as the sector grows and becomes more refined, as seen throughout history in all other areas and industries.

VII. Crpyto/NFTs in 2-5 Years

Ron has the industry prospective that crypto will have its own consortium to set standards that will allow industry to move forward with lower regulation from existing regulators. In addition to the development of regulation, the belief is that the banking industry will be partnering with many Crypto/NFT companies to grow the FinTech industry. Jonathan looks forward to more user-friendly applications that will broaden the user basis for crypto overall, but will not necessarily be on par with FIAT currency. There is a belief that a significant amount of centralization will take place even though crypto is discussed in a de-centralized nature. Finally, Kory is excited about the prospect of emerging blockchain ecosystems and that these ecosystems will offer more attractive returns and will differentiate the Stablecoin industry.