

CRYPTO ACCEPTANCE BODES WELL FOR FUTURE GROWTH



Despite the negative fallout from the collapse of FTX and events, the crypto industry has found its silver lining and continued to develop. With potential regulation looking to institutionalize the space further, NAV Fund Administration Group VP Sumit Sharma shares his insight on the levers of growth.

What have been the biggest drivers of growth within your business?

Over the past three years, we have invested in major upgrades to our reporting platforms, with an emphasis on the unique requirements of funds in the cryptocurrency space. These changes have helped us improve delivery timelines and offer more comprehensive reporting solutions to our clients and their investors.

NAV has realized year-over-year growth since our founding in 1991 due to our strategic focus on innovative proprietary technology and superior client service. We emphasize client relationships, service level, and delivery timelines and invest heavily in technology and skilled technical talent. Our growth is primarily due to client and service provider referrals.

What has been the most significant change in the industry?

The most significant change in the industry has been the increased adoption of cryptocurrencies and blockchain technology, with many top-tier companies now accepting crypto as a mode of payment. Cryptocurrencies have become more widely accepted as a legitimate asset class and their market capitalization has grown significantly. It also appears that DeFi and NFT activity is rising again recently as promising new uses and applications emerge.

The market has been negatively impacted by counterparty events and ensuing bad publicity, such as the FTX collapse and bank failures. Events like these certainly break the confidence in the industry, but also may ultimately have a positive impact by underscoring how critically important it is for industry participants to carefully analyze counterparty risks.

What is your outlook for the expansion and development of digital assets and cryptocurrency investing?

Crypto is a developing and evolving market and we are very positive on its future. The last decade has brought substantial improvements to the industry. Despite its peaks and valleys, crypto has survived and thrived. Negative events have caused some growing pains but will ultimately result in positive changes, including a better product and profitable, sustainable growth.

As the largest fund administrator in the space -- servicing more than 500 crypto funds -- NAV is witnessing many new crypto fund launches, a healthy inflow of investor money coming in, and more institutional players adopting crypto. Overall, these are great signs for the future of this asset class.

Cryptocurrency is now widely accepted and adopted across a broad range of the financial industry and investor/consumer communities. For example, Bitcoin and Ethereum are still serving as major hedging tools against the traditional market and are continuing to look strong.

Further, the emergence of new technology and new protocols across the board can help to solve large-scale challenges around data security.

Can you list the factors which can impact investor demand both positively and negatively?

On the positive side, increased adoption by the market and institutional players will increase stability and encourage investor confidence and participation. Crypto is also, once again, being used as a tool to hedge against traditional market returns. Regulatory updates can also bring positive change as a more 'traditional' regulatory environment will help bring risk-averse investors off the sidelines. In addition, advances in technology and new use cases for cryptocurrencies can attract a more diverse range of investors.

In terms of factors which could have a negative impact, crypto is particularly vulnerable to data and security threats. Cybercrime and cybersecurity incidents damage investor confidence in this asset class. Events like the FTX downfall -- which spotlighted corruption and mismanagement -- also dilute investor trust and confidence.

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Which are the most significant challenges in the digital assets industry right now and how can they be best mitigated?

With highly visible events like the FTX investigation and bank collapses, it has become increasingly challenging for investors to fully trust their counterparties. This uncertainty has led to many investors making the shift to decentralized platforms (DeFi trading). To be clear, counterparties are more than exchanges, custodians and banks -- fund managers must also closely scrutinize their accountants, administrators, auditors, etc.

The current lack of regulation and uncertainty around the level of future regulations is also a major question mark for investors. Establishing clear governmental regulations on a global basis will boost the crypto industry to the next level of growth.

Overall, the crypto industry is currently still hampered by a basic public misunderstanding of how it works, its structure, and its advantages and clouded by questions around security and risk. Industry leaders must continue to educate and advocate for the asset class to amplify the benefits it can offer investors.