Shaping Malta's Future 2021

The evolution of corporate finance and digital economy

Grant Thornton | Malta

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The evolution of corporate finance and digital economy

The Internet of Things, Artificial Intelligence and Distributed Ledger Technology are some of the innovative technologies that are changing the way industries around the globe operate. Consequently, businesses are complying with the fourth industrial revolution by investing into modern technologies that can facilitate their operations whilst reducing the organisation's costs.

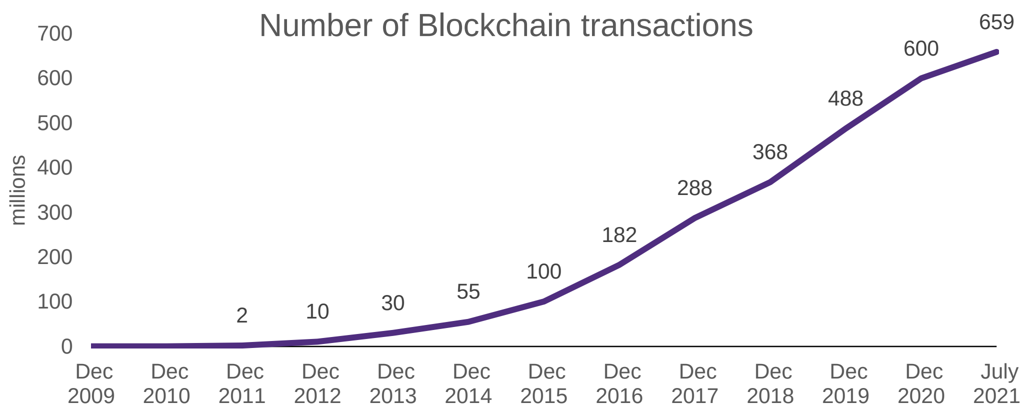
Nowadays, most organisations are adopting a customer-driven business strategy, which is based on the ever-changing customer needs and wants. As a result, businesses must increase their operations' flexibility in order to be able to cope with such changes. For instance, the Internet of Things, entails the connection of physical objects to the Internet, and this feature is being used by organisations to collect real-time data during operations. Furthermore, employees make use of the empirical data collected to establish machine learning algorithms to aid other technologies to be able to develop Artificial Intelligence and take human-like decisions.

Additionally, the data collected can be used to estimate the costs involved in scaling the production of an organisation. Nonetheless, this will then affect machine maintenance estimations which will ultimately benefit the organisation due to the minimisation of unproductive/down times. By investing into these technologies, organisations would be ultimately satisfying clients' needs, leading to an increase in sales and overall profitability of the organisation.

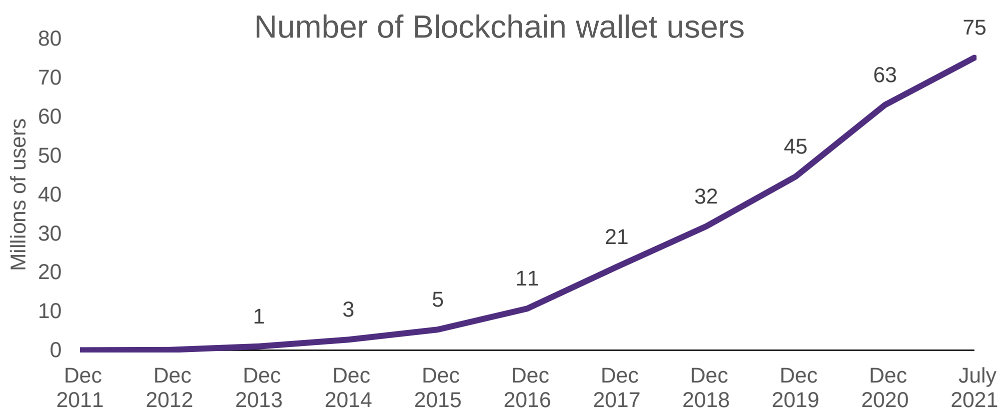
Similarly, within the financial industry, organisations are also reaping the benefits from making use of both 'Artificial Intelligence' and 'Internet of Things'. The former is used by companies to reduce the risk of fraud and cyberattacks within the organisation whilst the latter is often used for customer and financial market data collection.

Likewise, Distributed Ledger Technology is another innovative technology that is significantly changing the manner in which organisations operate. By using a peer-to-peer network, technologies such as Blockchain, are able to eliminate the use of third parties since peers can perform transactions directly with each other. Furthermore, since Blockchain is a form of Distributed Ledger Technology, it can be used as an efficient data storage system due to its simultaneous data entry into all nodes within the network. Nevertheless, when using Blockchain, users must be aware that they would be shifting to a decentralised network, hereby allowing the authority for information to be shared within all the nodes in the network instead of one centralised authority.

When weighing up the benefits gained through the use of blockchain, it would be worthwhile to note the dramatic spike in terms of the increase in popularity. As indicated by the real-time market data shown below, the total number of blockchain transactions has increased by around a 100 million per year since 2016.



Although there has been an increase in transactions, it does not necessarily mean that more people are using blockchain. The chart below depicts the increase in blockchain wallet users, which is more representative of the amount of people which are making use of the technology.



Amongst its various uses in the financial industry, distributed ledger technologies can also be used to benefit the corporate governance of an organisation. Transparency between the company and its stakeholders is one of the key factors that is enticing organisations to integrate the technology into their Corporate Governance systems. By having access to this technology, stakeholders can view company information on a real-time basis, making it easier for them to understand the company's financial situation whilst enhancing fraud detection.

Furthermore, blockchain technology can also provide shareholders with a digital identity that can be used as a means for performing transactions on a remote basis. Moreover, such digital identities also benefit shareholder voting by eliminating errors during distribution of ballots and reducing shareholders' reliance on proxy voting.

Similarly, companies can adopt distributed ledger technologies to assist them in their capital market operations. Without the use of blockchain, transactions must go through several intermediaries and thus, reconciliation and duplication of data is required on a constant basis. However, since blockchain operates through a decentralised ledger, data is updated on a real-time basis and companies can save on administration costs since reconciliation would not be required, thus eliminating unnecessary bureaucracy.

Additionally, through the use of smart contracts, trust between parties can be established since the parties would be required to verify their holdings beforehand. When all the pre-determined conditions are met, computer codes are used to complete the transaction. In this way, transactions are completed in an efficient manner, without the unnecessary need of intermediaries whilst also being completely transparent. In fact, due to the reduction in transaction time, technologies such as blockchain will allow users an easier access to trades, thus improving the overall liquidity of the company's investments. Furthermore, blockchain can help parties to trace the ownership history of their investments, ensuring that they are not involved in any previous criminal activities.

Nonetheless, despite all the benefits companies could gain by implementing blockchain technology into their capital market systems, there are still some factors that prevent organisations from doing so. Since distributed ledger technology is still relatively new and still being introduced as a day-to-day technology use, it requires certain developers and technicians to operate properly and therefore, it may still be too expensive for certain entities to apply this technology as a normal practice for their operations. Moreover, companies can only conduct transactions through blockchain with parties using the same platform. Otherwise, they must revert to their old system, forcing the company to run two systems simultaneously. Scalability is another barrier that may avert the incorporation of blockchain since the more transactions being performed concurrently, the more time needed for a transaction to be completed.

Albeit, if companies decide to use distributed ledger technologies within Maltese territory, they must follow three types of legislation. Firstly, the 'Malta Digital Innovation Authority Act' indicates the regulation that the 'Malta Digital Innovation Authority' must follow for it to regulate the industry effectively. Moreover, organisations must then adhere to the regulations issued by such authority to be able to operate within the local market. Secondly, if organisations intend to use either 'Innovative Technology Services' or 'Innovative Technology Arrangements' within their operations, such as smart contracts, they must follow the 'Innovative Technology Arrangements and Services Act'. Lastly, to exchange cryptocurrencies and use blockchain to manage their portfolios, organisations must follow the 'Virtual Financial Asset Act' and ensure that transactions are complying with this regulation.

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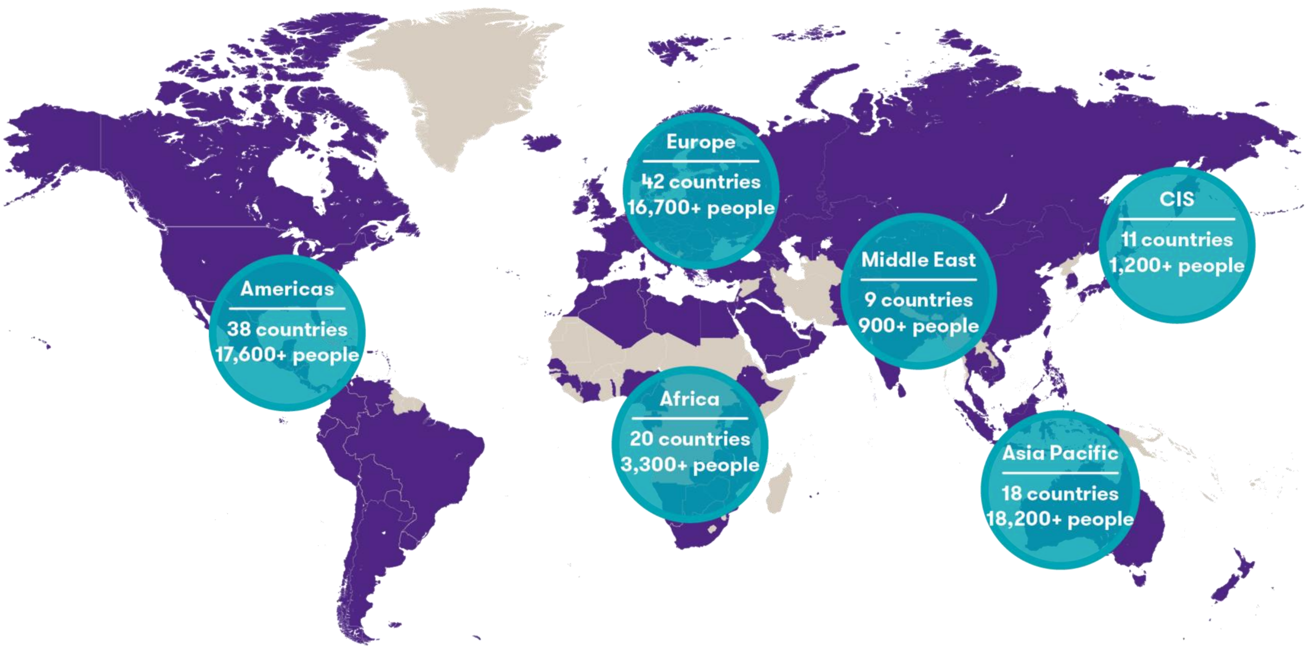

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- value for money analyses
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- public procurement advisory
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- product development costing and determination of pricing strategies
- market research
- survey design, collection and analyses
- ad-hoc engagements

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- capital requirements
- ALM & Actuarial ALM
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- independence reviews
- credit risk
- interest rate risk
- price risk (hedging)
- foreign exchange risk
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- data management
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- remediation and anti-money laundering
- tool kit using research techniques

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- brand development
- human resource consultancy

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