Embracing digital innovation

Simon Gray discusses the benefits of embracing digital innovation to help drive economic recovery
Simon Gray, Head of Business Development and Marketing at BVI Finance
Li Keqiang, the Chinese Premier, once said that “changes call for innovation and innovation leads to progress.” This is certainly true of the financial services ecosystem, which has undergone dramatic change over the last decade and seen a raft of new innovation centred around the digital economy.

Traditional financial service providers have had to grapple with a host of new challengers entering the space, from digital entrepreneurs through to blockchain and cryptocurrency pioneers. Unconstrained by legacy solutions, these new fintech innovators and start-ups have highlighted just how far things have progressed. And with the vast volume of data that is now available in real-time, these disruptive start-ups are leveraging data insights and intelligence in new ways, and for real business impact.

Alongside this trend, the pandemic has also positively accelerated digital innovation in all major economies. The sudden pivot towards remote working and ensuring business resilience has forced people and businesses to embrace digital technologies in new and agile ways. Reliance on digital platforms has also now become an essential part of the process in securing and completing financial deals and transactions in this new norm of remote working.

To overcome the challenges to business models and the ongoing global uncertainty, there is now an even greater urgency for companies to adapt and innovate. Businesses which were already using digital technologies coped better with the ongoing crisis, and others are rapidly upskilling and investing in their capabilities. However, the ability to embrace digital innovation will be crucial to a sustainable, post-pandemic economic recovery.

**Leading by example**

The British Virgin Islands (BVI) has a long track-record of promoting digital innovation and leveraging the full power of digital capability. The BVI, like other International Financial Centres (IFCs) more generally, provides agile, sophisticated and yet cost-efficient financial products within a supportive regulatory and business environment.
For example, the BVI’s Incubator Funds are especially well-suited for digital asset start-ups. There has been much interest in these funds which provide start-ups with an easy to use platform without punitive administrative costs and enable a new manager to get established without having to appoint local directors.

This environment also provides valuable opportunities for digital asset start-ups to thrive. The jurisdiction’s progressive corporate law fosters international trade while ensuring compliance with global regulatory standards. As a result, it is becoming increasingly attractive to structure investment vehicles in established jurisdictions like the BVI that provide the right balance between stability and attractive economic incentives.

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The BVI actively invests in its own technological capabilities and has deployed leading-edge technology to ensure it maintains global international standards through establishing a more effective partnership with global regulators and law enforcement authorities around the world – driven by technology.

The BVI’s Beneficial Ownership Secure Search system (BOSSs) is the gold standard in accessible company registers. This fully searchable platform is decentralised and cloud-based, and uses the highest levels of security and encryption to hold verified data on companies incorporated in the BVI.

The digital platform has been lauded by prominent law enforcement authorities like the UK’s National Crime Agency (NCA) and was integral to disclosing information that warranted the UK’s first Unexplained Wealth Order (UWO), obtained by the NCA in 2018.

The BVI has also been proactively exploring opportunities in cryptocurrency and blockchain technology. A recent report estimated that over 80% of crypto hedge funds are domiciled in IFCs, with the BVI continuing to attract a growing proportion attracted by the favourable funds regime and growing expertise.

Though cryptocurrencies have been undermined by volatility in the past, they have rapidly evolved in recent years, which means it is essential to take a renewed focus on possible avenues of potential. It is clear that digital currencies have a great potential to speed up transactions and reduce fees, while ensuring greater security. They also have the potential to foster financial inclusion, especially in developing economies where people might lack access to more traditional formal banking.

The underlying technology of crypto assets or blockchain is another innovative space with significant implications for the global financial services industry. This distributed ledger is a decentralised database where transactions are
kept in a shared, synchronised and distributed book-keeping record, which is secured by cryptographic sealing. It can be an important tool for building a fair, inclusive and secure digital economy, as the platform can provide a transparent and user-centric digital service.

One area the BVI is keen to explore and maximise is smart contracts such as the Decentralised Autonomous Organisations (DAO) and Limited Liability Autonomous Organisations (LAO), which can codify transactions and contracts, and in turn ‘legally’ manage the records in a distributed ledger.

This is a rapidly evolving area and, in the future, we could see smart contracts potentially interacting with multiple financial systems, automatically transferring assets while monitoring for compliance and making sure the terms of a contract are fulfilled. This technology is still in its infancy and the BVI is committed to cooperation and dialogue between industry stakeholders and regulators to foster and deploy blockchain-based applications within an appropriate regulatory framework.

**Developing the right regulation**
There are new challenges that come with emerging technologies and many governments are struggling to put in place proper regulatory frameworks for new sectors like cryptocurrencies. Regulation has not always kept up, especially with digital assets which essentially live on borderless blockchains, unlike regulatory policies which are specific and vary across jurisdictions. Nevertheless, and to nurture further innovation, it is important to interrogate new technologies and make sure the right policies are in place.

The Organisation for Economic Cooperation and Development (OECD) is currently debating these inconsistent rules and plan to release a tax-reporting framework for crypto-assets based on the common reporting standard (CRS). Of course, crypto funds and assets will only mature in the coming years, so it is incumbent on all jurisdictions
to cooperate and develop a coherent regulatory regime that satisfies global standards such as those set out by the OECD. It is, however, imperative that the right balance is achieved between enforcing good governance while making sure that strict rules do not dampen innovation.

In the BVI we are actively investing in fintech regulation and recently launched the Fintech Regulatory Sandbox – a testbed for fintech businesses to conduct live-testing and identify areas for improvement before they launch. This light-touch regulatory regime is designed to foster innovation and create a friendly ecosystem for digital start-ups to thrive and is helping formalise the existing significant digital activity already taking place in our business company and funds regimes.

**Innovation in the ‘new normal’**

Initiatives like this are helping to stimulate innovation and leverage technology in ways that improve business processes. Going forward this will be an important strategy to help kickstart recovery and ensure long term economic growth.

The pace of technological change, which has only been accelerated by the pandemic, is one of the most creative forces shaping today’s financial services ecosystem. Like Li Keqiang, we must positively embrace innovation so that we can continue to progress as an industry for the benefit of the financial services sector as a whole and the wider global economy.

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**ABOUT THE AUTHOR**

*Simon and the BVI Finance team lead the efforts of the BVI in promoting the territory’s international business and financial services both locally and overseas. Simon is a senior financial services professional with a strong international*
background with experience of Europe, the Middle East, North America, Asia, Africa and Latin America and an established track record of success.