VIEW POINT

NFTS: THE NEW FRONTIER OF DIGITAL EXPRESSION AND INVESTMENT

Abstract

The digital age has fundamentally reshaped how we create, consume, and interact with the world around us. Art, music, and even collectibles have taken on new forms, existing not just in the physical world but also in the ever-expanding digital landscape. But this digital evolution has also presented a unique challenge: how do we establish ownership, invest and add value in a space where physical assets no longer exist? This is where non-fungible tokens (NFTs) enter. They are unique digital tokens verified by blockchain technology that help transform digital creations like art, music and virtual goods into tradable and valuable assets. NFTs have immense potential and are continuously revolutionising the digital space and investment sector. In fact, in the first quarter of 2024 alone, the NFT market witnessed staggering sales of 3.77 billion US dollars by eight prominent blockchain networks.

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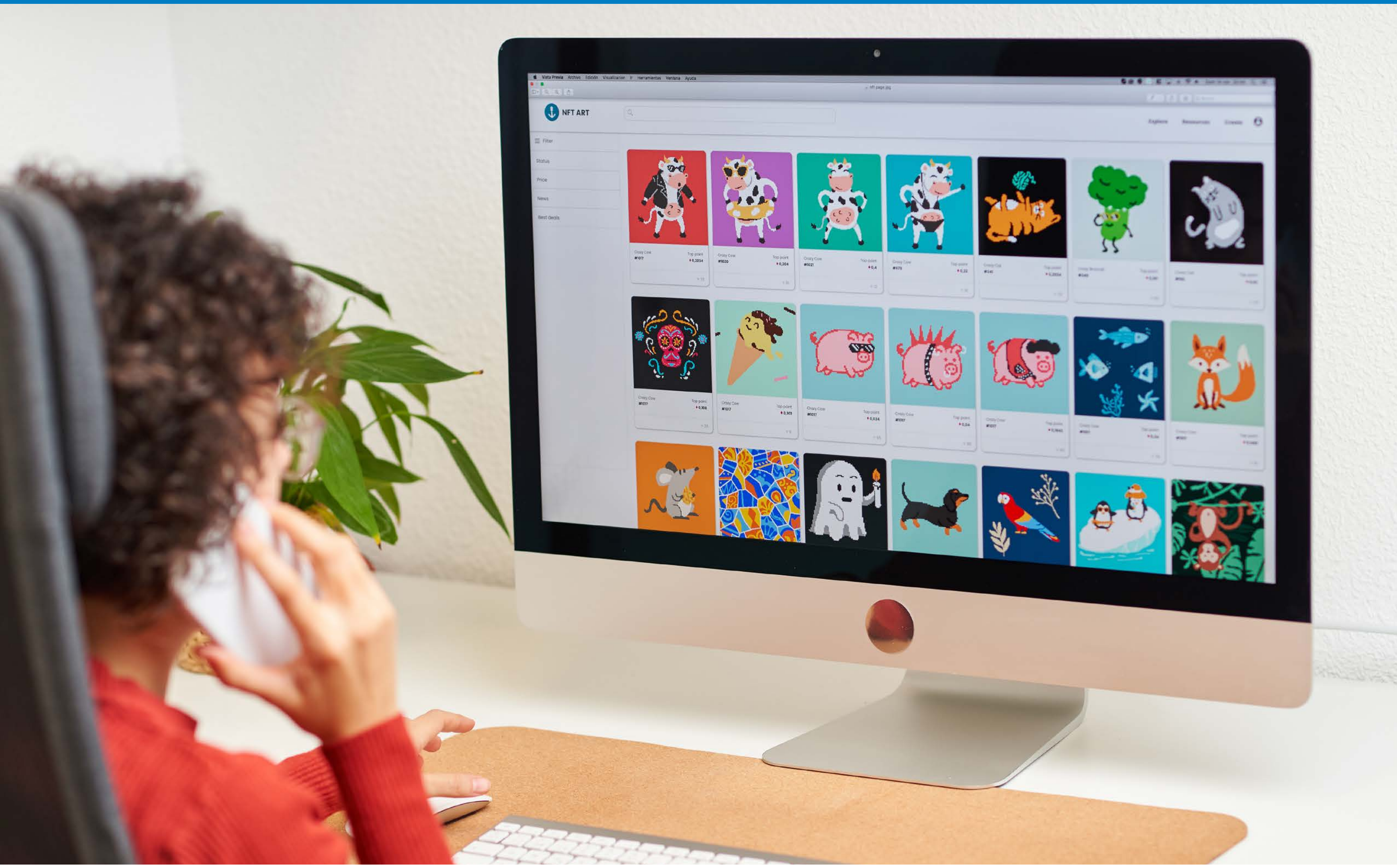
Introduction

Non-fungible tokens (NFTs) have rapidly become a focal point of discussion in the digital age, marking a significant shift in how digital assets are created, owned, and traded. Unlike cryptocurrencies like Bitcoin, where each unit is identical and interchangeable, NFTs are one-of-a-kind. This unique characteristic is achieved by leveraging blockchain technology, a secure and transparent digital ledger that tracks ownership and transactions, ensuring that each digital asset is tied to a specific owner. This not only prevents unauthorised copying and distribution but also transforms digital creations such as artwork, music, or even virtual racehorses into verifiable and tradable assets, opening new monetisation avenues for artists, musicians, and content creators.



For artists, this specifically means a new era of digital expression. They can create digital art pieces and sell them as NFTs, knowing that the originality and ownership of their work are secure. This also empowers them to reach a global audience, bypass traditional galleries, and potentially capture a larger share of the profits. NFTs offer a new venue for collectors to acquire and own art. Unlike physical pieces, NFTs can be easily stored, traded, and authenticated. This has consequently led to remarkable sales, with some NFTs fetching millions of dollars. Notable examples include Beeple's digital artwork, 'Everydays: The First 5000 Days', which sold for 69.3 million US dollars.

NFTs are also making significant inroads into the entertainment industry. By tokenising their work, musicians and filmmakers are able to sell exclusive content directly to fans, providing a unique and personal experience. This direct-to-fan model not only offers higher revenue potential by cutting out middlemen but also strengthens the relationship between creators and their audiences. For instance, musicians can release special edition albums, backstage passes, or concert tickets as NFTs, offering fans something truly exclusive and collectible. Furthermore, some NFTs are programmed with royalties, allowing creators to earn a percentage every time their work is resold, offering a passive income stream.

The application of NFT also expands to digital collectibles, such as trading cards, sneakers, and even virtual land parcels in online games, allowing for secure ownership, verifiable scarcity, and the potential for these collectibles to appreciate in value. Furthermore, NFTs hold promise in the education sector. Educational institutions can issue certificates and diplomas as NFTs, ensuring their authenticity and preventing fraud. This can simplify the verification process for employers and other institutions.

Beyond these applications, NFTs also offer a unique opportunity in the investment sector. Owning an NFT signifies not just possession of a digital asset but also potential investment value. In fact, according to a report by Statista, revenue in the NFT market is expected to reach 2,378 million US dollars in 2024 alone. This rapid rise is driven by several factors:

- Scarcity and value: NFTs create verifiable scarcity for digital assets, a concept previously thought to be impossible. This ability to establish rarity is a significant driver of value in the traditional art and collectibles markets, and it translates to the digital world as well.
- Fractional ownership: NFT ownership isn't limited to a single person. Blockchain technology allows for the fractionalisation of NFTs, enabling multiple individuals to co-own a single digital asset. This opens up investment opportunities for a wider range of participants, with varied financial backgrounds.
- Integration with existing markets: The NFT market is increasingly getting interconnected with traditional financial ecosystems. Investment banking firms are now recognising the potential of this new asset class. BPM investment banking has in fact become a prominent player, integrating NFT investing strategies seamlessly into their portfolios.
- Diversity: NFTs encompass a wide range of digital assets, from art and music to virtual real estate and in-game items. This diversity allows investors to explore different markets and invest in NFTs that align with their interests and expertise.
- Reduced risk of fraud: The blockchain technology underlying NFTs ensures transparent and verifiable ownership records, reducing the risk of fraud. This transparency allows the investors to authenticate and invest in NFTs without any worry.

Considering these factors, it is evident that NFTs currently play and will continue to play a pivotal role in the investment sector. However, despite offering numerous advantages to investors, NFTs also present significant challenges, the most notable of which is their inherent volatility that leads to dramatic price fluctuations. Therefore, incorporating NFTs into investment portfolios necessitates a strategic approach. Investors are advised to invest in NFTs only through established platforms and to diversify their NFT investments across various assets to mitigate risk.

The environmental impact of NFTs presents another significant challenge. The energy-intensive processes inherent in blockchain technology have drawn criticism from both investors and creators. Nevertheless, the industry is actively seeking solutions to address these concerns. Numerous platforms are transitioning to more eco-friendly blockchain protocols, such as proof of stake (PoS), which consume significantly less energy compared to traditional proof of work (PoW) systems. Furthermore, some NFT projects are engaging in carbon offset initiatives to ensure their operations contribute to environmental sustainability.

In conclusion, the trajectory of the NFT market indicates a promising future characterised by substantial growth. NFTs have transcended their status as a mere digital trend. They have effectively blurred the lines between the physical and digital world and revolutionised multiple sectors, from art and music to gaming and investment banking. As we look ahead, the impact of NFTs is poised to expand even further, redefining modern asset management and ownership.

How can Infosys BPM help?

Infosys BPM offers specialised financial services, including BPM investment banking solutions. We support businesses in managing and investing in digital assets like NFTs and provide strategic insights, operational efficiency, and enhanced client experiences.

For more information, contact infosysbpm@infosys.com

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