

Tokenisation: Transforming Asset Ownership in the Digital Age

A Comprehensive Look at Evolution,
Benefits, Key Players, Challenges, and
Future Potential



Table of Contents

01	Introduction	3
02	Evolution of Tokenisation: From Concept to Mainstream Adoption	4
03	How does Tokenisation Work?	5
04	Tokenisation: Types and Benefits	8
05	Challenges and Risks Associated with Tokenisation	11
06	Key Risk Mitigation Strategies and Recommendations for Tokenisation	13
07	Industry Use Cases	16
08	Tokenisation: Future Potential	18
09	Conclusion	19

1 INTRODUCTION

Tokenisation, the process of converting rights to an asset into a digital token on a blockchain, has emerged as a groundbreaking innovation. By creating digital representations of physical and intangible assets, tokenisation facilitates more efficient, secure, and accessible transactions.

Drivers of Tokenisation: Traditional financial systems face inefficiencies, high costs, and barriers to entry. Tokenisation addresses these issues by enhancing liquidity, reducing transaction costs, and enabling fractional ownership. This democratises access to previously illiquid or inaccessible assets. Blockchain technology further ensures security through its immutability and transparency, making transactions tamper-proof and verifiable.

Benefits for Businesses: Tokenisation offers significant advantages for businesses by unlocking new revenue streams, increasing market efficiency, and providing greater transparency. It enables real-time tracking and verification of asset ownership, which is valuable in supply chain management and real estate. For instance, fractional ownership in real estate allows smaller investors to own shares of high-value properties, broadening the investment base.

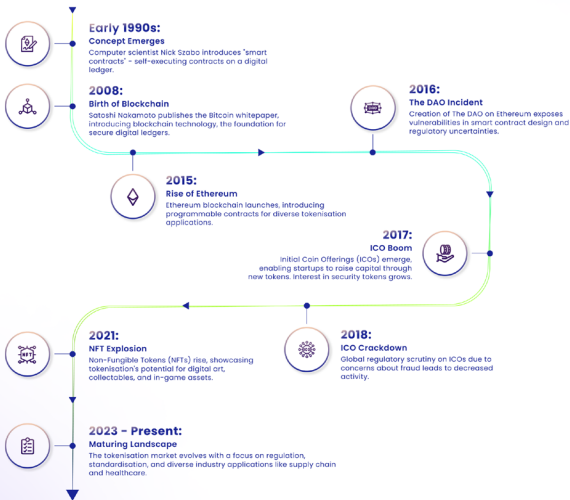
Objective: This whitepaper aims to explore the history, benefits, challenges, solutions, and future prospects of tokenisation. Through detailed analysis and case studies, we will demonstrate its potential to transform asset management and ownership for businesses and investors.

2

Evolution of Tokenisation: From Concept to Mainstream Adoption

The concept of tokenisation is deeply rooted in the evolution of blockchain technology. Initially developed as the underlying technology for Bitcoin in 2008, blockchain has evolved into a decentralised and distributed ledger ensuring secure, transparent, and immutable transactions.

This foundational technology has paved the way for various applications, including tokenisation, which leverages blockchain properties to create digital representations of assets. Initially associated with cryptocurrencies, tokenisation now includes a wide range of assets such as real estate, art, stocks, and intellectual property.



3 How does Tokenisation Work?

Understanding the working process of tokenisation is crucial to appreciating its rapid market growth and transformative potential.

- The global tokenisation market is poised for substantial growth, projected to expand at a Compound Annual Growth Rate (CAGR) of 18.9%.¹
- The growth trajectory of tokenisation will see the market reach approximately \$6.8 billion by 2024 and soar to \$23.4 billion by 2032.²

This market expansion is largely driven by the capabilities of tokenisation to digitally represent real-world assets on blockchain platforms. By leveraging smart contracts, tokenisation not only defines ownership rights but also facilitates fractional ownership and streamlined asset transfers. These advancements underscore the meticulous design involved in each stage of tokenisation, ensuring the security, legality, and market appeal of digital assets.



A Statista Report forecasts that **real estate will dominate tokenisation by 2030**, making up nearly one-third of the global market.³

The details of each step in this comprehensive process are as follows:

1. Asset Selection and Valuation

Tokenisation begins with selecting an asset to be represented digitally. This can range from real estate properties and artwork to commodities and financial instruments. Thorough due diligence and accurate valuation are essential to ensure the asset's legitimacy and attractiveness for investors.

2. Legal and Regulatory Compliance

Navigating the legal and regulatory landscape is critical. Ensuring compliance with local and international laws, obtaining necessary approvals, and adhering to anti-money laundering (AML) and know-your-customer (KYC) requirements are vital for a successful tokenisation project.

3. Token Creation

Using blockchain technology, a digital token is created to represent ownership or a stake in the chosen asset. This token is typically built on a blockchain platform like Ethereum, leveraging its smart contract capabilities. The technical implementation includes coding and deploying the token and smart contracts, ensuring security and scalability.

4. Smart Contracts

Smart contracts play a crucial role in governing the behaviour of tokens. These self-executing contracts automate processes such as ownership transfer, dividend distribution, and compliance with regulatory requirements.

1



Asset Selection and Valuation

Choose a valuable and legitimate asset to ensure investor interest.

2



Legal and Regulatory Compliance

Follow regulations to protect investors and avoid legal roadblocks.

3



Token Creation

Translate the asset into a digital format on a secure blockchain platform.

4



Smart Contracts

Automate processes to reduce costs and increase trust.

5



Distribution

Offer tokens through compliant channels to attract investors.

6



Custody and Management

Safeguard tokens and manage the ecosystem effectively.

7



Investor Relations and Reporting

Maintain clear communication to build trust and keep investors informed.

They enhance transparency and enforce predefined rules without intermediaries, improving efficiency and reducing costs.

5. Distribution

Once tokens are created and governed by smart contracts, they are offered to investors or users through platforms like Security Token Offerings (STOs) or decentralised exchanges. STOs comply with regulatory frameworks, providing investors with a legally compliant way to participate in tokenised assets.

6. Custody and Management

Post-distribution, managing the custody and safekeeping of tokens is crucial. This includes secure storage solutions (e.g., wallets),

mechanisms for handling lost tokens, and ongoing management of the token ecosystem to ensure security and accessibility.

7. Investor Relations and Reporting

Maintaining clear and ongoing communication with token holders is important. Providing regular updates, and financial reporting, and addressing any concerns or questions from investors ensures transparency and trust.

By leveraging blockchain's transparency, security, and efficiency, tokenisation provides a new paradigm for managing and transferring asset ownership. It democratises access to investments, improves liquidity for traditionally illiquid assets, and reduces barriers to entry in global markets.



4 Tokenisation: Types and Benefits

A. Types of Tokens for Diverse Needs

Tokenisation caters to various asset classes and functionalities through different token types:

Security Tokens: Represent ownership of real-world assets like stocks, bonds, and even real estate. They offer fractional ownership, improved liquidity, and easier trading compared to traditional methods.

Utility Tokens: Grant access to specific services or features within a platform. Think of them as digital keys for unlocking functionalities in a blockchain-based app.

Asset-Backed Tokens: Directly linked to physical assets like gold, diamonds, or artwork. They offer a convenient and secure way to trade these assets digitally.

Non-Fungible Tokens (NFTs): Unique tokens representing ownership of digital assets like artwork, music, or virtual land. Their rarity and tamper-proof nature make them valuable in the digital collectables market.

As the world of tokenisation evolves, expect even more innovative token types to emerge, catering to specific needs and functionalities in the digital asset landscape.

Different Types of Tokens



Security
Tokens



Utility
Tokens



Asset-Backed
Tokens



Non-Fungible
Tokens (NFTs)

B. Advantages of Tokenisation and Its Impact on Investor Participation

Tokenisation offers numerous benefits, transforming the way assets are managed, traded, and owned. These benefits extend across various industries, enhancing efficiency, accessibility, and security, and significantly impacting investor participation in the market

Advantages of Tokenisation



1. Increased Liquidity and Enhanced Investor Participation

Tokenisation allows for fractional ownership of assets, enabling smaller investors to participate in markets that were previously inaccessible.

- This democratisation of ownership increases the liquidity of traditionally illiquid assets such as real estate, art, and collectables.
- For instance, a high-value property can be divided into smaller shares, each represented by a token, which can be easily traded on secondary markets.
- This increased liquidity benefits investors by providing more opportunities to buy and sell assets, thus making markets more dynamic and accessible.

2. Enhanced Security and Transparency

- Blockchain technology provides a secure and transparent ledger for recording transactions. Each token transaction is immutably recorded on the blockchain, reducing the risk of fraud and ensuring the integrity of the asset ownership record.
- Smart contracts further enhance security by automating and enforcing the terms of agreements, minimising the potential for human error and manipulation.
- This transparency is particularly valuable in industries such as supply chain management, where knowing the provenance and history of an asset is crucial.

- For example, in the art market, tokenisation can provide a verifiable record of an artwork's ownership history, reducing the risk of forgery and enhancing trust among buyers and sellers.

3. Lower Costs and Increased Efficiency

Tokenisation reduces transaction costs by eliminating intermediaries and streamlining processes.

- Traditional asset transfers often involve multiple parties, each taking a fee.
- By using blockchain, tokenisation can significantly reduce these costs, making transactions faster and more cost-effective.
- Additionally, the automated nature of blockchain transactions ensures that transfers are executed quickly and accurately, which attracts more investors looking for efficient investment options.

4. Accessibility and Global Exposure

Tokenisation lowers barriers to entry, allowing a broader range of investors to access asset markets.

- This inclusivity is particularly beneficial for assets that were previously limited to high-net-worth individuals or institutional investors.
- By enabling fractional ownership, tokenisation makes it possible for retail investors to own a share of high-value assets, diversifying their investment portfolios.

- Moreover, tokenisation makes virtually any investment opportunity globally accessible to anyone with access to the internet, regardless of geographical presence, thus expanding the investor base.

5. Transparency and Traceability

Blockchain's transparent nature allows for real-time tracking and verification of token transactions.

- This transparency and traceability reduce the potential for fraud and increase trust among market participants.
- The public visibility of assets and ownership details on the ledger enables stakeholders to verify and track asset movements in real-time, enhancing the overall trust in the market.

The asset tokenization market is expected to grow from \$2.3 billion in 2021 to \$5.6 billion by 2026, at a CAGR of 19.5%.

The global tokenization market is expected to reach US\$ 8.32 billion by 2029



SOURCE: DATA BREZZE MARKET RESEARCH, 2022

5

Challenges and Risks Associated with Tokenisation

While tokenisation offers numerous benefits, it also presents several challenges and risks that need to be addressed to ensure its successful implementation and adoption.

Challenges and Risks Associated with Tokenisation



Regulatory Hurdles

Ensuring compliance with diverse global regulations.



Market Volatility

Asset values influenced by market dynamics and sentiment.



Cybersecurity Threats

Vulnerabilities like hacking and fraud in digital assets.



Technological Limitations

Scalability, interoperability, and smart contract complexities.



Market Acceptance

Overcoming scepticism and educating stakeholders.



Legal and Ownership Issues

Complexities in asset ownership and legal recognition.



Liquidity Risk

Potential illiquidity due to limited trading volumes.



Valuation Challenges

Difficulty in accurately valuing non-traditional tokenised assets.

1. Regulatory Hurdles

Navigating the complex regulatory landscape is one of the most significant challenges. Different jurisdictions have varying regulations concerning digital assets and securities, creating uncertainty for token issuers and investors. Ensuring compliance with these regulations is crucial to avoid legal complications and foster trust in the tokenisation process.

2. Market Volatility

The value of tokenised assets can be highly volatile, influenced by market dynamics and investor sentiment. This volatility poses a risk to investors, particularly those who may not have experience with digital assets. Stable regulatory frameworks and investor education are essential to mitigate this risk.

4. Technological Limitations

Implementing tokenisation requires advanced technical infrastructure and expertise.

Challenges include ensuring the scalability of blockchain networks, interoperability between different blockchain platforms, and the development of secure smart contracts.

Addressing these technological limitations is critical to the widespread adoption of tokenisation.

5. Market Acceptance

Achieving widespread market acceptance for tokenisation involves overcoming scepticism and educating potential users about its benefits.

This requires collaboration between industry stakeholders, regulators, and educational institutions to promote awareness and understanding of tokenisation.

6. Legal and Ownership Issues

Tokenisation raises complex legal questions regarding the ownership and transfer of digital assets. Ensuring that tokenised assets are legally recognised and enforceable in courts is essential. Clear legal frameworks and standards for tokenised assets need to be established to address these issues.

7. Liquidity Risk

While tokenisation aims to increase liquidity by enabling fractional ownership, there is still a risk that certain tokenised assets may not attract sufficient trading volume. This could result in illiquidity, making it difficult for investors to buy or sell tokens at desired prices.

8. Valuation Challenges

Determining the accurate value of tokenised assets can be complex, especially for non-traditional assets like art or collectables.

Inconsistent or subjective valuation methods can lead to discrepancies and disputes, impacting investor confidence.

By addressing these challenges and risks through strategic planning, technological innovation, and regulatory compliance, stakeholders can create a robust ecosystem for tokenisation that drives efficiency, liquidity, and accessibility in the digital economy.

Key Risk Mitigation Strategies and Recommendations for Tokenisation

Tokenisation presents innovative opportunities but also comes with inherent risks. Addressing these challenges is essential for successful implementation and widespread adoption. Here are the key risk mitigation strategies and recommendations:

1. Developing Clear Regulatory Frameworks

Governments and regulatory bodies need to develop clear and comprehensive regulations that guide tokenisation. These frameworks should clarify legal obligations, investor protections, and compliance requirements across jurisdictions. Collaboration between regulators and industry stakeholders is essential to create balanced regulations that protect investors while fostering innovation. Establishing regulatory sandboxes can also help in testing tokenisation projects in a controlled environment to identify regulatory gaps and develop appropriate solutions.

2. Implementing Robust Cybersecurity Measures

As digital assets, tokenised tokens are vulnerable to cyber threats such as hacking and fraud. Implement robust cybersecurity protocols, including advanced encryption, multi-factor authentication, and secure storage solutions, to safeguard assets and user data. Regular audits and penetration testing further ensure ongoing resilience against evolving threats. Partnering with cybersecurity firms can enhance security measures for tokenised assets.

3. Promoting Investor Education and Awareness

Educating investors about the benefits and risks of tokenised assets is crucial. Launch educational initiatives such as workshops, webinars, and informational resources to inform investors. Transparent disclosure of asset information, risk factors, and market dynamics helps mitigate misunderstandings and reduces the likelihood of speculative volatility. Providing clear and accessible information on how to invest in tokenised assets, including guidelines on risk management and regulatory compliance, fosters informed decision-making and enhances market stability.

4. Ensuring Interoperability and Scalability

Blockchain interoperability and scalability are vital for the seamless transfer and management of tokenised assets across different platforms and networks. Invest in the development of scalable blockchain platforms that can handle a large volume of transactions without compromising speed or security. Foster interoperability between different blockchain networks to enable seamless transfer and management of tokenised assets across platforms. Standards like ERC-20 and ERC-721

facilitate compatibility, while advancements in blockchain technology address scalability concerns, enabling broader adoption and efficient asset management.

5. Ensuring Legal Compliance and Due Diligence

Conduct thorough due diligence on asset-backed tokens and ensure compliance with relevant laws and regulations to minimise legal risks. Verification of asset ownership, auditing of smart contracts, and adherence to anti-money laundering (AML) and know-your-customer (KYC) procedures strengthen regulatory compliance and mitigate fraud risks. Create standardised legal frameworks for the recognition and enforcement of tokenised assets, including clear definitions of ownership, transfer, and legal recourse in the event of disputes.

6. Monitoring Market and Operational Risks

Continuous monitoring of market trends, liquidity conditions, and operational risks is essential. Implement risk management frameworks, including stress testing and scenario analysis, to anticipate and mitigate potential disruptions. Proactive risk management enhances resilience and supports sustainable growth in tokenised markets.

7. Fostering Industry Collaboration and Technological Innovation

Encourage collaboration between industry stakeholders, including technology providers, financial institutions, regulators, and legal experts. This can facilitate the sharing of best practises, innovation, and the development of standardised protocols. Establish industry consortia or working groups to address common challenges and promote the adoption of tokenisation. Invest in research and development to advance blockchain technology and smart contracts, exploring new consensus mechanisms, enhancing scalability, and improving security features. Support startups and tech companies that are developing innovative solutions for tokenisation.

Here's a summary -

Key Risk Mitigation Strategies

Parameter	Description
Developing Clear Regulatory Frameworks	Create clear regulations, collaborate with stakeholders, and use regulatory sandboxes.
Implementing Robust Cybersecurity Measures	Use advanced encryption, multi-factor authentication, secure storage, and regular audits.
Promoting Investor Education and Awareness	Launch educational initiatives, provide transparent information and centralised platforms.
Ensuring Interoperability and Scalability	Invest in scalable blockchain platforms, foster interoperability, support cross-chain protocols, and use standards like ERC-20 and ERC-721.
Ensuring Legal Compliance and Due Diligence	Conduct due diligence, verify asset ownership, audit smart contracts, adhere to AML and KYC, and create standardised legal frameworks.
Monitoring Market and Operational Risks	Implement risk management, conduct stress testing, monitor trends, and assess risks.
Fostering Industry Collaboration and Technological Innovation	Encourage collaboration, establish consortia, invest in R&D, and support startups.

By proactively addressing these risks through strategic planning, technological innovation, and regulatory compliance, stakeholders can foster a robust ecosystem for tokenisation. This approach not only mitigates risks but also unlocks the full potential of tokenisation in driving efficiency, liquidity, and accessibility in the digital economy.

7

Industry Use Cases

Tokenisation has already made significant inroads in various industries, demonstrating its transformative potential. Here are some notable examples of industries successfully implementing tokenisation:

1. Real Estate

Real estate is one of the most prominent sectors adopting tokenisation. By tokenising properties, owners can sell fractional ownership shares to multiple investors. This not only increases liquidity but also lowers the barriers to real estate investment. For example, a high-value commercial property can be divided into tokens, allowing investors to purchase a share for a fraction of the property's total value.

2. Finance

The financial sector has embraced tokenisation to enhance the trading and management of assets. Security tokens, which represent ownership in a company or asset, are increasingly being used to raise capital. Tokenisation also facilitates the creation of stablecoins, digital currencies pegged to stable assets like fiat currencies, which are used for transactions and as a store of value.

3. Supply Chain Management

Tokenisation is transforming supply chain management by providing real-time tracking and verification of goods. By assigning tokens to products, companies can track the movement and provenance of items throughout the supply chain. This increases transparency and reduces the risk of fraud.

4. Art and Collectables

Tokenisation allows for the fractional ownership and trading of high-value art and collectables. By tokenising artworks, owners can sell shares to multiple investors, making it easier to buy and sell art. This democratises access to the art market and increases liquidity.

5. Intellectual Property

Tokenisation is also being applied to intellectual property (IP), such as patents and copyrights. By tokenising IP, creators can sell or licence their work more easily, providing a new revenue stream. This process simplifies the management and transfer of IP rights, ensuring creators receive fair compensation and making it easier to track ownership and usage.

6. Energy Markets

In the energy sector, tokenisation is being used to create more efficient and transparent markets. Tokenising energy assets allows for the fractional ownership and trading of energy resources, promoting a more decentralised and democratised energy market. This transparency facilitates better pricing mechanisms and reduces barriers to entry for smaller players.



7. Gaming and Virtual Assets

Tokenisation is transforming the gaming industry by enabling the creation and trading of in-game assets. Players can own and trade unique digital items, enhancing the gaming experience and creating new economic opportunities within virtual worlds. This approach provides true ownership of digital assets and fosters a more

dynamic and engaging gaming ecosystem.

These use cases demonstrate the versatility and potential of tokenisation across different industries. By enabling fractional ownership, increasing liquidity, and enhancing transparency, tokenisation is paving the way for a more inclusive and efficient digital economy.

4. Art and Collectables

-  **Maecenas** - Allows fractional ownership of fine art through tokenisation
-  **OpenSea** - Facilitates trading of tokenised digital art and collectables
-  **Codex Protocol** - Offers a decentralised title registry for art and collectables

3. Supply Chain Management

-  **VeChain** - Uses blockchain and tokenisation to enhance supply chain transparency and traceability
-  **Modum** - Provides a solution for monitoring supply chain conditions using sensors and tokenisation
-  **Chronicle3** - Offers a platform for connecting supply chain data with tokenised assets

2. Finance

-  **Polymath** - Provides a platform for creating and managing security tokens
-  **Harbor** - Aims to embed compliance at the token level for trading security tokens
-  **Securitize** - Offers a compliance platform for issuing and managing digital securities

1. Real Estate

-  **Propry** - Offers a platform for tokenising real estate properties
-  **RealT** - Tokenises real estate investments and enables fractional ownership
-  **Elevated Returns** - Tokenised \$18 million worth of St. Regis Aspen Resort property


5. Intellectual Property

-  **IPwe** - Tokenises intellectual property assets to facilitate trading and licensing
-  **Custodian Vault** - Provides a platform for tokenising and managing intellectual property rights
-  **Binded** - Offers a blockchain-based copyright registration and protection service

6. Energy Markets

-  **WePower** - Tokenises renewable energy contracts and enables trading on a decentralised platform
-  **Power Ledger** - Allows peer-to-peer trading of renewable energy using tokenisation
-  **LO3 Energy** - Develops blockchain-based solutions for local energy markets and tokenisation

7. Gaming and Virtual Assets

-  **Enjin** - Provides a platform for creating, managing, and integrating tokenised virtual assets in games
-  **Decentraland** - A virtual world where users can buy, sell, and develop tokenised land parcels
-  **Axie Infinity** - A game where players can breed, collect, and battle tokenised creatures called Axies

Key Players
Transforming Tokenisation
in Various Industries

8 Tokenisation: Future Potential

The future of tokenisation holds immense potential, with ongoing developments poised to further transform various industries. As blockchain technology continues to evolve, several trends and innovations are likely to shape the future of tokenisation:

1. Widespread Adoption

As regulatory frameworks become clearer and more supportive, the adoption of tokenisation is expected to accelerate. More industries will recognise the benefits of tokenisation and integrate it into their operations, leading to a more tokenised economy.

2. Enhanced Interoperability

Future advancements in blockchain technology will focus on enhancing interoperability between different blockchain networks. This will allow for seamless transfer and management of tokenised assets across multiple platforms, increasing the utility and accessibility of tokens.

3. Regulatory Developments

Regulatory bodies are likely to establish more comprehensive and standardised guidelines for tokenisation. These regulations will provide clarity and confidence for issuers and investors, fostering a more stable and secure tokenisation market.

4. Technological Innovations

Continued innovation in blockchain technology will lead to more efficient and scalable solutions for tokenisation. Developments such as layer 2

solutions, cross-chain protocols, and advanced smart contracts will enhance the functionality and performance of tokenisation platforms.

5. Integration with Traditional Finance

The integration of tokenisation with traditional financial systems will create new opportunities for hybrid financial products. Tokenised assets will become more mainstream, bridging the gap between traditional finance and the digital economy.

6. Expansion of Use Cases

New use cases for tokenisation will emerge, driven by technological advancements and market demand. Industries such as healthcare, logistics, and entertainment may explore tokenisation to unlock new efficiencies and revenue streams.

The future of tokenisation is bright, with significant advancements and widespread adoption on the horizon. As the technology matures and regulatory frameworks solidify, tokenisation will continue to transform asset management and ownership, driving the digital economy forward.

9

Conclusion

Tokenisation stands at the forefront of a digital revolution, poised to transform asset management and ownership across various industries. By leveraging blockchain technology, tokenisation offers unparalleled benefits, including increased liquidity, enhanced security, reduced transaction costs, and broader accessibility. The potential for fractional ownership democratises access to traditionally illiquid assets, while the transparency and immutability of blockchain provide a secure and verifiable ledger for transactions.

Despite its numerous advantages, tokenisation faces significant challenges, including regulatory hurdles, market volatility, cybersecurity threats, and technological limitations. Addressing these challenges requires a strategic approach,

involving clear regulatory frameworks, robust cybersecurity measures, investor education, and technological innovation. By overcoming these obstacles, stakeholders can unlock the full potential of tokenisation, fostering a more inclusive, efficient, and secure digital economy.

The future of tokenisation is promising, with ongoing advancements in blockchain technology, regulatory developments, and increasing market acceptance paving the way for widespread adoption. As more industries recognise the transformative potential of tokenisation, it will continue to drive innovation, efficiency, and accessibility in the digital economy.

About Blockchain and Digital Assets at Systango

Systango Technologies Limited (NSE: SYSTANGO) is a digital engineering company that offers enterprise-class IT and product engineering services to different size organisations. At Systango, we leverage Gen AI, AI/Machine Learning and Blockchain to unlock the next stage of digitalisation for traditional businesses. We collaborate with startups and enterprises to build Web3 applications that focus on storytelling, experiences, and community. Our team of dedicated blockchain developers creates smart contracts, NFT marketplaces, and blockchain infrastructure to deliver cutting-edge solutions. We pride ourselves on our personalised approach, understanding each client's unique needs to accelerate their go-to-market strategy. Let's shape the future of blockchain together.

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