Paving the Way for NFTs

By Peter Zemsky and Frederic Godart , INSEAD

While specific use cases may warrant regulation, applying broad rules to NFTs would be akin to regulating fire or bricks.

Technology is at the root of a lot of business strategies. At the same time, one just needs to look at social media to see that these technologies can have a mixed impact on society. In response, governments are becoming more assertive and playing a bigger role in tech.

Indeed, waves of regulation are coming in response to problems in the adjacent crypto finance world. But, if regulators aren't careful, NFTs could get caught up in these regulations, making it harder to realise their social and business value.

In this context, we set ourselves the challenge to help regulators balance the need for risk mitigation while allowing for ongoing experimentation and innovation. This resulted in a white paper, "**Regulating NFTs: Striking the Balance Between Business Innovation and Risks**"*, which we released on 24 January 2024 at the House of Parliament in Westminster at an event hosted by Lord Iain McNicol.

While preparing this report, we interviewed many amazingly talented and committed innovators drawn to the transformative potential of NFTs. What drives these innovators is the prospect that NFTs provide a path to digital ownership, outside the reach of major US and Chinese tech firms.

In a **Tech Talk X webinar** last month, we had the privilege of picking the brains of one such innovator – and proper visionary – Ian Rogers, Chief Experience Officer at Ledger, on the future of NFTs.

Watch the full webinar below:

A computer scientist by training, Rogers was involved in the creative industries from the early nineties, when he created the Beastie Boys' website. He was later involved in Winamp and the launch of Apple Music, before working at luxury conglomerate LVMH as its Chief Digital Officer. He also sits on the board of fashion shopping website and app Lyst.

During the webinar, Rogers shared that he first learned about Bitcoin back in 2009. He didn't buy any at that time, because he thought, "Wow, this threatens state sovereignty, and therefore, states will probably kill it." But what Bitcoin fundamentally did – allowing decentralised digital ownership – felt "really important" to him.

Quoting Chris Dixon's book (see below), Rogers said we're entering a new era of the internet, one hinging on digital ownership. Although he only started collecting NFTs after starting at Ledger in 2021, he said he does "own probably too many NFTs right now" (they can be viewed at gallery.so/higallery).

He and his wife Hedvig Maigre also own physical art pieces displayed in their home, but he said he wished he "had digital provenance for those". Speaking about one of his very favourite pieces, he said it felt "lesser" to him because he can't show it to people easily unless they walk into his apartment. And if his apartment burns down, he will just have "the story of it".

What's preventing mass adoption of NFTs?

Usability is a key factor, admitted Rogers. "If you're not willing to spend your evenings learning new technologies and being an early adopter, it's very difficult to be in this space," he said. "You really have to be committed. From a technical perspective, it's not for the faint of heart."

Rogers felt that a lot could have improved last year when **Instagram considered entering the space** and started making it easy for people to collect digital art. “You had to bring your own [crypto] wallet, but you could just pay with a credit card and then, boom! That would have been a great step forward,” he said. “With the market crashing, they walked away from it. I think it’s actually a huge mistake.”

Rogers advised the audience to play around in the NFT space, to see what it feels like. He emphasised that when we do something and experience it, we feel differently about it than when we just talk about it intellectually. “I really encourage people to get as far out on the cliff as you can, because then you will literally see the future,” he said.

Time is on the side of NFTs

Referring to Carlota Pérez’ book (see below), Rogers said: “Whenever you have a technological revolution, or a revolution due to technology, you have a bit of a gold rush, and then you have 30 years of sustained growth.”

We’ve had the gold rush. Growth is next. “Sustained growth will come with improvements in user experience that will ultimately get us there,” said Rogers. But investors might need to wait a few years.

He compared the situation to the dotcom gold rush of 1999. Many laughed at those offering immediate delivery of online purchases or offering long-form digital entertainment. Who’s laughing now?

That’s why Rogers now invests so much in NFTs, at a time when many people have a bias against the space and think of it as a “tulip sale”. “They’re wrong,” he said, pointing out that the dotcom bubble was in 1999 and it wasn’t until 2012 that its concepts and products had gone mainstream.

In the 1990s, Rogers used to have a computer connected to a television in his living room. He thought that everyone was going to get their content over the internet, but at the time, he was “the only one”. Then one fine day, his mother called him to say that she had gotten rid of cable and had started using a streaming device. Doing the maths in his head, he realised that indeed, it had taken about 15 years from when he knew mainstream adoption was inevitable to when it actually happened.

Using the same timeline, Rogers predicted that 50 percent of all luxury goods sold will be purely digital, 15 years from 2021. This means around 2036.

The next use cases for NFTs

Asked what he thought might be the next best thing with NFTs, Rogers said that NFTs were ultimately just a technology. The question was almost like asking someone at the beginning of the 20th century (when plastic was invented), “What could we do with plastic?” It’s now everywhere..

Today’s invention is digital ownership. Art is merely an early use case, just like music was an early use case for the internet. Rogers pointed to tickets being the most obvious use case. In essence, tickets are digital goods. As they are sold now, people get scammed into buying fake tickets when there would be a technological way to pay only once you’ve gotten into the venue.

Another use case is identity. With generative AI, fraudsters can now print **fake drivers’ licenses** that can be used to pass customer verification on legit sites. Traditional, physical cards might soon become relics. “The way that I will get into a party at the NFT Paris Conference is better, technically, than the way I got into the country yesterday back from the US,” Rogers said.

Regulations

Talking about regulation, Rogers said, “We definitely need consumer protections in and around the space. Having clear rules would be very helpful. At the same time, be careful what you wish for, right?” If the rules are written by people who don’t really understand the space, businesses could end up with nonsensical rules. Regulators could create rules that would make no sense in the future as things evolve.

This ties in with the recommendations we formulated in our white paper. The gist is that governments shouldn’t regulate technology – just specific use cases. As Rogers aptly said, it makes no sense to regulate a technology any more than it would make sense to regulate fire or a brick.

Regulation is always hard, especially with complex technologies such as Bitcoin and NFTs. Ananalogy is smartphone apps. Considering the wide range of apps, from banking to health apps, blanket regulation would be pointless. Likewise for NFTs, regulators will have to get savvy about their various use cases.

* The report was a joint effort between the **digital@INSEAD initiative** and the Digital Currency Governance Group (DCGG), a crypto industry policy organisation.

Ian Rogers' book recommendations:

Broken Money: Why Our Financial System Is Failing Us and How We Can Make It Better, by Lyn Alden

Read, Write, Own: Building the Next Era of the Internet, by Chris Dixon

Technological Revolutions and Financial Capital, by Carlota Pérez.

Find article at

https://knowledge.insead.edu/strategy/paving-way-nfts

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