

Blockchain technology: transforming payments

Activity in the fintech arena is hotting up, with a flurry of bank-fintech partnerships driving the exploration of the blockchain's potential to streamline the payments process. Dhiru Tanna, Sales Officer, Treasury Services EMEA, BNY Mellon, discusses how the blockchain could transform the transaction space, and how 2016 could be the year that regulators get on board, bringing the blockchain concept – and all the enhancements it could bring – a step closer to reality.



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The finance sector is abuzz with activity in the fintech space, with banks increasingly engaging with fintech companies through a variety of means (such as direct partnerships, acquisitions and the establishment of innovation centres) in order to help them tap into new ideas and concepts and be better positioned to adopt and roll out cutting-edge, technology-fuelled solutions.

At the epicentre of this fintech drive is the blockchain, with investment into distributed ledger technology soaring in 2015. Indeed, billions of dollars are being dedicated to seeking ways in which to leverage the blockchain's properties, and exploring its potential to completely transform the way in which transactions are conducted.

If the blockchain concept can be applied to the finance world, it would streamline the entire payments process; significantly enhancing transparency, efficiency, speed of settlement, trust and security, as well as reducing costs. Cross-border payments, for example, which can take three to five days to settle, could be processed in minutes. Similarly for letters of credit (LCs), confirmation would become easier and faster.

Certainly, the blockchain has the potential to dramatically enhance the payments experience, and in doing so it could rewrite the very structure of the financial landscape as we know it. The blockchain's transparency could effectively allow the number of participants that need to be involved in the transaction process to be drastically reduced, cutting down the number of stages involved in a payment and thereby significantly enhancing efficiency. A number of banks are exploring ways in which blockchain technology could be used to streamline the current correspondent banking process (which requires payments to go through a number of banks), with the belief that, eventually, the blockchain may supersede this traditional transaction model. Indeed, non-bank institution Earthport, for instance, already has a solution for low value cross-border payments using a distributed ledger network.

That said, correspondent banking is unlikely to be eradicated completely as core components of the model, such as the physical

presence across different geographies, will remain a valuable attribute in this globalised world in which complex cross-border transactions have become the norm. Yet exactly how that will actually translate remains to be seen.

Similarly, the blockchain could theoretically challenge the role of SWIFT by acting directly as a clearing house for any bank that adopts it. SWIFT is working with blockchain technology and has recently announced enhancements to cross-border payments enhancements which it hopes could integrate with blockchain technology in the future.

Regulation and blockchain

As it stands, there is still a great deal of work to do before the blockchain vision can come to fruition, with the majority of investment currently going into proof of concept. And until regulators announce their support for blockchain development and its viability as a financial markets solution, there remains a lot of uncertainty about blockchain innovation and how far banks can take blockchain into mainstream developments.

Yet with the value of the blockchain increasingly realised and regarded as a huge opportunity to improve transaction flows and processes across the finance industry (indeed, if developed to its full potential, its improved visibility and irrevocability properties could even help to eradicate money laundering), it is believed that 2016 may see regulators disclosing their views and position regarding this transformational technology. If they were to give the "go ahead", as it were, this is likely to propel investment and activity in the field yet further – and act as a huge step forward in making blockchain payments a reality.

The blockchain concept represents phenomenal change for the banking sector, and indeed beyond, with the way in which any information can be presented and logged on the blockchain meaning that it has an enormous amount of applicability. While there is some trepidation due to the uncertain landscape and the potential scale of disruption, the blockchain has sparked huge excitement and intrigue, and presents a real opportunity for the financial services sector to overhaul and greatly enhance the entire global transactions process. Watch this space.

What is the blockchain?

The technology behind the cryptocurrency Bitcoin, the blockchain is a decentralised distributed ledger which records and stores the details of every transaction transparently on a shared network.

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