Big Banks Are Hopping On Bitcoin's Blockchain Bandwagon

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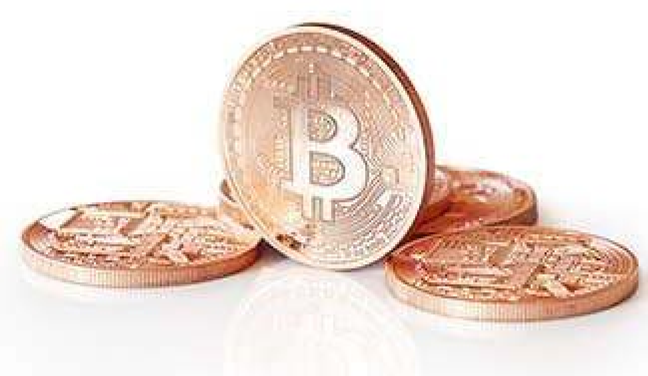

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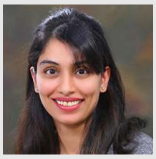
The short history of Bitcoin and the blockchain proves that a second glance can definitely change one's perception. From being a victim of skepticism and criticism since its debut in 2009, Bitcoin has come a long way. And it hasn't been alone; it has brought with it the 'blockchain' - one of the hot topics of debate among prominent banking institutions.

These are the same institutions that launched scathing attacks on the concept of cryptocurrency, perceiving it as a threat to the traditional banking ecosystem. Though they haven't embraced



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Bitcoin, they are infatuated with the blockchain.

The question then becomes: Why are big banks fascinated by it? Just like banks and financial institutions, which maintain a record of all transactions in a central authority in order to certify ownership and clear transactions, Bitcoin has its blockchain. But the blockchain uses distributed ledger technology, which eliminates the need for any such central authority.

According to the paper for Fintech 2.0, “distributed ledgers can be open, verifying anonymous actors in the network, or they can be closed and require actors in the network to be already identified. The best known existing use for the distributed ledger is the cryptocurrency Bitcoin.”

Use of this technology can increase the accuracy of trade data, as well reduce the settlement time to near spontaneous. The high accuracy of execution in transactions based on peer-to-peer basis would allow for reduction in supervision and infrastructure (especially IT), further helping to trim associated costs. Since the ledger is verified by the network itself than a single authority, it becomes tamper-proof, thus almost eliminating the need of constant monitoring.

The successful adoption of blockchain technology could revolutionize the way payments across borders are made. The system of international payments still remains sluggish as well as expensive, and so the use of the blockchain offers great opportunity in terms of the speed at which such transfers could be executed and can bring substantial savings for users and banks.

The other near-term impact could be the acceptance of ‘smart contracts,’ which use computer protocols to validate and enforce contracts. As noted by an Accenture report, “transactions where nodes can monitor and detect contracts for changes of ownership and contract rules would be greatly enhanced in terms of efficiency, as many contractual clauses could be automated and security enhanced.” Smart contracts would have usage in securities, trade finance, swap, derivatives, syndicated lending and more areas, which involve counterparty risk. The use of blockchain would also enhance the investor confidence in various financial products and processes, as the new technology will add transparency to every transaction.

According to the paper for Fintech 2.0 created by Santander InnoVentures, in collaboration with Oliver Wyman and Anthemis

Group, “Our analysis suggests that distributed ledger technology could reduce banks’ infrastructure costs attributable to cross-border payments, securities trading and regulatory compliance by between $15-20 billion per annum by 2022.”

Bank Brigade

With all this potential, many big banks have directly or indirectly associated themselves with research and development of this technology.

Back in 2014, Goldman Sachs released a report entitled *“All About Bitcoin”* with diverging views about the digital currency. While it concluded that Bitcoin can’t work as a currency, it acknowledged the ledger-based technology as one that “could hold promise.”

In early 2015, Goldman Sachs published a report titled, *“The Future of Finance: Redefining The Way We Pay in the Next Decade”* which talked about the megatrends that are reshaping the face of payments with technology being one of them. The report mentions that “Bitcoin and cryptocurrencies promise to change the mechanics of transactions.”

UBS published a report in 2014 titled as *“Bitcoins and Banks: Problematic Currency, Interesting Payment System”* which discussed Bitcoin and its limited threat to the banks, but saw “Bitcoin as having some potential as a new transaction technology, where a Bitcoin-like technology could provide a basis for a new shared payments and transfer system using existing currencies and securities.”

It discussed its benefits like reduction in systemic costs as well as faster and secure transfers – particularly for international payments. A year later, in April 2015, UBS selected Level39 to house one of its dedicated innovation labs. Oliver Bussmann, Group CIO, UBS, said, “Our innovation lab at Level39 will provide a unique platform to explore emerging technologies such as Blockchain and cryptocurrencies and to understand the potential impact for the industry”.

There have been many reports about Citibank building blockchains and carrying out tests of its own digital currency. In a July, 2015 a news article by International Business Times quoted Ken Moore, head of Citi Innovation Labs, who said that the bank has been looking at distributed ledger technology for "the last few years" and has amassed a skilled team. He further said, "We have up and running three separate systems within Citi now that actually deploy blockchain distributed ledger technologies. They are all within the labs just now so there is no real money passing through these systems yet; they are at a pre-production level to be clear."

Like Citibank, UBS and Goldman Sachs, many other banks have been coming up with reports and initiatives related to Bitcoin and the blockchain technology. For a while, these projects were carried out individually by different banks, but that is now changing.

In mid-September 2015, R3 CEV along with nine world renowned banks - Barclays, Goldman Sachs, JPMorgan, Commonwealth Bank of Australia, State Street, Credit Suisse, Royal Bank of Scotland, Banco Bilbao Vizcaya Argentaria and UBS announced the formation of distributive ledger initiative which aims to "design and apply distributed ledger technologies to global financial markets."

Just two weeks later after the initial announcement, the campaign was joined in by an additional thirteen of the world's leading banks taking the total number of banks to 22. The list included names like Bank of America, Bank of New York Mellon, Mitsubishi UFJ Financial Group, Citi, Commerzbank, Deutsche Bank, HSBC, Morgan Stanley, National Australia Bank, Royal Bank of Canada, SEB, Societe Generale and Toronto-Dominion Bank. The consortium of banks led by the Fintech firm R3 grew bigger as Japan's Mizuho Bank, Italy's UniCredit and Stockholm-based Nordea joining in October end. With the latest addition of BNP Paribas, Canadian Imperial Bank of Commerce, ING Bank, Macquarie Bank, and Wells Fargo & Co., the number of member banks touched 30.

R3, which is an innovation firm, has been successful in bringing various banks on a single platform to work towards a common innovative goal.

Final Word

Despite many challenges that stand in the way of its full adoption, the unharnessed potential and deep interest in the blockchain technology will sooner or later change the way the financial ecosystem operates.

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