Banks don't want to be weakest link in blockchain revolution

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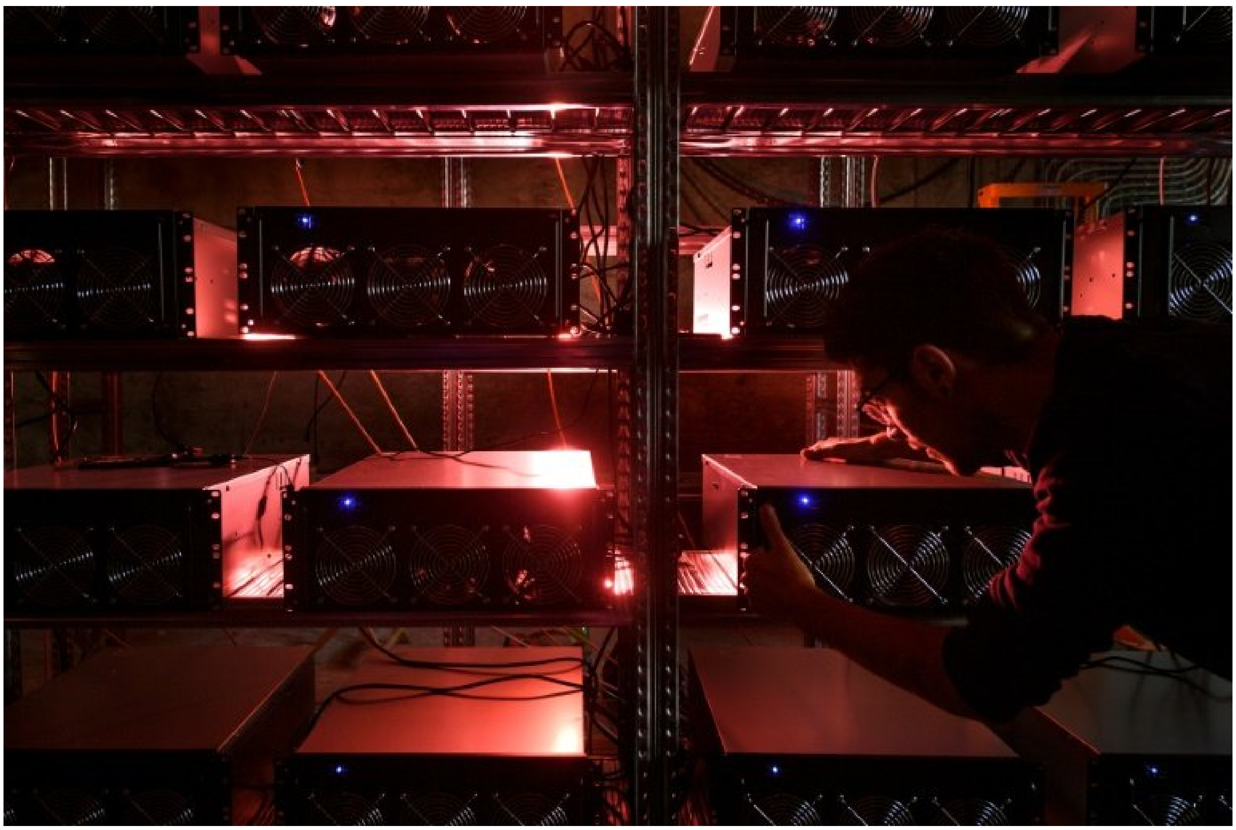

Blockchain technology has powered trading in cryptocurrencies, but experts say it could be used to speed up and make cheaper trading in other assets

Blockchain, the cutting-edge technology behind virtual currencies like bitcoin, has the potential to play a disruptive role in the global finance sector, experts say, as banking behemoths seek to connect with its opportunities.

While banks could reduce their costs, the gains could eventually shift to consumers who could benefit from quicker and cheaper services.

"Any disruptive shock—be it technology, economic or political—tends to result in winners and losers, and blockchain is no different," Colin Ellis, managing director for credit strategy at Moody's, told AFP.

"It could reduce costs for banks but at the same time could foster more competition that would put downward pressure on fees."

A shared, encrypted "ledger" that cannot be manipulated, blockchains offer the promise of secure transactions that allow anyone to get an accurate accounting of money, property or other assets.

Much like it underpins trading in bitcoin and other cryptocurrencies, blockchain or so-called distributed ledger technology could also support trading of other assets, thus posing a risk to banks who earn hefty fees helping their clients trade currencies and other assets.

Key areas of financial services where blockchain could have an impact are the settlement and clearing of transactions.

But a recent report by Moody's found that while blockchain technology could slash cross-border transaction costs for financial institutions, it would likely ramp up competition among banks.

Anish Mohammed, a cryptography expert and academic at Berlin University, told AFP that the losers would be those who failed to adapt to the latest technological trend.

"There will be winners and losers, the losers will be those who do not make any changes."

The world's biggest financial institutions are already experimenting with blockchain, although recent data indicates that they risk lagging behind other sectors in its use.

'Cheaper and quicker'

Two months ago, Dutch bank ING and its Swiss peer Credit Suisse successfully traded securities through a blockchain-style network.

The pair transmitted 25 million euros of bonds almost instantaneously. The deal would normally have taken one day or more.

Ellis believes that international transactions are an area where banks could cut their costs by using blockchain technology. Currently international bank transfers often take several days as several banks are often needed to act as intermediaries.

But a blockchain could eliminate the need for those intermediaries, thus speeding service and reducing costs.

Santander last month began using a blockchain to allow its retail customers in Spain, Britain, Brazil and Poland to complete international transfers the same or following day.

"One Pay FX uses blockchain-based technology to provide a fast, simple and secure way to transfer money internationally—offering value, transparency, and the trust and service customers expect from a bank like Santander," the bank's chief executive Ana Botin said at the launch of the service.

One Pay FX uses a blockchain service for banks developed by Ripple, a start up firm with offers a cryptocurrency with the same name.

Around $2.1 billion (1.8 billion euros) will be invested via blockchain globally in 2018, according to US-based consultancy IDC.

One third of that will represent the financial services industry, IDC said.

Other notable sectors using blockchain include distribution and services, retail and professional services, and manufacturing and resources.

"The technology is still at a relatively early stage" so "it is too soon to know what the final impact will be," said Ellis.

"But it could ultimately make banking cheaper and quicker for consumers," he concluded.

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