What do banks want from blockchain?

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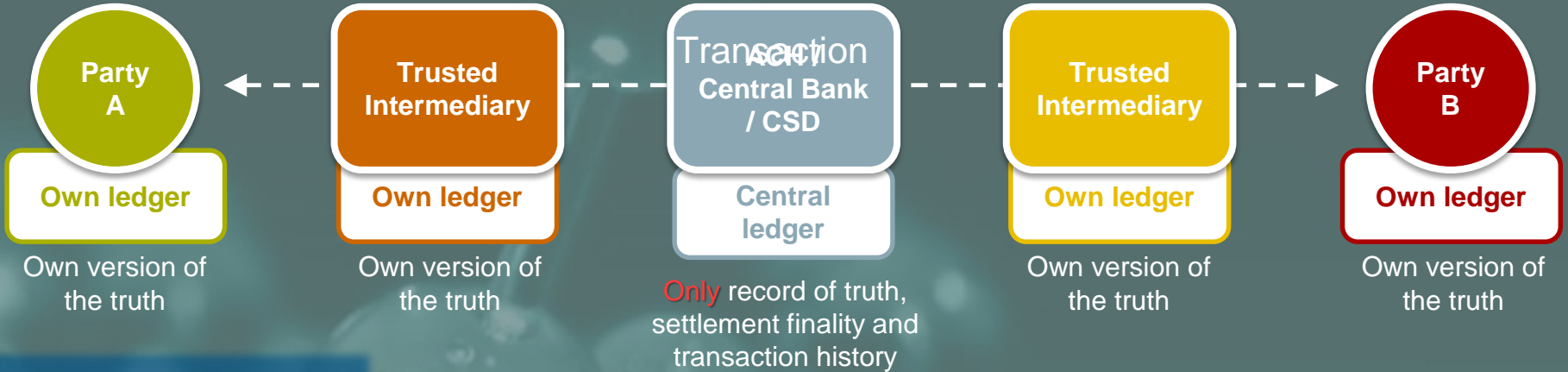
Blockchain - what is it?

A blockchain is a database, shared and distributed in a network, keeping the record of shifts in ownership in literally anything in digital form
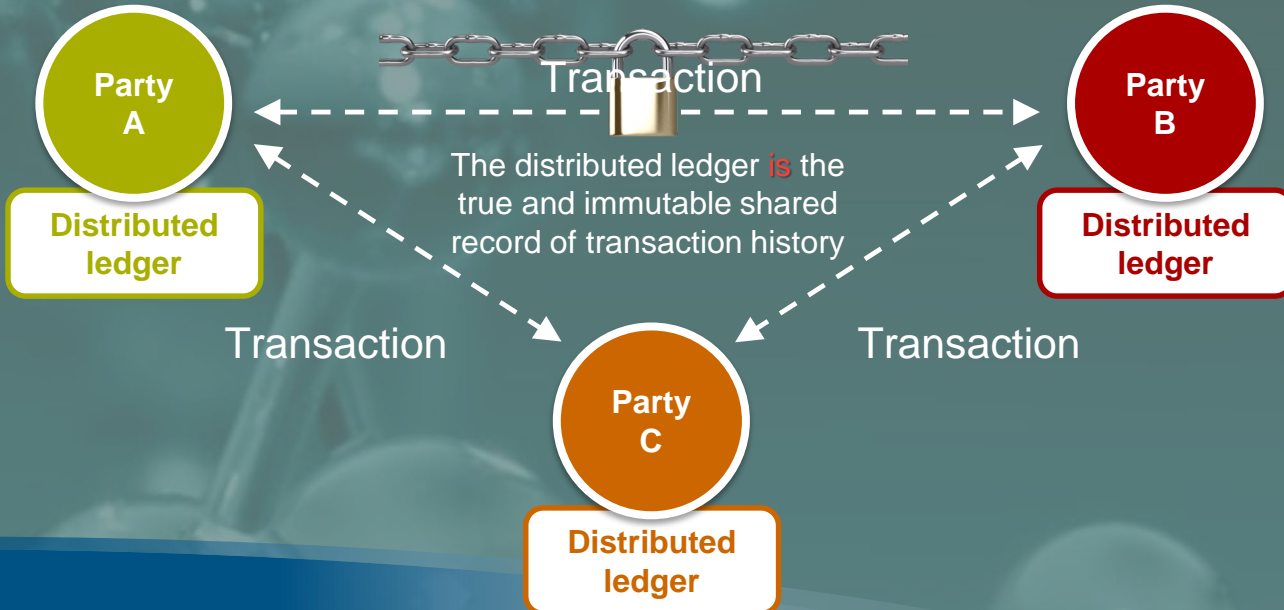
Transactions are confirmed in blocks, using cryptography, and stored in the database in a chronological order, creating a chain

The technology challenges todays intermediary based business models

Today's model

Party A

Own ledger

Own version of the truth

Trusted Intermediary

Own ledger

Own version of the truth

Transaction

ACH / Central Bank / CSD

Central ledger

Only record of truth, settlement finality and transaction history

Trusted Intermediary

Own ledger

Own version of the truth

Party B

Own ledger

Own version of the truth

Tomorrows' model

Party A

Distributed ledger

Transaction

The distributed ledger is the true and immutable shared record of transaction history

Party B

Distributed ledger

Transaction

Transaction

Party C

Distributed ledger

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Sample ideas for use cases*

Clearing and settlement of securities

Regulatory reporting and compliance

Trade finance

Payments

Issuance, ownership and transfer of financial instruments

and many more….

Makes sense when several parties need to agree on who owns what
- especially where current processes are slow and manual

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Sample Use Case idea

Use a distributed ledger to store the KYC package and updates

When relevant, share and distribute information necessary among banks in line with defined access rights

KYC

Regulators to receive continuous notifications of data shared

Registration and renewal of documentation

o   KYC package submitted once
o   Corporates in control of access to data
o   No duplication of efforts in the process
o   Efficient on boarding

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Sample Use Case Clearing and settlement of securities

Todays settlement processes are quite cumbersome and in many cases takes days to complete

Trading, order management and settlement done in separate systems

Operations typically dependent on reconciliation among separately maintained databases

Processing often involves manual steps driving operational risk

Complex and inefficient exception handling drive cost

When introducing distributed ledgers;

- o Clearing and settlement - can occur at trade level
- o Asset servicing, corporate actions can be automated
- o Reconciliation becomes redundant
- o Settlement becomes cheaper and faster

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Why the excitement?

Distributed ledgers can potentially:

Reduce complexity

Lower transaction cost

Increase process efficiency

Increase the speed of transactions

Increase transparency

Smart contracts give the possibility to add conditions and business logic to transactions

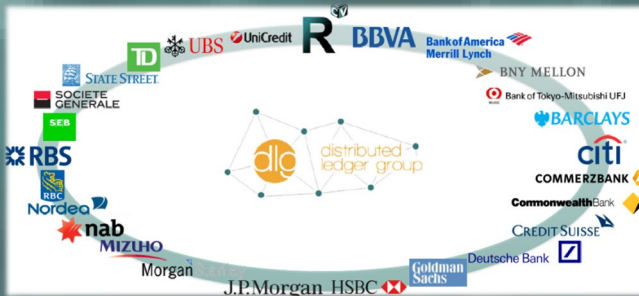# DLG - Distributed Ledger Group

42 top tier member banks **+ 5**

+ R3 reaching out to Technology companies,
Clearing houses, Exchanges, Insurance companies
and Corporates to cooperate

FinTech start up
(org 5 employees,
now 60+)

The aim with the consortium is to

✓ Explore distributed ledger technology

✓ Develop commercial applications and the first cloud-based cryptographically assured financial agreements services platform

✓ Establish standards and protocols for the global financial services industry

Selected DLG highlights

- Corda , a distributed ledger platform built and rolled out publicly
- Partnership with Microsoft announced (Azure)
- A number of projects completed in the lab environment (several ongoing)
- R3 is an active member of the Linux Foundation's distributed ledger initiative

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A game changer?

Still in the early days of the development

A technology looking for a problem to solve, important not to lose focus on customer needs

PoC-phase in isolation or in partnership, a need to reach the level of community piloting

Issues with the current versions of the technology need to be addressed e.g. identification, access control, speed, security, scalability etc.

How to implement a distributed ledger in a highly regulated industry traditionally looking for privacy, permission, control, security etc.?

It is not yet a game changer but is generally believed having the potential to become one…

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Thank you!