BLOCKCHAIN IN FINANCE SECTOR

A Quick Summary

CryptoIndexSeries

FINANCE

Finance Sector has encountered several issues related to incomplete/unstructured customer data, lack of information on credit scoring, high fees for money transfer, inability to further optimise the legacy systems (Lynch, 2019) (Nead, 2019) (Niforos, 2017) (Polyviou , Velanas, & Soldatos, 2019).

Lack of information on credit scoring caused individuals and SMEs experience difficulties in obtaining loans from financial institutions. Financial institutions suffered from the lack of sufficient and accurate information, existence of which would support their customer profiling, product differentiation and personalization processes. Last, but not the least, existing centralised data infrastructures that maintain critical customer and transaction records are primary targets for cyber-attacks.

Blockchain technology has the potential to disrupt the financial services due to its potential for operational simplification, regulatory efficiency improvement (by monitoring of financial activity between regulators and regulated entities in real time), counterparty risk reduction, disintermediation for clearing and settlement of transactions, and increased transparency and minimised fraud in asset provenance and capital raising (Niforos, 2017).

Specific areas of interest in Finance Sector and how Blockchain Technology will address these areas are summarised below:

Digital ID and Customer Profile Management: Currently, financial customers have accounts which would give them access to several banking products in various banks and financial institutions. Each of these institutions keep (potentially partial) information about the same customer in their own database. Blockchain solutions can offer more advanced profiling by combining profiling data, including data from different account types, different products, linked data between customers (e.g., family, business), etc These solutions can also allow end users to own and control their personal identity, reputation, data, as well as digital assets. The customers can selectively disclose some or all of their information to third parties. They can also digitally sign claims, make transactions, and share documents. With the widely use of smart contracts, they will also be able to interact with decentralised financial applications and become a responsible party in smart contracts.

Know Your Customer (KYC): End users are typically asked to provide certain documents when they register at a financial institution. Customer documentation can be kept centrally by an authority which is vulnerable to cyber-attacks and data breaches. Blockchain solutions can alleviate these challenges through decentralisation and the KYC process. Especially, by recording customer data in a distributed ledger, allowed participants can access up-to-date customer information and it as needed. (Polyviou , Velanas, & Soldatos, 2019)

Anti-Money Laundering (AML): Financial Institutions have to comply with regulatory frameworks to prevent Anti-Money Laundering. A blockchain-based automated compliance system can act as a decentralised public key infrastructure to map identities to public keys. Smart contract layer can help revoke and recover keys without putting so much burden on the end users. Trade finance, cross border payments and digital wallets would significantly benefit from this innovation in reliable digital identification.

Micropayments: Micropayment transactions in general, business models based on micro payments in particular were not plausible due to high bank transfer fees. Blockchain solutions, thanks to very low commissions, allowed micropayments to be realised without too much burden on the receiver or the sender. Micropayments are now offered commonly by many blockchain solutions as part of the incentive mechanisms integrated into their business model by design.

Process Optimisation: Established financial institutions have started experimenting blockchain solutions for intra-organizational projects in order to reduce organisational complexity, improve efficiency, and reduce costs. (Niforos, 2017)

Subsectors

KYC, AML, Micropayments, Digital ID,

Stakeholders

Financial Institutions, Banks, Brokers, Customers, Intermediaries, Regulatory Bodies,

Asset Type

All types of tokens: payment, utility and security tokens are observed in the Blockchain solutions implemented for this sector.

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