Blockchain and Financial Services Paradigm Shift

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Digitized Financial Transactions for the Future

The Financial Times has defines Blockchain as "…a shared digital ledger that allows transactions to be recorded and verified electronically over a network of computers without a central ledger. Cryptography is used to protect the data from fraud or hackers."

Unlike other emerging technologies though, Blockchain has been slow to adoption by many large financial firms, largely owing to the natural reluctance of the Financial Industry to embrace change. It is still in it's infancy because of the need for standards and agreement across interfacing institutions.

Banks believe that once testing in earnest has begun, and standards for exchange are developed and embraced, the switch from existing exchange methods to blockchain and cryptocurrency will be swift and universal.

Labor Force Takeaway

Blockchain technology will drive a heavy demand for associates with credentials or skills in:

- Java Script – one of the core technologies of the World Wide Web (i.e. Internet's customer interface)
- UX/UI – User Experience (UX) and/or User Interface (UI) Design
- iOS - a mobile operating system created and developed by Apple Inc. exclusively for its hardware.

Not only will these skills be needed for initial development and implementation, they will also be needed for maintenance and ongoing management purposes.

Other titles such as Project Management (carrying the gold standard PMI certification), Blockchain Law and Database Design will all have needed roles in the new environment. Fortunately, very few job titles are expected to be eliminated by blockchain technology. Instead newer, more efficient policies and processes will be added in for existing roles.

Upskilling for existing roles will be extensive. Since blockchain is expected to be an integral part of operations – not just a black box technology – bankers, managers and accountants will all need to have a high level understanding of what blockchain can and cannot do.

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Blockchain Revolutionizing the Financial Sector

When the Financial Times defines **blockchain** as "a shared digital ledger" they are talking about bookkeeping in the Cloud. No longer are you trusting a bank with your money. You are trusting a computer program that connects end users – with or without bank involvement. Banks collect, invest and exchange sovereign currency – meaning dollar bills backed by the full faith and trust of the US government or Euros backed by the European Union.

Blockchain deals in **cryptocurrencies**. Why? Because blockchain is software and software speaks in code. Cryptocurrencies can be exchanged for sovereign currency if/when people agree to an exchange rate. Or, cryptocurrency, like **bitcoin** – the oldest and best-known cryptocurrency – can be exchanged for goods and services.

Why has blockchain been so slow to be adopted by financial services firms, especially with bitcoin transactions?

#1 Bankers, asset managers and investors are generally conservative individuals, slower to adopt newer ways.

#2 Financial institutions are not built to be adaptive. Furthermore, they are heavily invested in legacy technologies which are not fully depreciated.

#3 The issue is trust. Financial institutions are known for their unwillingness to share their ledgers with **regulators** or the **Consumer Financial Protection Bureau**. Now imagine selling banks, brokerage houses or investment firms a "shared digital ledger."

According to **IBM**, a leader in the development of blockchain technology, by the end of 2018 over 91% of all banking institutions will have begun investing in blockchain technology, and 66% are expected to be running at scale by year end. Applications are expected to include:

Asset Management – In the settlements world, multiple parties to a transaction keep their own records as to transaction data. This information is often updated and/or revised, and revisions are left to each individual party. Documents often get out of rev, costing time, money and rework. Blockchain can save time documenting by providing one universally available ledger, and keeps all parties up to date on the most recent changes, expediting time to close.

Insurance – Claims often suffer the same issues as settlements. Vendors, injured parties and hospitals all keep their own records of incidents and status. Blockchain can create a standard, virtual ledger that is updatable in real time, reducing delays in reimbursement and fulfillment.

Payments – The classic blockchain application – payments, and international payments, ameliorates the wait and costs associated with traditional currency documentation in place today. It also alleviates the inconvenience of waiting to complete transactions only during business hours since it can be accessed 24/7.

Compliance – Cutting across multiple industries, compliance and traceability are issues blockchain very effectively addresses. By providing appropriate signoffs and documentation, blockchain travels with shipments, people, and transactions, providing the receiver assurance that the items are handled with the appropriate regulatory standards in place.

All financial institutions, regardless of size, should be incorporating **blockchain into their strategic plans,** to ensure continued ability to interact with other institutions, and continue to deliver highly desired services to clients.