

# Blockchain: waiting is not an option

**The benefits of blockchain in banking are becoming more and more appreciated. Where are we today and what does it mean for the sector, asks Farhan Syed.**

Blockchain has dominated the news in the last couple of years, notably amongst public sector entities and banks. The Dubai government launched a blockchain strategy in 2016 with the goal of becoming the world's first blockchain administration by 2020<sup>2</sup>.

Abu Dhabi Global Markets (ADGM) recently announced key initiatives using blockchain to facilitate the regulatory requirements of know-your-customer (KYC) processes. In November 2017, RAK Bank launched remittance services using blockchain start-up Ripple (which is used by several of the world's top 100 banks<sup>3</sup>). More recently, the Central Bank of the UAE (CBUAE) announced a joint project with the Saudi Arabian Monetary Authority (SAMA) to use blockchain to issue a digital currency for cross-border transactions between the two countries<sup>4</sup>.

Blockchain is an online, encrypted database. Transactions related to documents, shares and financial products, trade and contracts and digital currency, for example Bitcoin, can be implemented, processed and verified. Using a cloud-based network, blockchain technology is believed to be safe, i.e. inherently resistant to modification.

At a global level, blockchain is being considered by many as a panacea to the multiple challenges banks are facing in settlement and clearing, collateral management, KYC, trade finance

or digital identities. With growing enthusiasm on future growth among the banking CEOs (77% of CEOs of banks worldwide), implementing disruptive technologies like blockchain is as high as third on the initiatives agendas, behind greater speed to market and fostering innovation<sup>5</sup>.

## **Action required now**

Last year 60% of the CEOs we spoke in the UAE expected to invest in blockchain<sup>6</sup>. In our next annual survey (to be published in Q3 2018), it will be interesting to see how many of them will have actually invested or are waiting until the technology and applications mature.

Our view remains similar to other technological trends disrupting the industry: waiting is not an option. Technology advancement today appears to expand exponentially, at least much faster than a decade ago, and early adopters may gain a larger market share. Still, the banks have multiple opportunities to reshape their business models and integrate or develop blockchain-based processes or products, to create further competitive advantage.

This may signal a strong start to the second phase of digital transformation, which provided robust growth in 2013-2014, under the umbrella of front-office transformation, which focused on customer experience and mobility.

This new phase focuses on improving the middle- and back-office applications, by either eliminating unnecessary operations or by integrating FinTech solutions into legacy applications.

Under increasing regulatory pressure, customer demands and potential profitability erosion, the focus is to simplify and rejuvenate legacy processes or products, starting from simple application upgrades to completely overhauling IT architectures and internal processes around deployment methodologies, risk, security, application testing and procurement. With multiple market studies estimating that blockchain can significantly reduce a bank's infrastructure cost, it is no wonder that over 70% of banks worldwide are experimenting with permissioned blockchain<sup>7</sup>.

## **New links**

We have analysed the validity of exploring and implementing blockchain applications from three objectives: improving operational efficiency, increasing revenue and reducing risk. Applications related to trade financing for domestic and international transactions can achieve all three objectives. User cases related to company records keeping, syndicated loans or over-the-counter (OTC) derivatives would likely bring significant advantages to the operational efficiency and risk reduction.

2. <http://gulfnnews.com/news/uae/government/dubai-launches-blockchain-strategy-to-become-paperless-by-2020-1.1907790>

3. <https://ripple.com/insights/the-worlds-biggest-banks-lead-the-blockchain-charge/>

4. <http://gulfnnews.com/business/sectors/government/uae-saudi-working-on-a-joint-crypto-currency-1.2140573>

Banks and other financial institutions that have explored using blockchain have started with cross-border payments for reconciliation and verification, with live implementation at leading international banks and other financial institutions. Digital Identifiers and KYC related initiatives have also seen increased blockchain adoption.

During our discussions, proof of concept testing and through projects implementation we identified four key factors that have the potential to accelerate the adoption of blockchain in UAE banking:

- Detailed development of industry-wide use cases: business and IT must work together to identify clear pain points that can be solved using blockchain, and outline, where needed, if sub-parts of the existing processes might be migrated to blockchain. Such cases would require agreed business and regulatory rules.
- Increased guidance from regulators on the governance model of such decentralized ledgers, and granting permission to experiment on certain, agreed topics.
- Willingness of one or more large banks to implement and lead various pilots. These would not only validate the technology but also the return on investment and additional value created.
- On-board multiple partners to create wider business potential and tackle data governance and interoperability

In a maturing and innovative environment like the UAE banking industry, there is no doubt we will see more pilots and live projects using permissioned blockchain. We believe that the future is a healthy mix of public and private blockchain infrastructure, which would allow smaller entities to conduct business at a lower cost, while enjoying similar security, transparency and interoperability benefits.



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5. KPMG CEO Outlook report 2017

6. <https://home.kpmg.com/ae/en/home/insights/2017/09/uae-ceo-outlook-2017-disrupt-and-grow.html>

7. <https://expandedramblings.com/index.php/blockchain-statistics/>