



# BLOCKCHAIN AND BANKING



## Blockchain and Banking

Some industry experts believe that implementing blockchain technology in the banking sector is poised to solve multiple challenges facing such industry by facilitating faster, secure, and more transparent transactions.<sup>1</sup>



Fast

+



Secure

+



Transparent

However, blockchain presents a double-edge sword for banks. On the one hand, it could potentially save banks billions in cash by dramatically reducing processing costs which would make banks increasingly profitable and valuable. On the other hand, however, technological developments have attracted many new fintech start-ups to the market.<sup>2</sup>

In September 2015, Swiss bank giant UBS, together with blockchain firm 'Clearmatics', joined forces to develop a digital cash system that would allow financial markets to make payments and settle transactions quickly through blockchain technology. Since then, other global banks have joined the group with the goal of creating the Utility Settlement Coin (the "USC").<sup>3</sup> The idea has seemingly unified traditional players in this innovative venture to create a new blockchain-based digital currency, and UBS is currently involved in discussions with regulators and hopes that the USC will go live in 2018.



The aim of the project, therefore, is to reduce the time, cost and capital required for the post-trade clearing and settlement process, as well as to improve financial-market efficiency.<sup>4</sup> As such, it provides yet another way for the back offices of banks to use blockchain to enhance the speed and efficiency of settlement systems, with the USC allowing banks to transfer value and assets without having to wait for long periods of time, as is currently the case with traditional methods. The idea is to have a multiple USCs, one for each traded currency.<sup>5</sup> Each USC will be paired one-to-one with its domestic currency and is 100 per cent collateral-backed with its respective cash, held at the domestic central bank. Settlement and transfer of ownership will occur with the exchange of the USCs, so spending a USC will be the same as spending its paired real-world currency.

Some benefits of implementing blockchain technology in the banking sector are the following:



### Fraud prevention

Blockchain technology is based on the concept of sharing information across different parties and consensus during transactions, and thereby helps in saving on reconciliation cost between banks.<sup>6</sup> This also helps in preventing losses because of documentary frauds.



### Forex volatility

Blockchain technology is used in cross-border payments and can, therefore, help the consumers and banks in taking advantage of the forex marketplace for gaining the best deal transparently from the market players.<sup>7</sup>

<sup>1</sup> <https://www.allerin.com/blog/blockchain-technology-in-the-banking-sector>

<sup>2</sup> <https://www.bookingbug.com/blog/what-blockchain-will-mean-for-banks/>

<sup>3</sup> <https://www.reuters.com/article/us-blockchain-banks/six-big-banks-join-blockchain-digital-cash-settlement-project-idUSKCN1BB0UA>

<sup>4</sup> <https://internationalbanker.com/banking/blockchain-changing-banking-industry/>

<sup>5</sup> <http://www.cityam.com/271145/barclays-hsbc-credit-suisse-and-more-banks-join-ubsc>

<sup>6</sup> <https://www.allerin.com/blog/blockchain-technology-in-the-banking-sector>



## Resilience

As blockchain consists of a distributed architecture by design, it allows the network of banks to be operated by all permissioned nodes in the ecosystem. Thus, all important members of the payment ecosystem such as banks and other financial institutions can effectively become the participating nodes in the blockchain network.<sup>8</sup> If an unfortunate event such as a cyber-attack affects the ecosystem, and some nodes of the network are unavailable, the consensus algorithms in blockchain ensure that a transaction can be approved by the remaining nodes in the network.<sup>9</sup>



## Efficiency

Most banking processes are linear and hierarchical in nature. These processes are similar to the assembly line of the manufacturing industry such as maker-checker processes. The maker checker-approver process helps banks in gaining control and puts the emphasis on ownership of decisions.<sup>10</sup>

Blockchain technology can help in improving the speed of these processes by reducing decision-making time across the organisations. Thus, blockchain technology has the potential to address several limitations of the current banking processes by streamlining, simplifying, modernising, and enhancing the traditional silo-design of banks.

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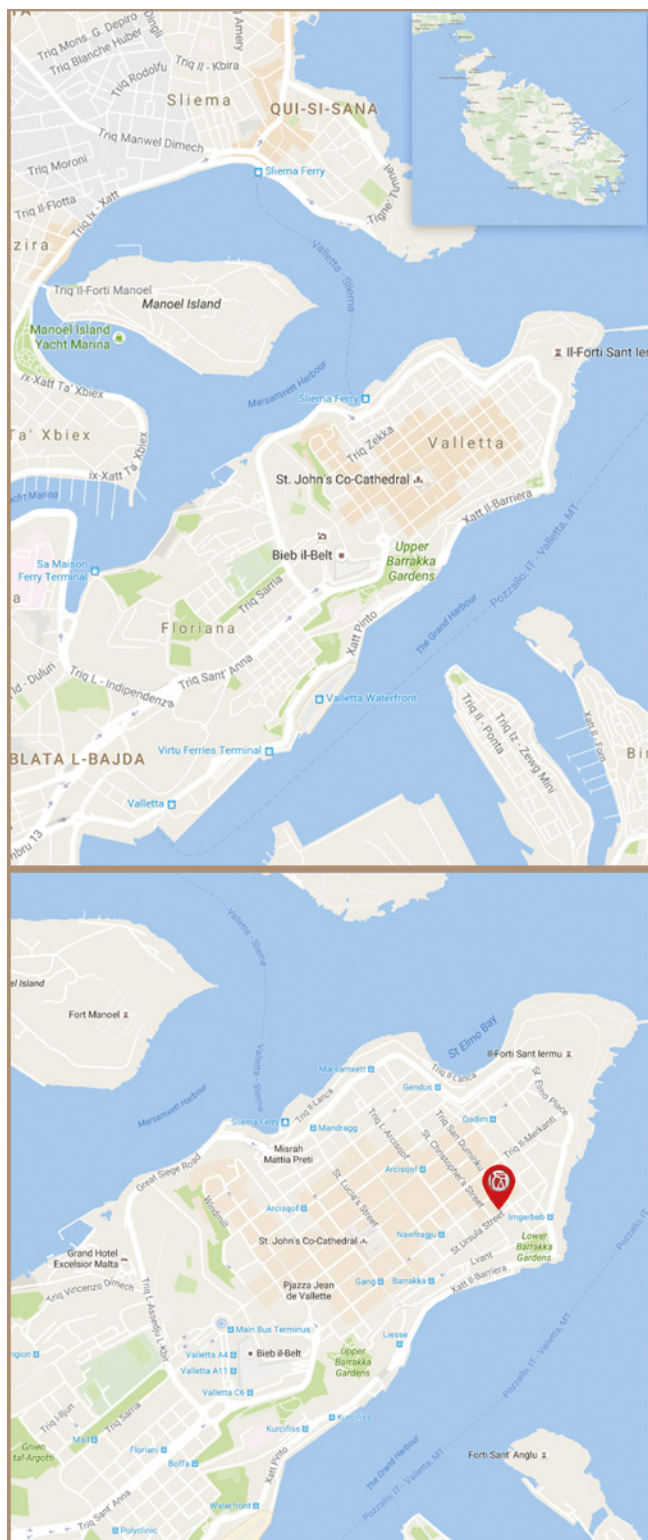
<sup>7</sup> <https://www.linkedin.com/pulse/blockchain-technology-banking-sector-naveen-joshi>

<sup>8</sup> <https://www.allerin.com/blog/blockchain-technology-in-the-banking-sector>

<sup>9</sup> <https://www.linkedin.com/pulse/blockchain-technology-banking-sector-naveen-joshi>

<sup>10</sup> <https://www.allerin.com/blog/blockchain-technology-in-the-banking-sector>





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