

## **FUTURE OF THE BANKING INDUSTRY – NOT WITHOUT BLOCKCHAIN**

*Oliver k. M. Aziator*

*(Senior banking analyst and Blockchain Advocate)*

**Copyright:** Research Institute for European and American Studies ([www.rieas.gr](http://www.rieas.gr))

**Publication date:** 4 March 2018

**Note:** The article reflects the opinion of the author and not necessarily the views of the Re-search Institute for European and American Studies (RIEAS).

**If you are reading this article it means you are directly involved in the world of internet, this wonderful innovation has made it possible to connect everyone around the world directly. Through this innovation, the most promising new disrupt technologies have emerged for the future; Thus, the world of the blockchain. It is right to ask if the blockchain technology is a disruptive innovation? why is this nouvelle technology pacing slowly? This because the technology has only reached the required level of maturity wide mainstream use. What is a disrupting technology? It is the one that displays established technology and revolutionizes industry or ground shaking product that creates a completely new industry.**

Today disruption, change and competition dictate the new paradigm for the banking industry, the financial institutions are no exception to the dynamics of industrial advancement which is driven by a fast-growing cost and great pressure. The implementation of the blockchain influences a lot of stakeholders in the financial services which include customers, employees, shareholders, investors, suppliers, industry associates, education institutions, government and non-governmental organizations. The banking world is involved in quick changes of digitalization, a potential cost and labor-saving instrument, the prospects for the global finance market are so appealing that many major financial institutions are investing millions of dollars to research on what will be the best way to implement it.

The high-priced and opaque involvement of a third party in a transaction is the main problem that has been solved by the creation of the Blockchain due to one centralized shared database. In the past, it was impossible because every transaction requires communications between two single databases and thence another authorized controlling layer was needed. A simplified example of remittance can be used in espousing the concept lucidly, your relative who wants to Transfer money from another country to you, but before you receive the money it might take hours perhaps days for you to be able to receive the said money.

This is because transferring money involved some other parties who must authorize and control the transactions. That kind of frustrating and arduous processes get vaporized under

Blockchain. The blockchain is a conceptually stored and synchronized distributed ledger that enables safe and transparent transaction across its networks. Every party involved has an identical copy of the shared ledger that is used to record and store information of the asset such as monies and properties.

Every change to the ledger will be synchronized and copied almost directly and transparently to the network where it will be seen as a block. The blocks are linked by cryptographically. An example to illustrate how this works is a situation where A wants to send money to B. The transaction is represented online in a block without a middleman. After the block is sent to every party on the network, approval is given by nodes to validate every transaction. If the transaction is approved the block will be added to the chain which revises the permanent and transparent records of the transactions. Finally, the money will move from A to B and this is done in few minutes.

The blockchain network relies on the decentralized systems making it attainable for one person or group of persons to get in control of it. This safe and transparent transaction is facilitated through a decentralized system of the payment system which is allowed by the blockchain technology. Hereby starting in the era that extends beyond financial capital market, global payment, Corporate Governance social institutions and democratic participation Before Digitalization every action in the traditional banking industry had to be done manually. The industry has homogeneously surfaced centralized data stored and many intermediaries linked, this result to poor customer service through complex clearing processes, large amount manual inspections, leaking personal information and high costs.

The practice of keeping ledgers dates back in centuries, the blockchain story started in 2008 when an anonymous person or group of persons with pseudonym Satoshi Nakamoto published a white paper which proposes an Electronic peer to peer cash system called Bitcoin The blockchain was originally developed to support bitcoin but now it is used for more than thousand cryptocurrencies which resulted in a long trail effect.

The said technology can be used in so many sectors such as cybersecurity, supply chain, forecasting, networking, insurance, private transport, online storage, charity, voting, government, energy, online music, retails, health care, real estate, crowdfunding and identification As explained earlier the blockchain technology eliminates the involvement of a third party in transactions, or as prof. Anis H. Bajrektarevic coined: “*Hegemony or hegemony, a debtor empire/s’ fiat-papers.*”

This chain is disrupting the banking industry as secured, cut cost, reduce delay and it is hugely efficient. Because it is decentralized and permissionless, it can lead to more disruptions in the financial sector, especially in payment clearing. Recently international organizations as well as developed countries and other countries have been paying close attention to the blockchain technology and are exploring their application in various fields.

For the financial sector, a number of the international financial institution have begun to formally plan for the blockchain technology since 2015, Goldman Sachs and other banking Giants have established their own blockchain laboratories working in close collaboration with the blockchain platforms.

Major Financial Institutions have a relatively positive attitude towards studying and improving the back and processing efficiency of the blockchain technology and place a significant emphasis on its potential to reduce operational cost. In fact, IBM predicted that in four years sixty-six percent of the banking industry will have commercialized the blockchain at a scale. What are our indigenous Africa banks or Ghanaian own banks doing about this? Will they be part of the sixty-six percent as stated in the prediction above, it is high time we start giving opportunities to the IT department in the banking Industry to study this new technology so that we rise to be counted. Other opportunities with this new technology are a point to point payment, sharing credit data, smart contract all this using the blockchain technology.

This technology can drastically reduce the manual intervention of supply chain in finance and employ smart contract or digitized procedures that rely heavily on paperwork, numerous intermediaries, high risk of illegal transactions, high cost and low efficiency. As transaction occurs simultaneously each transaction will need to be verified by all the nodes in the entire network which is harmful to speed this impact will become especially needy when the nodes in the blockchain increase.

Despite the permission-less and self-govern nature of the blockchain the regulation and the actual implementation of a decentralized system are problems that remain to be resolved, however, it is important to note that any beneficiary technology is accompanied by risks, therefore, the blockchain regulation is necessary and should be considered earnestly. The Financial industry is highly sensitive to technological changes.

To keep up with these changes, banks must invest more into research on the blockchain not forgetting the development and empowerment of its staff in knowing more about this new technology. Although the blockchain technology is still unregulated and it could have its limitations, banks would have to improve their position in the industry.

The banks will try to improve their payment systems and overcome information communication resulting in a better customer experience hence the blockchain will become the core underline technology of the financial sector in the future.