

BLOCKCHAIN AND FINTECHS: A PERFECT MARRIAGE



Neeraj Sabharwal

Director of Cloud and Big Data Solutions
Xavient Digital - powered by TELUS International

Artificial intelligence (AI), Big Data, and Cloud are no longer just buzzwords as enterprises globally are embracing all types of next-gen technology to drive significant business transformations. Blockchain, a more recent addition to the roster, fits within the same technology bracket and is poised to become a major disruptive force across all industries. However, despite emerging applications across supply-chain logistics, healthcare and FinTech that are promising 'game-changing' solutions leveraging the technology, to date, very few companies have been able to tap into the complete potential of blockchain.

The Growth of FinTech

Thanks to the rapid global proliferation of the Internet and coming of age of tech-savvy millennials, the marriage of technology and financial institutions has expanded from simple credit card and ATM transactions to online money transfers and payments. In fact, the FinTech industry has already staked its claim in adapting emerging technologies such as wireless payments and AI-enabled chatbots.

Leveraging these next-gen technologies to complete traditional financial transactions, such as money transfers and loan applications has resulted in many consumers looking to deal with FinTechs over traditional banks. Their ability to promptly, securely and successfully complete transactions have helped build customer trust over time. With the continued improvement in security and privacy measures backed by new technologies such as blockchain, the 'trust quotient' in the financial services industry is bound to rise manifold. Looking ahead, 77% of financial institutions are expected to adopt blockchain by 2020, according to PwC's 2017 Global FinTech Report.

What is Blockchain?

Oftentimes incorrectly used interchangeably with the term Bitcoin, blockchain is actually a distributed ledger that is capable of maintaining an ever-growing list of records. Although it resembles a spreadsheet like Excel, there are certain unique features that set blockchain apart from traditional databases:

- Decentralised: Blockchain promotes a decentralised system where data is distributed across several servers. Its lack of a single authority makes the system fair and more secure.
- Immutable: Blockchain is a tamper-free environment. It has immutable and irreversible records that do not permit changes once a 'block' is written. Only new records can be written.

These key benefits make blockchain a vital tool in building trust between businesses and customers, which is especially critical in the financial services industry, by providing access to accurate data from retail banking to investment banking to insurance.

How Blockchain Helps Build Trust

In the digital era, the rate at which consumers adopt next-gen technology is among the top

growth metrics for the FinTech industry; however, FinTechs face big challenges in generating trust among consumers. This is where blockchain comes into the picture. In a complete shift from how traditional banks operate - where customers have little to no insights into their banks' operations and processes, blockchain maintains its data in a centralised repository. This shifts the 'power' into the hands of the consumer, effectively cutting out intermediaries and ensuring complete transparency in all transactions.

Blockchain provides companies with access to a decentralised network where they can share information in a secure environment that guarantees unalterable data transfers and ensures an agreement of obligations from both parties when processing a transaction. In addition, it simplifies financial services, such as money transfers, loan applications, and mobile payments, something that every customer yearns for in terms of augmenting their overall experience.

Ensuring the accurate authentication and authorisation of every customer and transaction is another big challenge for FinTechs when it comes to establishing trust. Blockchain technology makes these functions, as well as identity management, a lot simpler and more convenient by enabling users to choose the mode of identity and with whom they want to share it while registering. The information is then stored on a secure decentralised network, with user-only access to alter it. This helps FinTech companies save on paperwork and data servers.

Blockchain Applications in FinTech Cross-Border Payments

Cross-border money transfers can be expensive and slow due to complex procedures. Blockchain technology is able to simplify, speed up, and make cross-border payments less expensive. Peer-to-peer transactions cut out the 'middlemen', resulting in faster and less expensive transactions. In fact, blockchain also helps lower the remittance costs on the total transfer amount from about 20% to a mere 3%.

Smart Contracts

Smart Contracts are arguably one of the most promising applications of blockchain in the FinTech industry. They are nothing but computer programs developed to verify or enforce agreements. These contractual clauses are either partially or fully self-executing or self-enforcing. Smart Contracts using blockchain help in recording information on a shared ledger, making it an unquestionable

digital proof, thus empowering everyone from regulators to individual artists and authors with strong security features, a lowered risk of internal hacking, and the prevention of plagiarism of work by intermediaries.

Share Trading

Share trading involves several third parties, such as brokers and the stock exchange. This makes the clearing and settlement process time-consuming and cumbersome with multiple stages and bureaucracy to navigate that can take up to three working days to complete. The decentralised nature of blockchain technology, however, helps remove the unnecessary intermediaries and optimise the whole lifecycle of the trade by enhancing trade accuracy, speeding up the settlement process, and reducing risks.

Trade Financing

Trade financing - financial activities related to commerce and international trade - involves lots of tedious paperwork and bureaucracy, making the process highly time-consuming and risky. Blockchain-based trade financing helps overcome these bottlenecks, streamlining the process. It eliminates the need for participants to maintain a personal database of documents as well as the risk

of an error in one document being duplicated to its copies by creating a single digital document that contains all the necessary information. Blockchain also supports real-time updating of the document, which ensures all members have access to the most up-to-date information at all times.

Happily Ever After: FinTechs and Blockchain

In today's increasingly digitised world, there is a growing need for a bridge between new technologies and financial institutions in order for the industry to meet the demands of consumers who want a convenient yet safe and secure way to complete their financial transactions. Blockchain has the ability to build that bridge and FinTechs leveraging this new technology will reap the rewards of an exponentially increasing customer base.

With the support of a trusted service delivery partner with experienced customer service agents who can knowledgeably address questions and concerns about blockchain, these new FinTech kids on the financial block are poised to take on traditional banks.



About Neeraj Sabharwal

Neeraj Sabharwal, Director of Cloud and Big Data Solutions at Xavient Digital - powered by TELUS International, has more than 15 years of experience in the next-gen technology industry, helping customers derive incremental value from their data. He is a true data enthusiast and enjoys writing his popular blog and regularly contributes to articles as a member of the Forbes Tech Council.

About Xavient Digital - powered by TELUS International

Xavient Digital is a US-based provider of digital IT solutions and software services, headquartered in California with offices throughout the United States and an international network of delivery centers. Xavient Digital leverages its global footprint to deploy the best talent, time to market and cost optimisation benefits for its customers. Xavient Digital's core competencies are in digital transformation stacks and full lifecycle IT services across telecom, media, BFSI and consumer technology verticals.

Learn more at:
xavient.com
telusinternational.com

