



# THE IMPACT OF BLOCKCHAIN ON THE FINANCIAL SERVICES SECTOR



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## The Impact of Blockchain on the Financial Services Sector



Blockchain technology is transforming the financial services industry and creating opportunities for both new and established players.<sup>1</sup> Blockchain's ability to provide a new form of distributed database or ledger could be applied across a broad range of applications in financial services. Hence, the concept of blockchain has energised the financial services industry globally and has already brought a disruption.

Blockchain is being addressed as “the new internet” and is driving transformation for businesses across multiple sectors, particularly for financial services.<sup>2</sup> It has the potential to facilitate faster, cheaper, safer and more transparent financial transactions. Below are some points of how blockchain could transform the financial services landscape.



### Efficient payments

For all financial services firms and users, blockchain could significantly improve payment transparency, efficiency, trust and security as well as reduce costs. Payments can be processed in minutes or seconds, while currently, payments from one bank to the other can take up a week. With blockchain, payments becoming user-optimised, will save a significant amount of time and money, for both parties involved. Blockchain will remove the need for middle office and back office staff, as payments settle instantly.<sup>3</sup>

### Improved compliance processes

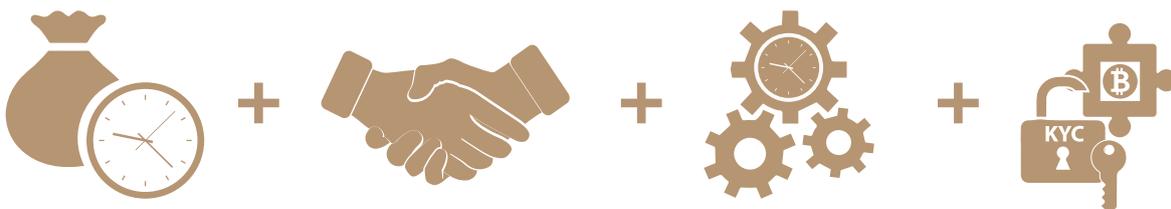
Blockchain services such as KYC-chain are helping financial firms streamline KYC – a labour-intensive and error prone process – across their organisations, reducing the duplication of workload and increasing trust. KYC utilities (shared repositories) are investigating whether blockchain can improve their offerings, potentially providing KYC updates to banks in real-time.<sup>4</sup>

Financial institutions across the world are responsible for complying and reporting on a number of requirements from their local regulator. KYC is a key requirement here, but the process can be incredibly time consuming and lack the automated customer identification technology and integration needed by teams to efficiently carry out their work.

Blockchain technology could provide a digital single source of ID and other information allowing for the seamless exchange of documents between banks and external agencies. This could potentially result in automated account opening, reduced resource and cost, whilst maintaining the privacy of data that is legally required.<sup>5</sup>

### Smarter reconciliation

By providing complete remittance information to all parties in a transaction, distributed ledger technology should significantly reduce the time and manual effort involved in payment reconciliation. It will also reduce errors. Ultimately, straight-through reconciliation will benefit financial institutions such as banks, insurance companies, traders and many others.<sup>6</sup>



<sup>1</sup> <http://www.businessinsider.com/sc/blockchain-and-the-financial-services-industry-2016-11>

<sup>2</sup> <https://www.finextra.com/blogposting/13068/5-ways-blockchain-will-transform-financial-services>

<sup>3</sup> <https://www.ft.com/content/eb1f8256-7b4b-11e5-a1fe-567b37f80b64?mhq5j=e7>

<sup>4</sup> <https://www.editionsfinancial.com/nine-ways-blockchain-could-revolutionise-financial-services>

<sup>5</sup> <https://datafloq.com/read/5-ways-blockchain-will-transform-financial-service/2298>



### **Reduced counterparty risks**

When transactions are settled at that moment in time, it will remove a significant risk, that of the counterparty not being in a position to meet its obligations, which could be a substantial expense for financial institutions.

### **Improve capital optimisation**

One of the main features of blockchain is that it removes the need for a trusted intermediary and makes peer-to-peer transactions possible. When blockchain is applied in the financial services industry, it could render redundant the fee-charging intermediaries such as custodian banks (those that transfer money between different banks) or clearers (those vouching for counterparties credit positions). As such, blockchain offers better capital optimisation, due to a significant, reduction in operational costs for financial institutions.<sup>7</sup>



### **Improving supply chain inefficiencies**

As it stands, any business reliant on a supply chain understands that their inefficiencies are many. They are usually complex, slow, distributed and involve many parties across the world. Each part of the supply chain is usually sceptical of the other which results in third-parties acting as gatekeepers. Using smart contracts (computer protocols that verify or enforce contracts) on the blockchain to transfer legal documents removes the need for documents such as Letters of Credit. As a result, the costs typically incurred by eliciting the middle men, are considerably reduced. Reducing the number of components in the supply chain is expected to increase trust which will be further supported by the blockchain's fundamentals of contract transparency.<sup>8</sup>

### **Giving power back to the consumer using smart contracts**

Smart contracts are expected to be the biggest contributor to the appeal and success of blockchain. This new way of contracting goods and services will be managed by self-operating computer programmes that mimic the 'real-life' legal and financial contracts we use today.<sup>9</sup>



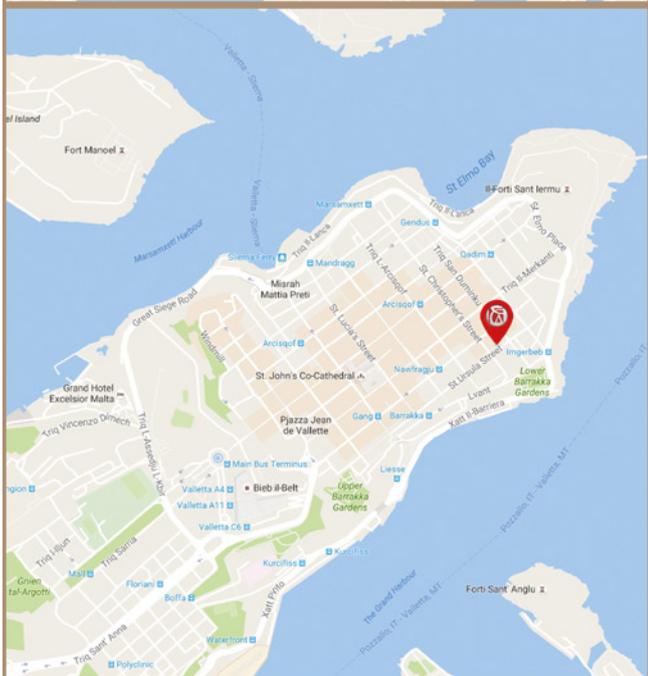
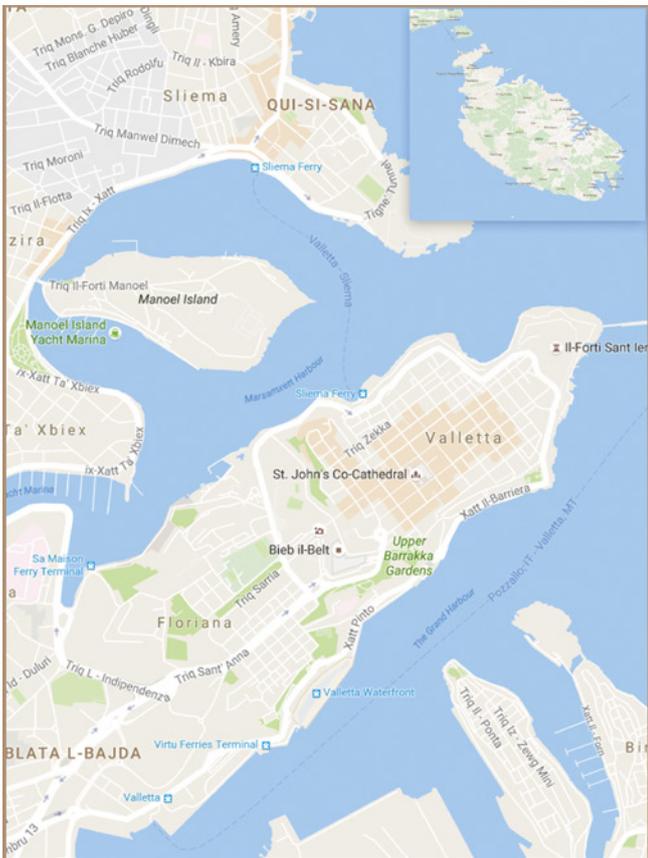
Unlike traditional contracts, which rely on third-party organisations – such as brokers – to execute and enforce, smart contracts will be between the supplier and consumer. These contracts will be executed and enforced using blockchain which means automatic guarantee for parties at either end. What one needs to ensure is that rule of the land and that of the blockchain are aligned. This could develop in more trust between the parties as information will be transparently shared in a digital database and accessible to all parties involved in the contract. Furthermore, with blockchain every centralised process has the ability to become decentralised – taking the power from the intermediary and giving it back to the transacting parties.

<sup>6</sup> <https://www.editionsfinancial.com/nine-ways-blockchain-could-revolutionise-financial-services>

<sup>7</sup> <https://londonspeakerbureau.com/blockchain-7-benefits-financial-industry/>

<sup>8</sup> <https://www.properopartners.com/how-blockchain-will-impact-the-finance-industry-and-how-to-prepare-for-it/>

<sup>9</sup> <https://www.properopartners.com/how-blockchain-will-impact-the-finance-industry-and-how-to-prepare-for-it/>



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