



The Future Power of Blockchain

by [Steve Brown](#)



technology

cryptocurrencies

automation

blockchain

Summary: Blockchain technology promises many benefits to financial institutions, as they adapt to meet changing customer and stakeholder expectations, as well as regulatory requirements. Some experts argue that, while there are still many logistical challenges to overcome, blockchain has the potential to completely revolutionize the future of finance. We look at four applications of this technology that may be advantageous to community financial institutions in the future.

Did you know that, although now regarded as an everyday appliance by most people around the world, Thomas Edison's first commercially viable light bulb was initially met with disdain? It was predicted at the time to be a "conspicuous failure" with a British parliamentary committee even suggesting that it was "[*good enough for our transatlantic friends...but unworthy of the attention of practical or scientific men.*](#)"

Of course, many new ideas are often met with apprehension and even ridicule, before becoming so pervasive in our day-to-day lives that we struggle to imagine a world without them. Blockchain is a great example. While it's still in relatively early stages, this technology has the potential to completely revolutionize and transform the financial industry. In fact, the [blockchain market in banking and financial services is expected to see a compound annual growth rate of 60% to reach \\$12.39B by 2026](#). Given these predictions, community financial institutions (CFIs) clearly need to stay abreast of developments.

Blockchain: the key benefits

As highlighted in our [April BID article roundup of technology trends reshaping the industry](#), blockchain is a digital decentralized database or ledger of transactions that stores and shares information across multiple, distributed networks. It has the potential to offer CFIs many benefits.

Chief among these is greater transparency and security. Given that information is collected and stored in blocks that are strung together in a consecutive sequence of connected transactions, a blockchain provides an irreversible timeline of permanently recorded data that is shareable and viewable by anyone across the "chain" in real-time. This means financial information in blockchains is difficult to change, cheat, or delete.

Traditional banking infrastructure is increasingly under pressure to keep up with changing consumer, regulator, and other stakeholders' expectations. Blockchain solutions could allow CFIs to reduce friction in transactions, costs, labor hours, and the potential of human error, while increasing efficiencies. As a result, institutions would be able to focus on targeting a wider range of customers, offer new products, increase accessibility, and improve the customer experience.

Beyond Bitcoin

Although perhaps best known for its use in facilitating cryptocurrencies, particularly Bitcoin, the application of blockchain technology goes far beyond this. In fact, many traditional banking products

could be transferred to blockchain. For example, earlier this year, a consortium of five community institutions along with a fintech launched a stablecoin — a more stable cryptocurrency that's backed by reserve assets — on a public blockchain. The goal is to use this stablecoin for real-time payments, to process loans and securities, and across many other products.

While there is still much development needed before the banking industry will embrace blockchain wholeheartedly, progress seems to be moving forward. To prepare, here are **four banking areas in which blockchain could be applied** in the future.

1. Automated security, systems, and processes. Blockchain technologies have the ability to automate, streamline, and optimize many critical, backend functions for a CFI, such as bookkeeping, accounting, and audit. For example, blockchain could help by increasing the connection between critical systems, thus reducing duplication and the manual processing of large amounts of data and increasing the security of transactions. What's more, these solutions can also reduce or remove the potential for errors and fraud within these functions by automating rules.

2. Transparent compliance. CFIs must increasingly find new ways to protect customer data, combat fraud, prevent money laundering, and securely share information. Blockchain technology increases the transparency and integrity of records and enables data to be shared in real-time, while keeping the records secure. As a result, it can offer an institution numerous regulatory compliance benefits.

What's more, blockchain technology can allow customers to create and store a digital fingerprint that acts as a unique identifier. This digital identity could be shared with all financial institutions across a network — helping to eliminate overlapping know-your-customer and anti-money laundering compliance requirements. It could also speed up customer applications and reduce onboarding time.

3. Expanded loans and credit. Blockchain could reduce the current reliance on centralized credit reporting agencies, allow for the use of alternative data points to check an individual's credit history, and provide a decentralized registry of payment history. Therefore, these applications could also enable a far greater range of people to access loans and credit facilities.

On the backend, blockchain solutions could minimize an institution's administrative tasks and documentation requirements associated with lending, thus streamlining the process and reducing costs. Furthermore, some institutions are already offering loans where blockchain-based products are being used as collateral in the lending process.

4. Faster payments, clearing, and settlement. Blockchain and digital currency solutions have the potential to dramatically improve payments and money transfers, particularly cross-border, multi-party transactions. With blockchain technology, lenders are connected to one another directly, reducing their reliance on a complex set of third-party intermediaries. As a result, institutions should be able to process payments faster, 24 hours a day, and drive down costs for themselves and their customers.

Given its many advantages, blockchain technology is likely to play an integral role in the future of financial services — although various logistical, capital, and cultural challenges suggest that full-scale adoption of these solutions is still some way off. That said, CFIs may want to start thinking about how they will become “blockchain ready.”

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ECONOMY & RATES

Rates As Of: 05/18/2022 05:37AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	1.06	0.21	1.00
6M	1.57	0.16	1.38
1Y	2.12	0.02	1.73
2Y	2.74	0.02	2.00
5Y	2.99	0.04	1.73
10Y	3.01	0.07	1.49
30Y	3.19	0.19	1.29
FF Market	FF Disc	IOER (Interest on Excess Reserves)	
0.83	1.00	0.90	
SOFR	Prime	OBFR (Overnight Bank Funding Rate)	
0.80	4.00	0.82	

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