



## Why Royal Bank of Canada and Toronto-Dominion Bank Are Embracing Bitcoin Technology

### Description

It's safe to say that bitcoin has its flaws. The cryptocurrency is extremely volatile—it's trading for roughly US\$240 after peaking at US\$1,100—which makes it a dubious store of value. It's also used heavily by drug traffickers and other money launderers. Clearly, bitcoin has a long way to go before gaining widespread acceptance.

But bitcoin has made some important breakthroughs, and both **Royal Bank of Canada** ([TSX:RY](#))([NYSE:RY](#)) and **Toronto-Dominion Bank** ([TSX:TD](#))([NYSE:TD](#)) have taken notice. We take a closer look below.

### The blockchain

What makes bitcoin unique is its peer-to-peer network, commonly known as “blockchain”, which keeps track of who owns how much of the cryptocurrency. Blockchain is different from a bank's ledger in that it is distributed widely. In fact, anyone can download a copy of it.

When transactions are made, they are authenticated by so-called miners who then update the blockchain. In other words, blockchain has no central authority, which makes the system very difficult to tamper with. And individual users' privacy is still protected using encryption.

Blockchain could potentially have uses outside of bitcoin. *The Economist* even suggested that credit card fees and foreign-exchange charges could be eliminated using blockchain technology. The newspaper went on to say “Just as nobody forecast social networks, blogging or Netflix in the 1990s, the absence for now of any tangible applications other than bitcoin for the blockchain merely points to humankind's deficient imagination.”

### The next step

Financial firms have certainly taken notice and are no doubt intrigued by a technology that makes life harder for hackers. In mid-September, a group of nine large banks announced plans to back a common set of standards for blockchain. And then earlier this week, 13 more joined the consortium,

including RBC and TD.

At this point, we are still in the early innings, and it's still unclear what exactly can be accomplished. But these are 22 of the world's largest banks, and there are past examples of strong industry collaboration.

### **What does this mean for shareholders?**

In all fairness, shareholders of RBC and TD probably won't notice any differences, nor will their customers.

But blockchain is a very promising technology, one that has the potential to drastically reduce costs, all while making banks more immune to cyber-security threats.

RBC and TD shareholders should also be encouraged that the banks are on the forefront of such a new technology. It's the kind of attitude that's needed as FinTech companies fight for a larger slice of the banking pie. This story is only just beginning.

### **CATEGORY**

1. Bank Stocks
2. Investing

### **TICKERS GLOBAL**

1. NYSE:RY (Royal Bank of Canada)
2. NYSE:TD (The Toronto-Dominion Bank)
3. TSX:RY (Royal Bank of Canada)
4. TSX:TD (The Toronto-Dominion Bank)

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