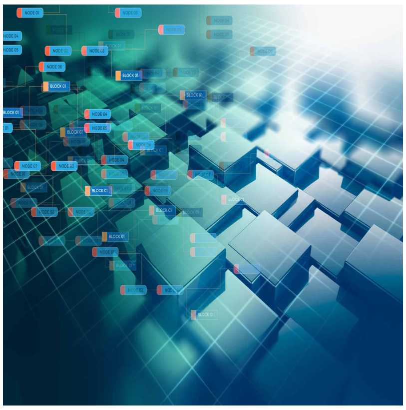

2 Ways Blockchain Could Be a Cost-Saving Revolution for Banks

Description

In a late August article, I'd covered the rise of Bitcoin. The article also detailed the importance of blockchain, the technology that allows a database to be directly shared without a central administrator. The decentralized network is what enables cryptocurrencies like Bitcoin and Ethereum.

Much of the focus with regards to the rise of cryptocurrencies has been on its potential to disrupt traditional banking and monetization. Sometimes the concern has manifested in state action, like when China banned coin-trading platforms earlier in 2017. However, as I'd discussed here, a decisive move by regulators in the U.S. and Canada appears remote for now.

The anti-establishment shine of Bitcoin and other cryptocurrencies should not spur bearish sentiment for larger institutions. On the contrary; big U.S. and Canadian banks have already started to integrate the technology.

Royal Bank of Canada (TSX:RY)(NYSE:RY) has started to use blockchain to facilitate transactions between Canadian and U.S. locations. The Bank of Canada has also partnered with **TMX Group Limited** to explore blockchain technology that could speed up securities trading.

Let's take a look at three ways blockchain technology could boost bank earnings in the coming years.

Quicker transactions

Transactions between institutions can often require several days to be fully processed. Blockchain technology has the potential to dramatically reduce transactions times, and it operates throughout the day. This could be particularly transformative when it comes to verifying and approving loan applications and other processes that typically take days in personal and commercial banking.

RBC executive vice president for innovation and technology Martin Wildberger vouched for the revolutionary potential of blockchain in banking back in September. "Everybody recognizes blockchain will be transformative and critical," Wildberger said. "At the same point in time, I think everybody recognizes these are early days."

One potential roadblock to faster transactions is signature verification, which is required on the peer-to-peer network. This is a complex process in comparison to centralized databases which obtain verification after a connection is made.

Lower costs and less reliance on third parties

Blockchain transactions allow for proof of validity and authorization on an individual basis rather than relying on a centralized network. Large financial institutions like banks are forced to commit a great deal of resources to manage and monitor a central database.

Blockchain technology would enable institutions to replace the central database with a distributed database. This will require significant resources to establish secure cryptography, but once the system is in place, operating costs for transactions would see a massive reduction.

Those who are watching the cryptocurrency mania from the outside looking in should at the very least be structuring their portfolios to benefit from this transformative technology. Banks could dramatically cut operating costs, while simultaneously offering better services to clients with a system that offers faster transactions and the potential for lower fees down the line. This will also change in-branch banking, as applications and other consumer requests will be able to be processed through the distributed network.

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