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Bitcoin Technology Making Inroads in the Financial Industry via Blockchain

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The meteoric rise of Bitcoin value over the past few months has garnered a lot of interest in the cryptocurrency. However, another aspect of the underlying technology, Blockchain, is poised to make a big impact in the financial industry.

Blockchain was originally created as the public transaction ledger of all Bitcoin transactions. When a bitcoin is bought or sold, data about the individual transaction is recorded as a block on the chain of all transactions. The Blockchain ledger is not stored on a single server. It is a distributed database that means all clients connected to the bitcoin network have a copy of the ledger, and whenever a transaction occurs anywhere on the network, all copies of the ledger are updated in near real time. Clients on the network use known algorithms to validate each transaction to ensure accuracy. Because of the underlying technological design, transaction records have proven to be very secure and accurate. A record of a transaction that has already occurred on the Blockchain cannot be altered without creating another transaction on the chain across the client network. Additional benefits are no single point of failure due to the distributed model, transparency to all users, and transaction records that cannot be maliciously altered because copies of the record are spread across devices.

These attributes give Blockchain big potential for the financial industry because the underlying technology can be used to document transactions of any asset. While many different use cases have been proposed, some or the more promising ideas include:

- Authentication/Identification – Financial institutions can complete a know-your-customer (KYC) transaction such as checking a driver's license and other documentation once and then enter the resulting information on the Blockchain. This transaction can then be referenced for future transactions, saving time and manpower.

- Asset Transfer – Just like Bitcoin, Blockchain can be utilized to record trades of shares or equities, potentially cutting out the middlemen of exchanges and brokers.The ledger will allow the current asset owner to trace ownership back to the original asset creation, ensuring ownership.Since the transaction is validated by all clients on the network using known algorithms, the likelihood of errors is reduced or eliminated.

- Contract Administration – Contractual terms can be monitored and enforced by the

Blockchain. Once a contract is agreed to by both parties, it becomes a block on the chain that is irrefutable.Additional contractual obligations such as filing liens can be completed electronically and recorded on the chain, reducing administrative overhead and errors due to paper records.

There are currently many obstacles that need to be overcome before the technology is more widely adopted. Some risks associated with the adoption include:

- Cooperation – Financial institutions will need to collaborate to develop shared Blockchain networks to reap the benefits of transactional or know-your-customer efficiencies.

- Privacy and Data concerns – Customer information and sensitive transactional information stored on the Blockchain means a private chain that is secured like any other financial IT system will need to be used as opposed to a public chain used by Bitcoin.

- Regulatory/Industry Oversight – Due to the young age of Blockchain technology, regulatory guidance is brief or nonexistent.States such as Nevada and Arizona have proposed bills to expand on the allowed uses of Blockchain and smart contracts, respectively.The AICPA also plans to issue a Whitepaper in late 2017 on the impact of Blockchain on financial statement audit and assurance services.Stay tuned for further details on this subject.

While the technology is relatively new, it is foreseeable that in the next 5 to 10 years Blockchain will be a part of everyday financial transactions given the pace of change within the financial technology sector. Additionally, Blockchain startups such as Chain.com and Etherium may become common technology providers just like Microsoft and Oracle are today.

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