

Blockchain

Graham Bright, Compliance Director, Euro Exim Bank
(graham.bright@euroeximbank.com)

1. What aspects of banking efficiency have you observed directly improved by the use of blockchain?

Firstly, an enabling technology, not a destination but a journey, where its technology capabilities across multiple layers of business processes may reap major rewards and add significant value.

Case studies have already shown that once investment is directed to key sectors, efficiency may be dramatically improved, especially in the areas of speed, cutting cross-border payment times from days to minutes, reduced cost using automated processes, faster tracking, improving trust and security, reducing fraud, supporting smart contracts without the need for onerous reconciliation and resource consumptive activity.

Add to these the benefits of immutable, auditable, regulatory compliance, with the objective of enhanced client and user experience, all financial organisations are **banks are** streamlining their own operations and passing on savings to clients.

2. What concrete examples are there where blockchain has solved existing inefficiencies?

We are aware of a number of concrete examples.

These include RippleNet using blockchain technology to facilitate cross-border payment, significantly reducing transaction times and lowering costs associated with currency conversion and intermediaries, with options for On Demand Liquidity through their ODL service.

Using a private blockchain, J.P. Morgan developed JPM Coin, supporting instant cross-border payments between institutional clients, with low cost and enhanced liquidity.

Other examples include Deutsche Bank with a blockchain-based trade finance platform, Santander's One Pay FX, supporting cross-border money transfer in real time, Citi and TradeLens, together improving visibility and efficiency in global supply chains, all of which streamline processes, enhance transparency, and ultimately reduce costs and time in various banking operations.

3. How does the perceived efficiency of blockchain influence the general perception of its usefulness in the banking sector?

Not greatly. We quickly forget and meet silence on other major banking initiatives, such as business process re-engineering and straight through processing etc. Similarly, blockchain is no longer discussed in conferences, and if implemented correctly will become as ubiquitous as electricity, as just another technology component to supporting banking systems and internal IT infrastructure.

As of today, no customer has approached EEB asking for a blockchain enabled transaction. Our international, diverse, SME and corporate clients struggle with real-world practical daily issues of FX fluctuation, liquidity, trust and costs for paper based cross border transactions and logistics for delivery to their nearest neighbor country.

Much of the hype in the market is being generated by supplies and technology savvy startups. For

the general consumer, blockchain means nothing and is not in their control. What they want is seamless, cost-effective banking services, and whether blockchain is a key technology contributor is of little consequence or interest as to how its delivered.

4. What factors primarily influence your Bank's intention to adopt blockchain?

Our institution, along with all other financial businesses worldwide are always looking for ways to improve operational efficiency and reduce costs. We have purposefully engaged with IT to ensure we have the policies and programs in place to support the integration and ultimate roll out of blockchain enabled services.

Blockchain is one of a range of technology applications which may assist by streamlining processes, reducing the need for intermediaries, and lowering transaction fees, especially in areas such as international trade, cross-border payments and settlements.

It has also seen significant uptake in areas of security and fraud prevention, protecting against fraud, cyberattacks, and data breaches, with fast immutable visibility of authorized participants, speeding up KYC and AML processes, and it is in these areas where our focus lies.

5. How do you perceive the impact of blockchain on the fintech sector?

Whilst major banking institutions face issues of timing budgets, slow deployment and board driven decision making based on use-cases, Blockchain is having a transformative impact on the fintech sector, creating new efficiencies, reducing costs, and opening opportunities for innovation.

It is making a difference, through improved transparency and trust, enhanced security, encryption, faster data sharing through digitised cross border trades, support of decentralised finance platforms, and ultimately enhanced customer experience. However, today blockchain is not universally accepted or implemented. Challenges remain such as scalability, regulatory issues, and environmental impact, critical mass and energy-intensive consensus mechanisms.

That said, we do expect more take-up, firstly in banks and finance companies, before true client benefits are realised.

6. What do you see as the main benefits of blockchain for fintech companies?

Blockchain technology offers numerous benefits to fintech companies, primarily through improving efficiency, security, and transparency.

Benefits include enhanced security, fast processing, cost efficiency, and a secure, risk reducing decentralized ledger which makes it difficult for unauthorized users to alter data, especially when handling sensitive financial data.

Also, reducing the need for payment processors, clearinghouses, counterparties, correspondent banking relationships and other third parties, lowering fees and transaction costs, verification and traceability.

Blockchain is a key enabler for global financial reach, where individuals can perform transactions and access services with just a smartphone and internet connection, expanding fintech's reach in emerging markets.

Supporting creation of new diversifying products, such as tokenized assets, digital wallets,

decentralized finance (DeFi) applications, and non-fungible tokens (NFTs), underpinned by faster audit and regulatory compliance, reducing dependency on fiat currency exchange and liquidity, and reliability to engender trust and confidence in international transactions.

Ultimately as the technology evolves, and with speed of implementation, we see more benefits accruing to fintech, potentially reshaping traditional financial services and driving greater customer adoption.

7. In your opinion, what are the main challenges posed by disruptive fintechs?

There is no doubt that fintechs often provide innovative solutions that challenge the traditional banking model, operating more digital models with lower overhead costs. This enables them to offer more competitive pricing on services such as loans, payments, and investment products. This has intensified competition, forcing established banks to rethink pricing and service delivery.

Other key challenges are regulation and compliance, where fintechs often operate in a less regulated environments compared to traditional banks, and can implement new technologies faster to meet increasing high standards and personalisation with real-time, elegant interfaces, and seamless customer experiences.

However, banks often lose sight of additional threats, especially with dependency, covering cyber vulnerability and trust when implementing a broad range of 3rd party applications.

Add to this the fact that IT talent is attracted to such companies due to innovative culture and growth opportunities, leaving banks struggling with legacy technology, long development time and staid processes. Also, when looking at partnerships, banks remain wary of different corporate cultures, non-aligned operational processes, and regulatory approaches may impede successful partnerships.

Ultimately traditional financial institutions need to adopt adaptive strategies, invest in technology, and enhance customer engagement to maintain competitiveness in a rapidly evolving financial landscape.

8. Can fintechs be considered as prime competitors to banks?

Yes, but the lines of engagement are blurring as more cooperative or complementary relationships form.

Fintechs compete through provision of payments, money transfers and digital wallets, offering mobile-first experiences, to tech-savvy customers who prioritize convenience, speed, and accessibility. They may provide streamlined interfaces, intuitive apps and personalized services, agility, speed, crypto-based digital wallets, and real-time payments.

So, fintech companies are competitors to banks, especially in areas like payments, lending, and wealth management. However, as the landscape evolves, relationship have become more collaborative, with many fintechs working alongside banks rather than against them.

9. What are the main motivations behind this possible co-opetition (cooperation and competition at the same time) with fintechs?

Speed to market , agility, fast integration rather than build times, instant delivery, standard API's, avoiding fear of missing out (FOMO).

10. Has the disruptive effect of fintechs modified your strategy for working with them?

Yes, and as an innovative company ourselves, bringing new technologies, techniques and applications into our systems architecture, we are consciously working with other fintech enabling companies to find complementary applications which will futureproof our operations, add agility, safeguard data and satisfy regulatory mandates.

11. Can you describe situations where the disruptive effect has led to successful co-opetition?

Today, relationships are more nuanced than pure competition, where collaboration is key, and banks are acting more like fintechs every day.

Boundaries have become blurred to the extent that whilst fintech companies have been competitors to traditional banks, in payments, lending, and wealth management, now, fintechs are increasingly working alongside banks. In many ways it has become harder to distinguish whether banks are fintechs and technology hubs and vice-versa.

12. What are the main regulatory restrictions encountered when implementing blockchain?

Implementing blockchain is costly and requires adherence to standards and significant regulatory attention. Main issues involve Data Privacy Regulations, covering how personal data is collected, stored, and processed, which is in direct conflict with immutability of blockchain concerning with the right to be forgotten, complicating compliance.

Other areas of concerns include openness and reporting of AML and KYC, monitoring of decentralised blockchains which preserve anonymity, legality of smart contracts, reporting of tax obligations, crypto implications, cross border disparities, consumer protection and ultimately inconsistency in international jurisdictions regulations in general.

Ensuring smooth navigation through constant change and regulatory restrictions can only proceed through active engagement with legal and compliance teams to ensure that blockchain implementations remain both innovative and compliant.

13. How do these regulations influence your blockchain adoption strategy?

Today, regulations play a crucial role in shaping all strategies, however, there has been little direct activity re blockchain. Areas where regulations remain as compliance with legal standards, covering data privacy, anti-money laundering (AML), and know your customer (KYC) regulations.

Our overall strategy is to ensure compliance at each stage of implementation, using standard elements where possible, and keeping abreast of all jurisdictions where changes and further regulations are proposed, discussed and implemented. Also, as much as possible to ensure our blockchain initiatives are sustainable and adaptable to evolving regulatory landscapes.

This includes the choice of technology (permissioned vs. permissionless) based on security, data

access, and privacy requirements, influencing the overall technology stack, ensuring compliance, mitigating risks, and positioning us to leverage the benefits of blockchain while navigating the complexities of the regulatory landscape.

14. How do you see the banks' business model changing as a result of co-opetition with fintechs in terms of blockchain?

Co-opetition between banks and fintechs is likely to lead to significant changes in the banking business model in several ways:

Firstly, through providing the framework and technological means to streamline operations, enhance security, and improve transparency, integrate innovative services like decentralized finance (DeFi) products, digital asset management, and instant cross-border payments.

Secondly, lower operational costs in compliance and enhance transaction speeds, promoting competitive pricing, and providing more customer-centric user experiences through personalized services and a wider range of financial products, digital assets, offering secure wallets and safeguarding customers' cryptocurrencies and digital identities.

Thirdly, standardising, rationalising, sharing and re-using data more effectively in credit assessment, rapid fraud detection, and risk management, will lead to more informed, trusted compliant decision-making.

Also, new technology driven capabilities will allow banks to explore new revenue opportunities such as transaction facilitation and tokenization of assets.

Above all, blockchain, powered by fintechs' and banks collaboratively will if implemented correctly, transform banks into more agile, customer-focused, efficient institutions that leverage innovative technologies to remain competitive in a rapidly evolving financial landscape.

15. What long-term changes do you anticipate in the banking sector because of this co-opetition?

We certainly expect more seamless, integrated services, improving overall customer satisfaction, more collaborative research and development, leading to faster technology adoption, reducing operational costs and improve efficiency, in areas like compliance and risk management.

Other factors include more complete and timely data sharing, openness to more automated solutions, global competition and taking increased responsibility for social welfare, adherence to UN ESG directives and encouraging financial inclusion.

Use of blockchain at EURO EXIM BANK

1. How does Euro Exim Bank integrate blockchain technology into its trade finance operations ?

Blockchain is the enabler, the technology that may provide capabilities to enhance systems and processes for both service providers and service recipients. For us, by integrating elements of blockchain into our trade workflow platform, we achieve the following benefits:

The design, security, traceability, encryption, resilience through the decentralised, transparent and immutable ledger, allows everyone with permissioned access to see the same information in real time, enhancing trust, efficiency, finality and lowering transaction costs and complexity.

Integration and re-useability are ongoing in our trade platform, with more use-cases becoming available as we roll out blockchain enablement across the enterprise.

2. Shift from SWIFT to Blockchain-based Systems

How do you perceive the current relevance of SWIFT systems in the trade finance ecosystem?

SWIFT has been the trusted backbone of financial transaction since the 1970's, with over 11,500 connected institutions in over 200 countries. With a continued focus on payments and securities, it has constantly revised standard ISO format messages to embrace the latest ISO 20022 guidelines across more message categories.

Trade finance messaging under Category has not fundamentally changed over the years, due to the complexity of trades, plethora of non-standard data, number of optional and mandatory information fields, and potential length of, and recurring, proprietary messages.

SWIFT will remain relevant and indeed embracing blockchain in its supported processes and with millions of messages per day, provides not only the means to safely communicate the trade instruction, but also the payment trail that follows every transaction.

Impact of the BRICS De-dollarization Movement

What opportunities or challenges do you foresee from the BRICS nations' shift towards a de-dollarization policy?

Whilst de-dollarization will not fundamentally affect EEB business, there are key issues to resolve among the BRICS nations.

Some of the opportunities include the potential to build new focused centric institutions, not encumbered by traditional foreign exchange risks through lack of liquidity or fluctuations, greater control over their own economies and policies, reduce dependency on US banks sanctions and prohibitions, and explore markets for other currencies, even bypassing SWIFT and other established payment mechanisms.

But there are also severe challenges. These include building new infrastructures to support the currencies among BRICS nations, getting global acceptance and trust for diverse, potentially non-liquid currencies from countries of varying size and stability. Add to this international perception related to sanctions, political tension and essentially competing with long established processes and accepted practice.

Regulatory challenges and business model adaptation

To what extent does regulatory compliance pose constraints on blockchain-based trade finance solutions?

The complexities, constant changes and requirements for regulatory compliance and risk reduction across the globe are major sources of cost and time for all financial organisations. Whilst we appreciate the benefits and value that blockchain can bring, it still requires significant investment, integration with internal systems and above all, adoption by all parties concerned in cross-border transactions.

We are still some time and distance away from effective uptake by buyers and sellers, and their related financial services providers, whether they are fintech's or banks, from being globally interconnected. Also, whilst great strides are being taken, supported by regulators and the ICC, to digitize documents and digitalize processes, without critical mass, international trade will still be largely dependent on paper, wet signature, couriered documents, and continued issues related to confidence, fraud and trust.