How Banks Adopt Cryptocurrencies

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The new age of cryptocurrencies is booming than most could imagine and like every emergence of a succeeding development, many want to get involved with it. However, this can be difficult especially if the aim is to get rid of you. Cryptocurrencies' main agenda has been to exclude the middlemen who this time is the central banks.

TABLE OF CONTENT

Even with the promised threats of the fall of digital coin made by the central banks while trying to protect their operations, the online digital currencies have swiftly scaled up at the financial institutions watch. It has thus become impossible for them to ignore the new era of virtual money.

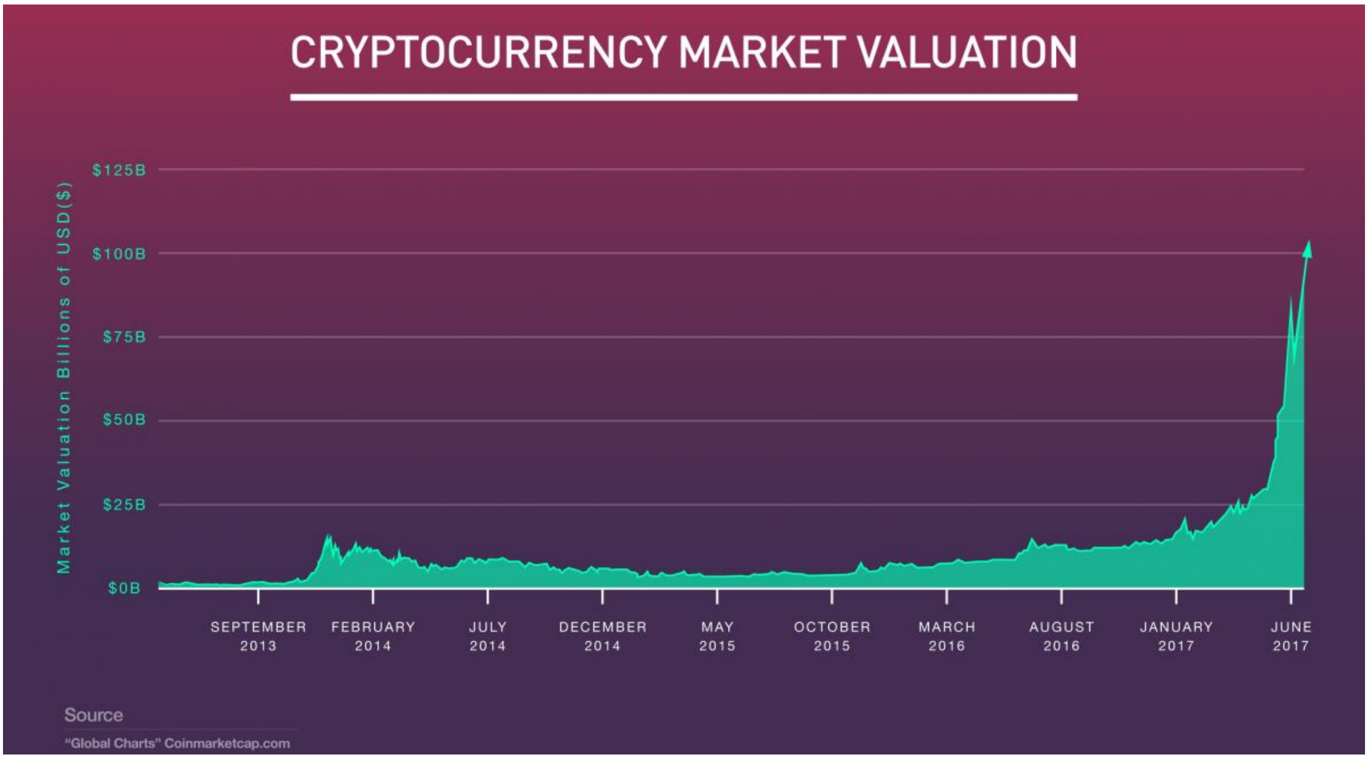
HOW EMERGENCE OF DIGITAL COINS HAS AFFECTED GUARDIANS OF OFFICIAL MONEY

From the introduction of financial tech, central banks have perceived it as a financial terrorism from the risks they pose to their operations as guardians of the official money. Central banks have acted as regulators over the money supply for years until the development of crypto money which has attracted their clients thus reducing their control as the overseer of the money supply. The digital money is overseen on a distributed ledger as opposed to the conventional banking system where all operations are maintained within the banking systems.

Though many most central banks take solace for it as a fad, the cryptocurrencies have really accelerated in their prominence as of 2017, making these central banks concerned about their future. With central banks controlling the prices or the units of quantity of the fiat currencies, the digital coins supersede this fact and are not in command of a certain entity. Being self-dependent the worth of the currencies are what are dictated by its markets as stated on the distributed ledger and do not pose for any instances of hacking.

The financial stability of the digital coins is another factor that financial institutions are quite uncertain whether to go all in, or just watch from afar. They believe that these digital coins don't have a longer lifespan as compared to the fiat currencies they deal with. Currently, financial institutions believe that the implications of lacking the financial stability and lack of an overseer apart from the Blockchain technology would be farfetched. The financial institutions believe that with the emergence of a bubble, like the in 2008, the cryptocurrencies would be crumbling down. For the year 2017, the Bitcoin has been very fluctuating though by gaining value, this might be against all the worries of these financial institutions.

Cryptocurrency Market Valuation illustration



Cryptocurrency's total market cap has risen nearly 800% this year.

All these aside, financial institutions will still want a piece of where the money goes and some banks have already started showing interest while others are actually running trials to achieving the use of these cryptocurrencies. The People's Bank of China is a great example of banking that are adopting the new wave where it has created a virtual coin whereby it makes fake transactions with some financial institutions in the country to study their digital coin. The European Central Bank together with the Bank of Japan have launched a joint research to try and assess the possible use of a distributed ledger in their transactions. The Dutch Central Bank has internalized the Blockchain technology and has created its own cryptocurrency but only for internal use within the bank so that they could better understand how the digital coins work.

WAYS IN WHICH BANKS CAN ADOPT CRYPTOCURRENCY

So the question on how can banks adopt the cryptocurrencies begs. The guardians of the official money have not only noted the momentum made by the digital currency but are now making efforts to penetrate this ecosystem. Some experts have expressed their concerns about the readiness of financial institutions adopting and regulating cryptocurrencies claiming that they are not ready at all to be in such a position to regulate or even indulge in the currencies. But the need to level up to the financial trends is a thing financial institutions are in a haste to achieve and they are using two methods as described below.

<u>Adoption or introduction of a digital currency</u>

Banks have opted to take the digital currency head-on by adopting the Blockchain technology in their operations. Having the digital currencies in their transactions keeps them relevant and in the trend ensuring that most of their customers would definitely stick with them. Depending on their choice of operations, banks have two ways around this.

To begin with, some financial institutions have opted to add cryptocurrencies as another payment method. Banks can choose a digital coin they want to use, though most would prefer Bitcoin due to its popularity among many customers. For example, The Norwegian Skandianbanken, the largest online bank in Norway has formulated a means where its customers can now add their Bitcoin wallet.

This is how Skandianbanken account with cryptocurrencies illustration

This is how Skandianbanken account with cryptocurrencies looks like.

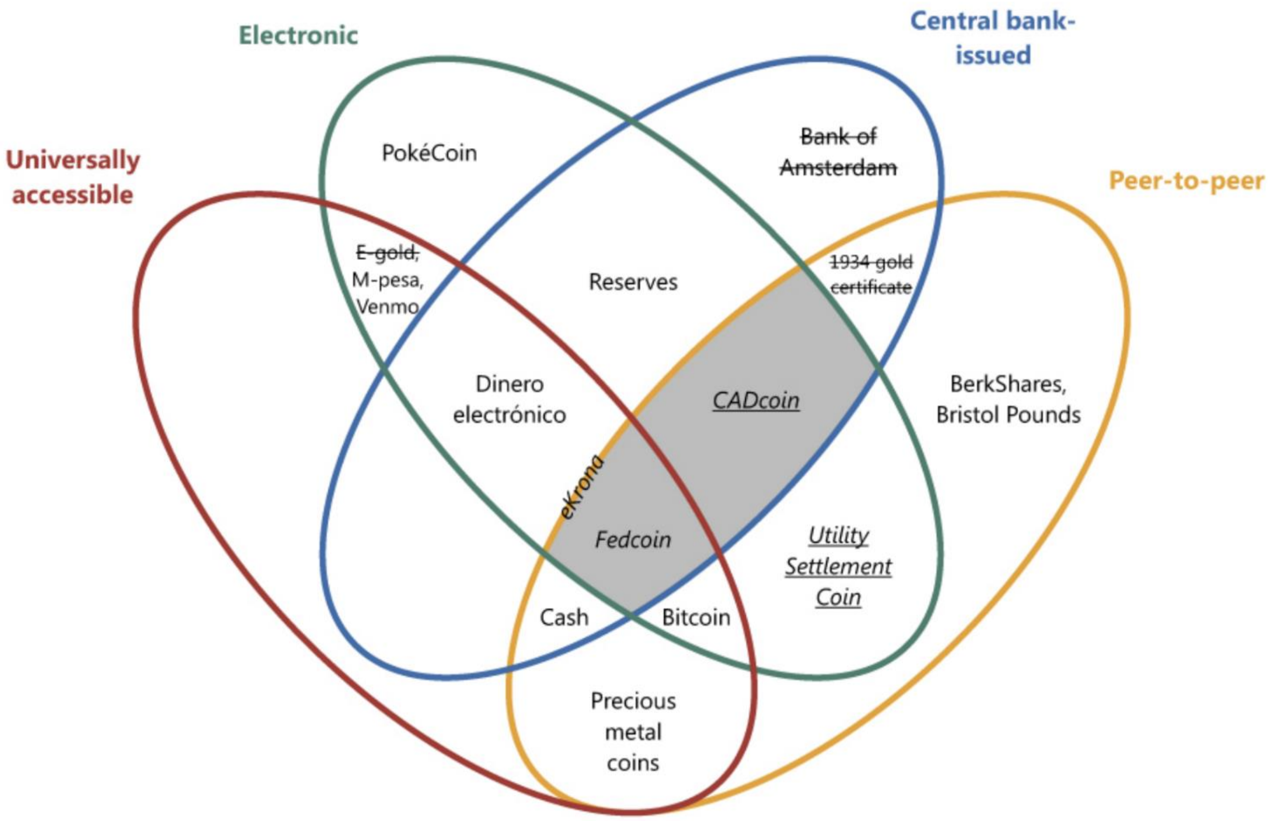
With this, banks can use these wallets as payment methods but will not transact with this reserve at this time. Their customers could receive payments in Bitcoins but can’t send or pay with the Bitcoin from their accounts. Although, Skandianbanken officials say that they evaluate the option to give their account holders this functionality from the legal and technical perspective. Still, this approach ensures that these financial institutions still maintain being the custodians of money.

Secondly, banks can opt to introduce their own cryptocoins. Being on an openly distributed ledger, banks use the Blockchain technology to introduce their own coin that they would offer their customers, either under Bitcoin, Litecoin, Ethereum or whatever digital wallet of their choice that their customers would use. This would streamline the payment mechanisms for institutional purposes ensuring that it is in the same currency. The Utility Settlement Coin commonly abbreviated as USC, a project that was launched by UBS and Clearmatics Technologies back in 2015 is a great example of this approach.

utility settlement coin moneyflower graph

The money flower: example

Graph B



Money Flower – the visualization of the money from the past, present and possibly the future from four different angles and characteristics of the Utility Settlement Coin. A standard front indicates that a system is in operation; an italic font indicates a proposal; an italic and underlined font indicates experimentation; a strikethrough font indicates a defunct or an abandoned project. Credits: BIS

Recently joined by Barclays, Canadian Imperial Bank of Commerce, Credit Suisse, MUFG, HSBC and State Street USC is a digital cash instrument that is asset-backed that was designed to be used by global institutional financial markets. It comes with major currency variants of the Euro, British Pound, US Dollar, Swiss franc etc. where it is convertible upon the corresponding fiat currency upon request. If one wishes to spend their wealth in USC, the expenditure will be paired to its equivalent in the fiat currency.

Improvement of existing banking and payment systems

Faster or real-time payments, ease of sending money, minimal transaction charges, convenient and ideal online portals, convenient mobile wallets, you name it, these are the factors that the digital coins have an upper hand over banks. They, on the other hand, are forced to level up by these factors in order to ensure that it maintains their customers.

“Using blockchain technology–which employs a form of DLT–and an open architecture, Bitcoin allows for the transfer of value (bitcoins) between participants connected to its ecosystem without reliance on banks or other trusted intermediaries.”

Jerome Hayden Powell, member of the Federal Reserve Board for the “Innovation, Technology, and the Payments System” Speech

Customers are always looking for an ease of doing business or transactions and the digital currency world is really attracting them. Banks could opt to reduce their transaction costs while improving the timeliness of their transactions while also cutting charges of transactions but still fail to match up to the digital currencies. The idea behind most digital coins was the elimination of an intermediary, that is the banks, but if banks would achieve reducing these impediments, they have an upper hand of being experienced and known as the money handlers and would stand a better chance too.

HOW BANKS BENEFIT FROM FACILITATING THEMSELVES IN WORKING WITH CRYPTOCURRENCIES?

Definitely, there is a great pool of advantages that the banks will derive by working with the digital currencies. Since the invention of the Bitcoin, it has never been hacked or cracked and if banks would use such a technology in their business model, it would be a real tool of the trade to them.

The list of banks who are exploring the benefits of the blockchain

Banks and financial services players exploring blockchain opportunities.

So what benefits do the banks accrue for adopting the digital currencies in their day to day operations?

Adopting the digital currencies will ensure their longevity in the financial scene. Banks now realize that future is in the digital currencies and that's where they should be.

The adoption and inclusion of the cryptocurrencies reduce the costs of operations as well as minimizing the labor costs the banks incur.

With the numerous cases of insecurity, scheming, laundering that the conventional banks face, the cryptocurrencies will offer a stable and uncracked currency. This guarantees the security of the banks and its investments too.

Banks will get to retain the trust of their customers. Since banks heavily rely on the customers' transactions, having a digital currency that their customers could transact in that would be internationally acknowledged this greatly boosts the trust of the customers in the bank.

Banks get to broaden their market base to an international scale since a wider scope can now access their digital currency and aids in the bank's expansion.

CONCLUSION

Since banks know they have very little control over the cryptocurrencies world and know they can do very little to regulate the cryptocurrencies, central banks are now warning on the risks of using these currencies. This is in order to achieve an upper advantage over their conventional ways of doing business as opposed to the distributed-ledger technology. The inclusion and adoption of cryptocurrencies by banks have been rather slow but some banks are actually actualizing it, and it is still in its baby steps. Banks have as well expressed their confidence in the Blockchain technology with most having prospects of either creating their own currency or adopting existing cryptocurrencies a payment method. The cryptocurrency technology is rather new in the banking scene with most banks still opposed to the concept of the digital currencies so the banks willing to take on this risk should capitalize at the moment rather than when they are out of business.

What do you think about blockchain and cryptocurrencies in regards to central banks? Leave your comments or questions below and our team will be happy to start a conversation.