



Banks and cryptocurrency



Banks are interested in cryptocurrencies as well. We posed some questions to Mariana Gómez de la Villa, Global Program Manager Distributed Ledger Technology at ING Wholesale Banking Innovation AMP in Amsterdam.

Some people expect banks to derive much business value in the future from the use of blockchain-based cryptocurrencies. If so, it would mean tacit approval of cryptocurrencies as a legitimate option of the banks. What is your opinion about this?

'Cryptocurrencies, if anything, are highly interesting and revolutionary, but they also suffer significant problems. In terms of technical problems, cryptocurrencies lack scalability, for example. In addition, the cryptocurrency space has a long way to go in terms of regulation. As a bank, we cannot take the risks accompanied with conducting business in such a highly unregulated space. Lastly, there is a distinct difference between cryptocurrencies and blockchain technology. One does not need the former to make use of the advantages that the latter may bring, ING does not facilitate buying, selling or investing in cryptocurrencies. And for the sake of clarity: ING does not trade in cryptocurrencies for its customer, nor are we trading them ourselves. However, we do recognize the traction and interest in the marketplace, so we closely follow developments and reflect on a possible future role for us in this space, but ING is primarily active in further developing the technology behind cryptocurrency, blockchain, and to use it to give clients more transparency and control.'

Supervision is an important reason that currently cryptocurrencies are not legal digital means of payment. For banks I see an opportunity to play an important role in this. Do you see the idea of integrating a cryptocurrency wallet into online banking as a solution to prevent anonymous transactions? And will there still be room for private individuals to manage their own crypto wallet?

'Even if banks were interested in doing such a thing, it would not necessarily prevent anonymous transactions. There are many cryptocurrencies out there that allow for fully anonymous transactions. Regulating these currencies is hard, if not impossible. And, as I've stated earlier, ING currently does not facilitate buying, selling or investing in cryptocurrencies.'

The international consortium of banks R3 does not so much develop blockchain, but declares new standards for payment transactions. There are already several cryptocurrencies, based on the blockchain technology in circulation. Bitcoin, perhaps the most popular cryptocurrency, is not an initiative of banks. Would you like to see the role of banks differently?

'R3, of which ING is a very active member, primarily develops Corda – a distributed ledger technology platform tailor-made for financial institutions. There are thousands of cryptocurrencies and the vast majority of them, indeed, were not made by banks. However, that is not the reason we prefer distributed ledger technology. The truth of the matter is that cryptocurrencies, as they weren't built for our specific purposes, don't suit our needs. They often lack privacy and confidentiality, means of ascribing liability, scalability, or they suffer other issues. There is no one blockchain based system that is suitable for all purposes – specific use-cases require specific implementations. That's why we develop our own tailor-made solutions, put business validations before technological validations and implement blockchain to a use case. I would not rather see a different role for banks as we are indeed doing what is most effective – looking for the perfect problem fit rather than riding the hype-wave.'

Many blockchain applications have already been identified. For example, a project in which the identity of persons by means of blockchain can be determined is an interesting application. Which applications based on blockchain really make a difference in the banking system?

'ING has been engaged in a lot of DLT initiatives in different areas including digital identity verification, payments, trade finance, syndicated loans, and credit swaps. However some sectors, where transactions depend on efficient communication and collaboration between disparate parties, like trade finance and financial markets, have the potential to benefit greatly from migrating operations onto

distributed ledgers. ING launched several trade commodity finance initiatives itself. Easy Trading Connect (ETC) for example, is a blockchain-powered platform for trade finance, and one of our most mature solutions. ETC was winner of ING's own internal innovation competition in 2016, Innovation Bootcamp, and went to market half a year later already.

Just last month, ETC ran its second real live trade; an agricultural commodity trade which included a full set of digitalized documents (sales contract, letter of credit, certificates) and automatic data-matching. Time spent on processing paper documents and data was reduced fivefold and the opportunities for documentary fraud were eradicated.

A recent example of how blockchain can create tangible business value in financial markets is in the area of collateral lending. In a groundbreaking transaction last month (February 2018), ING and Credit Suisse carried out the first-ever live securities trade on Corda using HQLAx digital collateral records, involving high quality liquid assets. This concept of assets being tokenized, and therefore digitized and traded, is also applicable in other assets classes and potentially this can also revolutionize other parts of the capital markets. ING's blockchain/DLT team developed the technology behind the HQLAx collateral lending platform, demonstrating how the bank partners with others to innovate faster.

Another exciting use case for distributed ledger technology is indeed its use in digital identity management. Using DLT, ING is currently building a self-sovereign identity on a shared KYC utility, which will simulate the identity instantiation process of both a legal entity and natural person, enrichment of the identity with KYC data and identity attestations by third-parties. In addition, it will demonstrate the process of identity verification by banks and fulfil their basic KYC requirements of new customer onboarding.' ■

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Deelnemen aan de Johan de Witt prijs 2018?

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