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Blockchain for Banks

Debunking Myths

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"Blockchain will do to the financial system what the internet did to media."
Harvard Business Review

BLOCKCHAIN FOR BANKS

Debunking Myths

Winston Churchill once stated that the history of technology was just “one damned thing after another.” With due respect to Churchill, I believe that the more accurate description might be “one damned improvement after another,” which is a testament to society’s sisyphian pursuit of a perfect world.

In “Technological Revolutions and Financial Capital: The Dynamics of Bubbles and Golden Ages” by Carlota Pérez, the author finds that the history of technological advancements is rather predictable, and almost mundane. Every 50 or 60 years, a transformational technology appears. The introduction of this transformational technology leads to a disruption to the status quo as early investors speculate on the new technology and incumbent players attempt to defend themselves. As more capital is poured into the new technology with investors seeking outsized returns, a bubble forms. Meanwhile, regulators scramble to create legal infrastructure that reflects the adoption and integration of the new technology. In due course, the bubble bursts and those who remain standing are those who put resources towards adapting rather than towards clinging to the past.

The invention of blockchain and bitcoin is arguably the biggest technological innovation of our generation. However, unlike previous innovations such as railways of the 1800s, or even the world wide web of the 1980s, blockchain and cryptocurrencies are not as

easily accessible to the public, and require a

much higher barrier to entry in terms of education and understanding even for sophisticated investors. Thus, despite having been introduced in 2009, blockchain and bitcoin are still relatively poorly understood among the masses. The gap in understanding between the experts and the masses has made blockchain and crypto effective tools for fraudulent activity aimed at exploiting the vulnerable — between October 2020 and April 2021, Americans lost \$80 million cryptocurrency scams¹. Lack of understanding paired with exploitation of the vulnerable have made blockchain and cryptocurrency objects of intense scrutiny and skepticism among established organizations and governments.

The sooner we can build a high level of understanding among established financial organizations regarding blockchain and cryptocurrency, the sooner those entities can leverage technology to benefit society as a whole and improve their own business models. With that aim in mind, we seek to debunk common myths regarding blockchain and cryptocurrency, and to shed light on how established financial institutions can embrace the latest financial technology in order to create sustainable businesses that will thrive in the decades to come.

1 Federal Trade Commission (FTC)

BLOCKCHAIN MYTHS

Myth #1: Using blockchain means using bitcoin.

Because blockchain was launched at the same time as bitcoin, many people believe that the adoption of blockchain technology means exposing themselves to the risk and volatility of bitcoin as well. However, blockchain technology is simply a distributed ledger system. It is the infrastructure through which cryptocurrencies may be transferred. Bitcoin is just one of many assets that can be transferred via blockchain technology. The transfer of cryptocurrencies is one of many applications of blockchain technology.

Myth #2: Blockchains are public, which means they are vulnerable to being manipulated by many potential hackers.

This myth is an understandable one, and the “public” nature of blockchain is somewhat counterintuitive.

Blockchain is not like the world wide web, where the increasing public nature and access leads to an increasing amount of vulnerability and an increasing amount of false information. It is quite the opposite. The way blockchain technology uses the “public” is to ensure that records are immutable and less vulnerable to bad players.

Imagine you are at a 100 person party. Everyone at the party is going to play a game, and the rules of the game are known by all 100 people at the party. If one person cheats, they will get called out because everyone at the party knows the rules of the game. Now imagine you are at a 100 party where only 5 people know the rules of the game. If one person cheats, the likelihood that

they will get called out for cheating drastically decreases because fewer people even know the rules of the game.

Blockchain leverages a similar concept — because the ledger is public, the larger the blockchain, the less likely its algorithm is to be hacked and its records made vulnerable. With blockchain, the larger and more public, the safer its algorithms and transactions.

Myth #3: Since transactions are anonymous on blockchain, the proliferation of blockchain technology will lead to increased pernicious, criminal activity.

This myth stems from the conflation of blockchain and cryptocurrencies. Although blockchain and cryptocurrencies work well together, blockchain can also act as the rails by which individuals make traditional fiat payments to their friends or to their favorite coffeeshop.

When used as payment rails without cryptocurrency, blockchain payments can be very robustly traced to individual users as long as the entities using blockchain to make and receive payments participate in regulatory measures such as KYC (Know Your Customer) and KYB (Know Your Business).

At Roxe, any users who leverage our blockchain must go through KYC and KYB. Thus, we are able to track all transactions to specific users. Roxe also abides by SEC and OFAC regulations to ensure that all of our users are providing payments for legal activity only.

ECS Fin, our partner, helps banks mitigate the barriers

of currency, time, and geography so that financial value can move more reliably and much faster at much lower costs anywhere in the world while screening all the payments as per the regulations.

Myth #4: Banks are not interested in blockchain technology.

In 2018, Deloitte conducted a survey in which 95% of respondents across 1,000 banks stated they would make some investment into blockchain technology. Today, we can see that this has turned out to be true. Standard Chartered has invested \$380 million across 6 blockchain company investments. Citibank has spent \$279 million across 14 investments. JP Morgan Chase has spent \$206 million across 8 investments, and the list goes on.

Regarding blockchain, Goldman Sachs states, "It combines the openness of the internet with the security of cryptography to give everyone a faster, safer way to verify key information and establish trust."

Myth #5: In order to adopt blockchain technology, our entire financial infrastructure would have to be rebuilt and that is just not feasible.

Leveraging blockchain can seem like a significant undertaking for a bank. However, all banks already have tools and platforms in place that are designed to send and receive funds. Many of these tools and platforms, such as ECS Fin's Payment Hub, can simply connect to APIs offered by blockchain companies such as Roxel, in order to allow their bank customers to leverage blockchain rails. The bulk of the work often lies with software providers to banks as well as the blockchain companies themselves.

"Without change there is no innovation, creativity, or incentive for improvement. Those who initiate change will have a better opportunity to manage the change that is inevitable."
— William Pollard

THE BENEFITS OF BLOCKCHAIN

Adopting technology for technology's sake is not always prudent. The infamous example of Google Glass comes to mind where a much-hyped product failed because it added no real value for its users. It solved no real pain points for users because taking pictures and accessing the internet were already easily available via smart phones. Nobody was clamoring for new technology that would solve the problem of not being able to wear your smartphone on your face.

However, with blockchain technology, banks have the opportunity to deliver real value to its customers.

Benefit #1: Blockchain reduces the potential for fraud.

Aite Group's fraud and anti-money laundering practice estimated that at the end of 2020, the U.S. was seeing about \$11 billion worth of losses due to credit card fraud. Credit card fraud has been exacerbated during the pandemic and we anticipate that the trend will continue as unemployment remains high. How can blockchain technology mitigate fraud?

Blockchain can serve as an intermediary between sellers and buyers, allowing banks to detect fraudulent activity before a fraudulent transaction is completed.

For example, let's say your credit card number is stolen today and a fraudster orders \$1,000 worth of concert tickets on Stubhub. The fraudster receives his tickets from Stubhub and goes to a concert with his friends. Stubhub receives money from your credit card company. Both buyer and seller have completed the transaction. The credit card thinks that the transaction was completed by you. When you review your credit card statement a few weeks later, you notice the fraudulent transaction and report it to your credit card company.

The credit card company returns the funds to you and eats the cost themselves. You, as the credit card holder, are made whole, but the damage to the credit card company has been done, and the concert was already attended by the fraudster and his friends.

With blockchain, funds do not get deployed and goods and services do not get deployed unless all parties agree upon and approve the transaction. Furthermore, rather than credit being tied to a series of random numbers printed on a piece of plastic, credit can be tied to a person's actual identity on the blockchain. Without every piece of matching information about a specific person, fraudsters would not be able to access that person's line of credit.

Benefit #2: Blockchain makes remittances faster and more affordable via wholesale FX rates and the elimination of intermediaries

Remittances are the lifeline for many developing countries and international families. In 2019, the World Bank stated that remittances from high income to low and middle income countries had grown to \$529 billion in a year. Despite being a lifeline for some of the world's poorest, most vulnerable communities, banks charge some of their highest fees to remittance customers. The World Bank found that banks were charging an average of 11% to complete an international payment.

The reason the cost is so high is because there are several intermediaries that must get involved in a traditional cross-border transaction, and there are multiple tax systems and exchange rates that must be taken into account.

With blockchain, cross-border payments can happen

almost instantaneously which eliminates the cost of exchange rate fluctuations. Banks in the Roxel network are able to access the best wholesale, midpoint FX rates. The need for intermediaries also disappears since the transaction is recorded on an immutable distributed ledger rather than through a series of checkpoints and verification systems.

Benefit #3: Blockchain increases transparency of transaction records and makes them more accessible to customers.

One of the key benefits of blockchain is transparency between all parties involved in transactions. Although this benefit is mostly referenced when discussing the minimization of fraud, there is also a cost benefit to increasing transparency between banks and their customers.

Banks expend an exorbitant amount of time and human capital on answering customer questions simply because they have access to certain information regarding that customer while the customer himself does not. In an era where Google processes over 60,000 search queries per second and information has become instantly accessible, this imbalance seems completely anachronistic.

In March 2021, Oliver Wyman reported that with a new Banking-as-a-Service (“BaaS”) model, financial services providers can save up to 95 percent of a typical customer acquisition cost, from a range of \$100 to \$200 to between \$5 to \$35. Additionally, Oliver Wyman stated that digital challenger banks are now running at a fraction of the cost of incumbents. Blockchain goes a step further in this evolution and provides an ecosystem of true information transparency between bank and customer.

*“Blockchain is the tech.
Bitcoin is merely the first
mainstream manifestation
of its potential.”*

— Marc Kenigsberg

THE FUTURE FOR BANKS



We believe that blockchain technology can greatly improve our financial infrastructure and empower financial institutions to better serve their clients.

As banks continue to leverage blockchain to reduce costs and improve customer service, we hope to see the following developments in the industry:

- Banks will be able to reduce the cost for remittances from an average of 11% to 2-3%.
- Banks will start rolling out programs that will leverage blockchain technology to tie lines of credit to individuals rather than to account numbers. This will be the foundation towards creating digital identities for their customers on blockchain.
- Banks will be able to reduce their fraud prevention operations costs by at least 50%.
- Identity theft or fraudulent transactions will become much less prevalent.
- Those in the financial industry who focus on creating real value will be rewarded as those who attempt to profit from financial engineering will be quickly exposed.

ABOUT ROXE

At Roxe, we are redefining currency to create a world that is more equitable for everyone.

We believe that blockchain technology and decentralized finance have the ability to create equality of assets, which will lead to equality for people.

With the Roxe Instant Settlement Network (RISN), banks have the ability to plug into an API and gain access to instant cross-border payments at wholesale FX rates. Roxe also connects all banks and nodes within the network so that all entities may collaborate with and leverage one another to create a unified, global banking system that puts customers first.

Visit
www.roxe.io

ABOUT ECS FIN

ECS Fin's vision is to elevate financial companies and corporates from existing levels of operational efficiency and equip them with self-sustainability solutions.

As today's remittance and international payment systems are too unreliable, slow, and expensive, ECS Fin creates financial value for every transaction while abiding by SEC and OFAC regulations.

With IMS Payments, banks support every kind of component and connectivity, bringing efficiency and lean processing while ensuring accountability to every message/transaction of an enterprise.

At ECS Fin, we are putting resources to adapt to this blockchain era rather than clinging to conventional strategies.

Sponsoring or organizing blockchain hackathons is just one way we are helping banks to leverage new technological advancements. We believe in providing the world-class ecosystem required for the operationalization of a viable solution.

Visit
www.ecsfin.com