

Blockchain tech needs regulation: MonetaGo

New tech has been found useful in trade finance, issue of LCs, KYC and foreign remittances

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Bitcoin

technology that was invented for Bitcoin, the digital currency, has found more takers elsewhere, especially in finance, collateral management and even the capital market.

With the 'blockchain' technology (BCT) finding more takers, "all those connected, like user companies, cryptography and software service providers, hardware providers, etc, should be regulated", says Jesse Chenard, chief executive of MonetaGo, among the very few global blockchain solution providers.

In an interview to this newspaper, Chenard, who was in India last week, said his company had a consultation with the Institute for Development and Research in Banking Technology (IDRBT), set up by the Reserve Bank of India (RBI) to find a proof-of-concept on the applicability of BCT to a trade finance application, with active participation of the National Payments Corporation of India, banks and solution providers.

For crypto or digital currencies such as Bitcoin, the BCT is used as a 'public ledger', to track every unit of the currency from the stage of mining to ultimate sale. Of late, the technology has been tested for many more usages in the financial sector and gained popularity. Several central banks, including RBI, have recognised it. IDRBT had launched a project to test BCT applicability to the Indian banking and financial sector. It had formed a working group, with experts from various entities as members.

While banks will be implementing agencies whenever the application of blockchain is used commercially, software and technology companies, hardware providers and consultants come from various segments. Chenard proposes registering these and preparing of regulations in this regard. He said use of this technology, which Harvard Business Review has acknowledged as foundational and not disruptive, could even be for managing the Know Your Customer (KYC) system, where all records of an individual or an entity's could be maintained on blockchain. The user, be it a capital market or banking entity, can access these, and the records can be stored without any tampering.

Chenard added: "The technology is also useful in the capital market and brings advantages in the clearing and settlement processes – reducing or eliminating trade errors, streamlining back-office functions, and shortening of settlement times. The Australian Securities Exchange has been working on a blockchain-based test-bed to be a potential replacement for its Clearing House Electronic Sub-register System."

Other areas where this technology could be useful included trade finance, where the usage enables automation of Letter of Credit creation (at least in big cases, where all large participants and customs houses are part of the chain), development of real-time tools for enforcing anti-money laundering and customs activities, and associated cost savings.

At least one commodity bourse, the National Commodity and Derivatives Exchange, has a plan to use BCT, for the repository it is setting up. The exchange has started giving RFID tags to all bags stored in warehouses it has recognised, to track movement. The later plan is to use BCT for issue of negotiable warehouse receipts.

Use by banks to promote cashless transactions is another possibility.