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Why Richard Branson loves blockchain

The big message is that blockchain promises to be a very fundamental and disruptive technology

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Photo: Bloomberg

It was early this month that Virgin Group founder Richard Branson hosted the second annual Blockchain Summit at Necker Island, his idyllic atoll. One thing we do know about Branson is that if he is so deep into something, that has to be revolutionary, game-changing and, well, sexy.

Blockchain certainly promises to be the first and the second, and is rapidly climbing the charts to become the third too. Vaguely known for long as the "technology behind bitcoin", blockchain is rapidly coming into its own.

Marc Andreessen, co-founder of Netscape and Mosaic (the first widely-used Web browser) and venture capital firm Andreessen Horowitz, says, "Blockchain today feels like what the Internet did in 1993." Steve Wozniak, co-founder of Apple Computer (now Apple Inc.), recently joined a blockchain start-up. Larry Summers, president emeritus at Harvard University, has gone as far as an economist can go and said that it is "overwhelmingly likely" that "blockchain will change finance forever", and has gone ahead to put money where his mouth is and funded several blockchain start-ups. Larry is right.

While blockchain promises to disrupt several industries— supply chain, legal, identity and ownership, luxury, music and content, government applications—it is finance that it will impact the most.

Blockchain is a simple idea, yet it can be complex to understand. It is a universal ledger that maintains records and manages transactions through a distributed database of computers. There is no central authority (like a bank), and blockchain uses an algorithmic consensus among the network to approve entries or transactions or "blocks", which keep getting added to this "chain" of computer code. Transactions are kept secure by fairly advanced cryptography, and the consensus method of transaction approval makes the system almost impossible to hack.

A bank is not in the transactions business, or the money business, but actually in the "trust" business. The global monetary and transaction systems work because we trust banks to authenticate them, and that is why banks exist. However, these financial institutions also serve as a series of black-box intermediaries in a transaction, thus adding enormous friction and cost. Each intermediary takes its own sliver of the transaction, and takes time to approve and authenticate. It is because of this that a $100 remittance through SWIFT or Western Union (both intermediaries) takes days and an inordinate amount of paperwork to happen. And, when it does, the beneficiary gets a few dollars less, since they have been eaten up in the middle. This is why most trades get executed instantly, but get settled three days after the execution.

Blockchain threatens to upend the financial services industry, by disintermediating it and removing the need for a central authority. It has four clear differentiators: It is distributed rather than centralized; it is immutable; it is digitized; and it is near real-time. These four properties lend themselves to several benefits. Since the currencies associated with bitcoin are not linked to a country or central authority, there is reduced risk of inflation or currency collapse. The speed of settlement increases considerably, since there is no verification friction by a central authority. The currency is digitized, which gives great operational efficiencies and reduces back-office costs considerably. Duplication, deletion or reversibility of transactions become virtually impossible. Risks of fraud and security breaches become very low.

There is near-real time reconciliation and the transaction costs are very minuscule, thereby favouring micro-transactions. In the remittance example, $100 can be converted to bitcoin (or any other digital cryptocurrency) in the US, it flows to the Philippines instantly as bitcoin into the recipient's bitcoin wallet on her phone, and then be converted back to pesos. The beneficiary pays a minuscule amount for the service and gets money instantly from her son in the US.

While oversimplified, this exemplifies what blockchain can do (bitcoin, again to simplify, is the largest blockchain in existence today).

Blockchain can greatly simplify stock exchanges—imagine all stocks and trades being on one secure, universal ledger. Trade finance is another example, with its complex documentation, transfers and settlements being reduced greatly by blockchain. Micro P2P (peer-to-peer) transactions are suddenly worthwhile to do, and this can have massive social impact for the "unbanked" in developing countries.

There are several other massive use-cases at the boundaries where blockchain intersects with Aadhaar, or artificial intelligence, or the Internet of Things. The big message, however, is that blockchain promises to be a very fundamental and disruptive technology, especially for the biggest and sexiest business of them all: the business of money. No wonder, Branson has taken time off from lifting pretty flight attendants, riding elephants and jumping off hot-air balloons to flirt with the blockchain technology.

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