Cost of Trust in the Financial Industry

Time is money

Let’s take a look at another example.

Let’s say you need to send $100 to a friend in the UAE.

You contact your bank, and they debit that amount from your account. Your bank is regulated by the state bank (the central authority) which is why you trust your bank to send it as promised.

Now, there are multiple ways in which a cross country transfer is processed by banks. Lets look at the most basic one.

Your bank updates its records and sends it to the central bank. The central bank updates its record and sends it to the UAE central bank, which sends it through the central bank of that country. They again update their record and send it to your friends bank. Your bank in the UAE then credits his account. It takes days but eventually your friends can access that money.

And this is just the process for ‘record’ updating, where your account is debited and your friends’ is credited. The central authorities of both countries update their records to keep track of how much money must be moved from one end to the other. The actual movement of money might happen later in a different form, carrying its own long process of record updating and trust development.

In this process, multiple employees from all these banks are involved for safe updating of records. Because the stakes are so high, things are done safely to ensure trust is developed. At the same time, the $100 you paid will incur some processing fee deductions at all stops along the way. The trust you put in the current financial system is paid through your time and money. This is where bitcoin comes is as an alternative to this system! In this new system, both you and your friend have a bitcoin address. All you need to do is transfer the

money to your friend's address. No fee, no delay, no middle parties, no cost buying 'trust', as the system is trusworthy be design. . We will see in a later chapter with technical detail how bitcoin achieves this. In the next lesson, we will again discuss how current systems struggle with trustworthiness but this time, we will be using a supply chain example.

Test Yourself

Q Owing to which design feature is bitcoin able to avoid huge transfer fees?

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