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Banking & Finance: Wall Street Firms Turn to Blockchain --- Goldman, JPMorgan are processing some trades using the crypto technology

By Paul Vigna
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Wall Street's biggest banks have largely avoided investing directly in cryptocurrencies. But many are quietly working to integrate blockchain, the technology behind crypto, into trading and other businesses.

Goldman Sachs Group Inc. is trading some bonds and other debt securities for clients on blockchain-based networks such as Ethereum, and the bank is building its own blockchain-based trading platform. JPMorgan Chase & Co. has a platform in place, called Onyx.

Big Wall Street firms help make the economy run, connecting buyers and sellers of securities and lending money to businesses. But their sophisticated trades are often run on creaky old systems. Goldman and others hope they will be able to run faster, less-costly and ultimately more-profitable systems based on blockchains.

The blockchain, sometimes called distributed ledger technology, is the plumbing that keeps crypto markets running. It is basically a software program that uses an open record-keeping system -- a central ledger -- to track assets and record transactions and information about ownership of those assets. Every participant operates off the same central ledger.

Blockchain-driven systems on Wall Street would be different in some respects from the systems behind bitcoin and other cryptocurrencies. They would be permissioned networks, meaning a central party -- such as a bank or a consortium of banks -- would decide who is allowed on.

Outside of banking, Walmart Inc. used blockchain for tracking its supply chains. In real estate, some title companies used it for recording homeownership.

Goldman and others say that using blockchain in trading platforms should lower the risk associated with trading partners. Backers say it could make it easier for issuers to track who owns their shares or other assets.

"Blockchain technology is going to rewire all financial services," said Tom Farley, the former president of the New York Stock Exchange.

That said, Wall Street firms have been experimenting with blockchain projects for at least the past five years. Despite much hype, few have had a widespread impact on how financial transactions take place.

Others have thrown in the towel. A group of European insurance companies formed a consortium called B3i in 2016 to explore blockchain uses in their industry. In July, the consortium shut down after failing to raise new capital.

Regulatory issues could be a challenge, especially for multinational banks dealing with a host of overseers. Rules about risk management, custody and collateral are being developed in the U.S. and overseas. For instance, the international Basel Committee on Banking Supervision is developing a set of regulations that could require banks to set aside capital against what it called unforeseen risks arising from blockchain networks.

Challenges aside, few banks want to run the risk of being left out of a potential new technology. The biggest are engaged in an arms race to build competing platforms.

At Goldman, Mathew McDermott runs the digital-asset group, which has about 70 full-time staffers specializing in areas such as engineering, compliance and legal and government affairs. Mr. McDermott said he was a skeptic when he first heard of the blockchain, but no more. The same is true of many top Wall Street bankers, who initially scoffed at the idea that bitcoin or other cryptocurrencies were more than a fad.

"I'm not doing this just to satisfy my curiosity," said Mr. McDermott, who has worked at Goldman for 16 years and led the group since 2020. "Everything has a commercial driver."

Goldman declined to disclose financial information about the group, including how much the bank has invested in it or whether it has turned a profit. The firm expects the **blockchain**-based trading platform it is building to serve itself and its clients, but also possibly be used by other banks as well.

Some rivals are also planning for wider platforms. JPMorgan's Onyx platform, launched in 2020, can be used by other banks. Goldman, BNP Paribas and others have been using it to trade repos, or repurchase agreements. JPMorgan said Onyx has processed more than $350 billion of repo transactions.

"They're doing real trades," said Yuval Rooz, the chief executive of Digital Asset, which writes **blockchain** software and counts Goldman and the Australian Stock Exchange among its clients. Still, he said, competition is tight.

Last year, Goldman arranged a $100 million, two-year bond issue for the European Investment Bank that was registered in France and handled on the Ethereum network.

Normally, a bond sale like that would settle in five days. Mr. McDermott said it settled in just an hour.

What that means in practice is that money that might otherwise be tied up for days between counterparties will be freed up.

It means there is far less time to worry about counterparty risk, the odds that one party or the other to a trade won't hold up its end of the transaction.

The bank has more clients for such digital bonds, Mr. McDermott said, and expects to complete more sales.

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JPMorgan Starts To Build Travel Business

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JPMorgan Chase & Co. is assembling the pieces to launch a full-service travel business where customers can plan and book trips ranging from a domestic flight to an extravagant safari.

The nation's largest bank bought a booking system, a restaurant-review company and a luxury travel agent. It is building its own airport lounges and a force of thousands of travel agents. A website will launch in the coming months.

Travel has become one of the most important spending categories for banks and credit-card issuers, and JPMorgan wants a bigger piece of it. The bank hopes to turn those traveling customers into lifelong fans, drawing in more of their spending and other financial needs.

JPMorgan already plays a small role in the travel world. Its own credit cards, like the Sapphire Reserve, let customers build up travel rewards and cash them in through the bank's Ultimate Rewards booking website. JPMorgan estimates that its customers account for $1 of every $3 spent on leisure travel in the U.S., though those customers book only a tiny amount on the Ultimate Rewards website.

With the new offerings, JPMorgan executives said the bank could capture $15 billion in bookings in 2025, five times what it handled before the recent buildup. That would make it the third-biggest travel agent in the U.S., based on 2021 volumes, according to industry publication Travel Weekly. That is still far smaller than the parent companies of booking.com and Expedia, which each manage more than $70 billion.

The idea is for JPMorgan to control the entire shopping and buying experience for a purchase customers are passionate about. Automobiles and homes might be next, executives said.

"These are huge circles of customer spend where we have a real opportunity to differentiate what it means to use Chase products," said Allison Beer, the head of cards and what the bank is calling connected commerce.

The plan has risks. Travel-rewards giveaways have proved expensive for JPMorgan and other banks, and they haven't always led to the lasting relationships the banks hoped for. JPMorgan also has important corporate partnerships with airlines and hotels that expect the bank to send customers their way. Some of those partners have already complained about the success of Sapphire taking away customers from their cards.

JPMorgan isn't alone in trying to cross into travel bookings. American Express Co. is the sixth-biggest travel agent. Capital One Financial Corp. last year invested in a booking company to build its own travel site and opened its first airport lounge.

JPMorgan said it believes it can differentiate itself partly because of its detailed insight into what its customers spend. Its data will power both travel agents and artificial-intelligence **technology** that can target customers with offers and ideas.

"The issuers have learned that nothing drives spending like travel rewards," said Samuel Engel, senior vice president of aviation at consultant ICF International. "American consumers will stop at nothing to earn those magical points."

Travel has been at the center of JPMorgan's card offerings since it launched the Sapphire Preferred, in 2009, allowing users to build up travel dollars not tied to a single airline or hotel.

A flashier premium version in 2016, the Sapphire Reserve, became a hit, especially with young millennial spenders. The bank got a taste of being a travel agent, managing booking systems and purchasing trips on behalf of customers.

Executives saw room for improvement. They thought existing booking systems made it hard to redeem rewards, which they feared would cost them customers.

When the pandemic struck in early 2020 and travel ground to a halt, JPMorgan spied an opportunity for acquisitions. Discussions to switch its booking systems to cxLoyalty turned into buying the whole company in December 2020.

In 2021, with travel spending ticking back up, the bank announced it would launch Chase Sapphire airport lounges. Its partner, the owner of The Club lounge chain, is constructing nine lounges in cities, including Boston, Hong Kong and Phoenix, each with local designs and food.

In September last year, JPMorgan announced it was buying The Infatuation, a restaurant review site that includes the Zagat brand. Chase wanted to give customers better advice on where to spend rewards. The business had significant customer overlap with Sapphire, said Chris Stang, Infatuation's co-founder and chief exexecutive.

It is starting to review hotels and compile complete city guides.

JPMorgan this year added luxury travel shop Frosch International Travel, with more than 1,000 agents. Now, the bank is building the website for Chase travel, which will open for credit-card customers by year-end and all bank customers in 2023, executives said.

The bank hasn't disclosed how much it paid for any of the acquisitions.

It signaled that the new travel business could eventually book an annual $750 million in profit, compared with the $48 billion it made last year.

JPMorgan executives say they want to dominate on extravagant itineraries, helping customers book spas, dinners and experiences.

"More people are interested in being inspired right now, saying, 'I want to have one of those social-media-type moments so tell me where to go,'" said said Jason Wynn, the head of the new travel unit.

The bank is already seeing early signs of that luxury demand. The average price Chase customers are paying for hotels is more than double the industry average, the bank said.

One customer recently booked a seven-night stay in Maui for more than $48,000.

The bank also offers **buy**- **now**, **pay**-**later** installment plans on travel and executives said they want to book for less-wealthy customers too.

"You have a whole range of customers who are looking for these wonderful experiences some of the time," Ms. Beer said, "but they aren't going to splurge all of the time."

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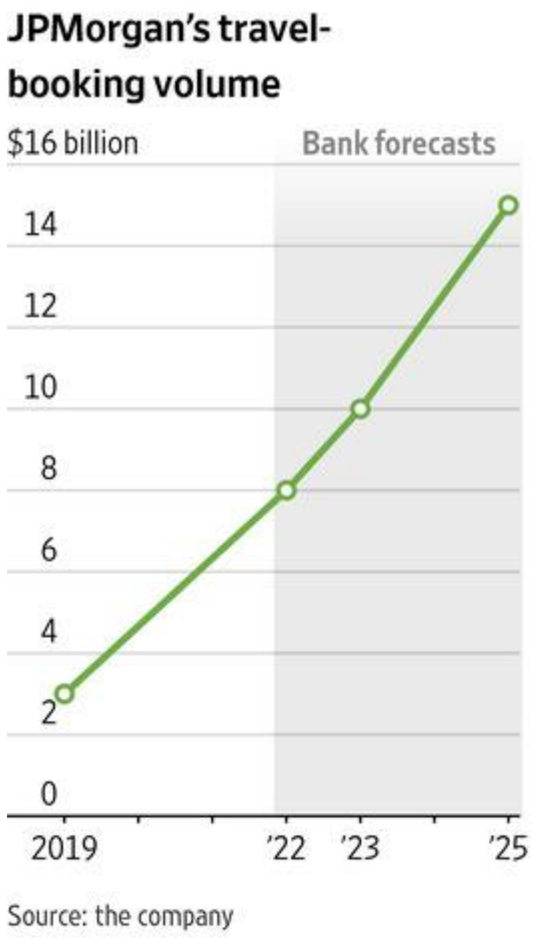

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