How blockchain is revolutionising cross-border payments

Reportedly, blockchain technology is proving a panacea for cross-border payment systems

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The advent of blockchain has revolutionized how people conduct businesses and make payments. The technology explicitly proves beneficial in processing cross-border payments with greater efficiency, speed, and security. According to research by PYMNTS, 37% of businesses already use blockchain and cryptocurrencies for cross-border payments, while 13% expressed their readiness to use the technology for similar purposes. Here is a closer view on how blockchain technology is revolutionizing cross-border payments and its potential benefits.

What is Blockchain Technology?

Blockchain technology is a distributed ledger system that uses cryptography to store data securely in a decentralized manner. It enables users to securely transfer digital assets from one party to another without the need for intermediaries or third parties. The data stored on the blockchain is immutable, which means it cannot be changed or altered once it has been recorded on the ledger. This makes it an ideal platform for making secure cross-border payments.

Benefits of Using Blockchain for Cross-Border Payments

Blockchain technology and cryptocurrencies have emerged as transformative tools in the realm of cross-border payments. They offer a range of benefits that address the longstanding pain points of high costs, slow processing times, and high operational complexities associated with traditional cross-border transactions. Additionally, these technologies ensure the ideal integration of policy, regulatory compliance, and privacy mechanisms for delivering superior experiences to end users. By leveraging blockchain and cryptocurrencies, financial institutions and businesses can unlock enhanced efficiency, transparency, and security in cross-border payment processes. Here are the key benefits of blockchain and cryptocurrencies for cross-border payments:

1. Cost Reduction: Blockchain-based cross-border payments eliminate the need for intermediaries and associated fees, thereby resulting in significant cost savings for businesses and individuals.

2. Increased Speed: By leveraging decentralized networks, cross-border payments using blockchain technology can be executed and settled in real-time or near real-time, drastically reducing transaction times.

3. Enhanced Transparency: The transparency of blockchain allows for improved visibility and traceability of cross-border transactions, reducing the risk of fraud and enhancing trust between parties.

4. Improved Security: Cryptographic encryption and consensus mechanisms inherent in blockchain technology provide robust security for cross-border payments, thereby minimizing the risk of unauthorized access or tampering.

5. Simplified Compliance: Blockchain enables the integration of policy and regulatory compliance measures, such as Know Your Customer (KYC) and Anti-Money Laundering (AML) requirements, helping streamline the compliance process.

6. Greater Financial Inclusion: Cryptocurrencies and blockchain-based cross-border payments have the potential to provide access to financial services for unbanked and underbanked populations, thereby fostering greater financial inclusion.

Blockchain for Cross-Border Payments: Real-world Cases

Organizations globally aim to revolutionize international payments by harnessing the power of blockchain technology and central bank digital currencies (CBDCs). There are several use cases that showcase how institutions are using the open ledger to make cross-border payments efficient, cost-effective, and secure. The Bank of China (Hong Kong) has demonstrated the effectiveness of the mBridge platform, a blockchain-based project allowing digital trade across borders. On the other hand, DBS Bank, based out of Hong Kong, is using blockchain to settle cross-border insurance payouts across the Greater Bay Area faster and more efficiently. Goldman Sachs (Asia) LLC uses blockchain to execute atomic settlements across borders. At the same time, HSBC leverages the open ledger for settling commercial transactions, programmable trade finance, and wealth connect settlement across different territories. Further, Hong Kong Exchanges and Clearing Limited (HKEX) is extending the facility of CBDCs for FX products.

Potential Challenges with Blockchain Technology

Despite its many advantages, there are some potential challenges associated with operationalizing blockchain technology for cross-border payments:

1. Regulatory uncertainty: Due to blockchain’s decentralized nature and lack of oversight, many regulatory uncertainties still need a thorough redressal from regulatory agencies and statutory organizations. Researching local laws is crucial to ensure compliance and must be reviewed comprehensively by banks and financial institutions aspiring to use the open ledger for processing transactions.

2. Scalability Issue: While blockchain offers improved scalability, there are limitations in terms of its limited throughput capacity, which might result in delays during high transaction volumes.

3. Lack of user adoption: It has been seen that users are hesitatant to adopt blockchain for cross-border payments due to complexity and unfamiliarity. preading awareness about the technology and distinguishing it from traditional payment methods is required.

Conclusion

To sum it up, though there are certain challenges with using blockchain technology for cross-border payments, its potential benefits far outweigh these drawbacks. With continued development, this revolutionary technology could soon become an integral part of global commerce, providing businesses with increased efficiency, speed, security, and cost savings when making international payments.