**How blockchain is transforming fund servicing**

*It’s believed that using smart contracts has also increased the security and effectiveness of fund servicing*

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Blockchain [technology](https://www.financialexpress.com/life/technology/) has disrupted several industries, and the financial sector is one of the most impacted. Due to the adoption of blockchain technology, fund servicing in particular has seen substantial changes. It involves managing collective investment schemes like hedge funds, ETFs, and mutual funds. Moreover, It entails a number of crucial tasks, including fund administration, fund accounting, and transfer agency. Furthermore, inefficiencies, a lack of transparency, and security issues have plagued traditional methods of fund servicing. Thus, by developing a decentralized, tamper-proof, and transparent ledger that keeps track of all transactions, blockchain technology has addressed these concerns. Also, using smart contracts, which are self-executing contracts with the terms of the agreement directly put into code, has also increased the security and effectiveness of fund servicing.

**Role of Blockchain Servicing**

The implementation of blockchain technology has brought about several benefits to funds servicing, including transparency, security, and efficiency, among others. Here’s how-

**Increased Transparency**

A decentralized, tamper-proof ledger that keeps track of all transactions can be created using blockchain technology. All parties involved, including investors, fund managers, and regulators, can now simultaneously access the same information. As a result, fund servicing is now more transparent, which investors had previously expressed serious concerns about.

**Enhanced Security**

Fund servicing has always been exposed to cyber threats such as hacking, phishing, and identity theft. However, by generating a decentralized, tamper-proof ledger that is resilient to hackers and other online threats, blockchain technology enhances security. In addition, the security of fund servicing has also been enhanced by the use of smart contracts, which are self-executing contracts with the conditions of the agreement put directly into code.

**Improved Efficiency**

Some essential tasks that are part of fund servicing demand a tonne of paperwork and drawn-out procedures. Thus, by automating various operations, the adoption of blockchain technology has increased the effectiveness of fund servicing. For instance, smart contracts can conduct transactions automatically, eliminating the need for middlemen like transfer agents.

**Reduced Costs**

For financial organizations, using blockchain technology can also help cut costs. It can assist in lowering operating expenses, for instance, by automating procedures and doing away with the need for paper-based records. Furthermore, smart contract is an additional cost-saving benefit as there can be less need for third-party mediators. However, in the long run, blockchain is predicted to save financial institutions billions of dollars, which could then be passed on to customers in the form of reduced expenses, eventually enhancing the consumer experience.

**Applications of Blockchain in Fund Servicing**

**Supply Chain**

One of the most intriguing potentials for blockchain and smart contracts is the digital revolution of supply chain and trade finance. The current supply chains are complicated, slow, dispersed, and comprise numerous stakeholders from all over the world, most of whom lack mutual confidence. Thus, by eliminating middlemen and automating the execution of smart contracts on the blockchain to transfer titles to goods and [money](https://www.financialexpress.com/money/), banks will no longer be required to offer products like letters of credit, and there will be a trusted network that can guarantee the authenticity and origin of the goods being supplied.

**Compliance**

Financial institutions all over the world are accountable for adhering to and reporting on a number of local regulator requirements. In this context, Know Your Customer (KYC) is a crucial necessity, but the procedure can be highly time-consuming and lack the automated customer identification technology and integration required by organizations to carry out their work effectively. However, blockchain technology can offer a digital single source of ID data, enabling frictionless document exchange between banks and other entities. Thus, while protecting the confidentiality of the data that is legally necessary, this would probably lead to automated account opening, reduced resources, and costs.

**Insurance**

Low customer satisfaction is caused by various issues, including fraudulent claims, manual procedures, fragmented data sources, policies for a single user sitting in a silo, and legacy underwriting models. The ideal application for insurance on the blockchain is to create policies as smart contracts. It can result in automated payouts and enables total control, transparency, and traceability for each claim. Hence, by recording the origin and ownership of diamonds, paintings, homes, vehicles, and other assets that need to be insured, blockchain technology would also increase risk modeling for the [industry](https://www.financialexpress.com/business/industry/), dismantle the current silos, and drastically reduce false claims.

**Blockchain Technology: The Future of Fund Servicing**

Fund servicing has undergone major changes due to blockchain technology, including improvements to efficiency, security, and transparency. The use of blockchain technology in fund servicing areas including supply chain, compliance, and insurance has the potential to further transform the sector. As blockchain can provide transparent and traceable records of all transactions, it can aid in fostering confidence between financial organizations and their customers. Additionally, the usage of smart contracts can automate the completion of those transactions, speeding up and simplifying the process for users. Furthermore, blockchain is anticipated to have a substantial impact on the financial services sector in the future by enabling interoperability across institutions and bringing new levels of security and efficiency. All of these elements can assist financial service companies in lowering expenses, streamlining processes, and enhancing client satisfaction.