GUEST ARTICLE

Away with the Fairies: Why Smart Ledgers Are Not Delivering, Yet, for Financial Services

Author **Professor Michael Mainelli, Z/Yen Group**

After Bitcoin emerged in 2009, it took a bunch of over-paid CTOs in financial institutions half a decade, say 2014 with generosity, to work out that "bit + coin" might have something to do with banking, insurance, and payments. Then they over-reacted. Had they looked deeper, they would see technology that has been around for two decades. Smart Ledgers are mutual distributed ledgers (aka blockchains: multi organizational databases with a super audit trail, used in cryptocurrencies) combined with embedded programming and sensing.

The allure of payments consumed the over-paid CTOs, and they failed to do their calculations. With a through-put of a few hundred thousand transactions, consuming the spare energy of sizable countries such as the Netherlands or Austria, and slow and expensive to boot, the Bitcoin experiment is a failure as a payment system. Bitcoin's clones and close copies are little or no better. There are rumblings of "sharding" or "proof-of-stake" solutions, concepts from before 2015, but they haven't arrived so you might as well say the CTOs are "away with the fairies".

Bitcoin is an experiment based on an assumption that, if 51% of participants are not colluding, mankind can build a system that can't be cheated. At that level, the Bitcoin experiment is a qualified success and Bitcoin hasn't been appreciably hacked. Bitcoin experiment has though been a failure as a currency, whether a medium of exchange (insignificant), unit of account (excruciatingly volatile), or store of value (absolutely wild).

I recall a banking conference where a blockchain payment firm announced that in eight weeks, eight programmers had created a transaction that took eight minutes to exchange some shipping documents from the US to Austria for $8. I also remember somebody from a card provider. "I just want to understand the wonder I'm supposed to admire, because at Mastercard/Visa we move payments round the world in three seconds for five pence". In short, existing Central Third Parties, such as DTCC or SIX or Mastercard/Visa, have little to fear.

Smart Ledger technology prevents new Central Third Parties having the opportunity to extract excessive rents from their privileged positions. Financial services is full of cheats, LIBOR, FX, etc., but so are other sectors. Smart ledger clients in government, advertising, trade, and fishing, track and timestamp transactions using ledgers that are held in common. Clinical assessors used smart ledgers 15 million times in 2017 to provide authoritative trials data timestamps.

Smart ledgers (a) apply where we have failed to establish successful central third parties, such as anti-money-laundering documentation transfer, and (b) are about identity, documentation, and agreement exchange. Crypto-token payments? Maybe when the "pixie dust" arrives.

Financial services firms should use smart ledgers to help clients reduce the totality of bureaucracy and paperwork, not just be greedy margin-merchants on their payments. ■

About the Author

Professor Michael Mainelli
Executive Chairman, Z/Yen Group

Professor Michael Mainelli is Executive Chairman of Z/Yen Group and Principal Advisor to Long Finance. Z/Yen is the renowned creator of the Global Financial Centres Index, and co-created a smart ledger in 1995. Michael's book, **The Price of Fish: A New Approach to Wicked Economics and Better Decisions,** written with Ian Harris, won the 2012 Independent Publisher Book Awards Finance, Investment & Economics Gold Prize.