

Chapter 1

Blockchain Technology and New Business Models for Banks in the Financial Services Industry

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ABSTRACT

In recent years, the financial technology of blockchain has become a disruptive innovation that is transforming the management of banks. If blockchain represents an opportunity for financial services, it also represents a severe threat of financial disintermediation. What are the business models available to banks when deploying a business model to integrate the blockchain technology? In this chapter, the authors surveyed the strategic intent of 45 international banks for blockchain technology and analyzed the different business models that might facilitate a management transformation for the banking industry. They developed a taxonomy of five different business models. They were labeled as the following: the coordinators, the integrators, the solution providers, the disrupters, and the explorers.

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INTRODUCTION

In recent years, FinTech is responsible for major innovations in financial services. FinTech can be categorized as companies that combine financial and technological attributes in their business models. Recently, the rise of FinTech has attracted much interest since they challenge incumbents such as established banks and financial institutions (Eickhoff *et al.*, 2017).

Over the last decade, the financial services industry has developed a strategic interest in information technology (IT). Literature has argued that financial services are experiencing a fundamental management transformation (El Sawy & Pereira 2013; Lucas Jr. *et al.*, 2013). Sia *et al.* (2016) has argued that FinTech represents “a new generation of financial technology startups that are revolutionizing the financial industry”. FinTech has been dubbed by Teo & Lee (2015) as “innovative financial services or products delivered via technology” that are radically transforming financial services.

The foundations of the FinTech revolution have been described in the literature by relying on three separate pillars of innovation (Gomber *et al.*, 2018). First, we have massive amounts of capital available for technology innovation for financial services in a highly fertile area of the global economy. According to The Economist (2015), from payments to wealth management, from peer-to-peer lending to crowdfunding; a new generation of FinTech has been able to access a significant stream of revenues. For instance, Goldman Sachs estimates are worth \$4.7 trillion in 2015.

Second, FinTech has developed new technologies and designed new services for the finance industry that are different from what the conventional companies offer. They address financial needs for investment, mitigation and precaution with radically new ways. The FinTech revolution is transforming financial services operations and several elements of financial services such as productivity, performance analysis, systems design, forecasting and money management (Hatzaskis *et al.*, 2010).

Third, these financial technologies are transforming business models; and financial intermediation is achieved with a higher level of personalization based on digital applications and big data analytics. They also substituted for traditional banks and their services in new ways. For example, deploying financialized business processes, allowing lending on a crowdfunded, platform-based business or offering hybridized services delivered through attractive non-banking channels (PwC, 2016; Gozmnán, 2018).

Among those financial technologies, blockchain technology has become elemental for FinTech. In recent years, blockchain technology transformed banking to become the most disruptive FinTech in the financial services industry (Gomber *et al.*, 2018)

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