2020 Global Blockchain Survey | Deloitte Insights

The changing paradigm of distributed ledger technologies

The social impacts of financing opportunities, risk, and financial inclusion

Where once blockchain and digital currencies served as instruments for speculation, they are now enabling small-to-medium enterprise (SME) supply chain financing and global trade remittance. This evolution creates new marketplace opportunities for secure transactions. In fact, in Deloitte's 2020 Global Blockchain Survey, banking and capital markets executives cited digital currencies as their most important blockchain use in 2020. Additionally, 63% suggested that digital assets will play a meaningful role in their organizations.

Even with all the uncertainty in the financial world today, blockchain and distributed ledger technology (DLT) are creating positive social impacts for SMEs. This is particularly notable in several areas: improving financing opportunities, reducing risk, and fostering financial inclusion.

Financing challenges and opportunities

The collection and sharing of big data across ecosystem partners can help SMEs obtain financing at particularly challenging times. During the height of the first wave of the pandemic, for example, we witnessed SMEs struggling to obtain financing, leaving many applicants without much-needed funding. According to the World Bank, SMEs represent about 90% of businesses and more than 50% of employment worldwide.[1] So, a human capital issue with SMEs could resonate in the wider marketplace. As such, bankruptcies (or even short-term closures) can spur significant unemployment levels, which unfortunately was far too common this year.

We believe that adopting digital ledger technology can provide a long-term solution with lasting effects beyond short-term or crisis-generated government stimulus efforts. DLT can help improve SME access to financing by leveraging data collected in the ecosystem. In fact, we believe that loan approval rates could climb once DLT is adopted due to higher-quality information used in credit decisioning models.

Additionally, employing digital ledgers can help companies doing business abroad speed payments to help increase the efficiency of transactions. Legitimate digital currencies, such as stable coins and central bank digital currencies (CBDCs)—digitized versions of central banks' fiat currencies—are helping to shorten settlement times. DLT can reduce the turnaround times for cross-border remittance from overnight (and sometimes up to two weeks) to same-day and potentially even real-time settlement. The benefits are clear. Notably, DLT can help take the error-correction time out of transactions and allow businesses to move to their next deals without the inherent concerns about liquidity, funding, or losing supplier discounts.

Reducing risk

DLT helps improve data transparency and reduce risk for financial institutions. This, in turn, lowers the costs for SMEs to obtain financing, as well as insurance coverage. For instance, forged purchase orders and invoices would be identified when they don't match bills from logistics companies. Additionally, duplicated financing would also be detected without breaching sensitive customer information.

On the other hand, beyond the benefits from unregulated digital currencies, there are other considerations, including a lack of compliance (e.g., KYC and AML[2]), creating uncertainty about financial legitimacy for large-volume cross-border and enterprise-grade transactions. Unregulated digital currencies often pose market and legal risks for banks and businesses involved in these transactions. However, regulators are taking notice and are subjecting previously unregulated currencies to better-defined rules by governments and central banks to help reduce associated risks.

DLT and financial inclusion

DLT is increasingly enabling financial inclusion, both as an enabler for SME financing for more developed economies, where a lack of information or credit history may create challenges for bank financing and in digital payments for unbanked and underbanked populations. DLT is helping unbanked populations utilize digital payments even while offline, which is critical where network access is inconsistent and expensive. Finally, DLT is lowering the cost of payment processing for SMEs, which is beneficial for narrow-margin businesses that otherwise may be paying high settlement charges that affect business reinvestment and growth.

Key takeaways

As more organizations adopt blockchain and DLT, its short- and long-term impacts become clearer. Market paradigms are evolving from competition to collaboration, which help address the new realities of today's business environment. With this shift currently underway, DLT is positioned as an ideal platform for secured and real-time data synchronization that can reduce costs, risk, and hurdles in accessing business capital.

In the medium term, DLT can benefit organizations as a platform for risk reduction and financial inclusion. And in the long term, cross-border payments, especially for SMEs and large corporations, should become much faster and less prone to error, which could result in a more efficient global trading ecosystem.

Access to efficient markets and banking services may be one of the final pillars to fall. In other words, the reason that organizations form and work to achieve scale is to benefit from the access to capital and scale historically required to reduce the cost of participation in the banking system. With DLT, these paradigms are changing, and all SMEs can enjoy the same level of financial and banking services, and the same low cost, regardless of their size.

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Endnotes

1. https://www.worldbank.org/en/topic/smefinance.
2. KYC refers to "know your customer." AML refers to anti-money laundering.