

JP Morgan blockchain network showcases banks' DLT progress

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JP Morgan's expansion of its blockchain-based interbank payments project signals that major banks are stealing a march on disruptors and startups by providing working systems developed on distributed ledger technology, say consultants and market participants.

"Instead of startups disrupting the scene, the bigger players are taking a leading role in adopting blockchain

for business purposes," said Denis Baranov, principal consultant at DataArt, in an email. "It is these early adopters who will have the advantage of stronger influence in the sector, demonstrating the potential in blockchain beyond the hype."

The US-headquartered bank announced last week that it would be growing its blockchain-based Interbank Information Network (IIN), with 220 banks due to sign on. The project was [launched](#) as a pilot in 2017 alongside two other participating banks, Royal Bank of Canada and ANZ. IIN is powered by Quorum, a permissioned blockchain based on ethereum and developed in-house at the US bank. The system allows member banks to exchange information in real-time to verify payments. 75 banks [signed up](#) to be a part of IIN in September 2018.

"Historically, correspondent banks communicate one-way, bank-to-bank, but we have transformed their interaction," wrote Suresh Shetty, blockchain technology lead for IIN, in a [post](#) on JP's website. "When a payment detail is flagged for confirmation, different parties can interact simultaneously, requesting and sharing information." The service is currently free for all members.

John Hunter, JP's head of global clearing, told the [FT](#) that the bank is also working on the deployment of a new function in IIN, which would verify in real time that a payment was going to a valid account, avoiding a rejection occurring because of an error in the account number, sort code, address or other detail. The system, he added, will be live in late 2019 for both domestic and international payments.

"It is only a matter of time before we will see an increase in the number of products and services that will be supported by the JP Morgan network," said Baranov. "Furthermore, the project's success will further encourage other banks to make their own decisions on greater blockchain

adoption. I expect some bigger announcements before the end of the year with big players racing to create blockchain services beyond proof of concept or pilot level.”

Leading the charge

Monica Eaton-Cardone, CIO and co-founder of Chargebacks911, added that JP Morgan expanding its blockchain-based network represents another step toward broader blockchain adoption. “JP Morgan is leading the charge for the legitimacy of distributed ledger technology in the banking sector. As they begin to reap the benefits, more banks will see that and decide they want a piece of the pie, too.”

For Sankar Krishnan, executive vice president for banking and capital markets at Capgemini, banks have been focused on the use cases of blockchain for some time. “We know that payments and trade is one of the key areas where blockchain can have real impact. The announcement from JP Morgan bodes well for the future of blockchain given the size of the correspondent banking network, the scale of payments and the applicability of this to adjacent areas – such as securities clearing and processing.”

Earlier this year JP Morgan announced the launch of its own digital currency, JPM Coin. Issued on the same Quorum blockchain which IIN has been developed on, the bank believes JPM Coin can be used by corporations for international settlements and to increase the speed at which transactions move. JPM Coin is a prototype and is being tested “with a small number of JP Morgan’s institutional clients,” though the bank plans an expansion of the pilot program later this year.

“JPM Coin is a substitute for dollar – with the potential to extend to other currencies in the future – as it is convertible both ways and is pegged to the dollar,” said Krishnan, in an email. “It is not a cryptocurrency as much as an alternate to dollar inside a private network. While it has potential, it is still in its early days and very much remains an experiment to see how an intra-network currency can add value to transactions.”

While JPM Coin is intended for internal transactions between the bank and its clients, said Eaton-Cardone, and sits outside the development of IIN, both are examples of the JP Morgan’s “commitment to develop blockchain technologies for practical use in the banking sector.”

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