Bank Guarantees: Jumping From Paper to Blockchain

By Nigel Dobson

There is a genuine need to digitize the archaic process by which tenants, banks and landlords negotiate bank guarantees. When a retailer wants to lease a property to open a store, the landlord requires a bank guarantee that says, "You're good for the rent." To date, in many parts of the world, this process has been primarily paper dependent.

Today, some 11,500 retailers in Australia and New Zealand, for example, rely on paper guarantees that are created through a manual workflow. This makes issuing guarantees a tedious back-and-forth process.

Paper documents are prone to forgery. Landlords need to manage and store the guarantees, usually in fireproof safes, and manually reconcile them against property leases. And banks lose sight of the document the second it's issued. And for end customers, the process is cumbersome. Each delay means that much longer they are not open for business.

The fintech consortium Lygon developed a cloud-based blockchain platform to manage bank guarantees for real estate rentals.

Blockchain Powers an All-Digital Workflow

To solve this age-old problem, there's a transformational solution backed by Lygon 1B, a fintech consortium comprising ANZ, Westpac, Commonwealth Bank, IBM Australia, and the property management firm Scentre Group. Working with a multidisciplinary team from IBM Services, Lygon developed a cloud-based blockchain platform that manages the end-to-end guarantee process with speed, security and transparency.

The platform features a digital workflow, standardized terms and the security to resist fraud. With all functions in one place and immutable data transparent to all parties, the platform makes it easier to do business. The speed is exceptional. In pilot projects with live customer data, what used to take up to a month took less than a day—that's a 90-95% improvement.

We expect similar results when we go into production late this year. Powered by the IBM public cloud, the platform is designed to scale to more than 50 banks.

Taking Advantage of Collaborative Synergy

The beauty of the Lygon consortium is that our solution goes beyond what we could have achieved on our own.

Take the banking part of the platform. Most corporate landlords receive a confusing array of guarantees from multiple banks that differ in their terms and formats. Because Lygon includes three major banks, as well as a firm representing the landlords, we collaborated to standardize terms and processes. The advantages are so compelling that other banks and landlords are eager to join us.

As we discussed the need for a multilateral solution with data sharing, reconciliation and synchronization, IBM recommended distributed ledger technology based on the Hyperledger Fabric from The Linux Foundation. Since ANZ Bank and IBM are both founding Hyperledger members, it seemed like a smart choice and has proved to be so. Blockchain enables us to manage digital guarantees as smart contracts.

The Benefits Might Apply to New Markets, Globally

Another benefit of digging deep into a problem is that it suggests similar challenges you might solve. Our platform will benefit retailers with rental bonds, but it can support all types of bank guarantees and therefore benefit the wider community.

Geographic expansion beyond Australia and New Zealand also shows promise. The guarantee process is similar almost everywhere. If we can agree on a standard, digitize the document and put it on a blockchain, we can create a global opportunity.

Lygon was formed to bring a centuries-old paper-based process into the 21st century, enabling multiple parties to collaborate in a straightforward way. I believe we've created a simple, elegant digital solution that's exactly what our customers need.

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