Our Flawed Financial System: How the Finternet Can Help

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Introduction

Imagine selling the home you worked countless years to buy, the embodiment of your blood, sweat, and tears, and now it is being sold. The proof of all your efforts and savings is finally being bought. After waiting for years and timing the market for the perfect conditions, you finally find a buyer. What was expected to be a relief has now turned into a tiresome process lasting months, costing you thousands of dollars. You spend each day going through dozens of documents, signing and sorting piles of jargon. The more people you involve, hoping to speed up the process, the more delayed it gets. Your time is spread thin between lawyers, realtors, bankers, and insurance companies. Somehow, you still have no clear timeline for when you'll get paid. Each day of delay adds to missed opportunities and compounds the total costs. While it is true that real estate transactions are a big deal, this process is the same for nearly all asset transfers. Whether it's selling your home, car, or art, the process of transferring most assets is time-consuming, expensive, and prone to human error.

Background

What are Asset Transfers?

An asset transfer is the process of legally shifting asset ownership between two entities. Simply put, any legal exchange of goods between two people or parties can be considered an asset transfer. These transfers "can involve physical or digital assets ranging from property and equipment to securities and portfolio holdings" (Equisoft, n.d.). Physical assets are anything tangible, meaning they have a physical presence. Homes and cars are examples of physical assets, while an idea is not. Digital assets lack a physical presence but are often backed by a physical asset. For example, a digital stock transaction does not require any physical transfer, but the stock is backed by a physical asset: cash. Asset transfers have been foundational to our lives for thousands of years. At the beginning of civilization, we used the barter system to trade with one another. This was the simplest form of asset transfers. In this system the underlying principle was just trading what we have for something we want. For example, one chicken would be traded for four loaves of bread. While the fundamental principles have not changed, the process has become unnecessarily complicated. As a result, it can take weeks or even months for simple transactions to finalize.

Current Asset Transfers

Nowadays, asset transfers require a plethora of documentation. The most important aspects are the title and the deed. The title of an asset represents the ownership rights to that asset. The deed serves the purpose of a tangible transfer of "the title from the seller (commonly

referred to as the grantor) to the buyer (otherwise known as the grantee)" (Araj, 2024). Because deeds are such a crucial part of the transfer process, an attorney is typically used to draft the deed. Additionally, the deed is often required to be notarized. Notarization means that a document has been "certified by a notary public, a licensed public officer who serves as an impartial witness to the signing of documents and establishes the authenticity of the signatures" (Marquette University, n.d.). For most valuable assets, a title search is typically conducted before the transfer. While this might not be necessary for small transactions, title searches are usually performed when transferring real estate, vehicles, land, and equipment. A title search is "the examination of public records to determine and confirm … legal ownership" (Chen, 2023). Title searches often check to ensure there are no outstanding liens against the asset. Liens or claims against the asset typically indicate unpaid debt owed by the owner. Until the debt is cleared, the asset cannot be sold. Title searches can be performed by attorneys or search companies. For large assets like homes, the sale involves dozens of documents moving between the buyer, the seller, their respective agents, attorneys, mortgage brokers, banks, and government offices. After all of this is done, the sale must be recorded at a local municipality office, where the sale of the home is confirmed. With so many people involved, it's easy to see that issues are nearly guaranteed.

The first issue with our current system is the immense amount of time wasted for relatively simple transactions. When we embraced the barter system, a transaction was completed in seconds, as soon as goods exchanged hands. Nowadays, we can spend months and still not officially own an asset. For the sale of a home, Opendoor estimates that the closing process alone takes an average of 54 days. To break it down, they explain that opening an escrow account for the initial stages of the closing process can take 1-2 days. Gathering and preparing all the documentation takes approximately two weeks. The home inspection, appraisal, and title

search can each take up to two weeks on average to complete. The mortgage underwriting process can take between one and two months. The closing disclosure and final walkthrough take about 4 days to complete. After nearly two months of waiting, you may have a home. However, “depending on various factors, your closing day could get pushed back several days (or even several weeks) if you experience any setbacks” (Folger, n.d.). Other assets can take even longer for ownership to be transferred. For example, if a plot of land is being sold but the title is old or nonexistent, the process can take months, if not years, to clear up. For many assets, such as disputed easements or right-of-way assurances, searches can take significantly longer due to the lack of documentation. For digital assets, the transfer time is fast but still can be improved. Simply placing a stock order takes nearly no time, yet it still takes a minimum of one business day for funds to be usable (Beers, 2024). Transferring funds within your brokerage account can take up to three days with an ACH transfer or more than a week if a physical check is used (Daly, 2024). Let’s say you just bought one share of AAPL stock. Within a second, you own the stock, but when it comes time to sell, it takes at least a day for the funds to return to your account. You’re satisfied with your purchase and decide to add more money to your account. If you decide to do this straight from your bank account, it can take three days, but if you want to use a physical check, it can take a week. Within that week, the markets could drastically change, and you may lose hundreds of dollars in opportunity cost. This is a result of the system between the bank and your brokerage account not being connected. The system of transferring assets is not unified, causing more time to be spent during the transfer. If a unitary platform were used, the transactions could occur as quickly as the stock purchase did.

In addition to the time wasted by outdated systems, everyday consumers like you are losing thousands of dollars in the process. Currently, the process is complex, involving many

different people and agencies. The more people involved, the more commissions consumers must pay. The more complex the process, the higher each commission becomes. For example, in the real estate market, closing costs range from 3 to 6 percent of a home's sale price (Crace, 2024). LendingTree estimates that fees average 8 to 10 percent of a vehicle's value during transactions (Basset, 2024). So, if you're selling your home for $500,000, you can expect to spend between $15,000 and $30,000 simply on closing costs. Or let's say you've saved up for years to buy your dream car. After five years of saving, you finally have $50,000, the car's MSRP. When you get to the dealership, you realize you'll need to spend between $4,000 and $5,000 just on closing fees. Upon further investigation, you find that the main reason for this is that everything is done in person. The more physical documents are moved around, the more time it takes. This leads to higher commissions and more people being added along the way. Even in some "digital" transactions, the majority of the work is done in person, with only the final transaction occurring online. Direct costs are not the only burden on consumers. Looking back at the stock example, long wait times can cost thousands of dollars in opportunity cost. Longer wait times lead to diminishing returns on the initial investment. The ideal system should be streamlined, allowing for cheap and quick transactions.

You can probably understand now why our current system is difficult to work in. As it becomes even more complex, there are more possibilities for things to go wrong. This leaves consumers exposed to human error and fraud. A misplaced document or typo could significantly delay the process. With the majority of our finances being handled in person, it is often unnoticed when something goes wrong. In the US, we have government backing for worst-case scenarios, but this is not true in many developing nations. Developing nations are the most desperate for growth, yet the outdated systems make it difficult for anything to change. If you are

looking to invest your own hard-earned money, would you be willing to do it if there's no government backing? What if there is no digital trail to document your investments? Can you really trust that no one will get greedy in the process? Even if there were guardrails set in place, you can imagine how easy it is for one document out of hundreds to get misplaced. Physical records can be changed or hidden, while digital records are immutable and transparent. The lack of trust stemming from an unsecured system is what scares investors away. Unfortunately, this results in many developing economies struggling to get the investments they need. The most secure asset management systems would have independent and government oversight throughout the process. Additionally, every transaction would have a digital trail, eliminating fraud and mismanagement.

Solutions

The three main problems with our current asset management system are the excess time and money spent, along with the high chance of errors. The first change needed is to transition from a system that is mainly in-person to one that is digital. Digital assets can be traded instantaneously, whereas physical assets take much longer. This conversion has already been seen in the global banking system with the SWIFT network. Before the SWIFT network, banks operated individually, making transactions between them very difficult. This was especially true for international transfers, which often took weeks to complete. Many third parties were involved, adding commissions and time to international trades. Most functions also happened physically, resulting in "many human errors, as well as slower processing times" (Seth, 2023). After the SWIFT network unified the banks, it became much faster and cheaper to perform inter-bank transactions. While this is a great step in the right direction, SWIFT is only for cash-based assets between banks. This leaves out the majority of assets, keeping them in the same outdated system. If you're trying to buy a plot of land, you can't do it on the same platform you use to buy stocks. In fact, you can't buy most physical assets on any platform at all. Asset classes, or the type of asset, determine the platform an asset is traded on. Stocks are traded between brokerage accounts, while cash is exchanged between banks. The lack of unitary standards complicates the asset transfer process.

Asset Tokenization

Digitizing assets makes management more efficient, but how would this work? Someone's house is still a physical house; it can't just be digital. Tokenizing an asset allows it to remain a physical asset while also having a digital form. Essentially, tokenizing an asset gives a physical asset a unique identity. This identity, stored online, serves as a representation of the asset. Similar to how a car title represents ownership but is not actually the physical car, tokens

represent ownership digitally. After tokenization, assets can be transferred seamlessly within platforms. Just as fractionalized stocks can be bought, fractional ownership is also possible with tokens. For example, if you and your friends decide to split the purchase of a luxury piece of art, the art has one token, but the ownership is split equally among you. In a few years, if that art appreciates and one person wants to sell their share, they can, while the others retain their equity. Digitizing assets is a crucial foundation for future asset management systems.

Blockchain

Blockchain technology is another foundational concept for future financial systems. The blockchain acts as the infrastructure behind transactions. Simply put, blockchain is a digital system that records every transaction that occurs on a platform. It does this using a system called a digital ledger. Its decentralized meaning that it cannot be controlled by any individual or institution. This prevents people from altering transactions, eliminating fraud. Smart contracts are self-executing programs on the blockchain, which allow for complex transactions to be automated, eliminating manual steps. Blockchain technology is critical for any digital system that holds sensitive data requiring safeguarding. Because of this, blockchain technology will be essential to a universal asset management system.

The Finternet

Many people have recognized the importance of a new system and proposed solutions. The most promising one currently is the Finternet. The Finternet is a concept proposed by Nandan Nilekani, the co-founder of Infosys, and Agustín Carstens, the former governor of the

Bank of Mexico. The Finternet functions on the concept of tokenization, digitizing physical assets into digital ones. In their paper, the founders explain “the Finternet’s purpose is to be a ‘user-centric, unified and universal financial ecosystem brought into the digital era that is inclusive, innovative, participatory, accessible, and affordable” (Carstens & Nilekani, 2024). The user-centric aspect places the user at the center of their finances, giving them complete control over their transactions. Similarly, the design of the platform focuses on being user-friendly. The unified aspect enables multiple asset classes to be transferred simultaneously between platforms. For example, with the Finternet, you would be able to sell your house and stocks on the same platform. Its universal aspect allows government agencies, private financial institutions, regulators, and consumers to collaboratively oversee the platform.

The Finternet offers many benefits to its users. First, transaction times would be drastically reduced. The sale of a home, which once took months, could be completed in minutes. A car could be purchased online with no physical paperwork at all. Luxury goods such as paintings and sculptures would become more liquid, meaning easier to sell. This increased liquidity would appreciate their value by driving higher demand. Fractionalized ownership would open these markets to a new range of investors, making assets previously owned only by the elite accessible to the public. Menial tasks like appraising and notarizing would be automated, speeding up processes while cutting costs. As more tasks become automated, fewer commissions would need to be paid to middlemen. Shorter transaction times would also minimize the opportunity cost for investors. Additionally, the use of blockchain technology serves as a safeguard against exploitation. All transactions would have a digital footprint, minimizing fraud and human error. The finternet is interdisciplinary as it takes into account many fields of studies. It has an impact on many aspects of life and is developed with professionals from many fields. A

system like the Finternet addresses the major problems of our current financial system, enabling faster, cheaper, and more secure transactions.

While the flaws of our current system are drastic, many fail to recognize why. They argue that our current system is fine because we are able to get by using it. While this may be true, it is important to ask: do you really just want to get by? Technically, we could get by using a bulky landline phone for all our communication. Even more, we could go back to sending physical letters through the mail to communicate. At the time, many recognized the need for new communication systems, and today we all appreciate the convenience of smartphones. Similarly, while it is true that we can get by using our current system, proposals such as the Finternet could greatly enhance our day-to-day lives.

Conclusion

Next time you transfer assets, think about how long it really takes. Consider whether the process can be streamlined and costs reduced. While the Finternet is only a proposal, it is highly promising. It has the potential to impact billions of people, enhancing our day-to-day lives. The Finternet represents a vision of how we can modernize our future by prioritizing efficiency and innovation. Beyond its technical potential, the Finternet offers new investment opportunities to a wide range of overlooked consumers. It also opens the door to investment possibilities in underdeveloped nations. As the financial and technology sectors continue to grow, the Finternet could pave the way for a more connected, transparent, and inclusive financial ecosystem, better serving individuals and economies worldwide.

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