Flaws in Our Financial System: How the Finternet Can Help

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Introduction

Currently, the sale of a house requires a deed, sales contract, inspection certificates, loan documents, warranty deed, HOA documents, and insurance records (Bankrate, 2024). This complex process can take weeks and cost thousands of dollars. On the other hand, there have been over 170 million transactions made on the NASDAQ exchange this week alone, each occurring in milliseconds (NasdaqTrader, 2024). While selling a home and buying stocks both involve the transfer of assets, one takes weeks and thousands of dollars while the other costs fractions of a cent and happens nearly instantaneously. While we have seen massive leaps in technology, digitizing our daily life, our asset management system remains dated. This results in physical asset transfers being time-consuming and expensive processes subject to fraud or human error. The purpose of this paper is to explain the flaws with our current system and share how a universal system for asset transfers could benefit both customers and corporations. The paper is intended for professionals in the financial technology industry seeking to expand our financial system's digital presence.

Background

Our Current System

An asset transfer is the process of legally shifting asset ownership between two entities. These transfers "can involve physical or digital assets ranging from property and equipment to securities and portfolio holdings" (Equisoft, n.d.). Asset transfers often require a deed to be transferred between a buyer and a seller. For many physical assets, the writing of a deed typically requires a lawyer and then needs to be notarized by a certified notary. For certain assets such as real estate, vehicles, land, and equipment, title searches may also be necessary before

transfership. A title search is then conducted by an attorney to make sure there are no outstanding liens or claims against the asset. After the searches, the actual sale process typically involves dozens of transfer documents moving between the seller, buyer, and various legal and financial firms. Finally, the sale needs to be recorded with an authority or organization to finalize the transfership. The entire process can take weeks, typically involves multiple intermediaries, and costs a significant amount. Additionally, each intermediary introduces the potential for delays, miscommunication, or human error, which can further extend the time required to complete the transfer.

The first issue with our current system is the excessive time spent on transactions that could be streamlined. The sale of an asset typically takes weeks, if not months, to complete. Rocket Mortgage estimates that the average sale of a home takes 30 to 45 days (Crace, 2024). The delay is due to the multitude of processes, often handled by separate intermediaries. A title search, typically one of the first steps in a transfer, is often still done manually. It is estimated that most title searches take between 10 to 14 days but can increase dramatically depending on characteristics such as age and past ownership (National Title, 2023). For other assets, such as disputed easements or right-of-way assurances, searches can take significantly longer due to the lack of documentation. The purchase of title insurance, meanwhile, takes additional time and can slow down the application and approval process. If issues are found within the search, the process can take between a few weeks and months to resolve (Chamberlain Real Estate School, n.d.). For real estate and land, transfers usually involve multiple third parties, including mortgage lenders, title companies, and banks, each operating on its own timeline. For large assets, the process of underwriting typically takes over a week to complete. Additionally, the appraisal process can take three weeks, while inspections take approximately a week. The closing process

takes at least another three days until the final meeting for signing (Bell, 2024). For luxury goods such as artwork, the appraisal process could take significantly longer depending on the rarity of the item. The lack of documentation for older assets could significantly slow down the timeline. While the transfership for digital assets is faster, the process still can be streamlined. Stock market transactions happen in fractions of a second, yet it still takes a minimum of one business day for funds to be usable (Beers, 2024). Depositing or removing funds from a 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). This is due to the lack of a coherent system between individual brokerage agencies and banks. The absence of a unified transfer system results in days, if not weeks or months, being wasted for buyers and sellers.

Furthermore, our current system wastes thousands of dollars for customers. Due to the intricate processes of asset transfers, many third parties take a commission throughout the process. 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). In many cases, this is due to in-person meetings and the exchange of physical documents. If the process were digitized, fewer people would be involved, minimizing the individual fees paid along the way. Even in digital transferships, high fees are often a result of the manual backend work needed for the transactions to occur. This work would be automated if a system with the proper infrastructure were established. In addition to direct costs, the expended time results in lost income or interest. Because of this, the transfer of assets such as bonds, which generally have low fee rates, can still become a financial burden on the consumer. The less streamlined the process is, the higher the opportunity cost for both buyers and sellers, due to missed opportunities and diminishing returns

on investments. An efficient system would be able to handle multiple asset classes, increasing speed and affordability.

As well as the financial inefficiencies, our current system leaves people exposed to human error and fraud. Many aspects of the transaction process are done manually, leading to a high potential for mistakes. Inaccuracies in documentation can be expensive and time-consuming to fix. In the United States, the role the government plays helps prevent fraud, but this is not the case in many developing nations. Although expansion is crucial in these countries, the lack of proper infrastructure deters large-scale investments and transactions. Weak regulations and corrupt governments often serve as barriers for asset sales and transfership. Even in secured scenarios, the reliance on physical documentation leaves a high chance for human error. Physical records can be changed or hidden, while digital records are immutable and transparent. The lack of a secured system creates a lack of confidence for consumers and investors. This distrust results in generational poverty and undeveloped economies (Clausen et al., 2009). For a functional asset management network, a mix of regulators and government agencies will need to be involved.

Solutions

The problems with our current asset management system stem from the lack of a universal platform for all asset transfers. Digitized assets, such as stocks and options, can be traded instantly because of established exchange systems. The SWIFT network enables banks to connect internationally, allowing financial transactions to occur. Before SWIFT, international transfers were done manually, resulting in "many human errors, as well as slower processing times" (Seth, 2023). Still, this only transfers cash and only to other financial institutions. The

problem is that our current systems are separated based on asset classes. Real estate transactions cannot be made on the same platform as stock purchases. Portfolios are split between different institutions, each holding different classes of assets. Because of this, there is a lack of unified guidelines, complicating the process of asset transfers.

Asset Tokenization

For an asset to be transferred digitally, it first needs to be tokenized. "Asset tokenization is the process by which an issuer creates digital tokens on a blockchain … to represent digital or physical assets" (Hedera, n.d.). Tokenization creates a unique identity for the asset, giving it a digital presence. Having the token of an asset is the digital version of having a deed to an asset. After tokenization, assets can be transferred seamlessly within platforms. Certain assets can be split fractionally, allowing shares of ownership to be divided. Tokenization has many benefits, including "increased liquidity of traditionally illiquid assets; greater accessibility … greater transparency regarding ownership and ownership history; and a reduction in administrative costs associated with the trading of these assets" (Chainlink, 2024). Digitizing assets will be the first step in a universal asset transfer system.

The Finternet

The Finternet is a proposed solution that creates a public digital transfer system for all assets. It works by giving real-world assets a digital identity by tokenizing them into digital assets. The Finternet will be a network of government agencies, private financial institutions, regulators, and consumers transferring assets within the system. The Finternet will allow for asset transfers between multiple classes, allowing different assets to be transferred simultaneously. For example, someone would be able to transfer the tokenized versions of their

deed, ownership rights, and documents for their house and receive payment as a mix of USD, stocks, and NFTs. 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 means that the user is at the center of their account. They will have complete control over any transactions they make. The user interface will also be designed to prioritize simplicity and convenience for the user.

The Finternet would have many benefits compared to our current system. For example, the transaction time for asset transfers would be drastically reduced. Exchanges that previously took weeks, such as land transfers, could theoretically be done within minutes. The automotive industry could also see significant efficiency improvements, as titles and ownership documents are securely tokenized and easily transferable between buyers and sellers. Luxury goods, like artwork and collectibles, would become more liquid through the Finternet's capability to verify authenticity and ownership instantly. Through tokenization, even fractional ownership of high-value items, such as rare art, would become accessible to a broader range of investors. Tasks like title searches, document verification, and appraisals could be automated, allowing them to be completed faster and in advance. Transfers would work in a seamless fashion, similar to how stocks are currently exchanged. Because the Finternet allows for all asset classes, payments would also be received instantly. The automation of tasks would lead to significant cuts in costs and reduce the number of intermediaries involved. These cost cuts would have exponential value as the Finternet also allows for more investment opportunities. The Finternet's interdependence between firms, agencies, and regulators works to prevent fraud and minimize mistakes. This provides a security assurance, increasing investments in underdeveloped economies. Additionally, the blockchain technology used in the system would keep a digital

footprint of all activity, removing the possibility to alter or misrepresent data. Having a system such as the Finternet eliminates the major problems with our current financial system, allowing for faster, cheaper, and more secure transactions.

Some argue that our current systems are capable and should be enough to satisfy our needs. While they are partially correct in the sense that we can get by with these systems, they don't acknowledge the missed opportunity costs. In reality, even though our systems implement new features, their basic framework has remained the same. Asset management software has existed for decades, but since its early forms, the data has needed "manual audits and updates… to make sure the data is accurate" (Meehan, 2002). These systems in place restrict economic growth and opportunities. The reason many don't mind this is because they have not seen the capabilities of a unitary asset management platform.

Interdisciplinary Aspect

The Finternet is interdisciplinary in nature, serving as the host platform to other services spanning many sectors. Similar to how the internet is the base platform supporting video streaming sites, search engines, and gaming centers, the Finternet will support different asset classes and services. The development of the platform will also involve financial experts focusing on technical aspects, as well as software engineers directly developing it. Legal experts will be needed to oversee transactions and build guidelines, while cyber psychologists will be crucial in the front-end UI design of the platform. As it expands into daily use, the Finternet will affect human sociology, along with our relationship to money and investments. The Finternet's interdisciplinary nature allows it to have a meaningful impact on a large number of people.

Conclusion

The Finternet represents a concept of how we can modernize our asset management and transfer systems. By allowing different asset classes on a single platform, it streamlines complex transactions, minimizing costs, and reducing exposure to fraud. Through tokenization and automation, it offers a future where asset transfers happen swiftly and seamlessly. Beyond its technical potential, the Finternet makes ownership of assets, whether real estate, luxury goods, or fractional shares, accessible to a broader audience. 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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