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Blockchain will upend the 401(k) market

The technology has the potential to change and improve how advisers do business



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By **Greg Iacurci**

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Blockchain technology is poised to completely upend the retirement market and the way 401(k) advisers do business.

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The technology, while nascent among record keepers of defined-contribution plans, promises to **boost cybersecurity**, increase efficiency (thereby decreasing overall 401(k) plan costs), and vastly improve data sharing

between advisers and record keepers.

"There's a lot of curiosity around it," said Tim Rouse, executive director of the Spark Institute, a nonprofit trade group for retirement plan service providers. "It's a very new technology, but it has a lot of potential for our market."

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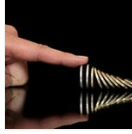
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blockchain technology, gained prominence.



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The technology provides financial firms with a new way to execute and record transactions. Think of a block as a record of new transactions; these blocks of data are bound together in a "chain" using cryptographic principles, according to Blockgeeks.

Unlike traditional financial records, however, information on the blockchain network is in a shared database without a central location. Data on the blockchain are updated instantly and exist simultaneously on millions of computers, making the data much more difficult to hack.

The financial sector has taken note. Worldwide, the industry invested \$552 million in blockchain technology last year, around 37% of the total \$1.5 billion spent, according to International Data Corp. Overall spending is estimated to increase nearly eightfold, to \$11.7 billion, over the next three years, led by the financial sector, according to IDC.

In October, for example, **Fidelity Investments** announced the launch of a new company to offer custody and trade execution of cryptocurrencies. Intercontinental Exchange, owner of the New York Stock Exchange, just months earlier said it was starting a new bitcoin market exchange.

401(k) record keepers are beginning to enter the fray. ICMA-RC, a record keeper focused on retirement plans for public institutions, said it is "proactively monitoring" blockchain technology and joined the Government Blockchain Association last year.

"While we don't have immediate plans to leverage this emerging capability, we are evaluating potential intersections of our public-sector-client and operational needs," said Karla Gill, chief information and innovation officer at the company.

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are leaning into our vendors, who are also exploring the technology."

SS&C Technologies Inc., a software vendor that provides the tech backbone for some record-keeping platforms, also has been experimenting with various blockchain applications. DST Systems, which was acquired last year by SS&C, leases its TRAC record-keeping technology to companies such as Lincoln Financial Group and covers 7 million total participants.

The Spark Institute, whose members include the largest DC-plan record keepers, is conducting a blockchain research project this year at the behest of member firms, Mr. Rouse said, in order to better understand the technology's potential

applications and benefits.

Cybersecurity

And the benefits could be vast. Cybersecurity, for one, **would be greatly improved**, which would be a welcome development in an era of massive data breaches hitting Marriott, Yahoo, Equifax and other large companies, exposing the sensitive data of hundreds of millions of people. Record keepers, pointing to the surge in cyberfraud, have begun instituting guarantees that they will refund money to 401(k) participants that was lost to unauthorized transactions.

Blockchain is much more challenging to hack than current systems, given its decentralized structure. With all data updated simultaneously on each provider's platform, a hacker would need to hack into each system at the same time to get access to the data, Mr. Rouse said.

"From a fiduciary adviser standpoint, I love the data security aspect," Philip Chao, principal and chief investment

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Hackers appear to have successfully penetrated blockchains in a few circumstances — nearly \$2 billion worth of cryptocurrency has been stolen since the beginning of 2017, mostly from exchanges, according to MIT Technology Review. But while the technology isn't necessarily "unhackable," experts said it's much more secure than traditional systems.

Record keepers have been loath to share participants' data with advisers under the current regime, largely because of cybersecurity issues, Mr. Rouse said. If data accidentally fell into the wrong hands and were exposed, the record keeper could be held responsible. With blockchain, record keepers could enable constant access to certain information for advisers.

There's another massive draw for financial firms: increased efficiency. Blockchain would effectively cut middlemen out of transactions — institutions wouldn't need to verify money transfers or take a cut of transactions, according to experts.

"Imagine two entities (e.g., banks) that need to update their own user account balances when there is a request to transfer money from one customer to another. They need to spend a tremendous (and costly) amount of time and effort for coordination, synchronization, messaging and checking to ensure that each transaction happens exactly as it should," William Mougayar, author of "The Business Blockchain: Promise, Practice, and Application of the Next Internet Technology" (Wiley, 2016), wrote in a blog post.

This dynamic could substantially drop the price of 401(k) record-keeping services by eliminating layers of human intervention, advisers said, and make rolling over assets from one 401(k) plan to another 401(k) or to an individual retirement account a seamless operation, as opposed to the convoluted process that currently exists.

Nick Doyle, director of new business development at DST Systems, expects that it likely will be at least two or three years before record keepers replace their core technology with new blockchain tech.