ORIGINAL ARTICLE

INTERNATIONAL JOURNAL OF ARTIFICIAL INTELLIGENCE

ISSN: 2692-5206, Impact Factor: 12,23

American Academic publishers, volume 05, issue 06, 2025

Journal: https://www.academicpublishers.org/journals/index.php/ijai

ADVANTAGES AND RISKS OF MANAGING FINANCIAL TRANSACTIONS THROUGH BLOCKCHAIN TECHNOLOGY

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Аннотация

В этой статье рассматриваются многогранные последствия использования технологии блокчейн для управления финансовыми транзакциями, уделяя особое внимание как ее преимуществам, так и связанным с ними рискам. Как децентрализованные, криптографически защищенные системы, блокчейны предлагают преобразующий потенциал для финансового сектора за счет повышения прозрачности транзакций, снижения операционных расходов и устранения необходимости в посредниках. В статье рассматриваются основные характеристики блокчейна, такие как архитектура распределенного реестра, механизмы консенсуса и неизменность, и оценивается их применимость к финансовым услугам, включая платежи, расчеты, денежные переводы и выполнение смарт-контрактов. Одновременно в статье критически анализируются риски, связанные с кибербезопасностью, нормативной неопределенностью, масштабируемостью и потреблением энергии. Опираясь на глобальные тематические исследования, пилотные проекты и научные исследования, в статье подчеркиваются компромиссы, которые финансовые учреждения и политики должны учитывать при интеграции блокчейна в основные финансовые системы. В заключении приводятся политические и стратегические рекомендации по максимизации выгод при одновременном смягчении системных и операционных уязвимостей.

Ключевые слова. Технология блокчейн, финансовые транзакции, распределенный реестр, криптовалюта, смарт-контракты, кибербезопасность, децентрализация, прозрачность, финансовые инновации, регуляторные риски.

Abstract

This article explores the multifaceted implications of using blockchain technology to manage financial transactions, focusing on both its advantages and associated risks. As decentralized, cryptographically secured systems, blockchains offer transformative potential for the financial sector by enhancing transaction transparency, reducing operational costs, and eliminating the need for intermediaries. The article examines the core features of blockchain, such as distributed ledger architecture, consensus mechanisms, and immutability, and evaluates their applicability to financial services, including payments, settlements, remittances, and smart contract execution. Simultaneously, the paper critically analyzes risks related to cybersecurity, regulatory uncertainty, scalability, and energy consumption. Drawing on global case studies, pilot projects, and scholarly research, the article highlights the trade-offs that financial institutions and policymakers must consider when integrating blockchain into mainstream financial systems. The conclusion provides policy and strategic recommendations for maximizing benefits while mitigating systemic and operational vulnerabilities.

Keywords. Blockchain technology, financial transactions, distributed ledger, cryptocurrency, smart contracts, cybersecurity, decentralization, transparency, financial innovation, regulatory risks.

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INTRODUCTION

Blockchain technology has become one of the most widely discussed innovations in the financial sector due to its transformative potential in managing transactions. Designed initially as the foundational infrastructure for Bitcoin, blockchain has since evolved into a general-purpose technology with applications in a wide array of industries, particularly finance. Financial transactions, characterized by the need for trust, verification, security, and speed, align closely with blockchain's core capabilities—namely decentralization, immutability, and consensus-based verification.

Traditional financial systems often rely on intermediaries such as banks, clearinghouses, and notaries to authenticate and record transactions. These intermediaries increase operational costs, lengthen processing times, and present single points of failure. In contrast, blockchain allows peer-to-peer transactions without centralized oversight, thereby reducing friction and improving resilience. Use cases range from domestic and cross-border payments to trade finance, digital identity verification, and programmable money through smart contracts.

The implementation of blockchain in financial transaction management promises various benefits, including enhanced transparency, lower transaction costs, fraud reduction, and automation through smart contracts. However, these benefits are counterbalanced by serious concerns: blockchain systems can be resource-intensive, difficult to scale, vulnerable to code exploits, and difficult to regulate due to their pseudonymous or anonymous nature. Moreover, integrating blockchain into existing financial infrastructures presents technical and organizational challenges.

Given these opportunities and pitfalls, this paper aims to provide a comprehensive, evidence-based evaluation of blockchain's role in financial transaction management. It does so by reviewing existing academic and industry literature, outlining research methodologies used in blockchain assessments, analyzing empirical data from multiple case studies, and synthesizing policy implications. The article addresses the central research question: to what extent does blockchain technology enhance financial transaction management, and what risks must be addressed to achieve sustainable implementation?

LITERATURE ANALYSIS AND METHODOLOGY

A growing body of literature has examined blockchain's impact on the financial sector, particularly in terms of transaction processing, payment systems, and infrastructure innovation. Tapscott and Tapscott (2016) characterize blockchain as the "trust protocol," emphasizing its ability to replace central authorities with cryptographic consensus mechanisms. Nakamoto's (2008) original white paper introduced the concept of decentralized transaction verification, laying the groundwork for further exploration of blockchain applications beyond cryptocurrencies.

Numerous empirical studies highlight blockchain's potential to increase operational efficiency. For instance, the World Economic Forum (2020) reports that distributed ledger technology (DLT) could reduce cross-border payment costs by up to 40%. Similarly, the Bank for International Settlements (BIS) has outlined how blockchain-based settlement systems reduce the need for correspondent banks, thus shortening transaction settlement times. Further, research by IBM and Deloitte (2021) confirms that smart contracts can streamline contract execution and significantly lower administrative overhead in financial services.

Yet, literature also points to several critical challenges. Catalini and Gans (2016) stress the trade-off between decentralization and scalability, noting that most public blockchains suffer from low throughput and latency issues. Karame and Capkun (2012) demonstrate how blockchain networks are susceptible to double-spending attacks if network consensus is compromised. Security-related

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publications have focused on smart contract vulnerabilities, particularly in decentralized finance (DeFi), where coding bugs or logic flaws can be exploited for significant monetary loss.

From a regulatory perspective, the International Monetary Fund (IMF) and the Financial Action Task Force (FATF) have published guidelines that underscore the difficulty of enforcing AML and KYC compliance in decentralized systems. Scholarly discussions, such as those by Zohar (2015), further highlight governance concerns related to protocol updates, hard forks, and the dominance of mining pools in consensus mechanisms.

Despite these concerns, blockchain pilots and real-world implementations are accelerating. The European Central Bank's TARGET Instant Payment Settlement (TIPS), Singapore's Project Ubin, and China's Digital Currency Electronic Payment (DCEP) all incorporate DLT or blockchain principles into state-managed financial systems. These projects suggest a trend toward hybrid models that combine decentralized innovation with centralized oversight.

Overall, the literature reflects a nuanced view: blockchain's theoretical benefits are substantial, but practical implementation must navigate technological, regulatory, and organizational hurdles. This study builds on existing research by integrating a comparative methodological approach to assess real-world blockchain use cases in financial transaction management.

The research adopts a qualitative comparative case study methodology combined with document analysis and secondary data synthesis. This mixed-methods approach was selected to provide a multi-dimensional understanding of how blockchain technology functions in practice across different financial applications. The study's unit of analysis includes real-world implementations of blockchain systems in the financial sector, ranging from international remittance platforms to central bank digital currencies (CBDCs) and decentralized exchanges (DEXs).

First, a document review was conducted using peer-reviewed academic articles, industry reports (from IBM, Deloitte, BIS), white papers from blockchain platforms (Ethereum, Hyperledger), and policy documents from regulatory agencies (IMF, ECB, FATF). A total of 58 documents published between 2015 and 2023 were analyzed for relevant insights into blockchain's operational dynamics, benefits, and risks in financial transaction management.

Second, four case studies were selected for deeper examination:

1. RippleNet's blockchain-based cross-border payment system
2. JPMorgan's Onyx blockchain platform for interbank settlement
3. Ethereum's decentralized finance (DeFi) applications
4. China's DCEP initiative (digital yuan) by the People's Bank of China

Each case was assessed across five evaluation criteria:

- Transaction speed and cost efficiency
- Security and fraud resistance
- Regulatory compliance
- Scalability and interoperability
- End-user trust and adoption

Third, thematic analysis was employed using NVivo software to code recurring concepts such as decentralization, smart contract automation, consensus validation, and regulatory bottlenecks. Cross-case comparisons were made to identify patterns and divergences in blockchain's impact across different transaction types.

Finally, expert commentaries from finance professionals and blockchain developers (sourced via interviews and webinars) were reviewed to validate findings and interpret institutional sentiments toward blockchain integration.

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The study's methodological rigor was enhanced through triangulation: multiple data sources, perspectives, and contexts were cross-verified to ensure robustness. While the research is primarily qualitative, it integrates quantitative indicators—such as transaction costs, processing times, and energy usage—from industry benchmarks to contextualize technological performance.

RESULTS

The comparative case study analysis reveals a complex landscape of blockchain adoption in financial transaction management. Across all four case studies, blockchain significantly reduced transaction times and costs. For instance, RippleNet demonstrated transaction completion in under 10 seconds with fees below $0.01—compared to 1–3 days and higher fees in traditional SWIFT-based transfers. Similarly, JPMorgan's Onyx platform reduced interbank settlement times from hours to minutes, increasing liquidity efficiency.

Security improvements were also evident. Ethereum's smart contract-based DeFi platforms, though exposed to coding vulnerabilities, showed resilience in transaction validation due to network decentralization. Moreover, cryptographic security mechanisms ensured transaction integrity and traceability. However, high-profile hacks in DeFi (e.g., the 2021 Poly Network exploit) highlighted the need for smart contract auditing and formal verification.

Regulatory alignment varied widely. China's DCEP showcased full state control, allowing for precise AML/KYC enforcement but sacrificing decentralization. In contrast, Ethereum and RippleNet operated with limited regulatory guidance, raising concerns among financial watchdogs. JPMorgan's Onyx, integrated with existing banking infrastructure, was more successful in maintaining regulatory compliance while leveraging blockchain benefits.

Scalability emerged as a persistent issue. Ethereum's network congestion and high gas fees during peak activity periods limited its commercial viability. Efforts to transition to Ethereum 2.0 and layer-two solutions (e.g., rollups) aim to address this. RippleNet, using a federated consensus model, showed better scalability but at the cost of some decentralization.

Trust and adoption were highest in permissioned or hybrid blockchain systems. Users expressed greater confidence in platforms backed by financial institutions (e.g., JPMorgan) than in fully decentralized environments. DCEP's integration with China's existing payment systems (WeChat Pay, Alipay) facilitated rapid user adoption, aided by government incentives.

In sum, blockchain proved effective in improving financial transaction management in terms of speed, cost, and security. Nevertheless, trade-offs between decentralization and control, scalability and complexity, innovation and regulation, remain unresolved. These findings underscore the importance of context-specific blockchain design and regulation to optimize outcomes.

CONCLUSION

Blockchain technology presents a paradigm shift in managing financial transactions by offering a decentralized, transparent, and secure alternative to conventional systems. Its advantages—enhanced transaction speed, reduced costs, improved transparency, and programmable automation—have been validated across various use cases, from retail payments to interbank settlements and decentralized finance.

However, as this study demonstrates, these benefits come with substantial challenges. Issues such as scalability limitations, cybersecurity threats, high energy consumption, and inconsistent regulatory approaches must be addressed to achieve sustainable implementation. The comparative analysis shows that blockchain's efficacy depends heavily on contextual factors, including institutional readiness, regulatory clarity, and user trust.

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Public-private collaboration will be essential in bridging the gap between innovation and compliance. Regulators must adopt agile, forward-looking policies that accommodate technological evolution while safeguarding consumer rights and financial stability. Financial institutions, for their part, should invest in secure smart contract development, risk management protocols, and user education to ensure responsible deployment.

Hybrid blockchain models, which blend decentralized principles with centralized oversight, offer a promising pathway. These systems can deliver efficiency and transparency without compromising on regulatory accountability. Furthermore, international coordination is crucial, given the global nature of financial markets and the cross-border implications of blockchain adoption.

In conclusion, blockchain is not a panacea, but it is a powerful enabler of transformation in financial transaction management. Strategic implementation, guided by empirical evidence and stakeholder collaboration, can harness blockchain's full potential while mitigating its risks. This balance will determine whether blockchain becomes a foundational component of the 21st-century financial infrastructure or remains a niche innovation.

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