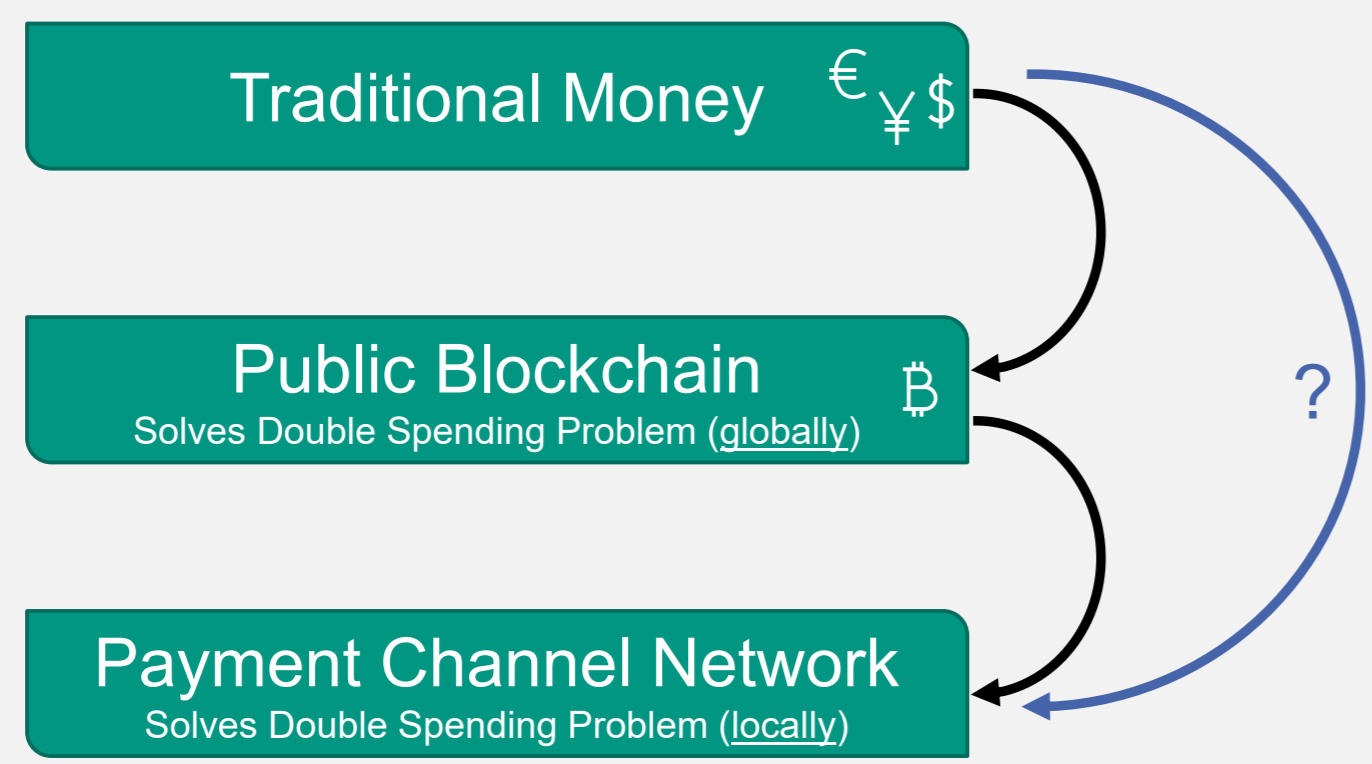


Do Payment Channel Networks Need a Blockchain?

Rethinking Blockchain Layers

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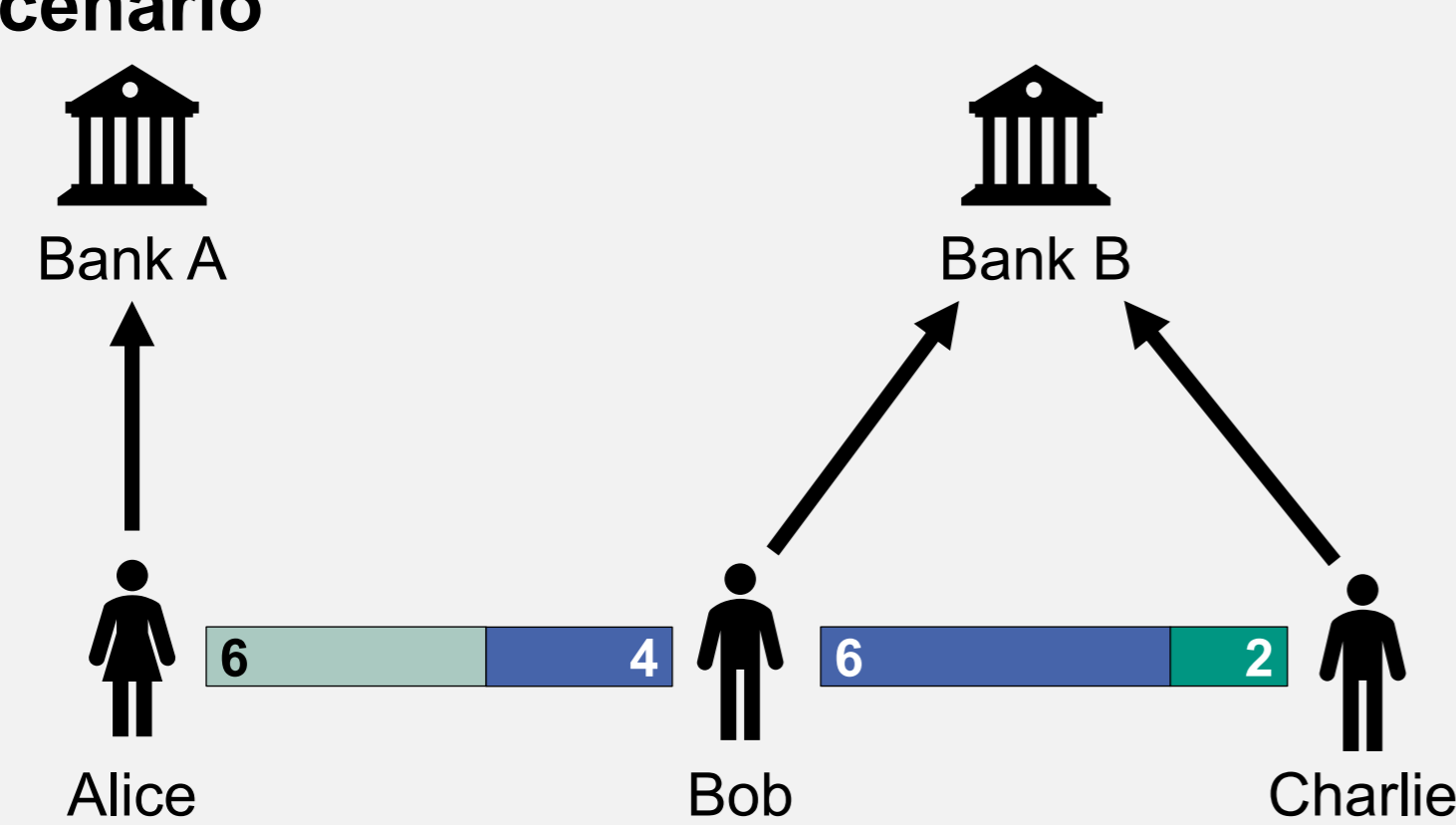


Blockchain cryptocurrencies and payment channel networks solve the problem of preventing double spends.

Can payment channel networks be used **without a blockchain** to create a “to some extent decentralized” architecture for digital payments?

How can **Central Bank Digital Currencies** allow for decentralized payments comparable to cash?

Scenario



Channel Protocol

Involved Parties

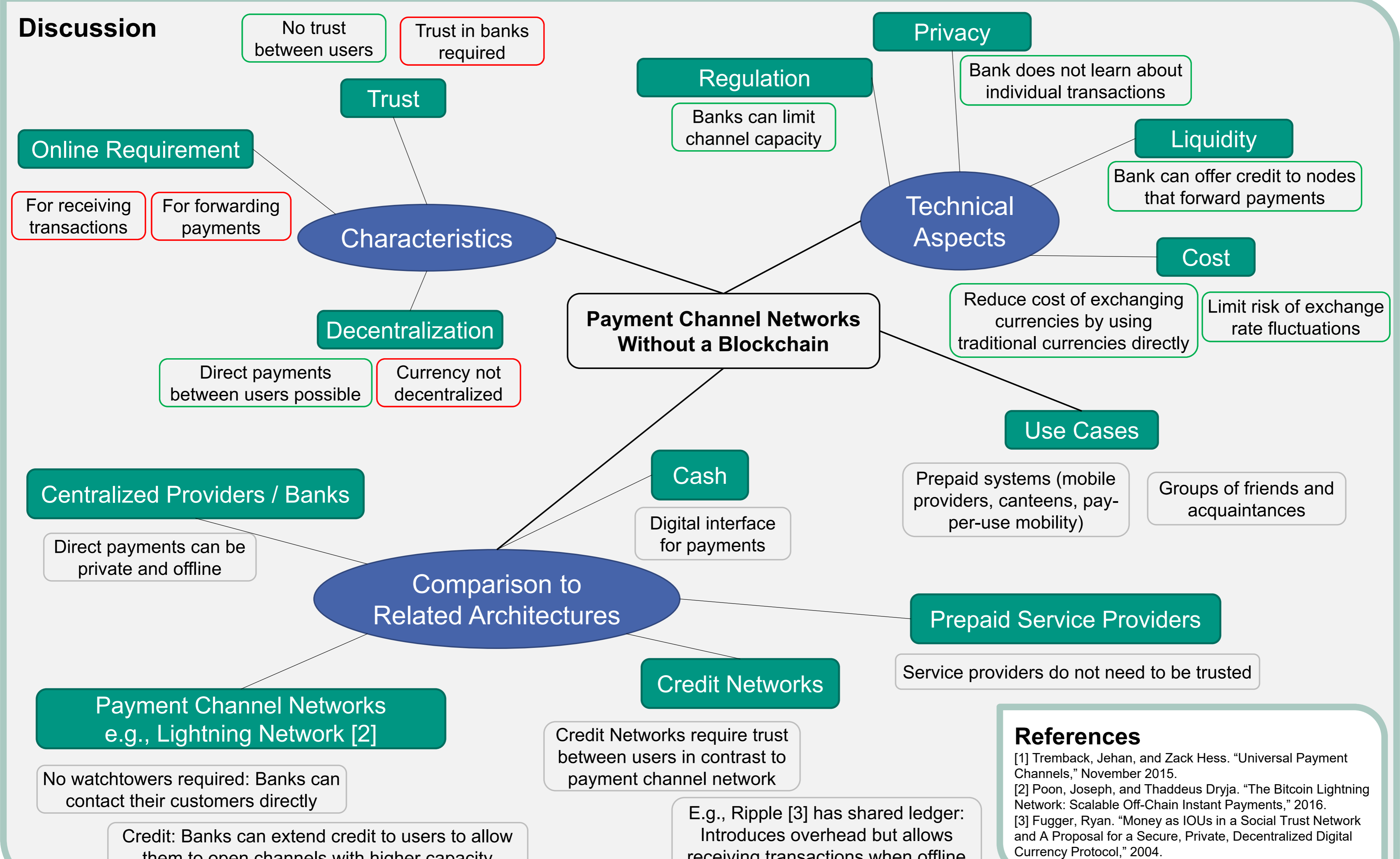
Create Channel: Alice, Bob, Bank A, Bank B
Banks create channel identifier, lock initial balances, sign initial state

Update Channel: Alice, Bob
Sign new state, send to other party

Close Channel: Alice, Bob, Bank A, Bank B
Send state to bank, wait for other party's confirmation / timeout
Banks perform transfer between each other, update balances

Dispute: *Banks arbitrate, newest state wins*

Discussion



Characteristics

- Trust: No trust between users (green), Trust in banks required (red)
- Online Requirement: For receiving transactions (red), For forwarding payments (red)
- Decentralization: Direct payments between users possible (green), Currency not decentralized (red)

Technical Aspects

- Regulation: Banks can limit channel capacity (green)
- Privacy: Bank does not learn about individual transactions (green)
- Liquidity: Bank can offer credit to nodes that forward payments (green)
- Cost: Reduce cost of exchanging currencies by using traditional currencies directly (green), Limit risk of exchange rate fluctuations (green)

Comparison to Related Architectures

- Centralized Providers / Banks: Direct payments can be private and offline (green)
- Cash: Digital interface for payments (green)
- Prepaid Service Providers: Service providers do not need to be trusted (green)
- Credit Networks: Credit Networks require trust between users in contrast to payment channel network (green)
- Payment Channel Networks e.g., Lightning Network [2]: No watchtowers required: Banks can contact their customers directly (green), Credit: Banks can extend credit to users to allow them to open channels with higher capacity (green)

Use Cases

- Prepaid systems (mobile providers, canteens, pay-per-use mobility)
- Groups of friends and acquaintances

References

- [1] Tremback, Jehan, and Zack Hess. "Universal Payment Channels." November 2015.
- [2] Poon, Joseph, and Thaddeus Dryja. "The Bitcoin Lightning Network: Scalable Off-Chain Instant Payments," 2016.
- [3] Fugger, Ryan. "Money as IOUs in a Social Trust Network and A Proposal for a Secure, Private, Decentralized Digital Currency Protocol," 2004.