THE AGE OF BLOCKCHAIN

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By: Tom R. Wallace, Tyler Kirk

The executives of most major companies in the U.S., UK, EMEA, and APAC will have heard of blockchain, and some will have asked their business development or corporate venture capital teams to identify and report on development, collaboration, or investment opportunities. However, few have established proof of concept and almost none have developed mainstream use cases. In spite of this commercial uncertainty, the theoretical potential of blockchain to disrupt the established business models of many, if not all, commercial enterprises keeps it at the top table of business risk factors.

Accordingly, startups and incumbents alike recognize the unique business opportunity presented by blockchain. Many advocates equate the current state of blockchain technology to the dawn of the Internet Age in the early 1990s. If businesses knew then what they know now about how the internet revolutionized commerce, they could have better positioned themselves to profit from the evolutionary leap forward in technology. Given the millions of dollars of investment in blockchain since its introduction in 2008, businesses all over the world are determined that history will not repeat itself.

Clearly, blockchain is poised to disrupt business models across multiple sectors, from tracking renewable energy credits to recording real estate deeds. However, financial services will feel blockchain's impact the greatest. Under pressure to cut costs, EU asset managers and their service providers have shown how blockchain can be used to distribute fund shares more efficiently and cut costs by $100 million. In the U.S. and Australia, major stock exchanges have already undertaken to replace their entire clearing and settlement infrastructure with blockchain, preparing themselves for an immediate settlement protocol. Further, smart contracts promise to bring ISDA agreements into the twenty-first century by automating certain clearing, settlement, and payment processes that are currently expensive and labor intensive. In light of these benefits, financial firms need to have a blockchain strategy or risk being left behind.

In order for investors and incumbents to succeed in their collaboration and investment strategies in blockchain technology, we have found that a change in mind-set is necessary. Since the development and adoption of a blockchain powered system is a technology transaction and will require a technology project management mindset, the first step for a successful strategy in this space is for the incumbent financial services firm to think of itself as a technology business. Depending on the scale of the investment, it may be sensible for an executive with a relevant technological background to be appointed to the board to give it the balance of analytical skills necessary to help evaluate the opportunity and risks. Our FinTech clients have also found it useful to have innovators in their regulatory matrix for both the finance and operation of their blockchain business.

In addition, financial firms looking to capitalize on the coming blockchain boom should focus on a few key targeted processes. Ask yourselves, where can the blockchain advantages of transparency and immutability be best applied in our business model? Choose a process or program and keep focused on it. Don't try to do it all at once.

While financial services firms are familiar with client, compliance, and talent management systems as a way of mitigating risks to their business and protecting revenue and assets, a significant investment in blockchain may necessitate a review of the way in which the firm develops and protects its IT infrastructure. In particular, unlike software development businesses, financial services firms frequently do not have software, algorithm, and code development policies that include the latest best practices on the engagement of contractors, licensing, and/or open-source software to minimize the risk to investments in proprietary technology. Further, financial businesses face legal risks flowing from a complex regulatory matrix that lags behind the advent of new technology.

Financial services firms will face operational and regulatory risks in adopting blockchain. Nevertheless, firms that implement blockchain operations correctly are likely to see significant first-mover advantages that outweigh such risks.

KEY CONTACTS

TOM R. WALLACE
PARTNER

LONDON
+44.20.7360.8292
TOM.WALLACE@KLGATES.COM