

Blockchain: beyond the hype

Matthew White, PwC Middle East Partner and Head of the Digital Trust practice talks to Forbes Middle East about on how to get beyond the hype of blockchain.



The hype surrounding blockchain technology has reached fever pitch levels. Many prominent financiers, technologists and entrepreneurs have staked their reputations and fortunes on it. Investments in blockchain startups since 2015 are approaching \$2.5Bn according to some estimates. If you include Initial Coin Offerings (ICOs) in that number it's closer to \$20Bn, a staggering \$9Bn of which has occurred in the first half of 2018. The Middle East is a leading player in some respects with clear Government strategies, regulatory engagement and technology accelerators all playing a part.

Yet in and amongst the melee it is difficult to identify many use cases that have yielded significant benefit, aside from for those individuals who have made fortunes speculating on cryptocurrency markets. The challenge remains that it is difficult to separate the hype from tangible business benefits and build trust in the use cases that can generate them. Even executives at blockchain-investing organisations struggle to explain what it is that blockchain will be enhancing in their businesses or why. This is a worrying trend - invariably the successful adoption of new technology is driven from the top. Without a clear understanding of what the organisation seeks to achieve, direction from senior leaders and a focus on building trust, blockchain projects may be doomed to failure. We need to move beyond the hype to make sure that investments being made by organisations are properly realised and the technology fulfils its potential.

I'm not going to try to explain the basic concepts of a blockchain and how it works here - there are plenty of excellent resources out there that do this. Rather, I want to use this opportunity to highlight the major barriers that are preventing organisations from identifying benefits and building trusted solutions to realise them.

Education

Education is arguably the most significant barrier to achieving tangible benefits from blockchain technology use cases. The problem is twofold. Firstly for business leaders and regulators, the general level of understanding of the technology, where it can be used to greatest

effect, associated risks and how to integrate it into an organisation is poor.

In a large part this is down to the confusion that has ensued from the hype, which has impaired the normal cycle of questioning and learning. In other words, business leaders now seem to be less willing to ask questions of something they feel they are expected to know because it has been so talked about. The nature of the revolution has also meant that the best knowledge is often only available in unconventional forums, such as open source communities that business leaders are not familiar with accessing.

The second half of the problem relates to technical skills. It is widely regarded that blockchain technology is in its infancy - blockchain today could be compared to the Internet in 1995 when we had no idea of Amazon, Uber, Facebook etc. We may come to wonder how society ever lived without it, but as a consequence of the state of maturity, the availability of technical skills and training to support development is very limited. This has made it difficult for organisations to research and develop blockchain applications and will continue to hinder innovation.

Some organisations such as Hyperledger and Bglab Academy are beginning to offer both technical and business education for blockchain systems. It's now up to individuals to invest in their own development and tackle this problem.

Collaboration and Decentralization

Another significant barrier to the proliferation of blockchain technology is the extent that organisations are able to collaborate on development and scaling of projects. The true benefits are likely only to be realised when this happens and there are several reasons for this.

The benefits of trust, transparency and efficiency can only be achieved at scale and across an ecosystem. For instance, a decentralised payments system is not going to be of much use if only a handful of banks and payment providers are using it. Or for organisations trying to improve traceability of food produce from farm to store, there is little benefit without all farmers or distributors being part of the system.

Collaboration between diverse organisations and stakeholders is required to be able to design, implement and govern these blockchain systems properly. Collaboration also allows the pooling of skills and resources which is essential in an environment where there is a lack thereof as previously discussed, and it can reduce the risks to one specific enterprise.

But there are inherent barriers to collaboration, particularly in a decentralised environment. Humans have a predisposition to operate in centralised structures so naturally will find it difficult to operate with blockchain systems which are opposite in nature. To progress beyond this, organisations and consortia must establish a collaborative structure from the outset, which outlines, confronts and answers

the difficult questions which the project will almost certainly face. Questions such as:

- What happens if one organisation refuses to progress the project?
- Who pays when a new organisation joins the consortium?
- What data can be shared and who owns the data on the blockchain if an organisation leaves?
- Who will govern the blockchain when it is live and what controls are required to ensure its resilient operation?

The key to addressing these challenges is establishing a suitable distributed governance mechanism. This must have attributes of open dialogue and transparency between parties, which may require independent facilitation. Smart Dubai are a good example of this type of positive government incentivisation and collaboration with the enterprise. Many private companies are actively participating and benefiting from the guidance and governance that Smart Dubai are providing.

Regulation

Cryptocurrency is only one type of blockchain use case but it is useful to illustrate the problem of regulation. There are currently around 1,600 cryptocurrencies in existence, the current market capitalisation of which is \$280Bn - not bad for a financial market with next to no regulation. Most of these have appeared within the last 18 months as a result of Initial Coin Offerings, which are essentially a means to raise capital for a venture by issuing cryptocurrency coins or tokens.

There is a lack of consensus from Regulators as to how to treat these coins, in particular whether they should be subject to the same regulations as a securities offering. Some Regulators have banned ICOs and the use of cryptocurrencies altogether, some are taking a 'watch and see' approach. Many, if not most of the cryptocurrencies in issue have little intrinsic value at present - which is to say they have been designed with a future use case in mind that will create demand and stabilise its price on the secondary market. Unfortunately, this means that a large number of the investments made will likely be lost.

The lack of regulation is preventing investment into valuable blockchain use cases because investors do not trust the legitimacy of projects and are wary of the potential for their investments to be wasted in the event of a change in regulation. This is not just true of cryptocurrency projects but of wider blockchain applications such as the provision of Know Your Customer or Anti Money Laundering services.

One way for Regulators to move forwards is to create regulatory sandboxes, such as in the Abu Dhabi Global Market.

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These are trusted spaces for businesses to trial and refine innovative products, services, platforms and business models in a live but controlled environment, giving regulators time to adapt legislation as needed.

The time is now

There is little doubt in my mind that blockchain technology has the potential to change the nature of capitalism by bringing more trust, efficiency, transparency and accurate recording to everyday transactions. Governments such as the UAE are providing vision and leadership to pioneer this technology - enterprise organisations need to follow suit. The time is now to invest in education, identify opportunities for collaboration to drive progress, and engage with Regulators/standards setters to establish clarity and stability.

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