Weston Jones 4/22/18

Intro to ITWS – Section 1 Case 3 -- Deutsche Bank & Block Chain

**Should Deutsche Bank join another consortium other than the Distributed Ledger Group? Why or why not?**

After considering all the associated risks and benefits of joining a second blockchain focused consortium, I believe it is Deutsche Bank’s best interest to work solely with the Distributed Ledger group.

The primary reason for this decision has to do with the fact that Deutsche Bank is already in a consortium. As far as blockchain focused consortiums go, the Distributed Ledger group seems like the place to be. As the article points out, this group consists a lot of major banks, firms, and fintech startups that have agreed to pool their resources together in order to create a centralized transaction system that will make use of blockchain technologies.

Deutsche Bank has already proved itself to be a valuable member of the consortium with the work done by their Deutsche Bank Labs subdivision – successfully demonstrating the feasibility of decentralized securities trading and creating a technical prototype for such a system (Applegate et al. 2017). As a member of the consortium with lots to give, Deutsche Bank should only ally itself with organizations that will also be giving back. The Distributed Ledger consortium seems like such a place. The consortium, because of their members from the fintech fields, have already made innovations such as the development of Corda, an open source platform for making use of blockchain technology (Applegate et al. 2017). In addition to Corda, the consortium has gained the support and involvement of IBM, a leading technology company, for the expansion of a blockchain ledger system (Williams-Grut, 2017). The distributed ledger consortium is making progress towards achieving Deutsche Bank’s goal of having a decentralized blockchain backed transaction system, so it doesn’t make much sense to dilute its resources.

Aside from the lack of apparent need for joining additional consortiums, such a decision also carries potential risks. “We were concerned about sharing our intellectual property. In a consortium, people could be very guarded about sharing their insights. It would only work if there is mutual trust,” said Paul Maley, the managing director of Deutsche Bank when questioned about joining additional consortiums (Applegate et al. 2017). While businesses might work together for the development of a standardized system that would be mutually beneficial, these organizations are still inherently in competition. Anything that might give an organization a competitive edge, such as stealing trade secrets or intellectual property from partners, is something that insiders would most likely consider. While the risks are mitigated somewhat in a larger consortium such as the Distributed Ledger, because of an inherent lack of closeness between the cooperating companies (since there are more potential partners) and because there will be more mutually beneficial advancements made (since there are more companies working on a project), a smaller secondary consortium would come with more risk. This is particularly true of the consortium made up of Santander, BNY Mellon, ICAP, and Clearmatics which was asking for a “financial contribution” in exchange for the intellectual property rights to any potential advancements made. Money is something tangible, but IP is more abstract and, as Maley said, can be guarded.

When thinking about expanding research and investment into blockchain, one also has to consider that such technologies may be a dead end. One problem that faces many blockchain systems today such as Bitcoin and other cryptocurrencies is known as the scalability problem. Because of the internal underpinnings of blockchain networks, making a network larger, say large enough to process financial transactions between lots of different users, makes the network disproportionally complex. “Every fully participating node in the network must process every transaction” (Kasireddy, 2017). Such additional processing requirements may lead to a need for more computational power and may lead to delays in transactions, mooting the supposed benefits of blockchain. This problem is an active area of research and something members of blockchain focused consortiums would no doubt be looking into, but this problem currently has no implementable solution (Kasireddy, 2017). Will it at some point? Who can say? With this in mind though, I really don’t think it’s a great idea to invest any more resources into this volatile, emergent technology.

Of course, with every important business decision, there are risks and benefits. While I think that the risks of focusing lots of resources in blockchain outweigh the potential benefits, such a suggestion is essentially a probability calculation. Blockchain applied to Fintech might be the next big thing that totally disrupts the industry. “Blockchain technology allows the exchange of value peer-to-peer globally, in real time, for almost free, in a trusted and secure mechanism” (Skinner, 2016). If implemented successfully, a standardized yet decentralized blockchain system could speed up transaction times and lower transaction costs while maintaining security by cutting out all intermediaries. If such a system were to come about, then Deutsche Bank would want to be as heavily involved in it as possible and join as any consortiums as it could manage in order to reap the benefits. For all we know, a potential smaller consortium might research the solution to the scalability problem and made blockchain a reality, but to me, it seems unwise to devote too many resources on such a small hope.

Works Cited

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