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Mainstream adoption of blockchain by banks is 10 years away



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Banks could be putting blockchain under the microscope in a lab environment for the next 10 years, according to Forrester



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Financial services firms should treat blockchain as a lab project and prepare for another decade before the technology hits the mainstream, according to Forrester Research.

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The IT analyst company said full-scale, industrial-strength blockchain deployments “aren’t imminent” and predicted a three-phase evolution of the technology.

Blockchain is best known as the distributed database technology behind the virtual currency bitcoin, but banks are starting to investigate its broader capability as a real-time, encrypted distributed ledger for transactions involving a variety of financial assets.

The peer-to-peer technology uses distributed ledger and advanced

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encryption to guarantee the provenance of every transaction. It could potentially eliminate back-end processing to provide a secure, provable transaction in near real time. In a world where digital disruption is rampant, this cannot be brushed aside.

According to Forrester, organisations have been on the first part of the journey for some time, which it labelled “irrational exuberance”.

“We are reaching the end of this first phase, as many companies have already realised, from their own hands-on evaluations and pilot projects, that for the use cases under investigation there are no ready-made solutions that can achieve enterprise-scale and also fulfil other key requirements around security, exception handling and regulatory compliance, to mention just a few factors,” said Forrester.

Read more about blockchain technologies

- Blockchain, the distributed ledger technology behind bitcoin, is both a threat and an opportunity for financial services – and [banks are taking it very seriously](#).
- Spreading cyber crime, like the ransomware attacks on NYT and BBC, has Congress [considering bitcoin security](#).
- A panel of financial services experts [discussed adoption of blockchain technologies](#) at the Innovate Finance 2016 Summit.

Forrester said many organisations have moved to the next phase, “rational assessment”.

“Judging by some of the inquiries, some organisations are still hoping for the imminent appearance of suitable off-the-shelf solutions,” said Forrester. “By the end of 2016, we’ll firmly be in the phase of assessing in detail which technology components need to be developed, or stitched together, for particular use cases.

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“Alongside, companies will focus on cost/benefit calculations and business models. This will be ongoing for a number of years, depending on the use case. It’s likely that for some of these, blockchain technology will turn out not to be the most optimal solution after all, either because of technical complexity or because the business case doesn’t stack up.”

Then comes phase three, “practical deployment”.

Forrester said for straightforward use cases, such as those involving a small number of parties and few or no regulatory concerns, the transition to this phase will be smooth. But it added: “For the key use cases around things like securities settlement, remittances and foreign exchange, trade finance, companies will need to cross a second chasm – achieving the required network effect.

“Whether it’s through a common platform or a standard for interoperability between blockchains, without a critical mass of industry players participating, the envisioned efficiency gains and cost savings won’t happen.”

Testing blockchain technology applications

Firms are participating as groups already, and financial services companies have announced various trials and investments in the technology.

In March 2016, for example, a global banking consortium – which included Barclays, Royal Bank of Scotland and HSBC – completed cloud-based tests of five different blockchain technologies. Working with IT supplier R3, the banks, from all over the world, tested trading using blockchain and cloud technology. The aim of the pilot was to see how distributed ledgers could be used commercially in global financial markets.

Meanwhile, Royal Bank of Scotland is looking to take a lead on blockchain. The bank told Computer Weekly in 2015 that it intended to pilot a service based on the technology in 2016, with a view to releasing a product – likely to be some form of payment service.

Then there are investments among the IT supplier community. French IT

services firm Capgemini plans to have 100 blockchain specialists globally in its financial services division by the end of 2016. Through this team, the supplier will offer blockchain services, to include feasibility studies, business case assessments and full systems integration.

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