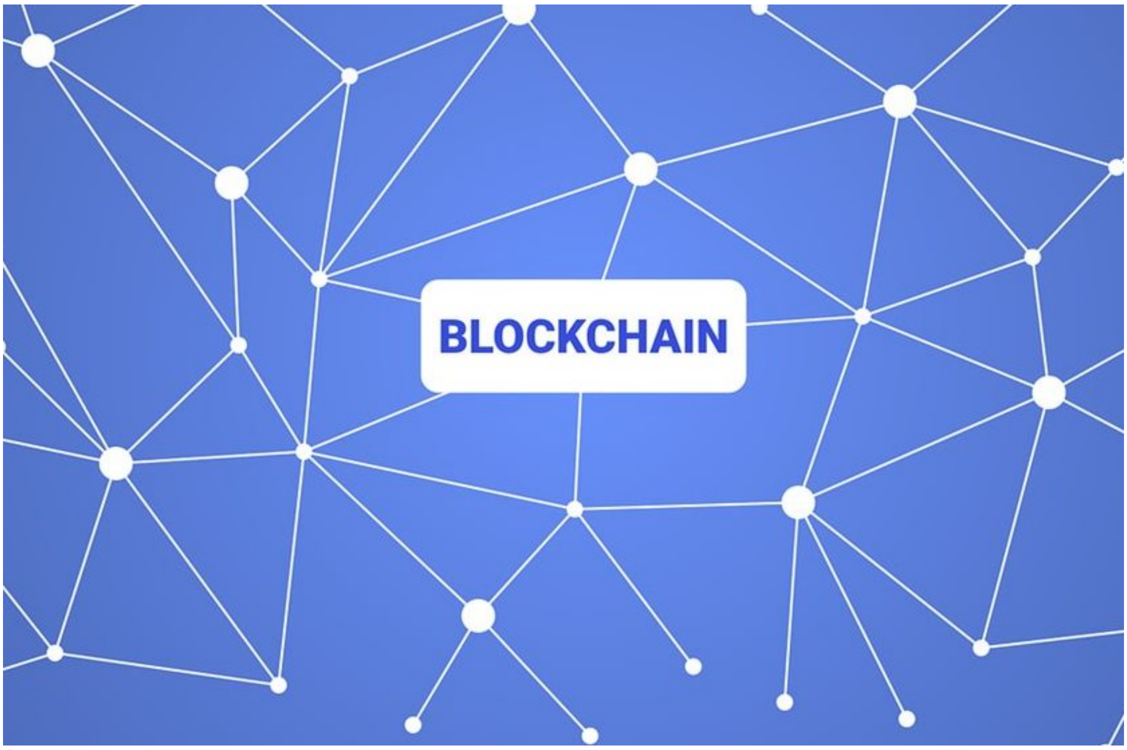
Blockchain deployments across financial services ecosystems to be seen in the future

According to Gartner, lack of interoperability standards will prevent pervasive blockchain deployment across financial services ecosystems for at least three years



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"Blockchain standards for financial services companies are currently fragmented and immature," said Fabio Chesini, senior research director at Gartner. "We are three to five years until standards mature and settle."

During Gartner IT Symposium/Xpo, which is taking place in Cape Town through Wednesday (16-18 September 2019), Gartner analysts have been discussing how business and IT leaders can create value from blockchain.

Standards are critical for financial services entities because they are constantly moving assets between clients, partners and other institutions. Today, bank CIOs can choose from numerous blockchains, available from either enterprise-grade approaches such as Corda, Hyperledger, and Digital Asset, or the many public blockchain standards like Bitcoin, Ethereum, Cardano, EOS, and Tezos. They are all trying to become the de facto state machine for value exchange and digital asset representation, smart contracts and decentralized applications. This indicates the fragmentation of the various standards.

“Bank CIOs must be mindful of this nascent and fragmented state of blockchain standards,” says Chesini. “It is unlikely there will be a single de facto standard like in the Open Systems Interconnection (OSI) model, at all levels. Given how new and fragmented the state of blockchain standards is, we expect no more than four standards to lead the market in the next three to five years.”

In addition to standards, Chesini warned financial services CIOs of three additional impediments when deploying blockchain projects: governance, integration and interoperability.

Governance

Blockchain governance is important because it regulates activities occurring across the ecosystem and provides legal assurances that their arbitrary decisions will not be made as an abuse of power against other participants.

“Governance specifies how value is exchanged, but also how those data exchanges are recognised and recorded, as well as who has access to them and who can exchange value with whom,” says Chesini.

“Governance and management of private and permissioned blockchains in any form, including consortia, will remain centralised and hierarchical during the next three to five years, making blockchain governance in financial services a key impediment for the same period,” added Chesini.

Integration

To achieve the true potential of blockchain, implementations must be seamlessly integrated with already installed software solutions. However, major software and SaaS providers aren’t offering blockchain solutions as add-on features to their enterprise solutions. As a result, financial services organisations are paying a high cost for continuously maintaining and “reintegrating” blockchain implementations into their new and existing enterprise software solutions.

In the next two to three years, Gartner analysts expect all major ERP and CRM players to offer blockchain capabilities as an add-on feature for their software and SaaS products. Software suppliers, meanwhile, will integrate and upgrade their chosen blockchain versions and ensure compatibility with their own new software releases.

“These efforts will dramatically reduce the cost of deploying blockchain projects across the financial services organisations and their supply chains,” says Chesini.

“In the meantime, the full-lifetime costs of integrating a blockchain solution in an organisation will be millions of dollars in consulting fees, reengineering, development and upgrades. These high costs drastically slow the widespread integration of blockchain initiatives.”

Interoperability

Bitcoin, R3, Ethereum, Hyperledger and others often use differing implementations, data formats, data interchange and directories making interoperability among different blockchains difficult across organisations.

“As financial services companies constantly move financial instruments and assets to other financial services companies and partners, cross-industry interoperability standards are, and will be, critical,” says Chesini.

“Today, they are looking to replace current banking vehicles for payments like Western Union, or international money transfers like SWIFT, with blockchain-based platforms.”

Fixing these types of data exchange standards will enable numerous blockchains to coexist and to share their ledgers, as necessary. However, as blockchains are a moving target and keep evolving, interoperability solutions are still three to five years away.