ALPHAVILLE

HOME MARKETS LIVE LONG ROOM

Blockchain

Occam's blockchain shaver

41

JANUARY 10, 2019 4:45 PM

By: Izabella Kaminska

As the world knows, the fairest and smartest of all the management consulting firms is McKinsey & Company.

So profound is their reputation for being ahead of the curve they need publish only one report to ensure a fledgling trend becomes an established norm.

Lucky for the world, back in December 2015, McKinsey's attention turned to blockchain. At this point the wisest of them all asserted: (https://www.mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Beyond%20the%20hype%20Blockchains%20in%20capital%20markets/Beyond-the-hype-Blockchains-in-capital-markets.ashx)

> Blockchains have the potential to dramatically reshape the capital markets industry, with significant impact on business models, reductions in risk and savings of cost and capital.

But the truly wise also know it's never clever to make forecasts without caveats. Accordingly there were plenty.

So yes, blockchain was going to truly revolutionise the world, increasing transparency and efficiency while reducing cost, but it also remained "largely unproven in complex markets" and faced many "adoption challenges".

Hedging its bets further, McKinsey forecast adoption would be marked by four stages:

1. single-enterprise adoption across legal entities
2. adoption by a small subset of banks as an upgrade to manual processes
3. conversion of inter-dealer settlements;
4. and, finally, large-scale adoption across buyers and sellers in public markets.

The conclusion nonetheless was clear; once challenges had been resolved rapid uptake would follow.

By June 2018, McKinsey was proud to report (https://www.mckinsey.com/business-functions/digital-mckinsey/our-insights/blockchain-beyond-the-hype-what-is-the-strategic-business-value?cid=soc-web)(albeit with ongoing caveats) that:

> The insights from our analysis suggest that, beyond the hype, blockchain has strategic value for companies by enabling both cost reduction without

> disintermediation as well as, in the longer term, the creation of new business models.

Fanning the fomo more, they added:

> Venture-capital funding for blockchain start-ups consistently grew and were up to $1 billion in 2017. The blockchain-specific investment model of initial coin offerings (ICOs), the sale of cryptocurrency tokens in a new venture, has skyrocketed to $5 billion. Leading technology players are also heavily investing in blockchain: IBM has more than 1,000 staff and $200 million invested in the blockchain-powered Internet of Things (IoT)

But pity the fool who believes the top-line message of a McKinsey report but overlooks the caveats.

Fast forward to January 2019 — from hereon known as the post-Blythe blockchain era (https://www.reuters.com/article/us-digital-asset-ceo/blythe-masters-steps-down-as-ceo-of-blockchain-startup-digital-asset-idUSKBN1OI07P) — and the caveat has become the top-line, while the top-line has become the caveat: "Blockchain has yet to become the game-changer ~~we~~ some epected (https://www.mckinsey.com/industries/financial-services/our-insights/blockchains-occam-problem)," they note.

Blockchain has yet to become the game-changer some expected. A key to finding the value is to apply the technology only when it is the simplest solution available.

So now we hear the following (https://www.mckinsey.com/industries/financial-services/our-insights/blockchains-occam-problem)instead (our emphasis):

> There is a clear sense that blockchain is a potential game-changer. However, there are also emerging doubts. A particular concern, given the amount of money and time spent, is that little of substance has been achieved. Of the many use cases, a large number are still at the idea stage, while others are in development but with no output. **The bottom line is that despite billions of dollars of investment, and nearly as many headlines, evidence for a practical scalable use for blockchain is thin on the ground.**

And:

> McKinsey's work with financial services leaders over the past two years suggests those at the blockchain "coalface" have begun to have doubts. In fact, as other industries have geared up, the mood music at some levels in financial services has been increasingly of caution (even as senior executives have made confident pronouncements to the contrary). **The fact was that billions of dollars had been sunk but hardly any use cases made technological, commercial, and strategic sense or could be delivered at scale.**

If McKinsey says it is so, it must be so. So read the report (https://www.mckinsey.com/industries/financial-services/our-insights/blockchains-occam-problem) and weep.

One thing we can be sure of, if Occam's razor is to be believed, there must now be good money in advising people *not to* invest in blockchain. (In which case can we have some? Thanks.)

Related links:
Why blockchain is a belief system (https://www.ft.com/content/3b31cc52-942e-399f-b75e-668c6e4d13e7) — FT Alphaville
Blockchain insiders tell us why we don't need blockchain (https://www.ft.com/content/e7e6effc-d071-3898-9d12-06439fe2bb92) — FT Alphaville
The diminishing returns of blockchain fetishism (https://www.ft.com/content/6029b686-05c6-31ca-aca9-351ff4108fe2) — FT Alphaville

41

Read next:

Emerging markets

EM exuberance is back

Sentiment is surging along with inflows, but further upside is limited.

5 HOURS AGO By: Colby Smith

0

COMMENTS (41)

+ Follow

Submit Comment

Please keep comments respectful. By commenting, you agree to abide by our community guidelines and these terms and conditions. We encourage you to report inappropriate comments.

Newest | Oldest | Most recommended

wayneJ Jan 15, 2019

A humble proposal for a use of BlockChain technology:

1. In the present environment we have had politicians deny claims they have previously made (eg on the side of buses, or whilst talking about Mexico).

2. How about requiring that when you make a manifesto statement or claim it can only be made if it is signed digitally and put into an untamperable widely distributed blockchain ledger

3. ie a distributed ledger of claims made by politicians? With legal sanctions if you make claims that are not on your 'claims ledger'.

Seems to me a logical way to hold politicians to account?

(Perhaps Izzy would maintain the global founding key?)

Report Share 1 Recommend Reply

Nullius Jan 13, 2019

The irrational hatred of new technology occasionally takes a funny turn. Queen Victoria was an early adopter of the telephone, but the Bank of England didn't have one until 1921. Email was in academic use throughout the 80s (in some departments, at least), but the UK government didn't get on board until the mid 90s. Some people who should have known better were still calling the Internet a dud at around the same time.

Blockchain is a nifty technology that has yet to find a killer niche - one that will end all the carping and dissing.

Report Share Recommend Reply

NancyNakamoto Jan 13, 2019

@Nullius "Blockchain is a nifty technology that has yet to find a killer niche"

This truly daft idea keeps coming up over and over again but it really makes no sense. Something is "nifty" if is able to do something, anything well.

The telephone in your example was used to communicate at a distance.

Email was able to send messages instantaneously at a distance. Within a few years of existence email was responsible for 75% of traffic on Arpanet (the predecessor of the Internet).

Apparently some parts of the world still believe in various forms of black magic and they are wating for it find a killer niche (curses perhaps?). Now that is a far better analogy.

Report Share 3 Recommend | Reply

Nullius Jan 14, 2019

@NancyNakamoto @Nullius You are reading my examples too partially. The point is that the telephone - a radical new invention - was around for quite a while before it took off. Lots of people were suspicious of it. Others mocked it. Many influential people didn't accept it until decades after its future was secure. Email, likewise, was only used by hundreds of people in the 70s, thousands in the 80s, and probably didn't crack a million until the early 90s - twenty years after it was invented. Blockchain is an invention that is only ten years old, and until the last year or two has only ever had one implementation - Bitcoin. Give it a chance!

Report Share Recommend | Reply

sathington willoughby Jan 15, 2019

@Nullius @NancyNakamoto Just curious, what's the evidence for people mocking and being suspicious of the telephone?

Report Share Recommend | Reply

2 replies

NancyNakamoto Jan 12, 2019

Dear Fundamentalist Izzy Fans,

She is not the messiah, she's...

just much more honest and intelligent than McKinsey.

NN

https://twitter.com/NancyNakamoto/status/1083154166325891072

Report Share Recommend | Reply

Contrapunctus9 Jan 11, 2019

Great kicker Izzy.

Report Share Recommend | Reply

ProminentFrogman Jan 11, 2019

Presumably, the conclusion we are to make is that the smartest of them all is ~~Izabella~~ Alphaville.

Report Share Recommend | Reply

Moneybags Jan 11, 2019

It's the very nature of consultants to never put their money where their mouth is...

Report Share 5 Recommend | Reply

ExBanker Jan 11, 2019

@Moneybags No skin in the game.

Report Share Recommend | Reply

Racing Punter Jan 11, 2019

@ExBanker @Moneybags No bone on the back.

Report Share 1 Recommend Reply

NickyM Jan 11, 2019

For my sins I qualified as a chartered accountant with EY. Once you've done a few reconciliations, a shared ledger which requires no reconciliation seems like a no-brainer. A huge amount of time and money is spent on reconciliations, often outside of accounts departments - consider financial trading and insurance.

A shared ledger also helps address fraud by making it very hard to duplicate submissions for raising finance or for tax deductions.

But change takes time. Just as it took time for the internet to become ubiquitous. Pets.com launched in 1998 to much fanfare and shuttered in 2000. Amazon owned a big share. That didn't mean online pet supplies wouldn't work, it was just too early. In 2017 Petsmart bought Chewy.com for $3.35 billion. In the early 2000s many questioned the viability of Amazon. In late 1999 the share price hit $107, a level it took almost ten years to revisit after dropping below $6 in September 2001.

Enterprise blockchain has been over-hyped particularly for inappropriate applications that don't need the technology. Blockchain technology is still nascent and there are challenges. But it's hard to see blockchain biting the dust. Although widespread adoption may take longer than people think.

Disclosure: I write about enterprise blockchain at Ledger Insights.

Report Share 3 Recommend Reply

Pegnu Jan 11, 2019

@NickyM You can have a shared ledger without using blockchain.

6 Recommend Reply

Report Share

Racing Punter Jan 11, 2019

@Pegnu @NickyM Not with the same level of robustness.

Report Share 1 Recommend | Reply

Pegnu Jan 11, 2019

@Racing Punter @Pegnu @NickyM That's the claim. It has been debunked repeatedly.

Report Share 4 Recommend | Reply

3 replies

BazM Jan 11, 2019

There was a time where I read management consulting reports about "key developments in industries."

I stopped after a while recognising that I was not any wiser about what to expect concerning such industries but I was extremely capable of putting 20 quite fancy words together which could be explained in one or two less fancy words.

Report Share 4 Recommend | Reply

Left Hand of Darkness Jan 11, 2019

The term "Crypto" as used by the great unwashed, has become a meaningless term.

It normally means ***cryptography*** (a groups of technologies including RSA, Blowfish, AES, of proven value and used by every credit card company, bank, web browser and computer operating system) or cryptographic hash functions (MD-4, MD-5, SHA-1, SHA-2, Keccak/ SHA-3) . These are established technologies used by every financial entity.

Among those who cannot understand anything more complex than Instagram or Twitter, it has also come to mean ***cryptocurrency*** . This is a social media term for a dubious product of dubious utility, sold by people of dubious probity to people of dubious cognitive ability.

For those who want to actually understand cryptography, the ever entertaining Mr Bruce Schneier has a couple of excellent books 1. Cryptography Engineering: Design Principles and Practical Applications 2. Applied Cryptography: Protocols, Algorithms and Source Code in C

Report Share 4 Recommend | Reply

wek120 Jan 10, 2019

Great contribution as always. But a bit more perspective is needed.

Blockchain or DLT – still my preferred term – continues to be confounded with crypto. The overwhelming share of activity in crypto is pure speculation. The main focus in DLT is creating more efficient, cost effective, secure operating systems for real world business, the financial ecosystem being a major focus of activity.

DLT suffers from over-hyped expectations driven by venture capital folks trying to recoup their ill thought out investments, the "now generation" mentality of so many of today's participants, and the inescapable drag in achieving progress given the inevitable number of participants in a decentralized environment which is the heart of DLT. Add to that the risk adverse nature of one of the key participants – the banks – and it is amazing that progress has been made at all.

The key to development of DLT is found in the last sentence of the McKinsey article – "be patient." The potential for positive development of broad segments of the economy is significant. In my world, transaction banking, particularly cross boarder payments, it is transformational. The good news is there is an army of incredibly bright people working on these projects. The bad news, for those who can not summon up patience, is that it will take many years to realize tangible results.

Report Share 3 Recommend | Reply

Ebenezer Scrooge Jan 11, 2019

@wek120 I agree with you that cryptocurrency proponents are shills and fools. DLT proponents may be neither, but they're beginning to resembles the proponents of fusion energy--which has been the energy of the future for the past 40 years now.

Yes, DLT has only had ten years of showing promise and not delivering. And yes, a cheque-less society finally did go from promise to reality in about 50 years. But ten years is a long time in the informatics industry, and some skepticism is warranted.

Report Share 3 Recommend | Reply

NickyM Jan 11, 2019

@Ebenezer Scrooge @wek120

Bitcoin may have been around for ten years but not enterprise DLT.

Arguably it's only about 18 months old based on v1 production releases:

Enterprise Ethereum Alliance formed March 2017

Hyperledger Fabric 1.0 released July 2017

R3's Corda 1.0 released October 2017 (Corda Enterprise 1st version July 2018)

Ripple is the outlier with the protocol created in 2012. But 1.0 was only released May 2018

JP Morgan's Quorum v1 was Nov 2016

Report Share 2 Recommend | Reply

somebody's body Jan 10, 2019

Missed these articles. Matt Levine and IK are by far my favourite writers on financial topics. Keep the good stuff coming!

Report Share 11 Recommend | Reply

wayneJ Jan 10, 2019

Izzy - at the height of the mania numerous blockchain and bitcoin enthusiasts sought funding - and in each and every case I recommended they read your work - and I would have a conversation with them after that. Needless to say - none of them ever came back.

Your opus saved me a lot of heartache (and money) - definitely owe you a drink or several - thank you.

And frankly given your collected works were so thorough I think McKenzie et al ought to pay you royalties everytime they touch on anything you covered years ago.

Well done Izzy - you are AWESOME! (or is that awesomeska?)

Report Share 19 Recommend | Reply

wayneJ Jan 10, 2019

I should have added that I once spent a couple of days printing out everyone of Izzy's articles on BTC and Blockchain and then reading each one carefully. Think it was several hundred pages.

Report Share 2 Recommend | Reply

Izabella Kaminska FT Jan 10, 2019

@wayneJ Too kind :) It's not dead yet. The caveat that it could still turn out to be revolutionary remains in the McKinsey analysis.

Report Share 2 Recommend | Reply

Izabella Kaminska FT Jan 10, 2019

@wayneJ Wow. That is dedication! Glad someone reads me

Report Share 4 Recommend | Reply

3 replies

Mysterion Jan 10, 2019

Gosh. Who could possibly have predicted this ?

Report Share 3 Recommend | Reply

Global luxury brand Jan 10, 2019

Welcome back!

Report Share 3 Recommend | Reply

2000AD Jan 10, 2019

Oxford University still plugging it

https://www.sbs.ox.ac.uk/programmes/oxford-blockchain-strategy-programme

https://www.sbs.ox.ac.uk/about-us/people/david-l-shrier

Report Share Recommend | Reply

Mysterion Jan 10, 2019

@2000AD Shameful

Report Share Recommend | Reply

William Fellows Jan 10, 2019

Ah Izabella's back with wonderfully sarcastic blockchain deconstruction. Very happy.

Report Share 22 Recommend | Reply

Moneybags Jan 11, 2019

Deconstruction! Ominous but apposite, well done!

Report Share Recommend | Reply

DrStockmann Jan 10, 2019

Brilliant

Report Share 11 Recommend | Reply

anon Jan 10, 2019

My sentiments exactly

Report Share 1 Recommend | Reply