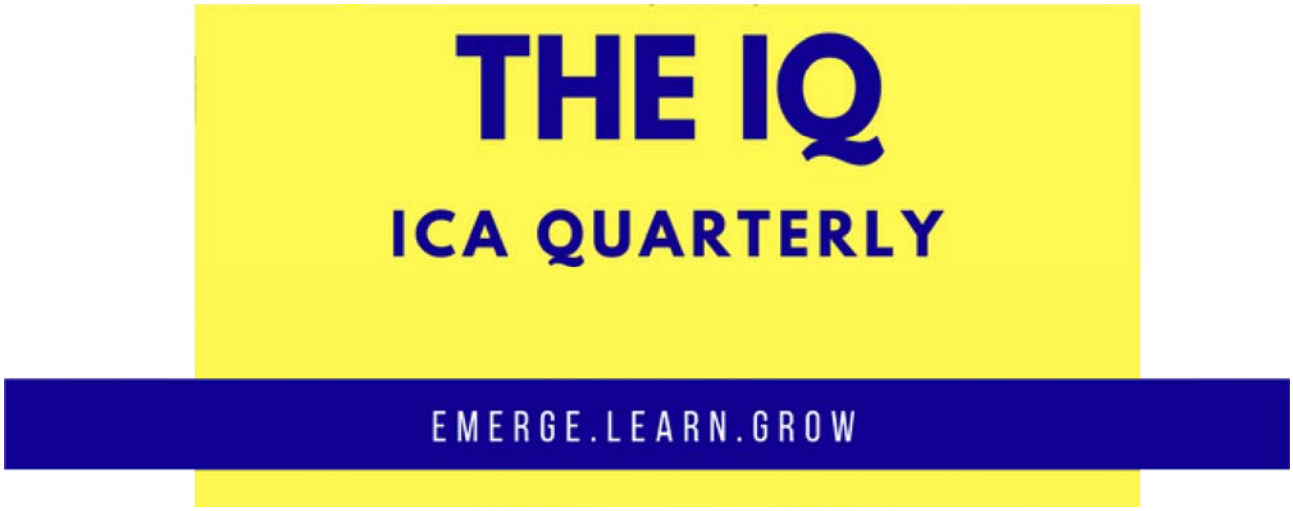

Blockchain and Hype: Where Are We Today?

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On June 15, 2017, American International Group and Standard Chartered Bank announced the first multinational smart contract-based insurance policy using blockchain. Although significant because AIG partnered with IBM to tackle one of the most complex areas in insurance, the development is most noteworthy because it has placed blockchain technology at the forefront of emerging tech in the business world. The CEO of Commercial, AIG made an interesting point: “Any technology, including blockchain, that can increase trust and transparency for an industry whose pillars are built on that, should be fully explored.” Part of that exploration must include the ability to identify the true functionality of the technology under question. Without doubt, the time has come for all of us to reach a better understanding of blockchain technology’s actual capabilities.

As a potentially transformative tool within the financial and insurance industries, blockchain technology has naturally caught the attention of executives in the healthcare, supply chain management and music industries, to name just a few. As various investment groups and business stakeholders ponder the technology's promise in a vast array of applications, one question looms: Where does the hype end and reality begin for the blockchain?

Blockchain technology is not new. It has been around for about ten years, staying under the radar as the technology powering the cryptocurrency known as Bitcoin. Once the technology became unleashed from Bitcoin, its projected uses and benefits seemed to multiply on an almost daily basis. The details have been tabulated in the media, each promise met either with magnified optimism or extreme doubt. It really depends on whom you ask. Just as the Internet expanded our understanding of how information is exchanged, blockchain technology will alter our concept of how value is exchanged. It will harness the power of the Internet to allow parties to directly engage in global transactions without the need for middlemen. Think of the purchase of a music file over the Internet that automatically provides the artist with a royalty payment without iTunes or Spotify collecting fees and distributing payments. This "decentralized" transaction is based on distributed ledger technology (DLT). It tracks information related to a transaction, makes it viewable in real-time, and then creates a record of historical transactions in a permanent and secure digital form. Today, computer coders are working on ingenious ways to program this digital ledger through software known as a "smart contract." Basically, a smart contract is a set of rules transactions must adhere to on the blockchain if they are to be approved. The smart contract allows private agreements to be *algorithmically* enforced on the blockchain.

In the insurance and reinsurance industries, the blockchain is viewed as a means to more effective underwriting and claims handling. Ultimately, the technology could save millions of dollars for each industry and open additional profitable markets. The B3i Consortium is studying blockchain's potential for reinsurance and insurance and will soon release its report. Just recently, American International Group sold Standard Chartered Bank the first blockchain-based multinational insurance policy aimed at cutting costs and reducing regulatory complexity.

A step forward such as this in the blockchain evolution, raises an important question: Are coders and algorithms the future of big business? Well, this is where hype comes into the analysis. The Gartner Hype Cycle currently places blockchain technology at the upper most point in its "hype" curve, the "peak of inflated expectations." This means that blockchain is getting a lot of "buzz," especially in the media, but too many reports are over-selling the product for personal gain (let's face it; venture capital itself is big business). Just a brief glimpse of the daily news reports involving the technology reveals that blockchain has become a panacea — the cure-all for any process involving multiple parties, sharing data, requiring verification and currently weighed down by intermediaries. What we need is proof of concept, and the AIG/Standard Chartered deal may provide just that.

The reality is, blockchain will not be a perfect fit in every situation. Some legacy systems (those we are using right now) are performing required tasks quite well, and despite all of the hype, the new technology will not provide any real advantages. So for now, the way we pay our water bills and plan our vacations are not going to drastically change. But, that's not to say the technology will not be a game changer, especially in those industries that can move to more efficient systems that save money in the long run. A Cornell University professor who studies emerging technologies stated in a recent e-mail: "Imagine the World Wide Web in 1993. It seemed overhyped back then, but then, the hype was

all about dumb ideas . . . after the first culling, we ended up getting multi–billion dollar companies that no one ever dreamed we'd ever have. WWW was an extinction-level event for many companies, and I believe the same for blockchain broadly construed."

The blockchain community is also watching some significant players who may very well usher in this "extinction event," chief among them, Vitalik Buterin of Ethereum. At the age of 23, Buterin stands to become the Steve Jobs of blockchain by having provided a programmable DLT poised to become the standard for transactions beyond cryptocurrency. Buterin sees a future in which blockchain is the genesis of the Decentralized Autonomous Organization (DAO) — a fully automated business entity that is self-governing and under the control of an incorruptible set of business rules.

It sounds "Jetsonian," but it isn't. Between the use of smart contracts and the advances in artificial intelligence, a DAO may soon be operating the self-driving car that takes you to and from work each day and out to dinner on the weekends. With human intervention at a minimum, this is truly the soul of a new machine.

But what risks do DAOs pose? In order to perform optimally, the blockchain will have to be programmed and any program (the smart contract) is capable of having a bug. Thus, a coding glitch might result in a transaction not performing as intended by the parties. However, without a central authority or intermediary to question the transaction, how will bugs be caught in a timely fashion? In other words, how can we stop the self-driving cars from picking us up on our lawns as opposed to our driveways? And exactly how much damage will need to occur before the DAO can be shut down? As we replace legacy systems with blockchain systems, will it be necessary to obtain cyber insurance because our transactions are now susceptible to cyber-attacks? We will need real answers to these questions if we are prepared to accept the hype.

As more applications of the technology make it through a proof of concept stage, key questions and answers about the technology will come into better focus. The B3i report will be an important part of the analysis. Additionally, we should all watch as the recent AIG blockchain policy evolves — will it reduce the complexity involved in multinational insurance coverage as intended? If so, blockchain will have taken a major step in shedding a good deal of the hype. Time will tell.

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