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5 Blockchain, Digital Assets and Crypto Trends to Expect in 2020

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Blockchain technology is already transforming how we treat information, value and commerce, and it may very well lead to the next Internet. But what cryptocurrency trends can digital asset entrepreneurs and users expect in 2020?

A public blockchain, readers will recall, has no owners and no centralized databases. This revolutionary technology has unsurprisingly inspired thought leaders to dream up a wide range of potential applications, from financial services to real estate to voting.

But while the technology can bring new efficiencies and other benefits to commerce, it also brings with it a number of challenges, such as privacy and security. Currently, digital assets are the most widely used application of blockchain technology. With the new year already well under way, BPM sees notable trends that are influencing the blockchain and cryptocurrency spaces — and that will only increase in importance as 2020 runs its course.

1. Stablecoins and centralized cryptocurrencies are gaining traction.

Unlike Bitcoin, which has no inherent value other than what participants assign it, stablecoins can be tied to a fiat currency or a commodity (e.g., precious metals like gold). This reduces the volatility usually associated with cryptocurrency.

Similarly, centralized cryptocurrencies resist the typical definition of cryptocurrency by eliminating the decentralized nature we associate with cryptocurrencies like Bitcoin and Ethereum. It's the combination of that stability and that element of control that's getting industry, as well as government bodies, excited about the possibilities of launching digital assets.

While several major banks have already backed stablecoins — their asset portfolios serving as a collateral — and one bank, J.P. Morgan, has actually issued its own stablecoin, the list of governments and businesses that have issued their own coins is still relatively short. But with 84% of businesses reporting they're "actively involved" in blockchain development, combined with the fact stablecoin and centralized cryptocurrency models allow issuers an additional degree of control and regulatory oversight, it's likely this state of play will change in 2020.

2. Interstate commerce regulation is mounting.

With federal law currently having little to say about cryptocurrency industry and other digital assets, the regulation of cryptocurrency has been left up to the states. This has significantly complicated the cryptocurrency space in recent years, and the influence of state laws is only increasing as we head into 2020.

Current regulations include the New York Department of Financial Services' requirement that businesses involved in the trade, storage, administration, purchase or receipt of virtual currencies register for and conduct activities under a rather onerous BitLicense. In addition, the State of Wyoming's Special Purpose Depository Institutions Charter is a cryptocurrency-friendly law that makes it easier for businesses to offer banking services to blockchain and cryptocurrency business where commercial banks will not. The long list of states currently contemplating legislation is similarly a mixed bag; some laws may make operating in the space more difficult, while other laws will likely ease some of the burden cryptocurrency and digital assets currently face.

3. Blockchain will radically change how intellectual property and copyright.

Blockchain technology, as a means of securely and irreversibly logging every legitimate use of a digital asset (such as a song or movie), has the potential to revolutionize digital rights management (DRM), as well as copyright and intellectual property more generally. With proper legislation behind them, businesses whose income is dependent on copyright and intellectual property — including movie studies and record companies, but also software and biosciences firms — could require users of their IP to produce a blockchain record of their authorized use and payment of the digital asset in question, or else face penalties.

This would represent a major improvement over industries' current, more unwieldy, methods of enforcing IP and copyright. While we have yet to see any financial technology businesses put this idea into practice, interested parties can expect blockchain IP and copyright to continue to be a hot topic in 2020. We may even see one or some of the numerous new FinTech startups translate this potential into a real service for IP holders and actually make good on their promises.

4. Use of qualified custodians remain essential for institutional investors.

In the finance space, a qualified custodian refers to a financial institution — usually a large, reputable firm managing hundreds of millions or often billions of dollars — which holds its clients' securities (for a fee) to reduce the risk of theft or loss. In the context of digital currency, that means securely storing its customers' private keys so they can maintain access to their assets. (Recall that if

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an individual or institution somehow loses its private key, access to their funds is permanently cut off unless an adequate disaster recovery plan exists.)

That security alone is reason enough for investors to engage a qualified custodian. But there's also a regulatory dimension: the SEC requires institutional investors that hold more than $150,000 (or the equivalent amount in cryptocurrency) in customer assets store those holdings with a qualified custodian.

Despite what you may have read, cryptocurrency asset managers cannot escape this requirement. Cryptocurrency investors should absolutely expect the SEC to continue to crack down on this requirement in 2020. Thankfully, these investors have their pick of the litter when it comes to picking qualified custodians: a whole host of companies hoping to function as your qualified custodian has on the rise.

5. Proof of stake is overtaking proof of work.

Cryptocurrency mining is an important, though often forgotten, part of the cryptocurrency economy. Costly and time-consuming, it's also a major source of income for those who make it work financially. Until recently, the dominant form of mining was proof of work. Under this model, the Bitcoin network issues a proof of work challenge (essentially, to confirm a certain number of unconfirmed transactions) that miners compete over, using their computing power and algorithms. Whoever completes the challenge gets to form a new block, which then yields a payment (a.k.a. block reward) to the miner.

Recently, however, an alternative method of mining, proof of stake, has taken hold in the crypto-mining community. This is because of its benefits for both energy efficiency and for security. It achieves both of those by limiting users' mining ability to an amount of transactions reflective of the percentage of coins they hold. Since miners are only mining a percentage of transactions — instead of everyone competing to mine all the transactions — proof of stake requires much less computing power, and thus reduces energy consumption. Additionally, limiting users' ability to mine to a percentage of transactions relative to their stake reduces any bad actor's ability to hack the currency.

For these reasons, we can expect proof of stake to become the dominant mining method in any cryptocurrencies issued in 2020, and maybe even cryptocurrency mainstays like Bitcoin to cross over.

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