

What's keeping Web3 from mainstream financial services adoption?

Article

Web3 promises a blockchain-based iteration of the internet that is decentralized and gives users control over personal data. Financial services incumbents risk getting left behind as

fintechs flood the space—but they first must understand what Web3 really means and where it's currently falling short.

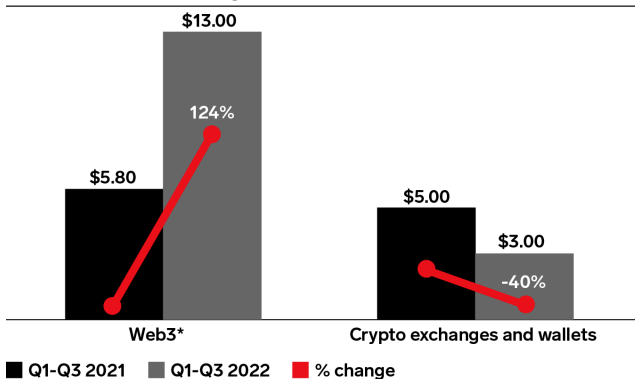
What is Web3?

Web3 is a new iteration of the internet built on decentralized blockchain networks—the shared ledgers used by cryptos like Ethereum. It allows access to numerous applications including immersive virtual worlds, gaming, social media, music streaming, and finance.

The biggest difference between Web3 and its predecessors lies in decentralization: It is jointly operated by multiple players instead of being controlled by central authorities, such as Google or Microsoft in the current version of the internet. That means users have greater control over their personal data.

Web3 and Cryptocurrency Exchanges and Wallets Funding

billions and % change



Note: *includes NFTs, gaming, metaverse, DeFi, and decentralized identity
Source: CB Insights, "State of Blockchain Q3 2022"; Insider Intelligence calculations, Oct 31, 2022

350101

eMarketer | InsiderIntelligence.com

What's keeping Web3 from mainstream financial services adoption?

Web3 is intrinsically linked to crypto, which is in crisis. Web3 users can't touch applications without touching crypto. For example, to pay for a game, users need a Web3 wallet with crypto. But consumers may have little appetite for it after many got burned by crypto in 2022.

That connection tarnishes Web3’s biggest advertised benefit: trustlessness. Individuals don’t need to trust their counterparties or a bank that facilitates a transaction, as transactions execute immediately when conditions are met. But crypto’s disastrous year proved that blockchain far from solves trust problems.

Other barriers include:

- **UX complexity.** Users must create a Web3 wallet—which requires setting up and storing digital keys, as well as transferring funds—to access Web3 applications. And their UX is often sacrificed for security: Generally, the more user-friendly an application, the less secure.
- **Conceptual complexity.** What is a dapp? What does it mean to store NFTs? What’s a DeFi protocol? The list goes on.
- **Lack of scalability.** Popular projects quickly become slow and expensive. Web3’s “scalability trilemma” posits that a public blockchain can only meet two of its three desired characteristics: security, decentralization, and scalability.
- **Lack of regulation.** Any regulatory progress in the short term will prioritize protecting consumers over fostering innovation, given 2022’s crypto saga.
- **Fraud risk.** Crypto fraud in the Web3 ecosystem hit \$3.9 billion in 2022, per Immunefi. That represents over 6% of the total funds deposited in DeFi protocols at the end of 2022.

[Read the full report.](#)

Report by Grace Broadbent, and Eleni Digalaki Feb 23, 2023

Web3 in Financial Services Explainer



