

Building The New PayPal



Whether you are or are not into crypto currencies, the chances are that your social media timeline and traditional media newsfeed has been flooded with news about Facebook's Libra recently.

People all over social media, podcasts and forums have spent recent weeks furiously debating the pros and cons of Libra. It has been called everything from a blatant attempt to control crypto currencies by a big enterprise, to a vehicle that will make crypto currencies mainstream and drive adoption.

So, in this article I will tell you the main points (main points for now, because things could move fast with Libra for sure) that you need to know about Libra, with a few personal thoughts thrown in.

First, Why Are Facebook Doing This?

It's Simple - Reaching out to the world's unbanked population.

To understand the real power of crypto currencies and why Facebook's initiative could be so game changing, let's first understand one of the most significant issues with the world right now.



As Business Insider reported back in August 2017, 2 billion people around the globe don't have a bank account. Here are some more stats about the unbanked population:

- More than 20% of unbanked adults receive wages or government transfers in cash, and many people in developing countries pay bills only by cash.
- SE Asia alone has 438 million unbanked people, which is 73% of the entire population. According to a study done by McKinsey, reaching to the unbanked population in this region could increase its economic contribution from \$17 billion to \$52 billion by 2030.

· India, which is the target market for Libra right now has 190 million unbanked folks, the second largest in the world after China – So the largest accessible to Facebook as it's banned in China!

So, now that we have a brief idea of the unbanked population let's look at how Facebook is planning to help them out...

We are Well and Truly Living in the Digital Age.

That's not just a clichéd statement and we need to look at some numbers to understand why this is not a clichéd statement.

- The number of mobile phone users in 2018 is 5.135 billion, up 4 percent year-on-year.
- The number of Internet users in 2018 is 4.021 billion, up 7 percent year-on-year.
- The number of social media users in 2018 is 3.196 billion, up 13 percent year-on-year.
- 4 billion of the world's Internet users spent a combined one billion years online in 2018.
- Facebook alone has 2.38 billion monthly active users.
- The largest population on Facebook is from India, with over 270 million users, followed by 210 million from the US.

And this is exactly why Facebook is planning to make India its most significant impact via Libra – 190 million unbanked people allied to being the largest Facebook population of 270 million people.

Unlike other crypto projects, Facebook already has a humongous user-base and doesn't need to start from scratch. They can leverage their 2.38 billion active monthly users to adopt Libra and push it into mainstream acceptance.

By comparison, “only” 2.5 million people own Bitcoin.

So it's the Coordination Game with Facebook - Employing their User Base to Spread Libra to the Unbanked

So, the next question to ask here is, why is it extremely likely that Facebook will be able to convince their user-base to adopt Libra?

The global unbanked cannot be easily coordinated with via phone or email. However, since Facebook has more than two billion users, it is ‘peer power’ they will use to make sure that a majority of this unbanked group changes their state – Alongside the ease of being able to transfer the currency.

First, Facebook needs to convince a vast majority of their current 2 billion+ users to use Libra – And for sure there will be incentives put in place for that to happen from themselves and other member of their partner companies. This will then enact the peer power they need in order that the current users will be able to convince their friends and family to follow suit automatically and start using Libra – including the unbanked.

But it's not That Simple...

Facebook knew that in the current climate of hostility towards the company (remember Cambridge Analytic everyone?), that people would not trust it to steer the new currency alone, so Facebook aims to have 100 members within its Libra Association before the launch, which is scheduled to be in first half of 2020.



As you can see from the attached graphic, there is a significant number of major global companies already signed up, so Libra will have a ‘weight of power’ behind it that has never been seen before in this sector, all committed to its success.

Just now Facebook is taking the leadership role. However, once the network launches, all the members of the Association will have the same commitments, privileges, and financial obligations as any other Founding Member. All the peers will have equal governance power, with each of the 100 members, including Facebook, having 1 vote each.

Also, to aid ease of transactions under Libra and provide people with some feeling of security, Facebook has built a digital wallet called “Calibra” which will be used to interact with Libra.

Quite correctly Facebook says that the Calibra wallet will protect its users privacy and will not be connected to Facebook, thereby ensuring your purchase data cannot be used for ad targeting by Facebook – Apologies for being cynical, but I wonder if this will change in time once the number of Libra users is at a significant level?

Users will be able to send Libra via their smartphones by using Calibra. To send funds to your Calibra wallet, Facebook will allow you to select from a list of partner payment providers, such as MasterCard, Visa, PayPal, and Stripe. People will also be able to turn US dollars into Libra for their Calibra digital wallet, by going to local or online currency exchanges.

So, to Conclude...

Facebook's audacious bid to create a global digital currency that promotes financial inclusion for the unbanked actually has more privacy and decentralisation built in than many expected.

Instead of trying to dominate Libra's future or squeeze tons of cash out of it immediately, Facebook is instead playing the long game by pulling payments into its online domain.

Facebook's VP of block chain, David Marcus, explained the company's motive and the tie-in with its core revenue source during a briefing at San Francisco's historic Mint building. "If more commerce happens, then more small businesses will sell more on and off platform, and they'll want to buy more ads on the platform so it will be good for our ads business." (Doesn't this contradict the "cannot be used for ad targeting" statement made by Facebook a little earlier?)

There's Risk and Reward to Building the New PayPal

In crypto currencies, Facebook saw both a threat and an opportunity.



They held the promise of disrupting how things are bought and sold by eliminating transaction fees common with credit cards.

That comes dangerously close to Facebook's ad business that influences what is bought and sold. If a competitor like Google or an upstart built a popular coin and could monitor the transactions, they'd learn what people buy and could muscle in on the billions spent on Facebook marketing.

Facebook's relationship with 7 million advertisers and 90 million small businesses plus its user experience prowess, makes it well placed to make Libra the evolution of PayPal.

It's hoping Libra will become simpler to set up, more ubiquitous as a payment method, more efficient with fewer fees, more accessible to the unbanked, more flexible thanks to developers and more long-lasting through decentralisation.

Success will mean that a person working abroad has a fast and simple way to send money to family back home, and a college student can pay their rent as easily as they can buy a coffee.

Yes, that would be a big improvement on today, particularly for those sending money overseas, where you're stuck with exploitative remittance services charging an average of 7%, taking \$50 billion from users annually.

Libra could also power tiny micro-transactions worth just a few cents that are infeasible with credit card fees attached, or replace things like your pre-paid Oyster Card in London or Rabbit Card in Bangkok.

Or...

It could be globally ignored by consumers who see it as too much hassle for too little reward, or too unfamiliar and limited in use to pull them into the modern financial landscape – All aligned to the risks associated from previously bad Facebook experiences, with your data and private information being shared without your consent.

Facebook has built a reputation for over-engineered, underused products. It will need all the help it can get if wants to replace what's already in our pockets and can rebuild the trust of its 2.38 billion users worldwide to make Libra a success.

But one thing you can guarantee – success or failure - is that Libra will ultimately make some significant changes to how traditional financial institutions deal with currency and money transfers.