Opinion piece

Money and the fear of missing out: How to stay sane in a world shaken by Libra

Received: 27th November, 2019

Michael Salmony
Executive Adviser, equensWorldline



Michael Salmony

Michael Salmony *is Executive Adviser at equensWorldline SE. He is an internationally recognised leader on business innovations, especially in the digital and financial services space. He is a board-level adviser to major international banks, industry associations and European decision-making bodies, as well as national and international boards. Previously, he was IBM's Director of Market Development Media and Communications Technologies and studied at Cambridge University.*

Abstract

This paper discusses the issues surrounding the question of whether the best way to provide seamless pan-European/global payments is to deploy a new cryptocurrency, perhaps via a private actor, or to build on the existing infrastructure.

Keywords: Libra, cryptocurrency, blockchain/DLT, China, smart contracts, digital euro, Pan-European Payments Infrastructure

equensWorldline SE,
Hahnstr. 25,
60528 Frankfurt am Main,
Germany
Tel: +49 172 6867163;
E-mail:
michael.salmony@
equensworldline.com

Journal of Payments Strategy & Systems
Vol. 13, No. 4 2020, pp. 282–287
© Henry Stewart Publications,
1750-1806

INTRODUCTION

As Europe's banking communities get increasingly nervous about Facebook's Libra, there are growing calls for the European Central Bank (ECB) to act. Some, for example, have called for a 'programmable digital euro', while the debate on central bank digital currencies[1] continues to roll on.

Meanwhile, after US$1bn of investments and a decade of endless proofs of concept but no real successful large-scale commercial roll-out, 'blockchain fatigue'[2] is becoming increasingly apparent, with the hype surrounding Bitcoin/blockchain/distributed ledger technology (DLT)/cryptocurrencies in steady decline.

Against this background, and despite the immediate backlash from governments, regulators and critical thinkers, the recent announcement of Facebook's Libra[3] has unleashed a flurry of reactions seemingly informed by a fear of missing out: if we don't act, Facebook will take over; the Chinese are acting, therefore we must counter; private cryptocurrencies are a threat to banks, so banks must issue them too, etc.

With this in mind, it is prudent to take a dispassionate look at the evidence and ask:

- What gap is Libra addressing (or maybe solving) that has been left open by existing/payment networks?
- Is Libra really a cryptocurrency?
- What is the motivation for the Chinese government to push digital money?
- How is a digital euro (a new cryptocurrency) better than simply digitally moving the existing euro between banks (as has been done for decades)?
- What are the real threats to banks in Europe?
- Are smart contracts really smart, and are they really contracts? (See Appendix)

Delivered by Ingenta
Jun 2020 10:55:29
Publications

- How does the above evidence stack up against some proposals, eg for a programmable digital euro?

FACEBOOK'S LIBRA

Libra addresses the problem of a lack of unified global, low-cost, low-friction means of paying. Sending money between people across the globe is not yet as easy as sending a WhatsApp message. Yet, in an increasingly digital, globalised, friction-free world, such a possibility is clearly desirable.

Within Europe, however, there already exists a cross-border, low-cost, low-friction means of paying. Across the 23 member states of the Eurozone, there is a single currency, a single address system (the International Bank Account Number), an integrated framework for transferring money (the Single Euro Payments Area), and near-instant payment schemes (SCT^{inst}, TIPS) that run 24/7/365 and typically for free, at least, as far as the consumer is concerned. The European payment infrastructure is hugely efficient, has been tuned for decades and leads the world. Over 90 billion transactions are executed flawlessly every year, each costing a fraction of a cent (TIPS, for example, costs €0.002 per payment).[4]

The problem is cross-border payment *outside* Europe: there are 180 currencies in the world, inefficient correspondent banking networks, a growing number of automated clearinghouse systems (98, according to the last survey),[5] over 200 clearing systems, many intermediaries, and ancient batch-based store-and-forward networks with cut-off times, expensive remittance services (Western Union etc) and complex forms/procedures.

In short, Libra does not solve a problem *within* Europe, and the introduction of a 'digital euro' solves no problem at all. The only possible new need is for a '*digital global*'. Thus, the right authority to call upon for action is not the ECB but the International Monetary Fund (IMF). Indeed, the IMF has already speculated openly about issuing a digital basket of currencies based on the Special Drawing Rights mechanism as an alternative reserve currency.[6] This has significant, complex and controversial political implications (not least on existing reserve currencies like the US dollar and Chinese renminbi) but is a strong candidate as a global, official (non-private), digital answer to Libra.

The problems inherent in creating a global currency, replacing all the world's currencies with that single currency and/or having a private currency owned by Mr Zuckerberg and his business friends rather than by sovereign nation states are beyond the scope of this piece, and have been discussed at length elsewhere. That said, two key questions do merit further discussion. Specifically:

- Is Libra's seemingly selfless aim to promote financial inclusion[7] merely a front to get its data hooks into yet another billion vulnerable people in the developing world? Certainly, cynics are likening it to digital colonialism.
- Could any system based on DLT scale to handle global transaction volumes (the current US$2tn payment revenue market — plus 77 per cent of cash transactions worldwide);[8] attain real-timer performance under a consensus approach; handle gigantic ledgers containing all global transactions since the beginning of time; allow correction of transactions on an immutable ledger; solve the privacy issues; offer a central point of contact in such a distributed system to resolve disputes, etc?

The present paper, however, will consider just one more question: is Libra really a cryptocurrency? Certainly, it is heavily promoted as such; however, all serious

Delivered by Ingenta
IP: 80.132.216.21
Copyright:

studies show that it is not.[9] Very understandably, it is based on traditional, proven, scalable technology (distributed databases, encryption, secure key management, high-performance networks, etc) and does not rely on distributed consensus mechanisms, as these would never scale to meet its global ambition. So, Libra is actually more like a closed 'in-game currency', such as World of Warcraft Gold — a means of payment that has been around for decades.

In short, the argument that Libra's 'cryptocurrency' is a threat is misguided. Libra is not a cryptocurrency, so there is no need for traditional actors to introduce a cryptocurrency as an 'answer' to it.

Of course, the *concept* of a global digital currency — the *idea* behind Libra — is a true need, and (if anyone can make it work) a potential threat; however, Libra is not that currency, and not that threat.

THE CHINESE

As Mark Zuckerberg demonstrated before the House Financial Services Committee in October 2019, nothing beats invoking Big Tech and China when you want to drum up fear. 'China is moving quickly to launch a similar idea in the coming months', he told the committee, adding, 'if America doesn't innovate, our financial leadership is not guaranteed'.[10]

While the Chinese government may well introduce a digital currency,[11] it is unlikely to be based on DLT as it would need to scale to cover the transactions of 1.4 billion Chinese people.

At the same time, the argument that China is looking to retain sovereignty against Visa/Mastercard/PayPal in the digital space is weak at best: the Chinese already have their own — extremely successful — digital payment systems from Baidu, Alibaba/AliPay, Tencent and Xiaomi, and these are already under Chinese government control.

The other main argument is that the Chinese government is committed to phasing out cash — anonymous cash being a thorn in the side for any surveillance state — and replacing it with electronic payment, which would make it easier for the government to trace the actions of its citizens, as part of its Social Credit System.

Clearly, these two arguments hold no weight in Europe or the West. Nor is it likely that any Chinese digital currency will become dominant in Europe. Thus, the 'threat' of the Chinese is again exaggerated and there is no need to introduce a cryptocurrency as an 'answer' to the Chinese.

CONCLUSION

While Facebook may have reasons for trying to conquer the world with its own global currency, and the Chinese government may have reasons for wanting to increase digital surveillance, it is important to react with rational argument rather than fear. For this, one must take a holistic view of banking, payments, regulation, economics and technology — one-dimensional perspectives will not work.

The fact is that Europe has an excellent payment system. There is no need to duplicate the infrastructure, and bear the enormous costs/efforts/risks to solve a problem that has already been solved, namely, the efficient movement of money between people and companies in Europe.

A far wiser use of resources would be to improve the existing system (eg to achieve 100 per cent instant remittance; lower costs; improve user interfaces; facilitate efficient transfers into/out of Europe etc) and export Europe's leadership in this area to help all countries attain the benefits that Europe enjoys already.

The real threats to banks in Europe lie not in the payments infrastructure — but in the lack of innovation for the

Delivered by Ingenta
Jun 2020 10:55:29
Publications

customer (both individual consumers and business/corporate customers). It is at the front end where banks need to fight against agile FinTech, against US big tech, against PayPal and yes, also against the Chinese (WeChat/Alipay), and to avoid becoming just the dumb pipe.

The key threat from Libra is the *idea* — not the technology; it is the focus on the end user — the idea of being able to pay anyone anywhere as easily and cheaply as sending a message.

The best suggestion in the Libra initiative, and in most responses from banks, is the need to think seriously about a pan-European (or ideally global) bank-based identity. This is a core problem that urgently needs to be solved. For this, the reader is referred to the excellent 'Age of Consent — The Case for Federated Bank ID'.[12]

So, after a hard-nosed look at the facts, what remains of the questions posed at the beginning of this paper? Not much. Indeed, this might simply be a case of the 'wrong remedies to misdiagnosed maladies'.[13]

The industry must not be driven by fear or the perceived need for spontaneous reaction, but instead by rational analysis of the evidence. Although it is tempting to feed the media — who will publish/retweet anything as long as it contains the word 'crypto' — it is far wiser to improve the huge assets that have already been built rather than throwing the baby out with the bathwater and rebuilding everything based on very doubtful premises.

Let us be driven only by what really needs to be done, with judicious, targeted investments to upgrade the system, with a focus on best practices and solving the real problems of our customers.

AUTHOR'S NOTE

This paper reflects the author's personal opinion and does not necessarily reflect the opinion of his company or any of the organisation with which he is affiliated.

References

(1) European Central Bank ponders digital currency launch https://www.globalgovernmentforum.com/european-central-bank-ponders-digital-currency-launch/ (accessed 7 January 2020).

(2) Gartner (2019) 'Gartner predicts 90% of Blockchain-based supply chain initiatives will suffer 'Blockchain Fatigue' by 2023', available at: https://www.gartner.com/en/newsroom/press-releases/2019-05-07-gartner-predicts-90--of-blockchain-based-supply-chain (accessed 27th November, 2019).

(3) Libra Association (2019) 'An Introduction to Libra', available at: https://libra.org/en-US/wp-content/uploads/sites/23/2019/06/LibraWhitePaper_en_US.pdf (accessed 27th November, 2019).

(4) European Central Bank (2018) 'TIPS pricing structure finalised', available at: https://www.ecb.europa.eu/paym/intro/news/html/ecb.mipnews180806.en.html (accessed 27th November, 2019).

(5) World Bank (2016)'Global Payment Systems Survey (GPSS)', available at: http://pubdocs.worldbank.org/pubdocs/publicdoc/2016/2/860781456436620612/GPSS2012-Section-III-Retail-Payments.xlsx (accessed 27th November, 2019).

(6) Investopedia (2019) 'IMF Chief Suggests IMFCoin Cryptocurrency as Possibility', available at: https://www.investopedia.com/news/imf-chief-suggests-imfcoin-cryptocurrency-possibility/ (accessed 27th November, 2019).

(7) Kang, C., Isaac, M. and Popper, N. (2019) 'Facebook's Zuckerberg, accused of lying, withstands a Washington "beating"', *New York Times*, 23rd October, available at: https://www.nytimes.com/2019/10/23/technology/facebook-zuckerberg-libra-congress.html (accessed 27th November, 2019).

(8) All transaction figures in this paper are taken from: McKinsey & Co (2018) 'Global Payments 2018', available at: https://www.mckinsey.com/~/media/McKinsey/Industries/Financial%20Services/Our%20Insights/Tracking%20the%20sources%20of%20robust%20payments%20growth%20McKinsey%20Global%20Payments%20Map/McK-2019-Global-Payments-Report.ashx (accessed 27th November, 2019).

(9) See, for example, Palmer, D. (2019) 'Nouriel Roubini Says Facebook's GlobalCoin Has "Nothing to Do With Crypto"', available at: https://www.coindesk.com/nouriel-roubini-says-facebooks-globalcoin-has-nothing-to-do-with-crypto (accessed 27th November, 2019); and Roos, A. (2019) 'Wie viel Bitcoin in Facebooks Libra steckt [How much Bitcoin there really is in Libra]', https://www.heise.de/ct/artikel/Wie-viel-Bitcoin-in-Facebooks-Libra-steckt-4471890.html (accessed 27th November, 2019).

(10) Fulco, M. (2019) 'Is Libra really a threat to WeChat Pay and Alipay?', available at: https://www.kapronasia.com/china-cryptocurrency-research-category/is-libra-really-a-threat-to-wechat-pay-and-alipay.html (accessed 27th November, 2019).

(11) McIntosh, R. (2019) 'China's Stablecoin is likely the only one the country will allow', available at:

Delivered by Ingenta
IP: 80.132.216.214
Copyright: H

https://www.financemagnates.com/cryptocurrency/news/chinas-stablecoin-is-likely-the-only-one-the-country-will-allow/ (accessed 27th November, 2019).

(12) Citi (2019) 'The Age of Consent: The case for Federated Bank ID', available at: https://www.citi.com/tts/sa/flippingbook/2019/the-age-of-consent/gra30727_TTS_age_of_consent/ (accessed 27th November, 2019).

(13) McLaughlin, T. (2019) 'Fiat Currency 2.0', remarks to IMF Staff, 24th October, available from the author. McLaughlin, T. (2019) 'Fiat Currency 2.0: Counter argument to the cryptocurrency narrative' available at: https://www.finextra.com/videoarticle/2264/fiat-currency-20-counter-argument-to-the-cryptocurrency-narrative (accessed 27th November, 2019)

Delivered by Ingenta
Jun 2020 10:55:29
Publications

APPENDIX: PROGRAMMABLE SMART MONEY/SMART CONTRACTS

It is unclear whether so-called 'smart contracts' are smart or indeed contracts. A contract is a formal legal term defining the rights and liabilities between legal entities. An algorithm (such as DLT) is neither a legal entity, nor can it sign a contract in any meaningful legal way, nor can it be held liable. (A similar discussion around autonomous cars shows that the car itself can never liable. There is still some debate whether it is the driver, the insurance company of the driver, the company operating the driverless car service, the government that gave the licence or the company that programmed the route who is liable. However, it is certainly a person, a company or an authority, and not the technology/algorithm, that is liable.)

Companies have been using enterprise resource planning systems to pay suppliers automatically upon delivery subject to terms for decades. The Uber app already allows the 'automatically initiated payments on performance of a service' for consumers. Road usage fees get paid automatically as the car/lorry drives through a toll gate. These are all excellently functioning real solutions with real contracts with intelligent conditional payment. There is absolutely no need for 'smart' 'programmable' money based on so-called blockchain 'smart contracts' that try to duplicate this.

'Smart contracts' — as is acknowledged even by most serious proponents — are neither smart nor contracts. They are 'if' statements in some code embedded in a computer.

Delivered by Ingenta
IP: 80.132.216.214
Copyright: