

Conference Paper

Is Libra_Facebook's New Currency Can Increase Financial Inclusiveness?

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Abstract

Facebook has announced a digital currency named Libra that will allow billions of users to make financial transactions across the planet. Libra which has the Libra Blockchain component, the Libra currency, and Libra association. This article has question on: 1) How could the Libra Association increase financial inclusiveness via its new payment platform? 2) How should Financial and Legal Authorities think of regulating the new Libra virtual currency?

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1. Introduction

In a move that could shake up the world's traditional banking system, Facebook has announced a digital currency named Libra that will allow billions of users to make financial transactions across the planet. As a means to foster Financial Inclusion, one of Libra's missions is to connect the unbanked, 1,7 billion individuals who do not have access to traditional banking systems. Libra could be a financial game changer, but will face close scrutiny due to Facebook's recent privacy scandals. As a result, congresswoman and chair of the House of Financial Services Committee in the United States, Maxine Waters, ordered Facebook and its 28 Founding members to stop the further development of Libra until regulators and congress could review it. (The Guardian, Kari Paul)

Benoit Coeure, a board member of the ECB stated that no launch of the Libra coin is to be predicted as long as global regulators are not satisfied and the proposed Libra stable coin guarantees the users' safety and user privacy. (CoinTelegraph, Aron Wood)

Financial inclusion in the present era integrates finance with Technology. With the advent of mobile phones and the internet it can give birth to a new generation of financial services. Financial inclusion will increase if supported by good financial infrastructure

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such as electricity networks and reliable mobile networks. With this, a new currency is now known as cryptocurrency. One of them is Libra developed by Facebook.

Libra which has the Libra Blockchain component, the Libra currency, and Libra association. Some benefits about Libra are known as a smart contract platform due to various reasons; Libra comes with a new programming language called “Move_a” new language, meaning developers will have to adapt to a new programming environment. Also, Libra is an advanced and high tech block chain. Furthermore, Libra is not proof-of-work, meaning it does not use a proof-of-work consensus algorithm. Another reason is that Libra is an open source. Everyone will be able to peer inside Libra’s code. Lastly, the Libra currency is a type of stable-coin, but differs from most stable-coins currently available on the market, due to its powerfulness.

The existence of these advantages can certainly increase financial inclusiveness. In this short paper we will discuss our findings, on the role of Libra to improve Inclusive Finance in the world, and how regulators and financial institutions react and possibly plan to act upon this potentially highly disruptive transaction and financial services innovation. Research question are: 1) How could the Libra Association increase financial inclusiveness via its new payment platform?; 2) How should Financial and Legal Authorities think of regulating the new Libra virtual currency?

2. Methods

The way we proceeded to collect pertinent data to analyze and draw final conclusions and recommendations is to rely on the latest news produced by reliable sources such as The Guardian, Reuters, Coindesk written mostly by field influencers and analysts. Those sources reveal themselves to be most suitable due to the novelty of the theme and recent ongoing discussions. In addition, we had a semi- conducted interview with Robert de Groot, Co- Founder of Hybrix and transcribed an audio podcast from 11FS.

We also provide explanations for Libra as a means to foster Financial Inclusion and strategies to be carried out to improve the current status quo. Methods of collecting data using documents in the form of survey reports and scientific journals or other supporting references.

The method used in this paper is qualitative descriptive. The data used in this study are secondary data in the form of documents and transcribed of semi-conducted and already recorded interviews. The data was collected by:

1. Articles, journals and reports on the case

2. Interview with Robert de Groot, Co-Founder of Hybrix + Transcribed 11FS Podcast on Libra's Announcemnet, global reach and regulatory perspectives
3. The Global Findex Database 2017 (International Bank for Reconstruction and Development/The World Bank, 2018)

3. Findings and Discussion

3.1. Libra foster Financial Inclusion

Libra is one of the most ambitious cryptocurrency projects conceived.

It's comprised of a blockchain, a smart contract platform, a low-volatility cryptocurrency and a wallet that will be integrated in some of the most-used apps today. With Libra's expertise, it should be able to promote financial inclusion as stated by David Marcus, Head of Calibra and former Head of Paypal and Facebook Messaging. Libra could bring financial opportunities to the unbanked. Currently there are 1.7 billion people under these conditions, yet two thirds of them do own a mobile phone which could help them gain access to financial services. With the right infrastructure and business model, Libra can help connect a very large less fortunate audience and become a borderless currency. (Stan Schroeder. 2019)

Hybrix co-founder Robert de Groot, via interview: "They have got over 27 partners already and big ones as well, that means that in an evolved space, where everyone has cell-phones, they can use it immediately if they want to, including connecting with Facebook's applications of course, but also the partners could interact with it. That is something that no other crypto has been able to do yet, because they don't have the power or the reach or the accountability that Facebook has.

When having a closing look at the global Fintech Database, the World Bank's and IMF's reports on what's holding back the integration of those currently financially excluded demographics, a lack of documentary evidence around identity prevails as one of the main reasons. Individuals born in those more difficult accessible regions, live their lives anonymously, never registered or declared to any local authorities. Those who don't hold identification or passports and can't go to a bank branch and be compliant with KYC onboarding process in the traditional sense, could use their mobile phone to transfer funds. The mobile device would basically solve this part of the equation by simply relaxing some KYC onboarding requirements below a certain threshold. Other barriers to fostering Financial Inclusion would also be basic financial

literacy and the prohibitive cost of remittance services (8.51 time) (Colin Platt and Simon Taylor from 11FS).

As Colin Platt puts it:” The last mile problem is the most challenging to solve. Who are the people on the ground that are going to make it work in the hardest most dangerous places to reach. Facebook isn’t 100% of the equation. They have a lot of partners. Your current cash-in cash-out service is your Western Union and Money Gram which are known for their excruciating high transaction fees. Let’s take the following use case: you are in central London and need to send a 1000 £ to a person in Sudan. You send those 1000 £ after fees into a local currency in cash or local bank account. The payment system has to be supported by a massive infrastructure and that’s where those 10 % transaction fees come in. If the sender loses a large % of money sent in those countries, then the 20 % fee on 5 dollars which corresponds to a 2 to 3 day wages, causes a lot of discouragement. In this particular use case, Libra could have a strong impact if it lowers the remittance services cost close to 0 as David Marcus has been stating since the news about its launch came out.

Another complex issue to solve is access to data. Keep in mind, that in those developing countries, or others from western economies banned countries like Afghanistan with the highest transaction fees, 1 GB of mobile data is 4,5 % of an Afghani annual income. Are we going to cut out your 20% charge on your 20 dollars transfer if you have to spend 10* the amount, just to receive the data. In other words, even if the remittance cost is potentially lowered by using the Libra payment system, the data issue will still have to be solved.

Robert de Groot, Co-Founder of Hybrix answer to that challenge is the following:” Facebook has experience with the ‘unreachable’. They’ve had internet projects, providing internet services to third world countries, which didn’t have access. As far as I recall from the pilot, it was limited to usage of Facebook sites I think, of course, if they have to make a living out of it, but still, if you are going to do something then do it right, if you are going to empower people then empower them with the tools the West has got as well. But they do have experience in that field. The thing is, over there, people do have a phone, and if they have a phone then whatever Facebook builds, they will be able to connect to it. Unbanked doesn’t mean they have a problem with that, could mean that they don’t have the infrastructure available or the money available or expenses are too high, so if they are doing it for the unbanked, I don’t know. If they are serving 1.7 billion people, they have an immediate impact on their business and Facebook has an immediate impact on the people, so the immediate effect would be far greater there.”

3.2. Financial and Legal Authorities ways of regulating the new Libra virtual currency

3.2.1. Very strong partnerships for good or for worse and how regulators and central banks react to the new currency

Cryptocurrency is already in the talk of being regulated, differencing per country. A decentralized currency which is transferable across borders without the knowledge of financial institutions that couldn't be able to track it or tax it, that's something which is fairly new technology-wise, in which governments will have to find a super-national approach. He also made the comparison with taxes, that if they aren't regulated globally, the money will flow to the lowest point of taxation: "The same thing I would expect with cryptocurrency. If you don't approach it globally, some countries may become a safe haven to use and exchange them for unregulated markets, potentially even criminal. So I would have the same approach for Libra. Because it is set-up by a central organisation, they can be held accountable. Why should it be regulated? Well, honestly because it causes a different threat. It is not a national threat as an alternative currency, because as a company, it will have to adhere to local regulations, or at least you hope to. (Robert de Groot, Co-Founder of Hybrix).

To come back to Simon Taylors interview who states that Facebook is a driving force behind Libra but it's not Facebook who holds the whole ownership which is overlooked by most politicians and commentators. As Colin Plott puts it: "Having players such as Visa, MasterCard and Paypal on the side of Libra is essential as this is not a traditional three-party financial model. By partnering with these giant financial institutions, they are allowed to participate in the proceeds and profit from what could be the next biggest payment system in the world. These companies are also taking part in the Libra Association for learning purposes. Learning how blockchain and cryptocurrencies can work on a mass level but within a controlled environment and ecosystem is essential for these giants to cut back on their own learning curve timeframe. (Josh Constine, TechCrunch) Nevertheless, the learning curve argument by those partners is a statement that many financial authorities dislike, due to the global potential implications on economies and financial markets. One spokesman from the Federal Reserve claimed that Libra should either work or not and that there wouldn't be room for experimentation once launched."

The problem about those partnerships of 28 Founding members are their respective names such as Ebay, Uber, Spotify, Lift, stripe, Vodafone, Andreessen Horowitz which are with very few exceptions, western markets focused BIG TECHs and VCs. The Women World's Banking association might help Libra with the last mile to embed inclusivity, but

the whole concept is pulled in different directions and the picture still remains unclear of who's the ultimate customer.

To Simon Taylor's critic, Colin Platt replies "I think that the future of Libra lays not in main-street, nor in the US, Western Europe or in Japan. The target market for Libra is South-East Asia, East Asia, South- America and Africa to a certain extent. People in those countries that are quite wealthy or at least high- middle income class have a hard time keeping balances in foreign currencies and move them around when they want to. Being able to put 1000 dollars or 10 000 dollars into a backed stable currency (Libra) is better than other alternatives, such as "the tether coin" on which many people keep already millions of dollars.

It's great to talk about the Technology side of Fintech but when we talk about the Financial side of Fintech at this scale, we can face serious financial implications that could bring down a financial system in its integrity. Which Central Bank wants to explicitly admit that they want to back the Libra Association? What if those banks want to hold that money in their reserves? Even if Libra agrees, at the end of the day it's really going to change the financial proposition of running the Libra Association and I don't think that the people who created Libra really understand those implications as most of those BIGTECHs involved are not familiar with banking or financial authorities says Colin Platt.

In regard of the banking and regulatory authorities, their reactions have been mixed. A German central bank spokesman said that FB could become a shadow bank, but Marc Carney, Governor of the Bank of England was more considered. He said that he wants the Bank of England to take the lead in this space.

If Libra achieves its ambitions, it would become systemically important as such that it would have to meet the high standard of prudential regulation and consumer protection. It must address issues ranging from AML issues to data protection to operational resilience. It must also be pro- competitive, an open platform, that users can join on equal terms and consider carefully the implications of Libra for monetary and financial stability.

The French response given by Francois Villeroy de Galhau, Governor of the Bank of France and current president of G7 (The organisation that also created FATF - the Financial Action Task Force - which has 40 countries signed up agreeing on common financial rules) was clearly that Facebook would at no time create its own sovereign currency. To this date, a Chinese delegate has taken over FATF as a new president and one of their main focus areas is virtual currencies, cybersecurity and risks. Do we like the idea of the Chinese being the ones that are setting up the rules in the 12 months libra is trying to come to market. So it's not just the French, it's the Chinese, the Germans and

everybody else on the table. It's obviously great for Marc Carney say that he is going to be considered but the problem is that he sets a really high bar for Libra to reach and succeed. He eventually says that the Libra needs to be as good or better than Barclays but on a global scale and that it needs to be pro-competitive and open platform. (12:44 time).

3.2.2. The Libra Reserve in Geneva

There is an association that the BIG TECH bought into called Libra Association to form the Libra reserve which plans to incorporate 100 organizations which come together as separate entities as an investment fund.

The Libra association manages the reserves and is controlling all of the user funds that backs Libra which means it supposed to control all the bank accounts, all the short term bonds and treasuries. But if the money that underlines the Libra reserves is going to be held in different jurisdictions, held in banks of the Eurozone, in Sterling pounds, US dollars, then each one of those jurisdictions would to a certain extent, exert their extraterritorial protection on top of it. What happens if the German and the French are saying that they are not happy with what the Libra Association is doing? Will they ask the ECB to shut down any bank account associated with Libra or redeem any bond that was pulled into this Libra reserve in Geneva.

And once that Libra reserve is there, the question is what is in that reserve and how much is governed by whom, by which of the founding members. At a bare minimum in that case in Europe or globally an equivalent to an e-money license should be issued. Is it all 100 members who will have to be cleared by the regulators? Is it everybody who builds on top as well? Or just the Libra reserve management agent? Can they elect somebody to do that? Do you have to register them as a money transmission service in the US. Libra has already indicated they want to but only at the level of the Calibra wallet. The French said, that they think the association and the reserve would need to register as a bank. But in that case, that's not going to be done by next year. You can buy a bank but even then, how do you buy a bank and get those 100 members involved.

4. Conclusions and Recommendations

In conclusion, we can extract some valuable information about the impact of Libra.

Libra can bring virtual currency to those with limited internet access. Internet connectivity has been around for close to three decades yet in many countries the vast majority

of the internet has remained inaccessible to most due to its cost as we saw it with the example in Afghanistan. In 2012 however, Facebook made it free to access their app from over 50 mobile providers worldwide. And so, for a large percentage of the world's population who can only connect to the outside world via the Facebook app, Facebook is the Internet. An excellent example of this is that in Nigeria alone, 65 percent of the users believe that they, Facebook and Internet, are functionally the same.

Although that statistic is fundamentally concerning and supports the argument that we absolutely should be fighting for greater access to a free and open internet for everyone, it also means that with the introduction of Libra, a very large amount of people will have free access to financial services on their phones.

As Robert de Robert de Groot puts it: "I would reckon that the strongest component why the Libra Association can pull it off is because they are already a tech company. Because they've had the experience of running a worldwide infrastructure to be able to optimize, to have it accessible, to make it compliant in every region, to make sure they have the access and best people to crowdsource the knowledge and skills. So, with that type of access, in theory, you could build the best system to do this.

Furthermore, Libra will offer a wider audience refuge from inflation. Libra is assured to be a stable coin due to their from financial reserves that hold the biggest four fiat currencies (USD, Euro, GBP and Yen). Bitcoin and its competitors have market-driven valuations, meaning that the price of a Bitcoin is determined solely by its market demand. This means that it creates a highly speculative market with high volatility, making it very difficult for mass adoption as a currency. For every Libra coin in existence, there is an equivalent amount of cash sitting in the bank or short-term government securities. In essence, Libra's stability can make it an attractive currency for consumers, rather than an attractive high risk reward investment for speculators. Most importantly though, Libra will offer people choice. In today's world, the vast majority of people are forced to use their country's fiat currency, even when that is a massive disadvantage to citizens.

In addition, Libra also brings upon itself trust issues on data privacy. Although Facebook has stated that the financial data will be stored by Calibra and not shared with Facebook and third parties without the explicit consent of the user, given Facebook's history with data breaches and data misuse, there are trust issues. After scandals such as the Cambridge Analytica, the general public does not trust Facebook. The trust issue comes from Facebook not only tracking and selling your data, but tracking and selling information on your financial transactions as well. But the Libra Association is composed by numerous Founding Members many of which haven't been involved in privacy scandals which shouldn't be overlooked by politicians and commentators.

From a regulatory and banking perspective, the opinions remain mixed. Marc Carney is considerate when it comes to regulating how the Libra Association will conduct business, but sets regulatory standards impossible to implement in less than 12 months. Ongoing discussions take place on whether the Libra Association should become a bank and how it should be regulated. But if its primary use case are not the developed and western markets that have already compliant and solid payment infrastructures in place, where Libra would encounter strong resistance prior and during their implementation phase, but underdeveloped countries as we've already discussed, the added value to the global economy and Libra's main differentiator and USP would be clearer.

The Libra Association with its new virtual currency is definitely one of the most innovative projects the financial landscape has witnessed in the last decades. The discussion has gone mainstream, crossing major newspapers, to major banks talking about it in their webinars. Globally, regardless whether Libra fails or succeeds, it is positive that the discussion has taken off and people are taking notes. The Libra Association is more than a challenger bank. It challenges the Banks' status quo and global sovereign currencies which traditional financial authorities including banks are afraid off.

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