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Libra is here

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Facebook is ready to disrupt the payment landscape in 2020 with the launch of its own payment system.

While the world has been getting ready to face new technological advancements like AI, cryptocurrency, wearable technology and mobile banking, new regulations like PSD2 or GDPR have allowed the GAFAs to set their eyes on the payment landscape. Facebook follows Google and Android in their footsteps of changing the landscape of an entire line of products as the social media company unveiled it is entering the payment world in 2020, as WeChat did in China a couple years ago being now the most spread payment method.

Libra, the Latin word for balance

Facebook recently announced its own crypto-coin Libra and electronic wallet Calibra ready to be launched in 2020. Libra will be a 'stable-coin', meaning its price will not fluctuate based on market volatility but rather pegged to a basket of assets. Facebook has decided to not regulate the coin by itself, but to outsource the task by forming a partnership with 27 industry leaders called the Libra Association¹.

Additionally, Facebook will launch Calibra, an electronic wallet where you can stock the said coin and use it to make payments. You will also be able to use the Libra coin directly through Facebook Messenger and WhatsApp. A white paper explaining the details of the system was recently released².

It is estimated that, due to its scale and network, Facebook is able to reach over 2,5 billion people worldwide. To put it in perspective they would be able to access about 65% of the global smartphone population. The giant is preparing itself, if it is not already, to disrupt the market.

Disruption of the market

The current payment landscapes

For a few years the payment landscape has been opening more and more due to new regulations like PSD2 and other open

banking initiatives. Banks are being forced to either compete or partner up with new incumbents like NeoBanks and FinTechs. More recently, the GAFAs giants have decided to join the game. Google and Apple have launched their respective Pay system, Amazon is creating its own banking offer. And now Facebook has been getting ready to jump on the bandwagon.

With Libra the social media giant will try to achieve what bitcoin could not: mass adoption. Unlike Bitcoin and the other cryptocurrencies on the market, Facebook has the network. Thanks to its platform and its partners platforms (including WhatsApp) Libra could reach almost 40% of the population. Additionally, Libra, by being a cryptocurrency (as Ripple or Bitcoin), solves a key issue that has held back traditional banking infrastructure: you can literally make payments with it anywhere to anyone at any time without any fees.

The traditional banks

The goal of the Libra Association is decentralization. If Libra becomes successful, we will potentially witness a power shift from governments and local currencies into one single currency owned and managed by multinational corporations. The most terrifying thought for traditional banks is that Facebook and its partners will be able to decide which banks, payment processors and distribution agents they will work with, making or breaking companies in some markets overnight according to the Financial Times³. Additionally, if Libra proves itself successful, Facebook could consider offering other banking services/products.

NeoBanks & FinTechs

NeoBanks have been the main disruptors of the Banking sectors over the last few years. Constantly growing, they attract more and more clients thanks to their extremely aggressive pricing strategies, their accessibility and their speed⁴. Though, they have one main pain point in their strategy: client acquisition. Hard to convince a new client base to get used to a new banking app, a new ecosystem. In recent past, NeoBanks (especially Revolut) have also been

¹ You will find more information on the Libra Association and Libra Reserve on their website

² <https://libra.org/en-US/white-paper/#introducing-libra>

³ <https://www.ft.com/content/541918d8-92b5-11e9-b7ea-60e35ef678d2>

⁴ <http://en.finance.sia-partners.com/20180530/neo-banks-tomorrows-banking-has-arrived>

challenged a lot on their security following some revelation on some gaps in their anti-money-laundering processes.

This is where Libra comes into play. A simple solution, available on all of Facebook messaging apps (i.e., WhatsApp and Messenger). This means a great deal, because users are already familiar with the eco-system and won't have to adapt to a whole new application.

Libra will also be extremely secure as it will use the Distributed Ledger Technology, Merkle trees and some cryptography which all have proven to be highly reliable thanks to the now famous Bitcoin. With this cryptocurrency technology, the payment will all be extremely fast and borderless as they will not be relying on any currently existing banking system.

Lastly and more importantly: client acquisition. Libra will be accessible to all Facebook clients crushing with no doubts all its competitors, blowing away the current banking systems and their limitations.

Setting New Industry Standards

By offering a stable cryptocurrency, a way to transfer money for only a very low fee, accessible via smartphone with simple ID verification, Libra could provide a solution to the 1.7 billion people left in poverty in developing countries and currently being charged excessive fees by the big transfer companies, but also to the 40% of the worldwide population which doesn't have access to a bank account although two third of them have a smartphone⁵⁶.

The goal of Libra, helped with the fact that it will not be a speculation tool like the other

cryptocurrencies, is clearly to be used by the masses and to challenge directly the existing classic currencies. In the long run, the Libra ecosystem could simply and purely replace the existing retail banking system by making it borderless, cheaper, faster, more reliable and more secure.

Conclusion

The Libra project can't be underestimated.

Carried by the largest social network on earth and with the involvement of some of the biggest players in the new technologies industries (i.e. Mastercard, Visa, PayPal, Uber, eBay, etc.), it will be accessible to the largest audience ever.

The Libra project was revealed soon after the Apple card, maybe as an answer to it. However, it is hard to imagine that the rest of the GAFAM won't react to Facebook's attempt to control the financial market. In Asia, some other very well settled actors like Alibaba are known to be very interested in launching solutions similar to Libra.

The big question remains on the adoption. The social media giant is not leaving anything to chance, promising that the data and Libra itself will not be controlled by Facebook. Maybe it's a way to try to put behind the painful affair of Cambridge Analytica and gain the trust of their users again.

By being potentially the first "currency" used by millions not controlled by governments and across borders, Libra raises a lot of questions. Facebook will have to explain its project and potential data protection issues in front of the American Senate. Even if Facebook and Libra have promised to be two separate systems, the personal data held by these two entities would be tremendous.

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<http://www.lefigaro.fr/conjoncture/2018/04/19/20002-20180419ARTFIG00196-pres-de-4-adultes-sur-10-dans-le-monde-ne-possedent-pas-de-compte-bancaire.php>

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