

Virtual Facebook currency faces real-world resistance

June 21 2019, by Jitendra Joshi And Vishal Manve In Mumbai



The potential for Facebook's cryptocurrency is huge, but will regulators play ball?

If Facebook's new cryptocurrency should resonate anywhere it should be India, where the social media giant has more than 300 million followers.

Many Indians are shut out of banking and face punitive fees for simple transactions, like transferring money to their loved ones.

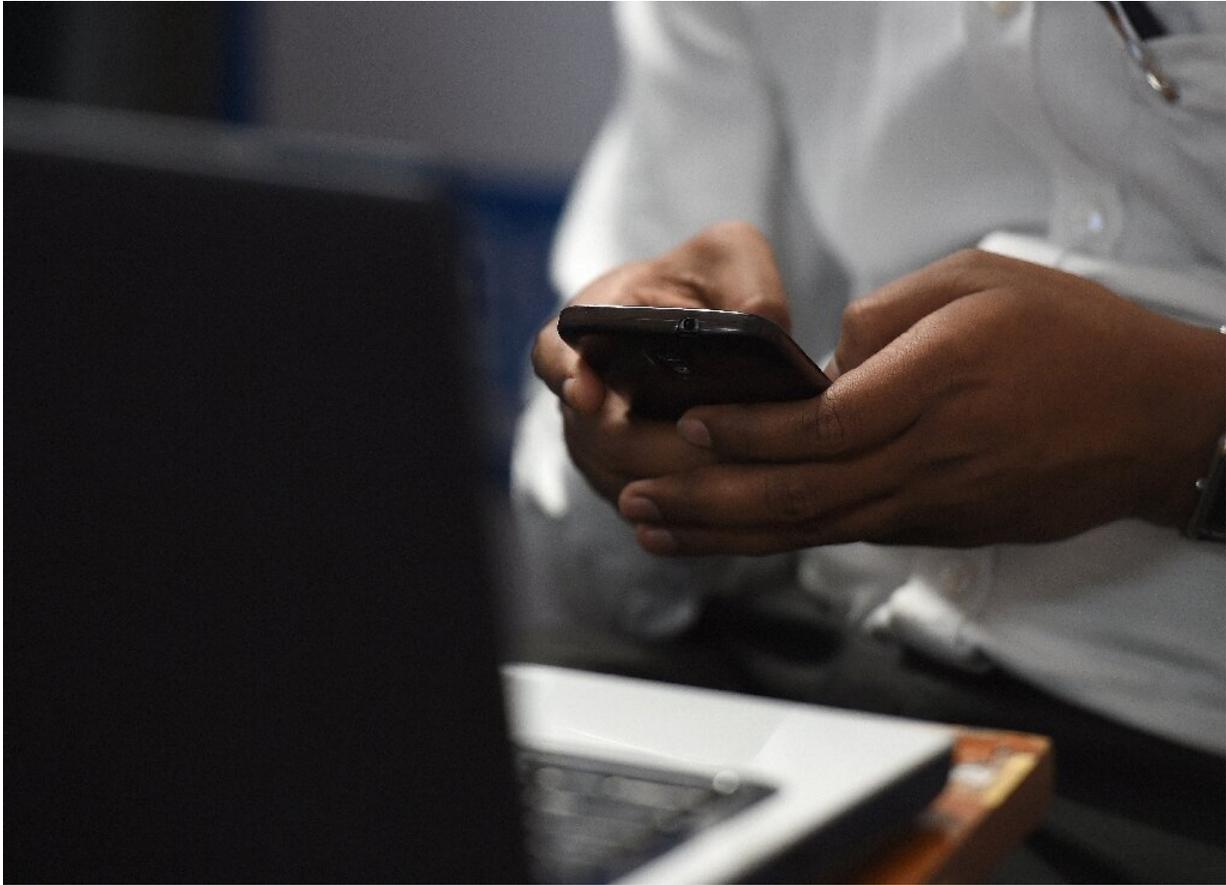
But in India as elsewhere, the US company's ambitions to remake global finance through its "Libra" currency will have to overcome regulatory mistrust, plus the existence of popular homegrown rivals in the market for [digital payments](#).

"If regulations were not a hurdle in India, Libra would instantaneously have a massive reach because of Facebook," Anirudh Rastogi, the founder of a technology-focused law firm in New Delhi, told AFP.

When it launches next year, Libra will be backed by a basket of real-world currencies and a consortium of companies. To mint and store new coins, access to its underlying "blockchain" technology will be more restrictive than for the free-for-all of bitcoin.

Companies rooted in traditional finance such as Visa and MasterCard have joined from the start, betting that Facebook's clout gives the project enough potential to overcome any downside to their existing [business models](#).

"I will definitely use Libra as the idea seems good and they have a big partnership list thereby offering credibility," 23-year-old consultant Prasad Khake said in Mumbai.



Cryptocurrencies are currently banned in India

"The platform will work depending on how accessible and easy it is for billions of Indian users," he said.

Therein lies the problem. Cryptocurrencies are currently banned in India, and the country's central bank, which calls them a "contagion", is taking its time to craft a regulatory framework.

Bulging wallets

Facebook itself is banned outright in China, and the company admitted it

would be unable to operate Libra anywhere that is subject to US sanctions, such as Iran.

There is suspicion too on its home turf, with US lawmakers highlighting Facebook's poor record in safeguarding user data. The Senate banking committee has scheduled a hearing for July 16.

French Finance Minister Bruno Le Maire said [digital money](#) could never replace sovereign currencies. Bank of England governor Mark Carney said Libra would have to withstand the toughest scrutiny and not become a tool for money laundering or terrorist financing.

There is clearly potential if Facebook makes good on its pledge to bring low-cost or free banking to the unbanked and open up areas such as [money transfers](#), where the company—citing UN data—says migrants lose \$25 billion every year in remittance fees.



Libra will face the toughest scrutiny from national governments

For their part, money transfer businesses say they welcome the challenge.

"It may help with educating regulators, could evolve the payments ecosystem faster and eventually lower the cost of moving money, making the conversations on the issues we're tackling more mainstream," TransferWise chief technology officer Harsh Sinha told AFP in London.

To access Libra on their smartphones, users will go through a virtual wallet called Calibra. There are plenty of such e-wallets already, however.

Paytm and FreeCharge are popular in India. Facebook's own WhatsApp has been trialling a digital payments service in India, but has faced resistance from the [central bank](#).

Here to stay

The Philippines could be another fertile market, with Filipinos working overseas sending tens of billions of dollars every year through money transfer outlets. But often in the Middle East and the rest of Asia they are kept on a tight rein by employers and lack access to the internet.

"They (overseas workers) barely embraced online banking so cryptocurrency may even be a stretch unless the demographics goes to an upswing with tech-savvy millennials," said Victoriano Gimenez, an electrical engineer who worked for six years in Saudi Arabia.



Remittances from overseas workers could become a lot less costly

Another popular platform in India is M-Pesa, which started life in east Africa and has helped millions in Kenya, Zimbabwe and elsewhere move beyond cash and traditional banking.

Winning over the foreign public to the idea of Western-backed crypto payments is one thing. Winning over their governments is another, and could be the biggest challenge to global adoption of Libra.

"Regulators around the world have really now to wake up and actually say 'well, what do we do about regulating this?' and not just banning this, because it won't be going away," Iqbal Gandham, managing director of

eToro in Britain and chairman of the industry group CryptoUK, told AFP.

But even if regulators don't see a threat to their sovereign currencies, they will still be exercised by exchange rate risk, liquidity in times of financial crisis, and the impact on corporate competition, according to ING economists Teunis Brosens and Carlo Cocuzzo.

"While a lot remains unclear at this stage, Facebook has clearly started a new chapter on digital currencies," they wrote in a research note. "Over to policymakers for a response."

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