



Banking Deconstructed



New technologies for tracking transactions of all kinds are creating an explosion of alternatives to traditional banking—and may ultimately transform our political economies.

Banks have been the gatekeepers of money for most of the modern era. Central banks have created the fiat currencies that nations use to establish their tax basis and thus provide their services. Commercial banks and, more recently, credit card companies have been the retailers, mediating the exchange of money between institutions and individuals, managing payments and loans. Investment banks have overseen the emergence of money markets—the buying and selling of money itself—as a worldwide source of wealth and financial growth. But just as other industries have been disrupted by the Internet and the information transparency it creates, the global banking industry is being disrupted by a host of new players, platforms, and types of value that could change the shape of our money systems and, even more significantly, our political and economic systems. In the end, money may be just one of many ways to measure and exchange flows of value, and financial institutions may similarly be just one of many channels for that flow.

—Kathi Vian, with Jerry Michalski



DISINTEGRATION
integration

New mediators, new currencies, and new value commons take aim at the homogeneity of national and global banking systems.



EXPOSURE
accountability

New ways of tracking value exchange will expose what communities as well as individuals value—and provide ways to manage multiple values.



SLOW
fast

Investments in communities—local farms, local enterprises, local services—pay off more slowly than investments in financial instruments but build local prosperity.



CONTAGION
isolation

Wealth becomes “contagious” in peer-to-peer open money networks where value—and credit—flow through social networks, just like friendship.

money: banking deconstructed

NEW MONEY RETAILERS:

MOBILE PAYMENTS, ONLINE LOANS

Worldwide, as the Internet and mobile technology continue to reinvent the platforms for trade and commerce, new intermediaries are stepping up to play roles that banks have traditionally played—through checks, charge cards, debit cards, and loans—in the exchange of money for value. Digital online payments, mobile payments, and most recently, new loan strategies based on extreme-scale data analysis of creditworthiness are all changing the ways that we track and make money.

To date, most of these innovators add a layer to traditional bank functions rather than replacing them. Online payment systems use bank debit or credit cards to fill online payment accounts. Mobile payment companies charge fees to broker the payments much the way early charge card companies like American Express and Diners Club did. The promise of these new systems—and their market advantage—is efficiency. And yet the challenge for mobile payments, as in the early days of credit cards, is taking the friction out of the system. Friction is costly. In mobile payments, for example, the transaction fees can be as high as 50-60%. New mobile payments players, from AT&T and Verizon to Apple and Google, are in a position to reduce those fees. They could, in fact, become their own banks, extending credit and harvesting transaction fees from all kinds of purchases—not just digital products and services.

Even more direct competition to retail banking could come from data-savvy Internet companies like Amazon, and again, Google. The ability to mine their vast stores of information about individual behavior could change the risk profiles for all kinds of loans. While these data giants could sell their services to banks and other traditional lenders, they may also spawn new players with new goals. For example, former Google CIO Douglas Merrill has created the startup ZestCash, with the goal of using massive-scale data analysis to provide a substitute for payday loans without the abusive interest rates traditionally charged by payday lenders.

“ I was thinking about a simulation model to accelerate the effects of multi-generational choices in terms of currency systems on the individual and at the collective level so that, as a player, you could participate in different monetary systems or currency systems and make choices, go through a lifetime, and have that within an individual's lifetime and also within the context of a community, and see the repercussions of those different financial systems, and maybe even have that be a social game that you're able to play with friends and family. ”

Kati London
Vice President, Area/Code



“ We have this idea of a trust currency, getting value out of your online trust, your history on the web. What would be most valuable for us in the future would be to create a sort of central hub where you could exchange various types of currency. So you might be able to swap your trust currency in one community for somebody else's American Express points. Or you could swap that for somebody's British pounds. If you're really good at one thing, you can build up that currency, and then swap it for something that you don't have access to, necessarily, like U.S. dollars. ”

Micki Krimmel
Founder, NeighborGoods



“ It's especially important for communities like mine that face huge levels of unemployment, where you have people whose productive capacity is sitting dormant without easy outlets to turn their productive strengths into value, even if it's just for their community. There are lots of great opportunities to see how technology and the ways in which currency can be created by communities can really turn the capacity of people within the community into new wealth and prosperity. ”

Mark Rembert
Co-Director, Energize
Clinton County



NEAR MONEY: CURRENCIES OF ENGAGEMENT

Local communities have, for a long time, experimented with alternative local or community currencies that fill in gaps in access to goods and services while attempting to build a robust economy for small- and medium-sized businesses. In the last decade, the number and scale of community currencies, or local exchange trading systems (LETS), has grown, partly in response to two major recessions and partly because our tools and technology make it easier to manage them. These community currencies are run by cooperative, non-profit organizations rather than banks, and they create new value from intangibles, such as time, skills, and expertise, as well as from physical resources that have not been previously valued. Most fundamentally, they create new value from engagement within the community.

But community is no longer limited to local geographies. For the past decade, companies have used affinity programs to scale up their customer communities and reward them with what amounts to alternative currencies: consumers collect points for everything from air travel to coffee to pet food. Like community currencies, these forms of *near money* stimulate and reward engagement.

Now the engagement economy is further proliferating alternative currencies. Already, online games have demonstrated their ability to create meaningful currencies that cross the digital/physical divide. But all kinds of online communities are leveraging gamification to turn community interactions into points, credits, and privileges whose value spans the digital and physical worlds. They are laying the tracks for all kinds of new wealth creation and new forms of commerce.

For example, IMHO is a social media player that can be embedded in social networking sites like Facebook to drive advertising revenue. Users gain IMHO\$—the application's internal currency—not only from watching ads, but also from rating media, sharing them, and chatting on the site. They can then spend their IMHO\$ to rent movies, TV shows, and other premium media. All kinds of websites, from TV series sites to movie promotion sites, are using a combination of social networking features and gamification features to produce micro-economies within the site—and create new kinds of wealth out of social interactions. And all this is happening without any involvement from banks or credit card companies or even online and mobile payment systems.

“We have to do something really simple—and that's connect investors to the places where they live and get them to start taking a little of their money out of cyberspace, out of global markets, and put it to work near where they live. In our case, we're talking about starting with small food enterprises, but it doesn't have to be that. The solution is deceptively simple, but if we get a decent number of people to start putting their money to work closer to home, it will be the start of a financial revolution.”



Woody Tasch
Author, *Slow Money*

NEW VALUE COMMONS: PEER-TO-PEER EXCHANGES

IMHO\$ are more than just an alternative currency, and the gamification of spaces like IMHO is not just about driving traffic to ads. Using game incentives and a locally defined currency to drive behavior points to a more fundamental shift in how we, as humans, will define what we value and how we organize ourselves to create that value.

New peer-to-peer platforms are taking aim at this goal: they are attempting to rewrite the basic system of exchange, sometimes using game-style software to completely decentralize the process of defining, managing, and tracking the value in all kinds of human activity. At the cutting edge are open-source systems like Ripple and the Metacurrency Project which are building software tools and standards. Others are applying this code to build user-facing sites as sandboxes for experimentation.

While these experiments are still awkward, the combination of open-source, peer-to-peer platforms and the IMHO model suggests an alternative economic future that looks significantly different from our current global monetary system. The most fundamental shift is that the new system does not store all of what we value in the single, rather narrow channel that we call *money*. Rather, it has multiple “currencies” for creating and tracking different kinds of value. As a result, it allows people in diverse communities to do the following:

- Direct flows of activity toward things that are collectively valuable without any centralized governing institution.
- Create value in multiple local contexts but also translate that value to other contexts.
- Highlight non-monetary value, such as preferences, skills, and social connections.
- Create value from collaboration as well as competition.
- Create abundance rather than scarcity.

These peer-to-peer exchanges will join the ranks of disruptive P2P music and publishing systems in their capacity to change the very structure of an industry in the long term. But in this case, they may not only change the face of banking. They may challenge the global political-economic system that uses banks as the gatekeepers for value. Whether these systems emerge as parallel economic systems or whether the world reorganizes its political economy around a new capacity to create and manage value as a commons, it is clear that banking in the future will be much more diverse and distributed than it is today.

starbucks.com



Starbucks recently released its iPhone digital payment application. The accounting for a cup of coffee goes through multiple layers: the Starbucks card, a credit card or PayPal account, and ultimately a

bank account. That's a lot of friction—and fees—in a system to buy a cup of coffee. Watch for Apple or AT&T/Verizon to disintermediate that system and make it possible to buy that cup of coffee through an Apple store account or your monthly phone bill. This kind of disintermediation and re-mediation is likely to make personal accounting a high-resolution game.

imhmedia.com



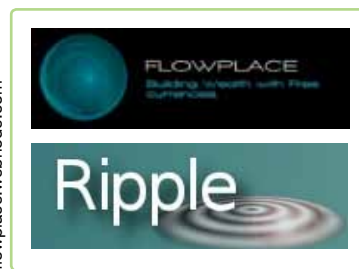
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zestcash.com



ZestCash is an alternative to payday lenders, started by ex-Google CIO, Douglas Merrill. Payday lenders typically charge abusively high interest rates to cover the higher risks of lending to people who live from paycheck to paycheck. ZestCash is able to lower those interest rates by using extensive online data tracking to evaluate the risk more accurately and set the interest rates accordingly.

ripplepay.com;
flowplace.webnode.com

A number of early experiments in open money architectures are providing platforms for people to experiment with peer-to-peer money systems. Flowplace is built on the

MetaCurrency platform and uses the intentions, actions, and thank-you's of members as a way to track exchanges among members. Ripplepay uses the Ripple framework to provide an alternative payments platform where transactions and credit between friends and family can be extended to those in a social network. These early prototypes are reminiscent of the early prototypes of communication through computers before the advent of the Internet and the World Wide Web—awkward to use but suggestive of something transformative.

the quick list

- *Creating Wealth*, Bernard Lietaer. Gabriola Island, BC: New Society Publishers, forthcoming May 2011
- *Inquiries into the Nature of Slow Money: Investing As If Food, Farms, and Fertility Mattered*, Woody Tasch, White River Junction, VT: Chelsea Green Publishing Company, 2008
- “Meta-Currency: A Step Towards the Rheonomy,” Eric Harris-Braun. Cambridge, MA: The Law Lab, 2009, blogs.law.harvard.edu/lawlab/2009/07/01/meta-currency-a-step-towards-the-rheonomy-by-eric-harris-braun/
- “The Future of Money: DIY Currencies,” Annilee Newitz. *Portfolio.com*, April 2009, portfolio.com/views/columns/dual-perspectives/2009/04/13/DIY-Currencies/
- “Future of Money and Technology Summit,” April 26, 2010, Online Audio Recording: futureofmoney.bandcamp.com
- *Flow: It's All About Patterns*, by Eric Harris-Braun, eric.harris-braun.com/blog/projects