

Welcome to the ValueWeb

The value mechanism for the Network Revolution

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We share a belief in banks because governments say they can be trusted. Governments use the banks as a control mechanism, which manages the economy, and yet now we come to bitcoin and the internet age, where some of these fundamentals are being challenged. Considering it took 330 years between the emergence of steam power to the last steam power patent during the Industrial Revolution, that implies there's a long way to go in our transformation during the "Network Revolution".



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Chris Skinner is known as an independent commentator on the financial markets and FinTech through his blog, the Finanser.com, and is the author of the bestselling books *Digital Bank* and *ValueWeb*.

Let's first consider the Network Age as we see the collapse of time and space. Einstein would have a giggle, but it is the case today that we no longer are separated by time and space as we were before. Distance is collapsing every day through our global connectivity.

We can talk, socialize, communicate, and trade globally, in real-time, at almost no cost. I can make a Skype call to anyone on the planet thanks to the rapidly diminishing costs of technology—there are phones out there today that cost one dollar, and the cheapest smartphone in the world is currently the Freedom 251. It is an Android phone with a 4-inch screen that costs just 251 rupees in India, around US\$3.75. In other words, what is happening in our revolution is that we can provide a computer far more powerful than anything

before, and put it in the hands of everyone on earth, so that every single person is on the network.

Once on the network, you have the network effect that creates exponential possibilities—everyone can now trade, transact, talk, and target one-to-one, peer-to-peer.

This is why I think of the network as the revolution of man and money, as we went from disparate, nomadic communities in the first age; to one that could settle and farm in the second; to one that could travel across countries and continents in the third; to one that is connected globally, one-to-one. This is indeed a transformation and shows that man is moving from single tribes to communities to connected communities to a single platform: the internet.



The importance of this process is that each of these changes has seen a rethinking of how we do commerce, trade, and finance. Our shared belief system allowed the barter system to work until abundance undermined bartering, and so we created money; our monetary system was based upon coinage, which was unworkable in a rapidly expanding industrial age, and so we created banking to issue paper money. Now, we are in the Network Revolution, and banking is no longer working as it should. Banks are domestic but the network is global; banks are structured around paper but the network is structured around data; banks are distributed through buildings and humans, but the network distributes through software and servers.

So much excitement is hitting the mainstream as we are now at the cusp of the change from money and banking to something else. However, in each previous age, the something else hasn't replaced

what was there before. It's added to it. Money didn't replace bartering; it diminished it. Banking didn't replace money; it diminished it. Something in the Network Age isn't going to replace banking, but it will diminish it. By diminish, we also need to put that in context. Bartering is still at the highest levels it has ever been—about 15 percent of world trade is in a bartering form—but it is small compared to the monetary flows. Money in its physical form is also trading at the highest levels it has ever seen—cash usage is still rising in most economies—but it is not high compared to the alternative forms of monetary flow digitally and in foreign exchange markets. In other words, the historical systems of value exchange are still massive, but they are becoming a smaller percentage of trade compared to the newest structure we have implemented to allow value to flow. ➤

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This is why I'm particularly excited about what the Network Age will do, as we connect one-to-one in real-time, and it will create massive new flows of trade for markets that were previously underserved or overlooked. Look at Africa, for instance: African mobile subscribers take to mobile wallets like ducks to water. A quarter of all Africans who have a mobile phone have a mobile wallet, accounting for nearly every citizen in more economically vibrant communities like Kenya, Uganda, and Nigeria. This is because these citizens never had access to a network before; they had no value exchange mechanism, except a physical one that was open to fraud and crime. Africa is leap-frogging other markets by delivering mobile financial inclusion almost overnight.

The same is true in China, India, Indonesia, the Philippines, Brazil, and many other under-served markets. The first massive change in the network effect of financial inclusion is that the five billion people who previously had zero access to digital services are now on the network.

A second big change is the nature of digital currencies, cryptocurrencies, bitcoin, and shared ledgers. This is the part that is building the new rails and pipes for the fourth generation of finance, and we are yet to see how this rebuilding will work out. Will all the banks be based on an R3 blockchain? Will all clearing and settlement occur through Hyperledger? What role will bitcoin play in the new financial ecosystem?

We don't know the answers to those questions yet, but what we will see is a new ecosystem that diminishes the role of historical banks. The question for historical banks is whether they can rise to the challenge of the new system.

The Network Age is a digital networked value structure that is real-time, global, connected, digital, and near-free. It is based upon everything being connected, from the seven billion humans communicating and trading in real-time globally to their billions of machines and devices, which all have intelligence inside. This new structure obviously cannot work on a system built for paper with buildings and humans, and is most likely to become a new layer on top of that old structure.



It will be a new layer of digital inclusion that overcomes the deficiencies of the old structure, a new layer that will see billions of transactions and value transferred at light speed in tiny amounts. In other words, the Network Revolution is an age where everything can transfer value, immediately and for an amount that starts at a billionth of a dollar if necessary.

This new layer for the Network Revolution is therefore nothing like what we have seen before and, like we have seen before, it will supplement the old system and diminish it. Give it half a century and we will probably look back at banking today as we currently look back at cash and barter. They are old methods of transacting for the previous ages of man and money.

This Network Revolution is digitizing value; banks, cash, and barter will still be around but will be a much lesser part of the new value ecosystem. They may still be processing volumes greater than ever before, but in the context of the total system of value exchange and trade, their role is less.

In conclusion, I don't expect banks to disappear, but I do expect a new system to evolve that may include some banks, but will also include new operators who are truly digital. Maybe it is the Googles, Baidus, Alibabas, and Facebooks; or maybe it is the Prosperers, Lending Clubs, Zopas, and SoFis. We don't know the answer yet, and if I were a betting man, I would say it will be a hybrid mix of all, as they all evolve to the Network Revolution.

The hybrid model is one where banks are part of a new value system that incorporates digital currencies, financial inclusion, micropayments, and peer-to-peer exchange, because that is what the networked age needs. It needs the ability for everything with a chip inside to transact in real-time for near-free. We're not there yet but, as I said, this revolution is in early days; it is only 70 years old. The last revolution took 330 years to play out; give this one another few decades and then we will know exactly what we built. ●



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