Report: Facebook looking to disrupt credit cards with cryptocurrency



Enlarge / Mark Zuckerberg in 2016.
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Facebook is considering raising as much as a billion dollars for a new cryptocurrency-based payment network that could compete directly with conventional credit cards, The Wall Street Journal reports. We've previously covered reports that Facebook-owned Whatsapp was developing a cryptocurrency product, but the company is also reportedly creating a cryptocurrency for Facebook itself.

It's not clear exactly how the product would work. The Journal reports that Facebook is trying to raise around a billion dollars from conventional financial institutions to "underpin the value of the coin to protect it from the wild price swings seen in bitcoin."

That suggests it could be a "stablecoin" whose value is pegged to the dollar or other conventional currencies. The cryptocurrency that Whatsapp is working on would reportedly be pegged to a basket of currencies.

According to the Journal, Facebook may be looking to position its payment network as a direct rival to Visa and MasterCard. Supposedly, using a blockchain network could free merchants

from the 2 to 3 percent fees they must pay to accept conventional credit card payments.

One of Facebook's big strategic advantages is the fact that a fair number of websites already use Facebook APIs to allow users to log in using their Facebook credentials. It could be a straightforward matter to extend that existing infrastructure to allow users to make purchases on third-party websites using their Facebook credentials.

The case for Facebucks is hazy

Facebook is apparently also considering the use of its cryptocurrency to pay users a fraction of a penny each time they view an ad, according to the Journal. The rationale for this (or perhaps the Journal's explanation for it) seems a bit muddled, however.

The Journal says that paying users would "reward the kind of genuine interaction that Facebook, beset by bots and hate speech, has been trying to encourage." But it's not clear how these payments would discourage bots or hate speech. To the contrary, botmakers would inevitably ramp up their efforts to generate fake traffic with bots in order to earn Facebook's cryptocurrency.

Facebook also faces the basic dilemma I pointed out in my February article about the rumored WhatsappCoin: a key selling point of blockchain networks is that they're fully open and decentralized. Open software platforms tend to promote innovation and enjoy rapid growth.

But the openness of blockchain networks makes them magnets for fraud, hacking, money laundering, and other problematic behaviors. If someone steals the private keys to your bitcoin wallet, for example, she can steal your bitcoins, and there's no one with the authority to reverse the transaction. That approach is going to be a nonstarter for a mainstream payment

network like the one Facebook is trying to build.

Facebook would presumably try to deal with those problems by tightly integrating the network with the Facebook platform. Facebook will probably need to indemnify users against losses and hire people to police the network for money laundering. But at that point, the network will look a lot like a conventional closed payment network, with strict rules about who may use it and how. It’s not clear that building such a network using a blockchain adds value compared to creating a payment network using conventional databases.

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