

“How Not to Start a Payment Network”

Charles Cohen – presentation to Digital money Forum 2002

**e-mail me: [inbox@charlescohen.com](mailto:inbox@charlescohen.com)**

Speaking notes

Thankyous + gratuitous but friendly joke at David Birch's expense.  
Apology for not using powerpoint.

Why me here?

I wanted to create a global consumer currency with a realtime payment network, and called it beenz – as in been there, done that

One idea, two years and ninety million dollars later it was switched off and sold to Carlson

Life is easier if you learn from other people's mistakes, so here are mine

Hindsight is wonderful to me because:

The reason beenz didn't succeed was not planning, or execution, but design.

The same design flaw could strike anyone in this business

So why did beenz fail?

Aside from the obvious stuff, like the burn rate, the market collapsing, etc. If you can blame someone else, you'd better be sure they won't sue.

Best place to start: the three candidates for Big Problem facing the growth of digital money in general:

- (a) Technology?
- (b) Financial regulations?
- (c) people?

Was it technology?

- the technology barrier is either that its too hard, too confusing or too expensive.
- the beenz infrastructure delivered realtime, secure transactions from day one. Day One was a Linux PC next to my friends bed. Day 180 was an enterprise class Sun server running Oracle doing the same thing as the PC, but several thousand times a second.
- As for standardisation problems, most markets sort this out by themselves. If standardisation is not a pre-requisite of a market existing at all (e.g. as it is

for guiding aircraft around) then markets settle down to something comfortable after a while. This problem is always overstated because it's so tense at the time.

- Technology is not the problem, never was, and never will be – unless you are stupid enough to think that people will opt for e-cash because it's a cool technology.

Was it financial regulation?

- Governments are thought to be hostile to e-currency because it makes their financial borders porous. No tax, no government.
- Beenz was threatened with closure by the FSA in week one for pretending to be a bank. The Bank De France ruled the business illegal. An ECB board member said we were a threat to the Euro because we lacked a central bank. We had to restrict our business model to prevent consumers buying beenz with local currency. However, we could have got round this by being a bank, or repatriating. We went to Ireland.
- Governments don't have a problem with e-money, just so long as you don't use it to evade regulation. Because governments compete with each other – e.g. with tax rates, banking laws – it is not likely that government will ever be an effective barrier to e-money

Was it public dis-interest?

- acceptance by the public, either lack of trust or convenience, is thought to be a problem for e-money growth. It may be just complete disinterest: there was no revolution in Swindon when Mondex was introduced, or when it went away.
- Beenz had no trouble gaining acceptance, five million account holders within 18 months, but who says no to free money, even a small amount? We found that people stayed with it once they had completed the spending cycle, or dropped off after 45 days. People wrote in to tell us they were surprised.
- It's not convenience, it's convenience FOR WHAT – the last part counting more. It's not trust, it's trust FOR WHAT. People are very utilitarian about payment and currency. Outside Argentina, they just don't care about the other stuff that we economics types get worked up about.

If it's not technology, government or people, then what?

Was it a design flaw? I.e. Would it have gone wrong anyway?

- The answer is contained within The five pound problem: how do you give £5 digital spending power for £5 cash.
- Where's the margin? How do you make money? Who pays for the payment?

Yes, it would have gone wrong anyway:

- The problem beenz had was that it was designed to be symmetrical. The currency was supposed to circulate within the system freely and without any friction. Just like cash. This was the mistake.
- Even if we had stayed in business, this would have got us in the end.

Symmetry is not beautiful in payment systems:

Payment systems that work are asymmetrical. Someone, somewhere in the process, pays for it. For example:

- Buying your euros at Waterloo, you pay a commission. Your £5, changed to Euros and back again, gives you a lot less than £5.
- Credit Card payments – the merchant always pays. Your £5 nets the merchant less than £5 but gets you £5 worth of goods

Wonder How common is this design flaw?

tragic flaw for any digital national money programme (the e-pound or the digi-dollar).

Right now the costs of cash are hidden – banks and taxpayers subsidise the cash economy without compensation – but we've got used to them and can't live without them, so noone complains. It's a cost of doing business.

Not so with e-money, which will always add to costs in the early days with no promise of long term gain. Given that our government can't even get us to tune in to digital TV there's not much hope of dropping paper money.

DENOUMENT:

Asymmetry works:

Some people have proven that commercial payment networks can pay if they meet a market need – i.e. something people will pay for. Paypal is a good example, although it will find it hard to get out of the auction market.

But if only asymmetry works, none of these national schemes  
– public money – will do.

But then, perhaps the problem with beenz was just we didn't know  
what it was good for. Paul Krugman was right: never confuse a  
need for a demand.

THANKS