Future of Money (Part 1)

Peter Diamandis <peter@diamandis.com
Jun 9, 2021

Every day, roughly 80% of all market trades are made by computers.

Robo-advisors are increasingly making this process available to the consumer, saving them time and money as a result.

With humans no longer in the transaction chain, fees are slashed. Undercutting the typical 2% cut of profits (not to mention 20% incentives) charged by a wealth manager, most robo-advisors take around 0.25%.

And AI is inserting itself into almost every aspect of the financial world.

“Fintech” describes the convergence of technology and financial services. First colonized by networks and apps, it was then radicalized by AI and blockchain, and now underpins a global wealth redistribution mechanism.

Money is being reinvented fast.

Bitcoin, Ethereum, DeFi, crowdfunding, etc. are massively disrupting financial systems across the globe. For evidence, look no further than El Salvador’s incredible move to make Bitcoin legal tender—the first country in the world to do so.

Today, we’ll discuss the ways in which networks and AI are reinventing money.

In our next Future of Money blog, we’ll look at the development and impact of DeFi and cryptocurrencies.

Let’s dive in.

PEER-TO-PEER FINANCE

Crowdfunding

Crowdfunding involves a peer-to-peer network where any person can present their product or service to the world and ask for funding.

Funding can come in the form of a loan, an equity investment, a reward, or an advanced purchase of the proposed product or service.

Since I first discussed crowdfunding in BOLD, the phenomenon has exploded onto the scene. The total worldwide volume of crowdfunding, inclusive of peer-to-peer lending, was $14B in 2019, with over 2,000 platforms to access funding. But like many digital platforms, this too is experiencing double-digit growth. Experts project that crowdfunding will reach $30B by 2025.

Ultimately, crowdfunding fully democratizes access to capital, allowing anyone with a good idea, anywhere, to receive the cash they need to get going.

And in the US, the Securities and Exchange Commission (SEC) recently updated regulations around crowdfunding to make it even more democratized and favorable to entrepreneurs.

Via the JOBS Act originally passed several years ago, crowdfunding has two legal pathways: Regulation Crowdfunding and Regulation A+.

Through Regulation Crowdfunding, entrepreneurs can raise money from a broader pool of investors. Previously, only “accredited investors” could buy equity in a startup (historically, this meant individuals making over $200K annually or those who have over $1M in net worth). But with Regulation Crowdfunding, entrepreneurs can raise money from any investor over 18 years old, including customers, fans, and the general public.

And whereas companies could previously raise just $1M over a twelve-month period under Regulation Crowdfunding, the SEC increased that limit to $5M earlier this year.

Regulation A+ is for companies looking to raise more money and is often considered a “mini-IPO”—a less intensive and cheaper form of the typical initial public offering. Here too, in March of this year the SEC increased the limit that companies can raise using Regulation A+ from $50M to $75M.

With all this increased activity, there are now companies that offer crowdfunding portals, making it even easier to match average investors to companies looking for funding. Key among those platforms are WeFunder, Republic, and StartEngine.

WeFunder was created in Y combinator in 2012 and is the market leader. Requiring as little as $100 to enter, WeFunder has democratized access to equity investing. Furthermore, it has raised nearly $10M for itself, through its own platform, in a virtuous cycle.

Republic was founded in 2016 and has raised nearly $70M, just recently closing a $36M Series A round. They are also embracing cryptocurrencies and have released a platform-native digital token as part of a crowd-benefitting profit-sharing agreement with their users.

StartEngine is the oldest crowdfunding portal, having raised nearly $350M for over 500 startups. They also offer Start-Engine Secondary, a trading platform for users to buy and sell securities of companies that have raised capital with Regulation Crowdfunding and Regulation A+ crowdfunding sales.

Crowdlending

Aside from investing in companies, other forms of peer-to-peer funding have taken root.

In currency exchange, this has given rise to a company called TransferWise, now simply known as Wise. By matching customers who have, say, pesos that they want to turn into dollars with customers who want to change dollars into pesos, TransferWise is using a modified dating app to take on the entire foreign currency exchange market.

In fact, the company reached a $3.5B valuation in under five years. In 2017, the company was handling 1 billion Euros a month in currency exchange. They are now preparing for an IPO, with a valuation of about $5B, while extending their offerings with multi-currency accounts and global business services.

Built on networks and apps, TransferWise is also an example of fintech's colonization wave. The radicalized wave arose when AI entered the picture.

Consider the age-old practice of "Buddy, can I borrow a dollar?" otherwise known as peer-to-peer lending. Traditionally, this has been a high-risk practice—which is to say, Buddy rarely gets his dollar back.

This problem only gets worse with scale. As villages turned into towns, towns expanded into cities, and cities began to sprawl, neighborly trust broke down. That's where banks came into play—they added trust back into the lending equation.

But who needs trust when there's data?

With AI, huge groups of people can come together, share financial information, and pool risk, becoming the peer-to-peer market now known as "crowdlending."

Prosper, Funding Circle, and LendingTree are three example players in a market that's expected to surge from $26B in 2015 to $559B by 2027.

A different example is the Smart Finance Group. Created in 2013 to serve China's massive unbanked and underbanked population, Smart Finance uses an AI to comb a user's personal data—social media data, smartphone data, educational and employment history, etc.—to generate a reliable credit score nearly instantly.

With this method, they can approve a peer-to-peer loan in under eight seconds, including micro-loans to the unbanked.

And the results speak for themselves. Roughly 1.5 to 2 million loans are taken out every month via Smart Finance.

INVESTING WITH AI

AI is also making an impact on investing.

Traditionally, this game was played by the wealthy as it is a game of data. Financial advisors had the best data, but you needed to be wealthy enough to afford a financial advisor to access it.

And advisors are picky. Since it can take more time to manage small investors than large investors, many wealth managers have investment minimums in the range of hundreds of thousands of dollars.

But AI has leveled the playing field.

Today, robo-advisors like Wealthfront and Betterment are bringing wealth management to the masses. Via an app, clients answer a series of initial questions about risk tolerances, investment goals, and retirement aims, and then algorithms take over.

Actually, algorithms have already taken over.

As mentioned earlier, 80% of market trades are made by computers. All robo-advisors have done is make the process available directly to customers, saving them money in the process. Instead of the typical 2% of profits (and 20% incentives) charged by a wealth manager, most robo-advisors take around a quarter of a percent.

And investors are responding.

As of last month, Wealthfront had $25B under management, while Betterment stood at $29B. Although robo-advisors are only used by roughly 8% of total U.S. households, estimates suggest that the total assets under management by robo-advisors will climb to $2.5T by 2023, or roughly 10% of the total market.

THE DEATH OF CASH

Finally, we come to our last category: using money to pay for things.

But we already know this story. When was the last time you dropped coins into a toll booth? Or paid cash for a cab ride? In fact, Uber and Lyft allow us to get around a city without a wallet. Cashier-less stores with services like Amazon Go and Uber Eats and wallet-less pay mechanisms are about to become the new normal.

Denmark stopped printing money in 2017. The year prior, in an attempt to expand mobile banking and demonetize the country’s gray-market economy, India recalled 86% of its cash. Vietnam was already 50% cashless as of 2020. And Sweden, where over 80% of all transactions are already digital, has pledged to become the first fully cashless society by 2023.

Economists often point out that two of the main factors driving economic growth are the availability of money—the stockpiles we can draw upon—and the velocity of money, or the speed and ease with which we can move that money around. Both factors are being amplified by exponential technologies.

As our transactions shift to the digital realm, more data on spending habits can be collected and fed to AI algorithms that continue to learn based on real-time input. This information will educate marketing campaigns, credit records, and investment goals.

FINAL THOUGHTS

What, exactly, do we do with our money?

We store it, of course. Mostly in banks. We also move it around, sometimes transferring cash between companies, other times borrowing or lending among individuals. Next, we invest it, attempting to use our money to grow more money. Finally, since the time coins were conch shells, we trade it for the stuff we want.

Thanks to converging exponentials, each of these areas is being reimagined, with bits and bytes replacing dollars and cents.

And neither contemporary economics nor the way we live our lives will ever be the same.

JOIN MY ABUNDANCE360 COMMUNITY

If you want to become an exponential entrepreneur and reinforce those mindsets that will inspire and guide you to create a hopeful, compelling and abundant future for yourself and humanity, then consider joining my year-round Abundance360 coaching program.

Every year, my team and I select a group of 360 entrepreneurs and CEOs to coach over the course of a year-long program. You can join at any time for a full year's worth of personal coaching on Exponential Tech, Longevity, Moonshots, and Abundance thinking.

My mission is to help A360 members obtain mastery in four specific mindsets: an Abundance Mindset; an Exponential Mindset; a Moonshot Mindset; and a Longevity Mindset. Together we will actively select and reinforce your preferred Mindsets.

To learn more and apply to A360, visit abundance360.com