Christopher Tarker Homework Assignment 1

Title: Ripple XRP Will Revolutionize Finance

Name of company: Ripple Labs, XRP

When was the company incorporated? 2012

Who are the founders of the company? Chris Larsen and Jed McCaleb

How did the idea for the company (or project) come about?

In 2004, Ryan Fugger created Ripple while working on a local exchange trading system with the intent of having people utilize a monetary system that was decentralized and therefore create their own money. He initially created OpenCoin which was converted into Ripple. Then the company introduced it’s very own digital currency which was called XRP. The thought behind XRP was in order to allow financial institutions to transfer money with minimal fees and basically no wait-time. Ripple wanted to eliminate the current SWIFT system for making transactions which was seemingly outdated.

How is the company funded? How much funding have they received?

Ripple mainly has sold its XRP currency and also it was privately funded including two rounds of angel funding, one round of seed funding, a series A, a series B, and one round of series C funding. The amount of Angel funding was approximately 5.5 million dollars including money from Google’s venture part of their company. Then starting in October of 2015, a group of financial companies came into the picture to fund the company, most notably Santander and Accenture.

Business Activities:

What specific financial problem is the company or project trying to solve?

Currently, the SWIFT payment system is used by most financial institutions in order to transfer money, however, this process can take anywhere from 3 to 5 business days. This slow and archaic process for settling funds in one’s bank account has not only been an issue due to time constraints, but also it is very costly. This cross-border payment system is exactly where XRP can revolutionize the financial industry. In utilizing XRapid, which is Ripple’s payment module, financial institutions can perform cross-border transactions instantly and with almost little or no fees. But one must ask, if XRP and Ripple can innovate and efficiently solve a financial problem on an outdated system, then why hasn’t it been adopted by more banks and financial institutions?

This question might be more aligned with an answer involving remittances in some developing countries governments. The volume of remittances worldwide in 2019 was just over $554 billion. That is stating that a lot people rely on these remittances as their livelihood and for many countries, they drive their entire economy. But with XRP, remittances would incorporate a cheap and fast way of transferring money. But not only is XRP an invaluable blockchain that can uniquely solve transfer issues and solving remittance issues, it is highly scalable, adaptable, and fast. This makes XRP one of the most useful cryptocurrencies on the market. Likewise, as a remittance system, XRP will be able to utilize cross-border payments in seconds and with almost no cost. And since XRP is a blockchain, it comes with all of the proper validation and security methods that make it even more likeable to financial institutions. Also, add with that the fact that no government can alter its liquidity value. In using XRP for transfers, it does not matter how much money is being transferred either, it will be the same low cost and will not sacrifice the speed at which the transaction is processed.

The main reason why every government and financial institution are not jumping on the Ripple and XRP bandwagon to utilize its many benefits is the simple fact that it is a decentralized cryptocurrency. It makes governments nervous because it is not regulated by any authority and no one has full control over it. Banks and financial institutions like to trace monies, however, with cryptocurrencies, there are some major security issues. So, honestly, if a bank cannot track its payments, then they tend to get nervous.

Essentially, governments like control, and with this system they tend to lose some of it. This is precisely the reason that back in January of this year, the Securities and Trade Commission brought legal action against Ripple and XRP citing a few major issues with the cryptocurrency. It is a landmark case for all crypto’s and may issue the first real statement and ruling on how financial institutions and governments will interpret blockchain currency in the foreseeable future. It will impact the entire crypto community and set forth a path for how to exactly classify certain cryptocurrencies. The SEC essentially is stating that XRP is a security and not a currency, which could have damning ramifications if Ripple loses the case. But whatever way the case is resolved, with either a ruling, a settlement, or otherwise, this will change the landscape of the crypto community for years to come.

Who is the company's intended customer? Is there any information about the market size of this set of customers? What solution does this company offer that their competitors do not or cannot offer? (What is the unfair advantage they utilize?)

The company’s intended customer is primarily major financial institutions, banks, and the average financial consumer. This is a broad and generalized scope for a customer base, but that is because XRP’s technology will make it available and viable for this whole market segment. For this intended use, XRP’s main competitor is essentially the SWIFT system for reconciling payment transfers. However, in the crypto space, Ethereum is another one of Ripple XRP’s main competitors as well. The one main distinguishing factor that sets apart XRP from Ethereum is that XRP has a main focus on financial institutions that Ethereum cannot touch. The unfair advantage is the fact that XRP is more centralized Ethereum. Another factor that can be considered when talking about a defining characteristic that sets apart XRP from its competitors is its major players in the financial and banking world that have partnered with XRP in order to utilize its amazing technological advantages. Two of those financial giants are American Express and Banco Santander. Last year they partnered with XRP and tested its viability for the cross-border transactions and ease of use. Not only that, but MoneyGram International also said it wanted to test XRP’s xRapid platform so in January, they announced a partnership to incorporate its on-demand

remittance platform. I believe that where XRP has an unfair advantage when it comes to distinguishing itself from its competitors is its namesake and the simple fact that Ripple XRP was the early innovator to this marketplace and a lot can be said for its wild popularity with investors in its early stages of induction. Usually in business, the first to enter a certain market segment usually have the unfair advantage, and this is especially true for Ripple XRP. And another reason why I think XRP will maintain this unfair advantage is the fact that any publicity is good publicity. I am referring to the SEC case that is currently ongoing with Ripple and XRP. Understandably, the SEC has warranted some serious charges against Ripple, however, if Ripple should win this case or settle it, there would be huge ramifications for XRP and the entire crypto world. This would set a precedent for the industry and XRP would sort of be vindicated and then looked upon as a technological martyr. XRP would then be able to operate in such a newly regulated space and people would identify them with this huge landmark case. Also, many more partnerships would be forged as there would be a now finely set of guidelines that XRP and others in the crypto world would be able to operate in.

Now concerning XRP’s market size is basically accounting for all of the XRP shares for its marketplace in the crypto world. XRP currently has a market cap of $12.26 billion. But this is putting into consideration all the investors in XRP and this is not really touching on the market segment for the designated customer for its technologies. So in all reality, it would be hard to really decipher all of XRP’s customers without thinking about the people that invest in XRP as a cryptocurrency on a specified exchange. XRP is a cryptocurrency but at the same time, it can be a utilization tool for major financial institutions and an open payment network within that currency is transferred. But the main goal for XRP and Ripple is to make it possible for people to exchange cryptocurrencies and fiat.

Which technologies are they currently using, and how are they implementing them?

Currently, XRP is the token that is used in order to transfer value across the Ripple Network. However, Ripple utilizes a system called xRapid that actually transfers the cross-border payments within the network. Within this, Ripple can move from its XRP asset into other currencies very quickly and with little to no cost to the person or institution initiating the transfer of funds.

What domain of the financial industry is the company in?

I would have to say that the main domain that Ripple’s XRP can be considered to be categorized in is the banking segment since XRP deals mainly with money transactions and cross-border payments. Or most notably, Ripple is the 2nd largest fintech company in the US. But, essentially, XRP is sort of a hybrid due to the fact that XRP is in itself a native currency that is open to speculation. More specifically, Ripple and XRP can be described as blockchain banking. However, Ripple is centralized as opposed to the other blockchains in this domain. Also, when talking about XRP in a crypto sense, XRP is different from other cryptos in the sense that it has a finite quantity of 100 billion tokens. This essentially means that no other XRP tokens will ever be made again. As opposed to Bitcoin and some other cryptos where users can mine the tokens in a way to create more of the currency. Also, 80% of the entire XRP supply has been kept away from the public kept in escrow. Ripple is and will be the alternative to the SWIFT, or the Society

for Worldwide Interbank Financial Telecommunication. One of the main benefits of XRP is that it will allow banks to access liquidity on demand.

What have been the major trends and innovations of this domain over the last 5-10 years?

The major banking trend in banking and within fintech in the last 10 years has the use of contactless payments. The fact that we can utilize our phones to make payments and also cards instead of cash is a huge shift from the past. Also, the utilization of online banking has been a seismic shift from in person banking of the past as well. Ten years ago, if we wanted to transfer money from our checking account to our savings account, we would have to make a trip to our bank and go through that entire process. Nowadays, most of day-to-day banking is done entirely from our smart phones. Even within the last five years, we were able to send and receive moey through certain applications on our smart phones such as Venmo or Zelle. This has been a hand in hand approach from financial institutions to make transactions easier and with less room for error. It has also made banking accessible to a broader range of people and demographics.

What are the other major companies in this domain?

There are a major segment of companies in Ripple’s domain that can essentially operate in the same terms as XRP. The top 8 companies are Bitcoin, Dogecoin, Litecoin Project, Coinbase, Ethereum, Blockchain, Blockstream, and Tezo System Unlimited.

What has been the business impact of this company so far?

Ripple has kind of transcended the crypto and banking and fintech world since its inception in 2012. It came on the scene as a disruptor to the old and antiquated banking and reconciliation system and challenged the old way of doing things. SWIFT is outdated and XRP is new, cheap, and more efficient. But with any new way of doing things in banking, it has been met with some discernible obstruction and doubt. And since the SEC brought their case against Ripple, there are some distinctions that might come about from the overall ruling. Mainly, the SEC wants to make a clear distinction between XRP and Ripple. Before, Ripple and XRP were one in the same and were both inherently linked together. But now the SEC wants to make sure people can separate the two and define them both on their own terms.

Ripple is the company that created XRP but is now just the major stakeholder in XRP. Also, Ripple creates and develops software for banks to use for financial transactions powered by XRP. Ripple owns about 60 billion of the 100 billion in total XRP tokens in escrow. XRP can be described as an independent digital currency that is used to make transactions on the Ripple Network. XRP is a bridge currency and also a source of liquidity. People can essentially send money digitally by using XRP. Ripple and XRP are different and operate in different ways because of this. The SEC’s main complaint in the lawsuit against Ripple is that they had a controlling interest in XRP and capitalized on it in some ways that made the two codependent. The SEC wants clarification on how exactly the two are related to one another.

What are some of the core metrics that companies in this domain use to measure success? How is your company performing, based on these metrics?

Some of the core metrics for XRP is its value as a cryptocurrency and its current market cap, as well as trading volume. At the time of this research paper, XRP is currently trading at about $0.54, with a current market cap of 25.22 billion. And XRP’s trading volume is 6.46 billion. These are the main statistics that XRP can be evaluated as a performance metric. Ripple has other performance metrics as a company itself that it directly related to XRP. One such metric is the settlement speed at which transactions take place on the ledger. Currently that number sits at 3.80 seconds. Also, Ripple tries to track its current network transaction fees, which right now fluctuates below $0.0001. Putting all of these metrics into consideration, XRP’s value as a cryptocurrency is up almost %80 since last month. But coincidentally, these metrics will most likely change after there is a ruling in the SEC case against Ripple. At this current point in time, most the main cryptocurrency exchanges have either frozen or suspended the trading of XRP. Coinbase, which is one the largest exchanges that deal with XRP and hold a fair amount of it, halted trading of XRP on January 19th, 2021.

In a letter to its customers, Coinbase said that in light of the Securities and Trade Commission’s case against Ripple, it will only allow XRP holders to withdraw and access their XRP currency. Essentially, it was delisted until a ruling can come from the case and there is more clarity on the subject. I think there may only be one or two crypto exchanges or wallets that allow for the continued trading of XRP, but other than that most exchanges are waiting until there is a settlement or ruling in the case.

How is your company performing relative to competitors in the same domain?

Compared to other companies in the same domain, XRP is understandably underperforming. Historically for XRP, they have not had a strong market presence like its competitor, Ethereum, has had in recent months and even in recent years. Since the last bull run for cryptocurrencies in 2018, XRP has not really given investors anything promising to look at. It just seems like many industry experts have been touting all the utilities and upsides for XRP, but it has remained stagnate in its token price. Then at the end of 2020, XRP looked like it was slated for a breakout, however, less than a month later, the SEC brought the lawsuit against Ripple and things went downhill. Sure, XRP sort of stabilized in price recently, but it does not merit all the potential lost in such a promising crypto such as it once had.

Throughout the XRP community of investors and proponents, there has been this ongoing hardship that keeps interrupting the advancement of the token. For all its supposed value, it has had a problematic approach mainly by the core leadership at the top of Ripple. Interestingly enough though, there have been some missteps by the SEC itself as it brought suit against Ripple. Right afer the temporary director of the SEC’s enforcement division filed the lawsuit against Ripple, Marc P. Berger announced he would step down a month later. He saw XRP as a security and said that it must be registered as such, among other things detailed in the lawsuit. The lawsuit names Ripple executives, Chris Larsen and Brad Garlinghouse in the legal case. Garlinghouse is the current Ripple CEO and Larson was a main founder. And interestingly enough, right after the news broke out of the SEC lawsuit against XRP, the price of XRP crashed immediately after.

If you were to advise the company, what products or services would you suggest they offer? (This could be something that a competitor offers or use your imagination!)

If I were to advise the board at XRP, there are a few things I might suggest they offer. One of them being a retail-based crypto card like Mastercard and PayPal currently are rolling out to customers this year. I would make it specific only to XRP and make it easy to use like a debit card but only allowing the spending of your XRP currency on hand at the current time. Also, another idea I would want to offer for current XRP customers is a way to earn more XRP tokens on social media. It could be a rewards based point system that could involve someone liking or sharing an XRP post and that main person be given XRP tokens for the amount of reactions to that post. Almost like a branding representative for XRP and it would incentivize current XRP holders to generate social media buzz about the token in exchange for added value to their account.

Why do you think that offering this product or service would benefit the company?

I think that by offering these services, it would benefit the company by adding great social media exposure and create a need for younger investors to try to better improve on branding for the company. So many younger companies these days have a strong social media presence and they have a good amount of brand ambassadors that relay their marketing messages to the consumers by creative and unique ways.

What technologies would this additional product or service utilize?

For the crypto card, this would utilize the newer contactless payment methods that most financial institutions are utilizing in todays market environment. Apple has paved the way for using just one card to transact all of your business in one easy to use method. This crypto card is just a subset of your normal banking card and would really incentivize the user to hold this certain type of cryptocurrency.

Why are these technologies appropriate for your solution?

Contactless payment options such as a crypto card is appropriate for XRP because it would be a simple way to store and spend your digital currency. Mostly all banking is done online these days, and it is only logical that some companies are already issuing crypto cards for using cryptocurrencies at some types of businesses and retail store. I am sure that there will be an adoption period for most businesses to incorporate digital currency as a way of paying for products and services, but in the future as crypto becomes more mainstream, most banks will offer some sort of way to pay with them.

Resources: Why Governments Are Ignoring XRP To Solve the Cost of Remittances

<https://www.bitrates.com/news/p/xrp-potential-for-solving-global-payment-problems-why-are-govenrments-ignoring-it>

Ripple Labs-Wikipedia <https://en.m.wikipedia.org/wiki/Ripple_Labs>

XRP: Solving the Global Money Problems with True Liquidity

<https://www.investvoyager.com/blog/xrp-solving-the-global-money-problem-with-true-liquidity/>