diffuse*tap*
Virtual Event Series

Digital Identity Unpacked

Guest Speaker:

Hosts:

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DiffuseTap: Digital Identity Unpacked

Last time on DiffuseTap, Scott Mandel, CEO of Complex Labs, talked to us about how digital identity extends beyond finance in the world of Web3, the significant difference between Web2 and Web3 in data privacy, and how soulbound tokens are shaping the world of decentralized finance and commerce.

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DiffuseTap

This networking session is part of our weekly virtual events series. Networking (you'll bump into at least a dozen high caliber fund managers) meets purposeful (you'll tap into brand-new sources of ideas)… straight from your armchair like a boss.

Meet the Speaker

SCOTT MANDEL is a Web3 innovator who has founded and worked with DAOs building out the infrastructure for Web3, including Canu DAO, Moat DAO, and Risk Reward Ventures. Currently, Scott is the CEO of Complex Labs, a Web3 company that helps brands build out meaningful Web3 experiments quicker and scale faster to enhance customer loyalty, engagement, and revenue.

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KENNY ESTES: Mr. Mandel, can you please tell us a bit about your background and what you're up to?

SCOTT MANDEL: Absolutely. Kenny, Ayla, thanks for having me. Super excited to be here. I fell into the world of crypto and blockchain about eight years ago. I've got a great story where a friend asked me to coffee and asked me to borrow as much money as possible because he wanted to buy something called Ethereum. He was talking about the ICO, which I didn't know about at the time. It was a time in my life where I really didn't know what I wanted to do. But I was entrepreneurial, and I was tech driven.

I did not give this friend money, but I put a small amount into Ethereum. And from there, it was off to the races. I ended up sourcing power and infrastructure for companies like Riot blockchain, traveling the world into the Arctic circle looking for cheap hydropower to help plug in miners during the first bull run. I closed some deals there, and then unfortunately, we all know how that ended mining. It was no longer viable due to Bitcoin prices.

From there, I moved into the world of ICOs and STOs, leading the security token offering for a company called Flexa, which is either the number one or number two payment protocol in the DeFi world. I led their fundraising, marketing, and community. From there, I took a breather and tried to figure out what this whole space was about and where we're heading.

I really fell in love with this idea that community is the biggest differentiator in this space, and how that will drive the next layer of innovation, which became known as Web3. I started building DAOs, contributing to DAOs, and ran consulting for everyone from early stage Web3 companies all the way up to billion-dollar ecommerce platforms around the Web3 strategy.

All that left me incredibly frustrated and driven to figure out a better way to do this because it really lacked a cohesive infrastructure. So, about seven months ago, I started Complex Labs. And right now at Complex Labs, we focus on onboarding brands into Web3. We help them bring their existing data on-chain so that they can create more immersive experiences and build customer loyalty and engagement.

AYLA KREMB: Amazing. With that, maybe I could bother you about the core topic today, which is digital identity. How did you get into digital identity? And what does it actually mean these days?

SCOTT: I think digital identity is one of the most misunderstood concepts in the world of blockchain. I just gave a pretty comprehensive overview of my experience and crypto. What I didn't say is that I own 5 Bitcoin, 100 Ethereum, and 1 Bored Ape. But in the world of blockchain, that's the data that we have on people. If you look at someone's wallet, that's essentially the only way you can identify them.

That's the only information on there, and it's only financial information, which is not indicative of who someone is. If that was all the info we had during our breakout groups, it wouldn't be a very fun conversation where people only talked about their bank accounts and credit cards, and things like that.

In reality, you want to talk about your background and who you are, your accomplishments, so on and so forth. So, digital identity is more than just what's on your passport or your driver's license. It is a summary of who you are as an individual. What's really exciting is that NFT technology can actually become proof ofs, like proof of work, proof of employment, proof of attendance, and so on and so forth. I really challenge people to think about digital identity more than just the financial side, but also the social layer. That includes how you interact with friends, how you interact with people in the office, etc.

KENNY: That makes a lot of sense. There are a lot of buzzwords floating around digital identity, and I want to ask about one of them. What exactly are soulbound tokens? From a logistical point of view, how do they operate? What are some of its use cases in the future that you're excited about?

SCOTT: A soulbound token is an NFT. I think NFT has become this buzzword synonymous with artwork and Bored Apes, and all these pictures that are going for millions of dollars. But the way I try to describe NFTs, which will lead us to soulbound tokens here, is it's a bucket. If you own an NFT, you own whatever is in that bucket. That can be a picture of an ape, or it can be a diploma, or it could be your diploma from the University of Michigan. If you own that token, you have proof that you graduated from the University of Michigan.

A soulbound token is a non-transferable and valueless token that resides on your wallet. It acts as an identifier. It may have data such as your skillset, your employment, your proof of attendance, and some of those other social components that we just talked about.

AYLA: What are some of the key infrastructure pieces that you think are already in place or are missing to facilitate the use of soulbound tokens and other digital identity markers?

SCOTT: That's a big one. I like this idea of soulbound tokens where at the end of the day, we all have different versions of ourselves, and you don't want them to commingle. You have your home identity, which includes your dad, your family, etc. That's one soul. You also have your work soul, and then maybe you also have a part of you that you don't want other people knowing about. I think the main piece of the pie that's missing is a way to differentiate these various souls and somehow bring them together when needed, and also keep them apart when it's needed. I think that is the primary piece of technology that's missing.

And then, closely related to that is privacy. We don't want everyone to know everything about us. But by default, if you put things on-chain via soulbound tokens, you will do that and people will be able to know some things that you don't want them to know about you.

KENNY: About that piece on privacy concerns, I don't know if you've seen the movie The Talented Mr. Ripley, where Matt Damon steals identities. It seems applicable here because with soulbound tokens, I could come over, wack you over the head with a boat oar (just to keep on on my analogy), and steal your private key. And now, I become you.

If soulbound tokens do catch on, will it create significant concerns? And not just privacy concerts, but serious identity theft problems. Or are there verification mechanisms in place? What are your thoughts about that?

SCOTT: That's actually a great question, and it's one that people are actively trying to figure out right now. Obviously, you don't want to live in a world where someone steals your wallet, and they steal everything about you. Right now, that problem remains unsolved. But the leading candidate to solve it is this social recovery aspect, where based upon your interactions in a wallet, they know that you've interacted with certain people.

You can even delegate certain people so that in the event that you lose your keys or lose access, people can recover your keys. For example, you could have nine people listed and if seven of them verify that you actually lost your wallet, then you'd be able to redeem your wallet. They don't even have to know who each other are. All of that is handled at the protocol level.

AYLA: There is a good question in the chat about criminality. If you have a record, should there be some sort of a decentralized function that allows you to expunge information about yourself when it becomes no longer relevant?

SCOTT: Yeah, that's another great question. I will say that this technology is very new, and there are things that still need to be hashed out specifically around negative data points on individuals. Obviously, as a wallet holder, if you are tagged as a thief or a criminal, or if you've committed theft or you're a scammer in this space, that obviously puts a pretty big taint on your reputation on Web3. But it's also important to have checks and balances in the system.

That problem remains unsolved. But I think it's really important to be able to have those negative data points as well. One thing about that, though, is these data points, these soulbound tokens are only as valuable as the person who issued them. An example of that is the difference between me issuing you a soulbound token that says you're a thief or a criminal, versus the Bank of America or some larger entity issuing that to you. The latter would obviously carry a lot more weight.

It really becomes this twofold process, where you're going to end up with a lot of tokens that are spam within a wallet, and there's nothing you can do about that. But you can look through that and you can see who has a higher reputation, or what brands or what corporations may be on there giving you these negative marks. That will carry a lot more weight.

KENNY: Interesting. You talked about brands, so let's talk about commercialization. Where do you see this going? Which brands would care? Or how would they interact with this concept in a way that they can monetize either directly or indirectly?

SCOTT: I've been in this space for a while and I've never been more excited about something than brands coming into the space, and I'll tell you why. At a high level, it will help abstract away a lot of the crazy nuanced keys and wallet infrastructures that you need to participate in Web3. The truth of the matter is my mom and grandma are never going to participate in DeFi, and they're never going to yield-farm.

However, they would likely love to engage with an apparel company or fashion company that offers them perks for buying, or gives them access to certain content or discounts, and so on and so forth. Right now, you're seeing a lot of luxury brands that are entering the space. You have companies like Louis Vuitton, L'Oreal, and also Nike, which is one the biggest leaders in this space. Both Nike and Adidas. There was a case study that came up just this past month where Nike had driven $185 million in revenue from their Web3 initiatives.

Starbucks just entered the space with a new loyalty program called Odyssey, and what they did was perfect. They abstracted away all the buzzwords. There is no blockchain, no crypto, no NFT. But it's all backed and run by those. This does three things. It gives brands a new way to engage with their customers, a new way to provide loyalty, and then most importantly, a new way to drive revenue.

AYLA: We have an interesting question around these corporates. One might think that the company that should be issuing soulbond tokens is the one that has the most information about us, which one could argue would be Google or Meta. That will probably be the most accurate as well, in terms of characterizing what we're up to.

Obviously, Meta tried to launch their own token or coin, and there might be more in the future. WhatsApp also tried to launch a wallet, and they're also attached to Meta, therefore they would probably have the most complete data set. Someone in the audience mentioned CBDCs and whether the government should be issuing them.

Is there a benefit in bigger aggregated entities launching these kinds of tokens? Because there's some kind of driver's license feel to it. It feels like it's going to be a legitimate type of certified identity. Or do you think it's better if many companies issue individual identity tokens to avoid making it so centralized and dangerous?

SCOTT: I think that's a really good question. When you think about <u>Web3</u>, it's a disruption in the relationship that we have with brands and corporations. Traditionally, in Web2, we give our information to companies like Google and Facebook and we receive services for that. They monetize our information through other business models, and they reap the vast majority of the benefit.

In Web3, we've now changed that relationship where we give our information to a brand or a corporation in exchange for something. That could be access to more immersive experiences, or some type of utility or value add. Now, the big key differentiator there is you have control over your data. If you don't want to interact with a particular brand, it's as simple as removing those tokens, removing that data, or just changing wallets completely.

Whereas, in the world of Web2, it's a lot more difficult. They know your computer. They know your IP address. They have cookies and pixels, and they follow you and everything that you do. In Web3, you have to want to continue that relationship. Otherwise, you can sever it and have ultimate control.

KENNY: That's fascinating. Can you expand on that a little bit more? In Web2, to your point, we're swapping information for services. But even in this Web3 universe we're envisioning, that's still the case, right? We just have a little bit more fine-tuned control over who gets our information and what services we receive. In Web3, we can just turn things off versus being at the mercy of some cookies.

SCOTT: I'll bring up what my company Complex Labs does. I like to use Nike as an example. Nike has hundreds of millions of customers, and they're doing absolutely great things in Web3. But that's a very small subset of their customer base as opposed to the other customers they have in Web2. Nike has all this very detailed information about them. So, if you're able to bring that data on-chain, you can then start to provide value to customers in new ways they normally wouldn't have.

Our company facilitates that use case for Nike. For example, if I, you, or anyone else walked into the Nike meta store, it's the same experience. But why should it be the same? We all are different, after all. Some of us are male. Some of us are female. Some of us have different sports affiliations. We wear different sizes. We've previously bought different items.

If Nike has that kind of information now, when you walk into the store, it's completely immersive. "Hey, Kenny, welcome to the store. We know you love the New York Giants. We know you bought this jersey last week. Here." I just came up with that on the fly, but that's one example of the use cases and case studies that are being developed right now.

TJ OLONILUA: I wanted to ask, how is that different from them already having your data and doing that with your online shopping? They've already triangulated my purchasing habits through my cookies. When I go to their store, they're presenting the products that they know that I'm interested in because I've clicked on an ad for it before. So, what's the difference between that and this?

SCOTT: That's a great question. I don't know how old everyone is here, but I grew up when the internet was just starting to come to be with things like Prodigy and AOL. And my parents were like, "what is this technology? It's never going to do anything." I feel like we're at that moment with Web3 today. With Web3, you have to believe that the wallet is going to be your passport to explore the new world of the internet. You don't have any identifying information in a wallet. You have to believe it, Web3 is the future, or there is nothing I can say to convince you. That's one.

Two. Related to the ecommerce example you gave, we're going to move to more experiential commerce. It's just a matter of whether it's going to be AR, XR, VR, or some combination. When you go into that ecommerce store, or when you go into a physical store, a wallet actually lets you tie it all together. Now, we can tie physical and digital. I think the term is "phygital". That's another buzzword. That's the ultimate answer to your question. One, you have to believe in it. And two, the wallet is going to be the universal way to bring everything together.

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