

## The lie of the land

Challenges - and opportunities - emerging in the cryptocurrency landscape

**T**HERE can't be many people left who have yet to hear about bitcoin, given the extensive news coverage it receives in the mainstream media.

While reporters excitedly details the rise and fall in valuation of the cryptocurrency, there is also a queue of experts lining up to have their say.

Nuance is rare. Bank of England governor Mark Carney described his belief that bitcoin is heading for a "pretty brutal reckoning" in a speech calling for regulation, while in the United States, Goldman Sachs CEO Lloyd Blankfein talked of it being "a vehicle to perpetrate fraud". Former World Bank chief economist Joseph Stiglitz called for bitcoin to be "outlawed".

On the other side of the fence, Silicon Valley venture capitalist Tim Draper described cryptocurrencies as "the greatest technology since the internet", foreseeing a future in which people across the world will purchase their daily coffee using virtual coins.

Prophesies aside, banks are starting to embrace forms of blockchain technology and in terms of igaming payments, some operators are offering players a chance to pay their way using a host of cryptocurrencies.

Here, we talk to payment and security providers about the challenges that the emerging technological landscape presents for their business, while also exploring compliance issues, emerging markets and how the Isle of Man has asserted itself to become a crypto torch-bearer.

**OLUWASEYI AKIN-OLUGBEMI, DIMOCO:**

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**INTERGAMINGi:** What are the major challenges, from a payments and security perspective, concerning cryptocurrencies, and how much potential do virtual currencies have to revolutionise online gambling?

**Oluwaseyi Akin-Olugbemi, senior sales manager at Dimoco:** "The much-hyped revolutionary benefits of cryptocurrencies for payments have not yet been realised. For instance, from a risk perspective, one of the major challenges is the 'unknown' element in terms of unknown customer behaviour and unknown spending activity. There are rarely available references about the 'typical' cryptocurrency customer.

"So, the main challenge will be to aggregate know-how as quickly as possible about the behaviour and spending of a genuine and trustworthy customer, which can for example be done through daily detailed transaction monitoring. The collation of all customer details and in-depth knowledge about igaming will be more vital than ever.

"Blockchain technologies on one hand could represent a significant shift where decentralised sports betting platforms like [www.wagerr.com](http://www.wagerr.com) use blockchain to execute betting contracts.

"Dimoco Payment Services has experience of both risk management and the underlying technologies behind cryptocurrencies."

**Are regulators getting to grips with the challenges surrounding cryptocurrencies?**

"No, not really. Simply adopting a wait and see strategy is not a strategy. A deeper understanding and perhaps acceptance of the paradigm shift itself would allow smaller regulatory changes or amendments to emerge."

**Have financial institutions started to embrace blockchain and is bitcoin seen as a threat by some?**

"There are of course financial institutions that have fully embraced blockchain, the most obvious example being the relationship between Ripple and Santander Bank. Santander has not only integrated Ripple into its international money transfer app but has also invested in Ripple.

"While there are no doubt some financial institutions that see blockchain as a threat, the substantial cost savings that can be made by implementing blockchain solutions are hard to ignore."

**What challenges does the volatility of bitcoin present for processing payments and how could these risks be managed?**

"This volatility is the most challenging aspect of bitcoin, however reduced transaction fees as well as the speed of transactions could help to manage the risk. Faster transaction times would ensure that transactions are completed at a speed comparable to the speed of changes in the price of bitcoin, which is highly dependent on computational efficiency.

"What we do at Dimoco Payment Services is to constantly analyse transactions and monitor any sort of applicable risk for anyone in the payment chain; in fact this monitoring of volatility is part of the Dimoco Payment Services risk management service."

**How far will the acceptance of cryptocurrencies by operators be driven by consumer demand?**

"Acceptance of cryptocurrencies will be driven by consumer demand which in turn

will be driven by wider consumer adoption of cryptocurrencies. The regulations for igaming and cryptocurrencies will come into force to manage this consumer demand."

**How could smart contracts potentially benefit both players and online operators?**

"Smart betting contracts could reduce transaction costs, especially when they occur across borders."

**How can AI, biometric facial recognition and machine learning assist in AML and KYC requirements, particularly in light of the UK Gambling Commission's recent £6.2m fine imposed on William Hill?**

"The important point here is to assist. We should keep in mind that at this development stage any sort of AI, machine learning etc. helps an expert, but this expert is still needed to detect specific coherences to identify the true face of someone. The strategy at Dimoco Payment Services is to combine automated, machine-based processes with an expert that can provide hands on interpretation of automated processes."

**Where are the main emerging markets for the payments sector and how big can they potentially grow to be? What major challenges do these markets contain for your business?**

"Africa and Latin America will continue to grow exponentially and there are more and more companies evaluating what payment options are available to them in these regions.

"Regulation and a comprehensive understanding of the local markets in question represents the major challenges for payments in emerging markets."

**How have payments processes improved over the last 12 months?**

"The payments industry now has clear regulation with PSD II and in many markets instant payments are on the rise."

**JOE EWENS, GAMBLING COMPLIANCE:**

*"Significant consumer demand is unlikely to develop until leading cryptocurrencies become less volatile and are treated less often as securities by eager investors, or cautious regulators."*



**INTERGAMINGi: How much potential do virtual currencies have to revolutionise online gambling?**

*Joe Ewens, managing editor at*

**GamblingCompliance:** “Their potential to ‘revolutionise’ online gambling is currently remote. It seems more likely that cryptocurrencies as a payment method will be folded into existing gambling regulation and exist alongside fiat payment methods, which are expected to remain the dominant option far into the foreseeable future.

“The recent volatility of many major cryptocurrencies has not helped their adoption in gambling. It appears that most coin holders would rather horde their holdings and wait for prices to rise rather than risk them on wagers.”

**How far will the acceptance of cryptocurrencies by operators be driven by consumer demand?**

“Currently the acceptance of cryptocurrencies by operators is largely driven by opportunism. It is smaller operators seeking to fill a niche occupied by the very small number of potential punters who own crypto, or companies looking to generate capital through the continued

appetite for Initial coin offerings. However, increased regulatory scrutiny in this area may slow down the pace of new token launches over the next year.

“Significant consumer demand is unlikely to develop until leading cryptocurrencies become less volatile and are treated less often as securities by eager investors, or cautious regulators.

“However, it seems safe to say that it will always be consumer interest that drives changes of this kind. A certain level of expected income will be needed to justify to internal teams or shareholders the financial and compliance costs of accepting cryptocurrencies.”

**One recent report stated that over a quarter of online gamblers abandoned account set-up due to it taking too long or being too complex. How can the process be streamlined using modern technology while maintaining player protection and security?**

“There is potential for AI and facial recognition technology to assist in more rapid KYC checks, but concerns around data privacy remain tangible in this area. Any attempted streamlining

of this process will likely need to surmount regulator suspicion, especially in more tightly regulated markets such as the UK.

“Unlike some other areas of compliance in gambling, account set-up is intertwined with AML regulations and intersects a variety of regulatory bodies with individual countries and across borders.

“However, the deployment of AI to aid with these sorts of processes appears to be one of its most promising applications in the gambling industry and trials are already underway in some businesses.”

**What are the major challenges, from a payments and security perspective, concerning cryptocurrencies and how much potential do virtual currencies have to revolutionise online gambling? Are regulators getting to grips with the challenges surrounding cryptocurrencies?**

*John Basquill, editor at PaymentsCompliance:*

“Yes and no. There is some work underway within the EU to bring cryptocurrencies under some kind of regulatory control, but with none of that work complete the payments technology is still operating in a legislative ‘Wild West’.

## Time for the gambling sector to up its game

Recent fines meted out by the UK Gambling Commission for anti-money laundering compliance failings must serve as a wake-up call, argues *Jane Jee*, CEO of RegTech specialist, Kompl-Global

**EARLIER this year we saw, yet again, a UK gaming company fined for failings in their procedures for identifying problem gambling and tackling financial crime.**

A £6.2m fine was handed to William Hill by the UKGC for a “systemic senior management failure to protect consumers and prevent money laundering”. This reportedly resulted in 10 customers being allowed to deposit money linked to criminal activity.

However, it is not the first such fine in the gambling sector, and unless action is taken now by bookmakers and others in the industry, it will certainly not be the last.

**KNOWING YOUR CUSTOMERS**

All companies, including those in the gambling sector, must comply with rigorous anti-money laundering (AML) and “Know Your Customer” (KYC) legislation.

A key part of the regulations is a requirement to regularly search for “adverse information” on new and existing customers. To do this, companies must trawl the so-called “Deep Web”, as well as traditional and digital news media, international corruption watch lists and other such databases, for any data that ties the individual with money laundering or links them with people accused of criminal activity.

In addition, companies must demonstrate that they have carried out these in-depth searches. This means keeping a detailed audit trail and provide regular reporting to regulatory bodies.

**STUCK IN THE 20TH CENTURY**

In spite of the scope of information that must be searched to meet legal requirements, many companies in the gaming sector are still in the 20th century of compliance, using outdated and inefficient manual KYC processes. In doing so, they risk missing key information about their customers, leaving them highly vulnerable to failures in compliance. The result of this is censure from regulators, which can have a significant financial impact on their business operations.

Understandably, keeping up with changing regulatory requirements poses a resourcing challenge to many gaming companies. Performing the necessary due diligence on all of the individuals and organisations it does business with is an onerous task for any organisation. Nevertheless, we are now in the 21st century and the technology is already available to support gaming companies in carrying out KYC checks quickly, efficiently and accurately.

Regulatory technology (RegTech) that incorporates artificial intelligence (AI) is capable of doing the heavy lifting in searching for adverse information on customers, and can be a vital tool to help gaming companies meet legislative requirements and reduce the risk of being fined.

For example, our kompli-IQ platform is able to carry out comprehensive adverse information searches on behalf of human compliance managers quickly and efficiently. They can automatically apply filters and rank sources according to reliability in order to minimise the risk of false positives. Technology can operate 24 hours a day, seven days a week, 365 days a year, and can alert compliance managers the instant any adverse information is found, so they can respond quickly and effectively to protect their customers and their business.

**TIME TO FACE UP TO THE ISSUE**

With such innovative, scalable technology, there is no longer any excuse for companies in the gaming sector and beyond not to do all they can to comply with AML legislation.

If they don’t want to be penalised by UKGC, or any other regulator, gaming companies need to step up and explore new ways to improve their customer due diligence processes. Companies in the gaming sector have embraced digital technologies in their

customer-facing operations; unless they do the same with their compliance processes, they will continue to take a gamble with their profits and their reputations too.

