

BitPesa

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# (“BLOCKCHAIN IN DEVELOPMENT: REGULATORY CHALLENGES”)

10th July 2018

Payment license number 6854 (Bank of Spain) & 673100 (U.K. Financial Conduct Authority)

# What We Do



Price per \$100 USD transfer to Kenya	Time	Fees	F/X Margin
BTSL	minutes	0 %	3 %
Western Union from US	minutes	7 %	3 %
Western Union from UK	minutes	5 %	1 %
Skrill -> M-Pesa	5-7 days	1 %	4,5 %
PayPal -> Equity Bank	5-8 days	4-5%	2,5 %
SWIFT Bank Wire (Citybank)	5-7 days	\$50	4 %
Local ATM from foreign account	Minutes	\$25	4 %
Hawala (from UK)	Hours	0 %	5 %

***Our mission** is to become the leading payment processor and settlement platform for international transfers to and from frontier markets by offering significantly cheaper and faster services for MTOs, small businesses and NGOs.*



# We are recognised by global influencers

**About this research**

*The Next Frontier: The future of finance in the Middle East, Africa and South Asia is an Economic Intelligence Unit report, commissioned by the Dubai International Financial Centre. This report explores the forces shaping the future of financial services, focusing on market, technology and policy enablers. It is based on expert interviews and desk research.*

The Economist Intelligence Unit (EIU) is proud to have been the leading institution for their contribution to the research.

- **Michael W. Frankel**, Chief Economist and Director of EIU's Global Consumer Insights, Former Chairman of the Trade and Economic Development Board, USAID
- **Neil Andrew**, Chief Executive, ACP Finance, UK
- **Simon Bell**
- **Bob Cookman**, Managing Director, Africa, EIU
- **Elizabeth Rossiello**, CEO, BitPesa
- **Neil Shah**, CEO of Africa, Citi
- **Remon Oduyoye**

**The Economist** **The Next Frontier: The future of finance in the Middle East, Africa and South Asia**


**COMPANIES TO INSPIRE AFRICA 2017**

**AWARD: Companies to Inspire Africa, 2017**



**WORLD ECONOMIC FORUM**


**AWARD: WEF, Technology Pioneer 2018**



**CNN** **Meet Elizabeth Rossiello, CEO of BitPesa**



**CNBC** **Blockchain company BitPesa wants to transform payments in Africa**



**YAHOO! FINANCE** **BitPesa Acquires TransferZero, Leading Online European Money Transfer Service**

# Demystifying Blockchain Technology

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Blockchain, a distributed ledger technology (DLT) is neutral technology which is not designed specifically as a financial technology and which can be used for many purposes, that require information exchange, multi-party settlements or a source of “truth” that is recognised by all parties. It is an open source technology that is available for anyone to build upon.

BitPesa leverages Blockchain technology to ease cross-border payments and multi-currency settlements for businesses operating in frontier markets. It became the first company to make a market between digital currencies and local currencies.

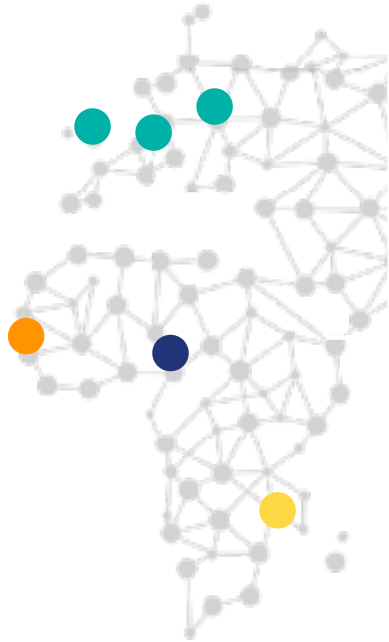
- ★ Its cheaper
- ★ Faster
- ★ Enhance transparency

# Regulatory Overview in Blockchain

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- The key imperative on the regulatory agenda must be how to regulate effectively, secure consumer confidence and provide a level-playing field without stifling innovation.
- Too much regulation could result in innovation being stifled; too little regulation could result in harm to end consumers.
- Regulators have traditionally played the role of guardians of consumer interests and we believe that consumer interests should be one of the key criteria for regulators in how they approach and think about new technologies.
- Internet can be abused or mis-used, however, it has been widely accepted that ultimately adoption of internet has been positive, and ultimately benefited consumers and businesses, provided easier access to communications, new educational opportunities, new commercial opportunities, and much more.
- The phenomenal success of Mpesa which is a mobile money payment solution is another interesting example of how important the regulatory environment can be in creating the space for innovation while protecting consumer interests.

# Why Trust Us : We **COMPLY** with local existing regulations



## European Union

- We have 2 payment licenses with 2 European regulators (UK FCA and Bank of Spain) and the license has covered our pooling settlement model in Africa

## West Africa (with BCEAO)

- We have presented our business model to BCEAO
- We are in the process of applying for remittance license with BCEAO

## West Africa (Nigeria / Ghana)

- We've presented our business model to Central Bank of Nigeria (CBN) and Central Bank of Ghana
- We are in the process of applying for remittance license with CBN

## East Africa (Kenya, Uganda, Tanzania)

- We've presented our business model to Central Bank of Kenya (CBK), Bank of Uganda (BOU) and Bank of Tanzania (BOT)
- We are in the process of applying for remittance licenses with CBK, BOT, BOU

# Proposed Regulatory And Policy Approach

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All most successful cryptocurrency service providers, custodians and wallet operators are regulated and implement AML obligations under applicable national rules. They do it because their goal is to maintain consumer confidence, secure new partnerships and build sustainable businesses.

## The licensing options available to this entities are:

- **Payment Service Provider license** – for executing payment orders (including cryptocurrency exchanges) and remittances. BitFlyer, BitPesa, Bitstamp.
- **E-money license** - where cards are connected to the crypto-balance or another digital balance. Xapo, Payoneer, TenX.
- **MIFID/Investment license** – for leveraged trading and CFD. Etoro, Plus500, Oanda.

# We understand our Market : Common Patterns in Digital Payments

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## **Onboarding.**

Out of 100% of customers who register for digital service, ~50-60% never transact and another ~20% make 1-2 small transactions. 80% of volumes are delivered by 20% of biggest customers.

## **Losses.**

70-80% of losses from fraud and disputes occur with “young accounts” opened 3 months ago or less (“hit and run fraud”)

”**Account takeover**” patterns can be split into 3 categories:

- My customer is a victim after their credentials were compromised
- My customer is a fraudster who created a digital wallet and gave credentials to someone else as a form of payment
- My customer is opportunistic, trying to play games after cryptocurrency prices moved not in their favor.



# We Mitigate Compliance /KYC /AML Risk

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## **RULE 1 # It's not about Crypto, it's about Flow of Funds**

When we evaluate potential partners who are crypto players, we ask exactly the same questions as we use for evaluating all other partners and customers:

- What is the underlying service and for whom?
- Are there payments or transactions on behalf of others? Is there a regulated service?
- What is the role of each entity in the group (e.g. who is the owner of the website where customers register, is it the same as the owner of the bank account and which one of them is my partner).
- Quality of the website – T&Cs, privacy policy, partnerships, transparency about the company structure and management team

# None Face to Face Due Diligence

Data Provided by the customer	“Silent checks” – not visible to the customer
Full name (or legal entity name and all names associated with the account)	<ul style="list-style-type: none"><li>•Name scanned against sanctions lists and PEPs</li><li>•Name (especially company name) is scanned against negative media references (corruption scandals, bankruptcies, litigations, change in control, M&amp;A announcements)</li><li>•Name is scanned for obviously false names, e.g. Coca-Cola, Peter Pen, celebrity names, obviously abusive and oblivious names</li></ul>
Address, email phone number	<ul style="list-style-type: none"><li>•Ensure that the address is from an eligible country</li><li>•Check consistency between IP, geo-location, phone number country prefix and address</li><li>•Detect if VPN or other disguising techniques</li><li>•Flag high risk countries, block non eligible countries</li><li>•Detect temporary emails and bots</li><li>•Scan emails and phones with online tool for references in commercial registers, social media and other public databases</li></ul>
Devices and IP (Maschine Fingerprint)	<ul style="list-style-type: none"><li>•Have we seen this device or this IP before?</li><li>•What are the language settings on the device?</li><li>•Does it use VPN?</li><li>•Does the pattern repeat?</li><li>•Is shipping address the same as address I have on file (especially for high volume purchases online, such as diamonds or iPhones)</li><li>•Credit checks sometimes search patterns indicating if the person have a regular job</li></ul>

# Proposed Regulatory And Policy Approach

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## **Alignment of different sets of statute will give clarity and lower the cost of compliance**

FinTech businesses are being regulated by a variety of statutes and rules governing various financial products, services and market participants, as well as other provisions of more general application (e.g. company laws, electronic communications laws etc).

## **Develop principles-based as opposed to rules based regulations .**

This will ensure that there is flexibility for Fintech's to comply with the principles. A good example of such principles are segregation of customer funds, understanding source of funds; customer protection and transparency in pricing while having flexibility on such requirement as minimum capital requirement which will remove the barrier to entry for more startups.

In Kenya, the recent sandbox consultation document by the Capital Markets Authority expressly states that 'regulatory nimbleness, flexibility and responsiveness provided by principle-based regulation is even more important in the FinTech sector where thriving innovation is the lifeline of a vibrant business enterprise'.

## **Bilateral co operation agreements**

Capital Markets Authority of Kenya (CMA) and the Australian Securities and Investments Commission (ASIC) signed a Co-operation Agreement to support FinTech. The parties agreed to share information in their respective markets, which included new market trends and regulatory aspects of growth in innovation.

# Thank You.

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