Building a Bitcoin Business in a Bitcoin Nation

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Learning Objectives

Early Lessons Learned from a Bitcoin Business

Compliance Requirements for Bitcoin Businesses

Risk & Opportunity for Bitcoin Businesses
A Problem: Lack of Financial Access

- Globally, ~30% of adults – 1.7 billion people – are unbanked.*
- Half of unbanked people include women, poor households, or people out of work.*
- Many unbanked individuals lack the necessary identification to get a bank account or can’t afford the fees for a financial transaction account.
- Lack of access to an account makes saving very difficult
- El Salvador
  - 70% of El Salvador adults unbanked
  - Remittances (20% GDP ~$5B annually)

*Source: https://www.acuant.com/blog/the-worlds-unbanked-population/
An Opportunity: Bitcoin Beach

- Anonymous donation to a mission
- Uses of funds
  - Youth work programs
  - Educational grants
  - Transportation to school
  - Food
  - Construction
  - Utilities

Source: https://www.forbes.com/sites/tatianakoffman/2020/07/14/this-el-salvador-village-adopts-bitcoin-as-money/?sh=6877b50e2044
Bitcoin Beach Challenges

- On-chain confirmations
- BTC dust
- Self-custody is technical
- Education
- USD Conversion
- Limited acceptance of BTC

Source: https://galoy.io/bitcoin-banking-for-communities-lessons-learned-from-el-zonte
Bitcoin Beach Wallet

Product Proof of Concept

The Bitcoin Beach pilot project is the first step in our B2B strategy to support any company or community to self-organize as their own bank.

- **Invoicing**
  The app makes it easy to pay via Bitcoin address, Lightning invoice or individual username.

- **Transaction History**
  A transaction log displays a history of payments between users.

- **BTC/USD Support**
  It provides a unified balance of BTC and Lightning Network, showing your balance in both USD and sats.

- **Vendor Map**
  The mobile friendly map displays all local businesses that accept Lighting payments.
Lesson 1: Education is Paramount

1. Community organizers are key to the onboarding process.
2. It’s more effective to show people how to use Bitcoin than to tell them about it.
3. Teach the kids. They will onboard their parents.
4. Bitcoin ATMs help connect the mental dots between Bitcoin and fiat.
5. Help people expect and plan for short term volatility.

Source: https://galoy.io/bitcoin-banking-for-communities-lessons-learned-from-el-zonte
Lesson 2: LN is a Medium of Exchange

1. Lightning is fast and almost free.
2. Lightning for retail transactions solves “dust.”
3. In the retail setting, anything less than instant settlement creates friction for both the business and the consumer.

Source: https://galoy.io/bitcoin-banking-for-communities-lessons-learned-from-el-zonte
Lesson 3: Merchant Onboarding is Key

1. Don’t make merchants think about currency conversion.
2. Enable multiple ways for merchants to get paid.
3. Make the process require less time, attention and clicks.
4. Create merchant incentives to help encourage adoption early on.

Source: https://galoy.io/bitcoin-banking-for-communities-lessons-learned-from-el-zonte
Lesson 4: User Experience is Cultural

1. Don’t take a strong internet connection for granted.
2. App onboarding presents a perfect window for education.
3. “Sats” is the standard, but USD is still the unit of account.
4. Maps connect customers to merchants.
5. Payment notes help with record keeping.
6. Stay on top of how lightning payment formats are evolving.

Source: https://galoy.io/bitcoin-banking-for-communities-lessons-learned-from-el-zonte
Lesson 5: Community Custody is Effective

Source: https://galoy.io/bitcoin-banking-for-communities-lessons-learned-from-el-zonte
ASAMBLEA APRUEBA LA LEY BITCOIN

La criptomonedas tendrá curso legal en el país. El BCR reafirma solidez del uso del dólar.
Technical Standards

- For facilitating application of the Bitcoin Law (25 pp)
- For authorizing digital wallet platforms for Bitcoin and USD (9 pp)

Requirements from Technical Standards

(Article 5)
• AML Program
  • policies and procedures for consumer protection,
  • establish contingency measures
  • backups for 15 years,
  • monitoring software
  • publish terms of use and advisories of risk,
  • provide financial education programs,
  • provide training programs,

(Article 43)
• Due Diligence
  • Identify client through documents
  • Authenticate documents
  • Screen individuals against sanctions lists
  • Risk based information requests
  • Customer profiles
  • Final beneficiaries
  • Information updates
  • Maintain records of client suspicious activities
  • Identify high-risk jurisdictions

Source: https://www.bcr.gob.sv/regulaciones/upload/Normas_Tecnicas_para_Facilitar_la_Aplicacion_de_la_Ley_Bitcoin.pdf
Requirements from Technical Standards

(Article 50 + Appendix 3)

• Traceability Requirements
  • originator info:
    • name,
    • account number,
    • address,
    • origin institution,
    • amount,
    • date;
  • Beneficiary info:
    • name,
    • address (when available),
    • receiving institution,
    • destination account number,

(Article 51)

• Bitcoin transactions
  • Name and address of the customer
  • An indicator that Bitcoin was used in the transaction
  • The amount of bitcoin sent
  • The time of the transaction
  • The value of the transaction in dollars
  • Any instructions provided by the customer
  • The name and address of the counterparty
  • Any other transaction information provided by the customer

Source: https://www.bcr.gob.sv/regulaciones/upload/Normas_Tecnicas_para_Facilitar_la_Aplicacion_de_la_Ley_Bitcoin.pdf
Sep. 7, 2021

El Salvador becomes the first country to adopt Bitcoin as legal tender.

Source: https://diarioelsalvador.com/edicion-de-diario-el-salvador-por-bitcoin-day-se-vende-a-35-en-playa-el-zonte/159846/
Bitcoin Companies

• Additional financial products
  • Traditional and non-traditional products

• Hybrid Bitcoin-Fiat operations
  • Borderless transactions
  • Transparency in transactions
  • Finality in transactions

• Evolving compliance programs
  • Traditional requirements meet new technologies

• SOC 2 & ISO 27001 compliance
  • New key risk considerations
“The root problem with conventional currency is all the trust that’s required to make it work.

The central bank must be trusted not to debase the currency, but the history of fiat currencies is full of breaches of that trust.

Banks must be trusted to hold our money and transfer it electronically, but they lend it out in waves of credit bubbles with barely a fraction in reserve.

We have to trust them with our privacy, trust them not to let identity thieves drain our accounts.”

- Satoshi Nakamoto, October 31, 2008
Bitcoin Risk

- Protocol risk
- State attack
- Miner centralization
- Custodial risk
- Federal reserve policy
- Imperfect fungibility

Source: https://vijayboyapati.medium.com/the-bullish-case-for-bitcoin-6ecc8bdecc1
Expanding Opportunities: Embedded Finance

- $230B market by 2025
  - Spend - e.g. Shop Pay, Starbucks App
  - Borrow - e.g. Affirm + Peleton
  - Access & Save - e.g. Even, or Uber debit cards
  - Invest - e.g. Griffin, Stash
  - Insure – e.g. Metromile

Source: https://plaid.com/accenture-report-embedded-finance/
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