Position: ATMIA does not believe the BitCoin currency is a threat to cash or to established electronic payment methods but recommends increased support and supervision of BitCoin ATMs to ensure they abide by security best practices & maintain the industry's current high levels of consumer trust.

General background

The subject of BitCoin is a moving target as its development unfolds with a high and rapid rate of change. On the one hand, there is sometimes downside news, such as the collapse of Mt. Gox, the takedown of Silk Road, GHash.IO's BitCoin mining dominance and ongoing price volatility. At other times, there is considerable upside news, such as an increasing number of retailers and merchants accepting the digital currency, including Newegg, Overstock.com, TigerDirect, Expedia and Dish Network and others. The number of merchants accepting virtual currencies is now estimated at 26 000 in Europe alone.

The value proposition for the merchants, in a time of significant online fraud, is that BitCoin, in contrast to other kinds of online payments, including by credit card, will not result in chargebacks for fraudulent transactions. Since the virtual currency is not insured, liability for losses is not passed on to them in these cases.

In addition, accepting BitCoin typically translates into lower transaction fees than, say, traditional credit card payments.

For consumers, of course, there are risks to holding bitcoins because their value fluctuates a lot and there is currently no protection, or insurance, if their Bitcoin wallets are compromised. Under EU law, for example, consumers are not protected by any refund rights when using virtual currency for commercial transactions.

Digital currencies like BitCoin are now being used for low-cost remittances. ZipZap, for example, allows users to deposit cash for BitCoin, the value of which can then be cashed out across borders. Some local currencies may be more volatile than the value of BitCoin which would make the crypto currency attractive for such cross border remittances. Some payment providers, like Ripple, have multi-currency exchanges, enabling users to send money in one currency and receive it in another. BitCoin can be the holding value at the back-end.

In short, we are seeing signs of typical "creative destruction" of a genuine innovation in the payments space. ATMIA anticipates an eventual stabilization especially after integration of BitCoin ATM operators into a broad payments governance framework.

Looking ahead, the jury is out as to whether BitCoin will ever become a mainstream currency. It does appear to be on track, however, for becoming an important global currency. Hence, the need to reach out to BitCoin ATM operators. This is especially desirable given that a cash-to-BitCoin and BitCoin-to-cash loop has implications and opportunities for the ATM industry as the number of BitCoin ATMs proliferates.

Aim of position paper

In general, there is regulatory uncertainty about how to view and supervise the new decentralized borderless currency. This paper focuses on BitCoin ATMs with the aim of ensuring they maintain the standards and security best practices of the ATM industry and as a means of encouraging a peer relationship between BitCoin ATM Operators and the membership of ATMIA and similar associations in payments.

General assessment of BitCoin

Today, in a mobile-digital society, tech-savvy consumers have a wide choice of payments, including cash, debit, credit and prepaid cards, money transfers, online payments and, increasingly, mobile payments. Two research papers into the rise of BitCoin and BitCoin ATMs were commissioned by ATMIA in 2014 to assess where and how BitCoin fits into this evolving payments environment and whether it represents any threat to the governance of payments.

We found BitCoin to be:

- an internet-friendly digital currency without any state governance or accountability
- a disruptive new innovation in the sense that it creates a different model of payment and a new global, decentralized digital currency, challenging some fundamental assumptions of established payment methods and governance of currency
- subject to considerable price volatility and uncertainty
- a potential target for cyber-crime and money-laundering
- a quandary for central banks and monetary authorities

Our main conclusion is that there is currently insufficient supervision of BitCoin ATMs. These machines should be brought into the fold of the wider ATM industry, becoming part of the industry, subject, in particular, to security best practices and other aspects of the industry's code of conduct .

Overview of BitCoin ATMs

The BitCoin ATM Map indicates there are over 120 BitCoin ATMs installed in a variety of countries (and counting), such as Canada, USA, Hong Kong in China, Australia and Europe .[1]

Many BitCoin ATMs are two-way devices with cash-in functionality to buy bitcoins and cash-out options for converting bitcoins into hard currency.

The more widespread BitCoin ATMs become, the higher will be the risk of compromise unless there is compliance with both security best practices and governance principles such as transparency to consumers.

Regularity issues

By definition, a virtual currency is not issued by any central authority. This raises the issue of governance of digital currencies and who should grant and supervise the license to operate for BitCoin ATM operators. In addition, security issues to address include data protection, identification and authorization processes at BitCoin ATMs and the robustness of an auditable financial trail for BitCoin transactions. The European Banking Authority (EBA), for example, has identified 70 risks associated with BitCoin,[2] including a potential for money laundering.

[1] http://bitcoinatmmap.com

[2] http://ftalphaville.ft.com/files/2014/07/EBA_VCrisks.png see also http://www.eba.europa.eu/ http://www.eba.europa.eu/-/eba-warns-consumers-on-virtual-currencies. Consumers should also remain mindful that holding virtual currencies may have tax implications, and should make sure that they give due consideration to whether tax liabilities apply in their country when using virtual currencies.

The EBA argue that consumers are not protected through regulation when using virtual currencies as a means of payment and may be at risk of losing their money. They point out that exchange platforms tend to be unregulated and are not banks that hold their virtual currency as a deposit. Currently, no specific regulatory protections exist in the EU that would protect consumers from financial losses if a platform that exchanges, or holds virtual currencies, fails, or goes out of business. In addition, 'digital wallets' containing virtual currency stored on computers, laptops or smart phones can be hacked.

A recent conference at Europol, in June, 2014, identified challenges regarding 'following the money' during criminal investigations of fraudulent transactions connected to virtual currencies.

The Consumer Financial Protection Bureau issued a consumer advisory about virtual currencies such as BitCoin, XRP and Dogecoin and announced it was now accepting complaints about such products. The advisory warns that virtual currencies are targets for hackers and fraudsters and can be more costly to use than credit cards or cash. It also notes that there is little recourse for consumers if the virtual currency they store on their own computers is stolen.

Supervision for risk mitigation

As the only global trade association for the ATM industry, ATMIA believes BitCoin ATMs should be well-governed to ensure they provide trusted, secure, transparent transactions within the payments industry. ATMIA strives to develop innovative solutions to enhance consumer convenience, choice and security in payments and would welcome a professional peer relationship with BitCoin ATM operators.

ATMIA strongly supports ATMs as the most logical and convenient distribution channel for exchanging digital currencies to, and from, cash and supports full transparency with respect to ensuring that consumers understand all risks associated with these transactions.

We recognize the need for some sort of self-regulation at least for part of the BitCoin value chain. Examples of such self-regulation would include a registry of exchanges, with licensing powers subject to specific conditions being met, a Bitcoin version of PCI-DSS, commitments to reserve funds, or guarantees to protect deposits.

Recommendations

Accordingly, ATMIA recommends:

- clarification of conditions for a "license to operate" for BitCoin ATMs
- greater integration and relationship-building between BitCoin operators and exchanges and the wider payments industry, including stakeholders in the ATM industry
- the development of international security best practices for digital currencies to reduce the risk of cyber-crime attacks and money-laundering
- introduction of an international accreditation program for BitCoin ATM operators, including ongoing education and training programs for the BitCoin sector

About ATMIA

The **ATM Industry Association** (www.atmia.com) is a non-profit trade association serving all businesses and groups in the ATM industry. The association is made up of over 5,000 members in 65 countries. We currently represent well over 1.5 million ATMs internationally. For more information go to – www.atmia.com. ATMs provide a global electronic infrastructure of about 2.5 million terminals to distribute cash and other services to millions of cardholders and account holders.