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From KYC to KYW (Wallet): The importance of AML for crypto adoption

We are living under a completely new paradigm. The creation of value and generating wealth has changed for good in this digital era and we need to also evolve.

Swiss Blockchain Boutique Logo

ZUG, ZUG, SWITZERLAND, January 7, 2022 /EINPresswire.com/ -- Let's start by giving a simple example. James is a South American software developer who realized the blockchain potential "a bit late." He first got interested in Bitcoin but soon discovered Ethereum and got obsessed with the future possibilities of smart contracts. In May 2020, he decided and bought 100 Ether (Around $24,000 at that time, which were his life savings). Now, two years later, this amount represents almost $400,000. He has decided to sell some of it and buy an apartment. However, the bank would not accept his money as he has been unable to prove the "source of funds," They seem reluctant to believe he has made this fortune on some digital investment.

We are living under a completely new paradigm. The creation of value and generating wealth has changed for good in this digital era. There are kids out there making hundreds of thousands of dollars by creating and selling or simply flipping digital art in the form of NFT's. It would even sound outdated to mention early crypto investors who have made great money by early-adopting some cryptocurrencies or investing in specific tokens. We all know about it; these are new but legit and legal ways of changing the financial position of a person. However, the compliance officers and KYC analysts at banks, governments, and other financial institutions have been left with a real problem: identifying the source of funds for these new economic activities is a total headache.

The centralized world fears that, as there is practically no government interference in the crypto transactions, dirty money can flow in the crypto space from wallet to wallet. Money that could come directly from digital criminal activities like scams and Ponzi schemes and other offline illegal activities could use crypto as their payment method. Nevertheless, many compliance officers seem to ignore that blockchain serves the purpose of an immutable public ledger that anyone can consult.

The trend of crypto-friendly banks will keep growing in the sector as the traditional financial industry has identified the opportunities out there to serve a growing niche of cryptocurrency holders that still use fiat money and centralized banks as their main way of accessing financial services. But how to address the problem of identifying the source of funds and assuring that their client's cryptocurrencies are legit and clean? This can only be solved by a combination of on-chain data analysis and the performance of due diligence on all the transactions of the client's wallet.

Contrary to fiat money, cryptocurrencies can be tracked down to the very creation when the coins were created via mining. Therefore, every single ether, bitcoin, or fraction of it held by the client can be analyzed to the very source and therefore, assure that the money has not passed through dirty hands. But how to identify these dirty hands when ownership of those transactions needs to be addressed? Thankfully this is a problem that becomes smaller every single day.

Firstly, most crypto frauds are being reported every day and the addresses involved in those schemes are been tagged as fraudulent. The same process is also reversed by identifying the ownership of the addresses that probably have the higher number of transactions: exchanges and other financial crypto services. When the address of an exchange, for example, is identified and the funds of the person on which the KYC needs to be performed come from then there is no problem at all as the money would be totally clean and checked as the exchanges themselves comply with the same KYC rules.

Swiss Blockchain Boutique provides address-based KYC and AML reports as the company believes that Anti-Money Laundry (AML) efforts are really necessary for the more broad adoption of crypto in the future and the growth of the blockchain space.

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