



## Article

### Know Your Customer

*Increased scrutiny of the Internet and both the financial transactions that take place within it and the parties to those transactions makes 'know your customer' (KYC) procedures more important than ever. This article looks at the problems of customer identity from a regulator's point of view, by looking at the various approaches towards limiting underaged players as well as establishing identity and player location.*

Regulated jurisdictions allow the licensing of interactive gaming provided that the systems are secure and reliable and that the players will be of lawful age and communicating only from jurisdictions in which it is legal to gamble over the internet.

There are now many products and systems available that address three of the most critical areas concerning regulators: player identification, age verification and location authentication.

Well-regulated jurisdictions tend to attract those companies with significant land based casino backgrounds. Some operators intend to start small, offering online gaming to existing casino members as an extension to the casino services already offered. This means that the players are already well known to the operator. Once the online casino site membership is opened up, then a comprehensive registration process is essential.

Operators are obliged to reasonably identify the location, age and identity of a player before allowing them to bet online. The regulations realistically do not mandate that every potential customer be required to produce irrefutable evidence of their identity before they are allowed onto the web site. However, substantiating documentation must be produced before any significant payments can be made to the registered player. Various types of document such as a passport or a driver's licence can have different "point" values associated with them depending on the level of legality and scrutiny required to obtain such a document.



Regulatory requirements necessitate that a licensee must obtain from each prospective customer, information that can be used to verify their identity. This detail is incorporated in the online registration form and includes name, personal residence address, date and place of birth, telephone number and email address, etc

This player information is then subjected to various verification checks, generally using third party knowledge bases. Cross-checks against items such as:

- Location
- Identity
- Residence
- Financial Institution
- Credit Card

can be performed. Based on the response the site would then allow or deny access, or customer services could request additional information, in certain instances.

### **Underage Players**

While there are no guaranteed methods to ensure that underage players will never manage to play online, current safeguards are effective and the penalties facing internet gambling site operators are severe enough to deter them from intentionally allowing a minor to gamble.

Verification by credit card has in effect become a prerequisite to entering an internet gambling site. Currently, this requires the operator to assume that the minor will not have his own card or unrestricted access to someone else's card. Conceivably, credit cards could be encoded with age information. In the future, age information may have to be incorporated into electronic payment systems.

Age verification, data cross-checking, player identification software, and credit card company tracking are tools that can help minimise, if not absolutely prevent the activity of minors at an online casino.

Another method is through compliance with an adult check program that issues adult "passwords". There, the adult user would register with the program, provide certain information and pay a small fee. The adult check program would then verify the information (usually the credit card) and issue an adult password. The home user then must use the password to gain access to gambling sites that are participants in the program.



There are fears that minors will be able to steal their parents' credit cards and incur substantial gambling debts that will quickly clear out the family's savings. These fears are not realistic for several reasons. First, if a child steals a credit card from his parent, the parent would not be responsible for the unauthorised use, where they can satisfy the credit card company that they did not give consent. Second, severe financial penalties levied by the credit card issuer are enough to deter an internet casino operator from ever knowingly giving a minor access to their games. Finally, the contract entered into by the minor would be void. Therefore, an internet casino would unlikely to be able to enforce a gambling debt against a minor or his parents, in any event.

Most importantly, should a minor manage to deceive both the credit card company and the casino, they must still provide identification before they receive their payment.

### **Identity Checks**

Determining the identity of the gambler requires a different set of technologies. One potential tool, the thumbprint mouse, draws on technology being deployed by banks and in other industries seeking to prevent computer-based fraud. A camera inside the mouse continuously captures an image of a thumbprint and makes sure it corresponds with that of an authorised user.

While this device could be highly accurate, the potential disadvantages involve not just privacy (not many people will want their thumbprint stored by a third party), but logistics as well. Techniques such as this require some level of confidence in the original registration process. Each customer might have to register in person with a casino and be issued the special mouse. As online services become more reliable and trustworthy, a network of trusted third parties could be used to gradually move this registration process online.

Meanwhile, other technology such as that which identifies a remote user's keystroke patterns, or biometric systems such as retinal scanning, voice print identification and even digital face recognition software are not yet reliable or cost effective enough to be used for this purpose.

### **Player Location**

There are several jurisdictions in the world that expressly prohibit internet gaming. Licensees operating from regulated jurisdictions must be aware of these and ensure that potential customers from those nominated jurisdictions be banned from playing.



To reduce the exposure to non-compliance, there are systems available to pinpoint a player's location. Various companies are developing technologies, often collectively known as "geolocation", which use detailed network connection and performance information to establish the physical location of Web site visitors – wired and wireless.

Many claim they can trace the country of origin of an Internet protocol (IP) address 98 to 99 percent of the time. Not only is this required to comply with national laws regarding gambling, so that an operator can choose to accept or refuse bets from customers based on the country they are in when visiting the site, but there are commercial advantages, such as:

- targeting advertising and marketing campaigns to specific localities;
- sending web site text in a user's native language and other customised content; and
- reducing exposure to fraud.

Identifying the location from which the connection originated is not the end of the story, but taken together with other factors such as the location of the bank issuing the player's credit card and the address to which the player wants winnings sent, provides an effective security regime.

Of course, the majority of players connect through national internet service providers (ISP), which could possibly invalidate the trace to the ultimate user's PC. There is also the possibility that a player based in a jurisdiction where online gambling is illegal, might manipulate a network using a relay attack for example, where a PC is operated remotely to appear to be logging in from a legal jurisdiction.

One technology that several casinos and technology companies suggest could be effective to overcome these problems would be fitting PC's with a location-sensitive device that can be queried to identify their whereabouts. But for now, such a solution seems too expensive to be practical.

An alternative is to bypass the Web and create a closed network operated by the casino over the internet in much the same way as virtual private networks allow individuals to log into corporate computer systems remotely. In essence, a casino would become a kind of ISP to its online gamblers, whose identity and whereabouts could be established.

The incentives for the industry to address identification issues are high. In the process, the internet casinos may advance these technologies in fields like banking or government that are seeking to reduce online fraud or require precise knowledge of a computer user's identity and location.



### Conclusion

Essential components of a strict regulatory regime for online gambling, in addition to ensuring the integrity of products and probity of those involved, need to include the establishment of appropriate measures to safeguard minors and to respect laws of foreign jurisdictions. Attempts to prohibit rather than regulate the industry have resulted in driving some operators to jurisdictions with less stringent controls that do not wish, or intend, to cooperate with anti-money laundering (AML) measures as promoted by the FATF document and supported by the general community.

Confirmation tools, including age verification software and client location systems, are currently available to the online gambling industry. These combined with computerised screening mechanisms (monitored by regulators) will be more effective than existing land-based measures in satisfying regulatory supervision and compliance. Full audit trails exist and there are strict reporting requirements for unusual, significant or suspect transactions. This is a requirement for online gambling which, when combined with a stringent player registration process, represents a significant step in satisfying the know your customer (KYC) requirements.

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