

Understanding the E-Currency and Exchange-Maker Industries

Introduction

Since the advent of the ‘public’ Internet in the mid-1980’s, we’ve seen a remarkable growth and increased sophistication of the world-wide-web. It has allowed people from almost all walks of life to interact and to see what is happening in other parts of the world. It has allowed businesses to expand their markets without a dramatic increase in their sales budgets, and it has allowed entrepreneurs to produce products and services and market them efficiently across the planet. The Internet naturally produced the idea of the need for a currency that could be used by all, irrespective of country, nationality or location. The ‘virtual’ aspect of cyberspace lent itself to the concept readily and there were a number of ‘E-Currencies’ (or digital currencies) created by individuals and groups. Some of these caught on, some did not.

This report will look at a few of the largest E-Currencies in existence today. We will discuss how E-Currency systems work, assumptions that are made about them, and the privacy/anonymity aspects that are both good and bad. Additionally, we will examine the “Exchange-Maker” industry – those companies that help individuals (for a fee) to transfer the value of their hard currencies into the various E-Currencies. Finally, we will examine the criminal element’s use of the Internet and E-Currencies and the exposure and risks involved in using E-Currencies.

History – the ‘why’ of E-Currencies

The E-Currency industry came about in an effort, I believe, to circumvent the restrictions of using hard currencies in dealing with international business. Additionally, the aspect of transaction privacy seems to be of import to those using E-Currencies also. By transferring funds to your E-Currency account, you can then easily transfer them to someone else’s account with the expectation of having very good privacy and anonymity, depending on the E-Currency used. Finally, the speed of transfer is quite fast with E-Currencies, from one account to another. So if you were in the U.S. and wanted to purchase something from someone in Italy and an E-Currency that you use was an option, you would probably choose that payment transfer method rather than a bank wire. It would seem that these three factors, (1) the need for a common currency rather than dealing with conversion issues between various hard currencies; (2) privacy of transaction;

and (3) speed of transaction, are the main reasons for the existence of the E-Currency industry. Which of those 3 factors is most important depends on the individual using the E-Currency systems.

What are E-Currencies?

The simplest way to look at the E-Currency systems is not as a real 'currency' such as the U.S. dollar, Euro, or the Yen, since those are actual currencies created and backed by their respective governments. You can't exactly go to a currency conversion booth in France and ask to exchange your Euros for E-Gold (one of the E-Currency systems). Rather, E-Currencies are "stored value units", in a sense, they are digital widgets! You buy some digital widgets from a particular E-Currency System and use them in whatever manner you wish. Your concern would be that whatever particular use you had in mind – such as sending the widgets to a friend in Iceland, for example – that the person on the other end will accept your widgets for their stored value.

Should people or governments be concerned about what you do with your "digital widgets"? Even if these E-Currency systems were actual currencies, what would be the concern as to how you use or convert them? If you were an American on vacation and flew to France and went to a currency conversion booth and changed \$1,000 U.S. into the Euro equivalent, what concern is it of either the American or French governments? As mentioned, E-Currencies are not actual government backed currencies and therefore are not related to any particular government currency, per se.

Are E-Currency's legal? E-Gold (www.e-gold.com) is currently the largest E-Currency provider, with over 500,000 customers worldwide. They have been in operation since July, 1996. At no time, I am aware of, has any government of any country accused an E-Currency of doing anything illegal by that country's laws and statutes. At no time has any International body, such as the United Nations, the World Trade Organization, or Interpol accused any E-Currency of violating any International laws.

Present E-Currencies

Currently there are approximately four(4) main E-Currencies used via the Internet. There are an additional 3-5 E-Currencies that are trying to "break into" the mainstream Internet community so

that they can be one of the larger ones. By far, the largest E-Currency in operation presently is E-Gold (www.e-gold.com). The other largest E-Currencies are Evocash (www.evocash.com), NetPay (www.netpay.tv), and E-Bullion (www.e-bullion.com).

Some information provided by E-Gold at their website:

“The world wide web needs world wide money. e-gold was created in response to this need. E-gold is an electronic currency, issued by e-gold Ltd., a Nevis corporation, 100% backed at all times by gold bullion in allocated storage. e-gold is integrated into an account based payment system that empowers people to use gold as money. Specifically, the e-gold payment system enables people to Spend specified weights of gold to other e-gold accounts. e-gold payments clear instantaneously (with no chargeback risk), no matter how large the payment, no matter how far apart the Spender and Recipient.”

Evocash (www.evocash.com) provides an even clearer picture from their website:

“Today's users of the Internet still lack confidence regarding their use of credit cards and the security of their funds and information. Users are increasingly seeking a more secure means of buying, trading and securely transferring funds online.

"evocash", the **Electronic Verification Order of Cash**, provides a secure internet-dedicated means of transferring digital currency across the globe by means of the Internet... the fastest growing medium for conducting any form of business.

Created exclusively to meet your personal or business finance needs, evocash is a brand new electronic money transferal system using the convenience of the World Wide Web, unchaining the user from the inconvenience of old fashioned and inflexible banking institutions. This system enables payments to be made person to person (P2P), person to business (P2B) business to person (B2P) and business to business (B2B). It also supports payment of corporate entertainment and personal gift initiatives.

The "evo" is a unit of electronic currency that can only but rejuvenate the world of business on the Internet, replacing the staid and clumsy paper- filled world of old fashioned banking. Payments and receipts will be filed at the press of a key!

Having evaluated the world's finance markets, and the strength and consistency of the various currencies, we have decided that, to enable ease-of-transfer, and perhaps more importantly, for the convenience for clients at both the "input" and "output" ends of transactions (to evaluate balances, maintain consistency of costs, etc.), the evo will have parity with the U.S. dollar. In other words, the daily purchasing power of **one evo is equal to one U.S. dollar**. In short evocash is a **dynamic digital currency** system that is designed to meet every personal or corporate user's requirements, personal or corporate, for transferring funds, world-wide, 24 hours a day, instantly.”

Most E-Currencies operate from non-U.S. locales, providing a level of security and privacy that the International Internet community requires. Presently you can do quite a few things with your E-Currency account, from transferring funds to a friend's account instantaneously, to ordering books via Amazon.com. As the E-Currency industry grows, more and more retailers will start to accept E-Currency payments since it alleviates credit card fraud costs and is instantaneous without the risk of loss.

How do E-Currencies work

Transferring funds via E-Currencies can be easier, simpler and faster than any other form of value transfer. Most E-Currencies operate in the exact same way. Each requires that you create/open an account with them. Some E-Currencies ask for a lot of personal information, some don't ask for much personal information at all. Once you have your particular E-Currency account set up with your password, etc., you are now ready to "move some funds" into your E-Currency account, so that you can use it. When you transfer funds internally from your E-Currency account to another, the E-Currency provider charges a fee, usually equal to one (1) E-Currency unit or a percentage of the transferred amount. This is usually charged to the party making the transfer (although Netpay charges the recipient) and is deducted from your remaining balance in your E-Currency account. E-Currency systems, by their nature, are not related to hard currencies or hard currency governments, and therefore do not convert such currencies into their particular E-Currency value unit themselves. So how do you get funds into your E-Currency account?

What is an 'Exchange Maker'?

In order to move funds from a hard currency into an E-Currency, you have to use the services of what are known as "Exchange-Makers". The "Exchange-Maker" industry grew up around the various E-Currencies, providing a way for you to transfer your hard currency into your E-Currency account. Again, from the E-Gold website:

"The e-gold system is designed to be absolutely free of any financial risk. There can be no debt or contingent liabilities associated with e-gold. For this reason, e-gold Ltd. does not possess any national currency of any nation and has no bank accounts. Thus, e-gold Ltd. is not able to offer currency exchange services. Instead, a growing number of [independent exchange services](#) around the world support exchange between national currencies and e-gold, accepting various

remittance methods, including credit cards, bank wires, checks, and money orders.“

So, for example, if you wanted to transfer \$1,000 into your E-Gold account, you would look at E-Gold's list of exchange-maker companies and choose one that suited your goals (the right fee structure, time frames, location, reputation, etc.) and you would send your funds to that exchange-maker, asking them to credit your particular E-Currency account.

Each exchange-maker is a separate company, not directly related to any particular E-Currency. Exchange-makers can generally transfer funds to any account in any of the various E-Currency systems. Most exchange-makers are members of the eCTA, eCurrency Trade Association, Inc. (www.exchangeprovider.net/ecta.cgi). There are approximately 20-30 exchange-maker companies operating on the Internet whose sole business is to transfer value for you to your E-Currency account. From the eCTA website:

“To provide and maintain a professional standard of ethics & guidelines for the eCurrency and gold economy within which each member can operate securely and their rights may be protected in order to service their clients and customers and the gold economy. The purpose and objectives of the eCurrency Trade Association Inc. (hereinafter called the Association) are to unite the member group so that it may:

- Promote and maintain the highest professional standards of business practice among its members.
- Maintain standards for entry to the Assoc.
- Promote the interests of the member of the group.
- Develop and improve processes for the safe and secure business development of its members
- Encourage cordial relations between the members and affiliated and non-affiliated businesses and other professional bodies and associations around the world.
- Keep a breast of international developments in the e-currency economy affecting, principally the gold economy, but also encompassing all other e-commerce “

You can view on their website that they take their efforts and industry reputation seriously by researching exchange-makers and dealing with those that are not operating up to their bylaws, for example (from their website):

FREEDOMHOUND.COM SUSPENDED

Posted by [Michael Moore](#) (Vice President) on Wed Apr 10 04:39:56 2002

There has been a longstanding complaint made to the eCTA by the public regarding eCTA member Vince Calloway of Freedomhound.com. Despite many efforts over the past few months, little or no satisfactory communication from Vince Calloway to resolve or satisfactorily settle the matter has been offered to either the eCTA or the public in question. Therefore, as per the Charter of the

eCTA under the section entitled Disciplinary Measures, the Board of Directors have found the following points relevant and warrant Vince Calloway's membership of the eCTA be suspended until further notice as from this day.

All exchange-makers charge a fee, usually a percentage of the amount transferred (that is how the exchange-maker stays in business). So, for example, if the exchange-maker you are using charges 3.5% to transfer funds to your E-Gold account, and you send them a personal check or a bank wire for \$1,000, they would transfer \$965.00 into the account you told them to transfer it into in your correspondence that accompanied the funds.

How Internet Scams have used E-Currencies

The virtual world of the Internet lends itself to the criminal element just as surely as the physical world you walk around in.

Eric Hemmendinger, an analyst at the Aberdeen Group, told NewsFactor: "The number of people who are currently walking around on the streets with bad intentions and the capability [to commit crime] far exceeds the number of people who can do the same on the Web." At the same time, Hemmendinger said, "with the right know-how, somebody can achieve a lot more in a lot shorter period of time [on the Web] with no physical danger." [*From Newsfactor Network, August 28, 2002*](#)

In the physical world the entities that move value, such as banks and credit unions, are exposed to the criminal element in a number of ways, from people walking in with a gun to rob the place, to someone counterfeiting the currency or some other paper instrument that the bank employees accept and give payment for. Likewise, the individual is exposed to crime via theft from their person, or stolen credit card numbers and Social Security Numbers being used, or having a personal check grabbed from their mailbox, whitewashed and rewritten for everything they have in their checking account.

In the virtual world similar potential methods of theft from companies and individuals exist. E-Currency systems are vulnerable to hackers who attempt to access their systems and transfer funds from one E-Currency account to another. Luckily it appears that the E-Currency companies employ competent computer people who actively watch for such activity on their systems.

In the virtual world individuals are vulnerable to loss of funds via unscrupulous people who have learned how to use the Internet to steal. I will outline a few of the ways that people are presently using the various aspects of the Internet, the Internet-based auction sites and the E-Currency systems to steal from people.

First, hackers have devised what are called “Trojan Software”, this is software that you accidentally download to your computer that may either upload to the hacker information about your accounts or it may log all of your keystrokes (including your password to your E-Currency account) and transfer that information back to the hacker. This can be prevented by using a good firewall software such as ZoneAlarm (www.zonealarm.com) and an Anti-Trojan software (www.anti-trojan.net).

Second, hackers have also, on occasion, made up fake websites (for example, a hacker once set up a site with the address, www.e-gold.com to imitate the real site www.e-gold.com, then sent out “spam” email telling everyone to log into their account – via the link provided, of course) that looked exactly like the real E-Gold site. Those who fell into the trap, went to the bogus site, and logged in, inadvertently gave the hacker their account information and passwords. Having that information, the hacker could go into the victims’ accounts and transfer any funds in them out. This can be prevented by always going only to the E-Currency site via your own bookmarks/favorites in your computer.

Third, and perhaps the most insidious and difficult crime to prevent and act against, is the scam Internet auction, classified ad or fake Internet retail store website. One of the most popular activities on the Internet today is to bid and buy via an Internet auction site such as EBay (www.ebay.com). People bid on an item and then when they are the highest bidder, they gleefully send their payment off to whatever address/name the “seller” gives them. Similarly, there are classified ad websites and “retail store” websites, where people order everything from computers to motorcycles. It is incredible that people become so gullible when using the Internet. The auction site Ebay specifically tells you that it does not absorb any liability for the transactions instituted by people using Ebay, and it offers no help toward stopping the scams perpetrated on the unsuspecting masses who use its website.

The main problem with these Internet auction, classified, and fake retail store sites is that the majority of the general public still does not even know that E-Currencies exist. Because of this

simple fact, it exposes that ignorant public to theft and gives the thieves a simple way to steal and remain invisible to law enforcement agencies.

Exchange makers are usually unwittingly caught in the middle of these scams, and when that happens, at minimum, have to bear the burden (both financial and time-wise) of repairing damaged reputations and cooperating with law enforcement to try to catch the criminals. For example, recently an individual started a fake retail store website, making his site look very legitimate, selling motorcycles and motorcycle parts. When people bought something from him using his order form, it gave them instructions as to where to send their payment.

Here is where this criminal got tricky. He would have the unsuspecting public send their payment to an exchange-maker, having them make their check out to the exchange-maker and referencing an account number. Remember, when you send funds to an exchange-maker, naturally your payment is made out to the exchange-maker and you reference an account number (as mentioned earlier in this report, if you were transferring funds to your own E-Currency account, you would reference your account number with your check or in the bank wire instructions). You are essentially asking the exchange maker to purchase “digital widgets” with your hard currency and fund a specific e-currency account with those “digital widgets”.

Once the exchange-maker receives funds, let’s say for example, a personal check, that referenced a particular account number, the exchange-maker cashes the check; purchases the appropriate digital currency from the E-Currency company, and transfers that value from their E-Currency account to the referenced E-Currency account number. The scam thief then disappears with the funds in that E-Currency account, perhaps by transferring the funds out of one E-Currency into another using a different exchange-maker (and since all accounts are private, the exchange-makers cannot track the stolen funds). Essentially the thief has received value from the victim, but fails to deliver the merchandise or service they promised.

Weeks later, having not received their motorcycles, etc., the unsuspecting public, who have never even heard of such terms as “E-Currency” or “Exchange-Maker”, then contacts the exchange-maker that they sent their check to, wanting to know where their motorcycle is. From there it escalates to local law enforcement, the FBI, the better business bureau, etc.

At this point the exchange-maker is caught with the stress of being in the middle, having simply carried out their lawful profession, having processed funds to a particular account of a particular E-Currency as requested when the funds came to them. Now they have the difficult job of trying to explain and educate the unsuspecting public about how E-Currencies and exchange-makers operate. It is obviously never a fun job for the exchange-maker to be caught in the middle having to explain to the victims why and how they have been ripped off and won't be receiving their motorcycle.

Most exchange-makers attempt to educate the public as well as they can. For example, Gaithman's Gold Nation, Inc. has a page discussing E-Currency Fraud (www.gaithmans.com/fraud.html). Many exchange-makers are using novel ways to attempt to alleviate their exposure to this criminal element. For example, X-Changers, LLC (www.x-changers.com), an exchange-maker in Reno, Nevada, changed the name of their bank account that people send checks and bank wires to in an effort to reduce the auction scams. The name of their bank account is now, "X-Changers does not accept auction payments" – you have to write that whole sentence on your check. They made this change about 6 months ago and it has had a positive impact for them in reducing Internet theft in that regard. However, the scam thieves have now primarily switched over to the classified ad sites and the fake retail store sites to continue their criminal actions.

Additionally, it falls to the exchange-maker to also educate the various levels of law enforcement about E-Currencies and Exchange-Maker services. Often law enforcement personnel, even though familiar with many aspects of Internet crime (such as child pornography for example), know nothing of E-Currencies or Exchange-Makers and are immediately looking at the exchange-maker company itself as the criminal when they receive the complaint from the victim public.

Generally, it has been found, once the law enforcement personnel have a thorough understanding of the E-Currency industry, they can work closely with the exchange-maker in attempting to track down the criminals who use the auction sites, the classified ad sites, the fake retail store sites and the E-Currencies and Exchange-Makers to steal from the public.

Conclusion

As the E-Currency industry continues to grow, it will be vital that law enforcement personnel who deal with Internet crime thoroughly familiarize themselves with this industry.

I hope that this article has explained the E-Currency industry and the related Exchange-Maker industry and has allowed you, whether you are new to the E-Currency industry, a victim of a scam website that used an E-Currency, or a law enforcement officer, to better understand this new arena.