KYC Does Not Harm the Crypto Industry— It Actually Does the Complete Opposite

When cryptocurrency was in its infancy, it was an almost entirely unregulated industry. There were very few measures put in place to check who was trading what, how much of something they owned, or whether they could be considered trustworthy. While this might sound reckless nowadays, many people viewed it as a perk of cryptocurrency as a whole. There were those who would even claim that anonymity is a necessary aspect of the industry, the same as decentralization.

Is this idea entirely accurate, though?

KYC (know your customer) is by no means an enemy of the crypto space. It is much needed if the goal is for cryptocurrency to be taken seriously on the world stage.

KYC makes cryptocurrency friendlier to use

Many crypto users may never run into KYC barriers, depending on what they do. For instance, people who only trade coins outside of centralized exchanges will probably never need to declare their identity.

What KYC is really about is installing a level of trust between both buyers and sellers. It helps business owners to build a relationship with their customers. Without KYC, sellers are entirely in the dark about who their clientele is, meaning that they are left unable to protect themselves from malicious activity.

The payment merchant BitPay seems to have something of a handle on this. In an interview with their *Compliance Team*, they explained the significance of both KYC and AML (anti-money laundering) tools: "*Prior to signing up a new business to our platform, we want to make sure that we have identified and verified their business. The reason for this is not because the regulators tell us to do so, but because we want to make sure we keep criminals off our platform. By identifying the businesses and making sure that we fully understand their business model, we ensure that the businesses we sign up are legitimate and the products or services they offer are in line with our Terms of Use."*

BitPay is undoubtedly not the only cryptocurrency-related business to share this sentiment. The Gemini crypto exchange is lauded for its tight financial surveillance programs used to *"establish... robust internal policies, procedures and controls that combat any attempted use of Gemini for illegal or illicit purposes and that are designed to ensure our customers basic protections under consumer protection laws"*. Other exchanges such as Binance and Huobi have employed outside help for their KYC and AML needs from IdentityMind, a business dedicated to offering tools for monitoring cryptocurrency users. In an article, the organization explained that they “help companies reduce client onboarding fraud and transaction fraud, and improve AML compliance, sanctions screening, and KYC compliance”.

KYC and decentralization

There is a common misconception among crypto users that when KYC measures are used decentralization is diminished, but this is not accurate. While KYC tools are often built and used by centralized organizations, in the case of crypto, they are being applied to decentralized ecosystems. It doesn't matter who is monitoring the blockchain; the mere act of monitoring does not suddenly make the ecosystem centralized. In fact, one of the reasons why KYC and AML can be conducted on most blockchains is primarily because those blockchains are decentralized and open.

Perhaps the most notable thing KYC does is provide the crypto industry with some much-needed maturity. The fact that there are systems in place to track users and transactions means that it can now be used as a legitimate and professional alternative to fiat cash because it prevents criminal behavior from occurring.

For this reason, it is almost guaranteed that as crypto grows in the years to come, so will these regulatory tools, allowing the industry to flourish in the public eye.