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## Virtual Wealth Management

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As more and more people take up residence in the virtual world — sometimes also called digital or synthetic worlds — through their participation in one of the many "Massively Multiplayer Online Role-playing Games" (MMPORGs) currently available online, the potential for monetary abuse and malfeasance also increases.

While the original virtual worlds were built by private gaming companies for their subscriber base and were fully controlled by the designers and their all-encompassing End-User Licensing Agreements (EULA), new MMPORGs have emerged that provide individual players with more freedoms — including the ability to create, seclude or launder wealth. The likelihood of this new technology being co-opted for unscrupulous purposes is great, since historically the same has happened in response to other advances in technology. We've already seen how "property" created as part of the game can be misappropriated, even leading to violence.

### From Virtual to Hard Cash

The majority of current MMPORGs are designed to allow for gamers to build up their digital persona, or "Avatars," in the virtual society by various acts, including the earning of virtual currency. This can be accomplished through the offering of virtual goods or services to others in the digital world and is, therefore, much like that of a real-world society. For years, gamers have been selling their digital monies, goods or property for real-world compensation on auction sites such as eBay. Likewise, virtual entrepreneurs are starting and maintaining successful business ventures in the various MMPORGs.

An example is Jon Jacobs, who spent \$100,000, which comprised arguably his entire net worth at the time, to purchase a digital space station in the game "Entropia Universe." Since his purchase, he has generated income of approximately \$12,000 a month by selling residential and commercial real estate on the station and by imposing taxes on specific activities engaged in by other players thereon. In this instance, by imposing taxes, it would appear that Jacobs has taken on the position of a quasigovernmental agency, which in itself raises issues beyond the scope of this article. Moreover, the grand opening of the space station nightclub "Neverdie" and the profits obtained from mining/hunting rights and property sales on the station are expected to put Jacobs' net worth at \$1.5 million dollars, making him the first ever virtual-world millionaire.

Likewise, the Avatar named Anshe Chung, whose real-world counterpart keeps her name secret for privacy reasons, is referred to by some as the virtual Donald Trump. In the game "Second Life," she charges players "Linden Dollars" (worth approximately 250 to the real dollar) to rent or buy her virtual homesteads. The value of her synthetic real estate holdings is estimated at approximately \$250,000 in hard cash. These are just two examples of people who are leaving the real world and taking up permanent financial and social residence in the virtual world.

Some may question what the value of virtual money is if it is stuck in the digital world, but as technology advances and changes, this is no longer the case. When MMPORGs were first developed, players were only able to convert virtual dollars to hard currency through the use of online auction sites. Then, players were able to convert their digital earnings into real cash directly through the use of virtual currency arbitrage trading Web sites such as [www.GamingOpenMarket.com](http://www.GamingOpenMarket.com). Through the use of a credit card, virtual currency can be converted to hard currency at the then-prevailing rate, thus giving players a better idea of the value of their virtual assets at any given time.

On May 2, the virtual world took a huge step toward becoming part of the real world when the makers of "Entropia Universe" introduced a new plan to provide a real-world ATM card to its 250,000 gamers that would allow them to instantly withdraw hard cash from their virtual-world assets. The stated conversion rate will initially be one real dollar for every 10 Project Entropia Dollars (P.E.D.s). With this announcement, it will become no more difficult to access virtual monies as it would be to access real-world monies and will likely go a long way toward "Entropia Universe's" stated goal of creating a "full second reality."

### **Virtual Financial Crimes**

Interpol (The International Criminal Police Organization) defines virtual money as "money value as represented by a claim on the issuer which is stored on an electronic device and accepted as a means of payment by persons other than the issuer. Virtual money is an encrypted code representing money, in the same way that paper money is only paper bearing certain characteristics such as graphics and serial numbers."

There are two distinct types of virtual money:

- Identified virtual money. Contains information revealing the identity of the person who originally withdrew the money from the bank. This type of currency can be traced through the economy, by the bank or by law enforcement personnel, in much the same way as credit cards.
- Anonymous virtual money. Once withdrawn from an account, it can be spent or given away without leaving a transaction trail. Using blind signatures rather than nonblind signatures creates anonymous e-money.

Virtual money is money in the real sense since it can be converted into other forms of currency. Currently, a large portion of online transactions involves the use of debit and credit cards. One of the advantages and purposes of using virtual money instead of debit or credit cards is that it allows those individuals normally excluded from e-commerce, by their economic status or other reasons, to participate. The cashlike nature of virtual money means that positive credit history or an established banking relationship is not required. Given the foregoing definitions and descriptions, it seems clear that the virtual monies in the various MMPORGs — whether they be called P.E.D.s, Linden Dollars or otherwise — will fall within the virtual-money category. Moreover, if it can be accessed instantly, safely and with relative ease, it is likely that individuals will feel that cash being held in a virtual world is not really any different from cash being held in a brick and mortar or electronic bank. With direct deposit, electronic transfers and Internet banking, a growing number of people are not setting foot in their banking institutions, nor are they requesting to see their actual hard currency. The more the boundaries are crossed between the real financial markets and the virtual worlds, the more the games become open rather than closed and, therefore, subject to being co-opted and potentially monitored by real-world law enforcement. (But as discussed below, that doesn't currently seem to pose a real threat.)

Moreover, since virtual-world monies can be passed from person-to-person, in any amount and without any reporting requirements or electronic trail, it would seem to fit the definition of anonymous virtual money. That being said, there is the potential for various unscrupulous or illegal abuses of the virtual monetary systems that exist within the various MMPORGs. Certain of these potential risks are:

- Unauthorized creation, transfer or redemption of virtual money;
- Utilizing a virtual market to mask the holder or value of virtual funds; and
- Criminal attacks on virtual money systems, leading to loss of virtual money value or loss of function of the virtual money system.

### **Virtual Asset Creation and Seclusion**

It is estimated that gamers transacted \$165 million dollars of business last year in "Entropia Universe" alone, which correlates to approximately \$650 dollars per player. If you combine the number of transactions that occurred in "Entropia Universe" and the various other MMPORGs, that number tops the \$1 billion mark last year alone. While this may not seem like a lot when you

average it out among the millions of gamers, it covers the spectrum from those who do not really participate in the virtual economy all the way to those who drive the digital economy like the two entrepreneurs discussed earlier. Moreover, this does not take into account the underlying value of the intellectual property that exists within these virtual worlds that has not been offered for sale or otherwise monetized. Therefore, the actual value of the assets in the virtual world is potentially astronomical. Currently, these games are under no obligation to track and report to the government the transactions or assets that have been amassed or held by individuals in the game. Likewise, since most assets are connected to an Avatar, a synthetic individual representation, the actual real-world owner of the assets is given further protection from potential discovery.

Besides the loss of potential tax revenue to a government from creating assets or generating income in the virtual world that is not being reported, the potential for illegally secluding assets in the virtual world exists. Since the inception of "Entropia Universe" and certain other MMPORGs, it has been possible for players to add monies to their online accounts through the use of credit cards and electronic bank transfers. Therefore, it could be possible not only to create assets of which the government is unaware but also to move real-world assets into the virtual world, where they would continue to exist otherwise hidden from further governmental view. This possibility to shield assets or income may alone be the impetus for certain individuals to hide behind the persona of an Avatar. Through these various levels of ownership, it could be possible to create and hold significant financial assets that are not reported or subjected to scrutiny by income or estate taxing authorities. Combine this with the ability to access these funds at a moment's notice in the real world through use of an ATM card, and you have the recipe for illegal activity.

### **Virtual Cyberlaundering**

Traditional money laundering involves significant physical effort. A party must conceal the existence and source of the funds and then disguise the monies to make it appear legitimate. To expect to accomplish this successfully requires that the launderer have the means to physically move the hard currency while avoiding attracting unwanted attention by various government agencies. Initially, this was very low-tech and might involve such acts as transporting monies out of the country to regions with less strict banking regulations or making multiple deposits into various accounts that are under the \$10,000 reporting threshold. However, in 1986, the Money Laundering Control Act was enacted in an attempt to further criminalize these laundering techniques.

As technology has increased, savvy launderers have begun to seek quicker and easier methods to "clean" their monies. Electronic funds transfers or wire transfers became the favored means to accomplish this task, since they provide a swift and nearly risk-free conduit for moving money between countries. However, these transactions involve the use of "identified virtual money," as discussed above, so there is still a certain ability to track the source and recipient of the funds. Moreover, while wire transfers only contain limited information regarding the parties involved, more and more governmental investigative agencies are attempting to keep pace with the mountain of daily transactions with an eye toward stopping any illegal uses.

The great demand for efficient consumer transactions has led to the establishment of electronic cash, which has been embraced by launderers due to its potentially anonymous nature. Electronic cash, or digital money, is virtual-world replacement for hard currency, and, like hard currency, once removed from an account, it can be transferred or given to any other party without leaving a trail — electronic or otherwise. With such freedom of unregulated and unreported access and transfer, as being offered first by "Entropia Universe's" accounts, the Money Laundering Control Act will be difficult to fully enforce. Moreover, since "Entropia Universe's" accounts are likely non-FDIC insured and presumably lack federal regulation, there should be no mandatory compliance with the filing regulations contained within the Money Laundering Control Act.

Currently, gamers in the virtual world are able to buy, sell, give and trade monies and goods. Therefore, it is possible for one virtual-world Avatar to arrange a meeting with another, who may or may not be in another country or continent, and drop off goods or monies worth significant sums of hard currency for the other party to take up. Thereby, the digital transfer of a potentially significant sum has just taken place that is not being reported to any regulatory or investigative agency. The individual controlling the second Avatar could potentially then immediately access the monies through the use of the "Entropia Universe" ATM card. All of this has been done quickly and easily, resulting with one party now having "virtually clean" money (pun intended) without leaving a trail for investigators to follow. Therefore, if "Entropia Universe" accounts, or those provided by other

gaming companies that will likely follow suit, are able to continue to operate outside the reach of current federal regulations, laundering funds through a MMPORG may become the easiest method that there has ever been. To combat this, the makers of "Entropia Universe" claim to have vetted their ATM idea with the Swedish government, where the company is located, and has ensured that protective measures have been taken to avoid any such monetary malfeasance. However, since the company has not released the exact nature or extent of these steps and has not dealt with the IRS or other U.S. agency in creation thereof, whether or not the measures will pass muster under U.S. laws or could otherwise be circumvented is still open for further debate.

### **Virtual Monetary System Attacks**

Recently, in South Korea, two individuals manipulated a virtual-world server to create virtual currency worth over \$1 million dollars. It raises the question whether creating virtual dollars, which can be converted to real-world money, is merely a computer hacking crime or is tantamount to counterfeiting or forgery. While this act may also fall within the creating of virtual-wealth section, it demonstrates the potential for attacks on the virtual-world monetary systems. As with the real world, creating counterfeit virtual money can act to deflate the rest of the virtual-world economy. This becomes a problem since the value of every other individual's assets in the virtual world is lessened to some extent and can cause inflation to run rampant in the system.

Moreover, if more monies are wrongfully inserted into a system allowing for ATM cash withdrawals than the gaming company can cover, this could potentially cause "a run on the bank," so to speak, which could potentially cause serious financial damage to the company itself with the foreseeable consequences of other gamers' assets to follow. It is not a difficult scenario to imagine a technically adroit and criminally inclined individual breaking into a virtual-world server and either creating from scratch or just wrongfully transferring, property or monies from other parties to an Avatar under his or her control. As has been shown historically, money launderers or organized crime members are nothing if not creative in using technology or innovation in furtherance of their various schemes.

### **Government Policing**

From a discussion with a representative of the U.S. Department of Justice Computer Crime and Intellectual Property Section, it seems that the possibility of an MMPORG being co-opted for criminal purposes has not yet become a subject of investigation. Interpol, however, is obviously wary of this problem. A discussion on its Web site of virtual money includes the following: "Online games now have their own foreign exchange which lets players buy and sell different virtual currencies, just as in the real world. Criminals will undoubtedly take advantage of this."

Given the privacy protection that the virtual world can provide to an Avatar, a governmental investigative agency would not have access to the identity or transactions of any individual without the cooperation of the company that developed and maintains a particular game. Furthermore, some of these companies are based in regions that are not amenable to fostering such cross-border investigative cooperation. Moreover, although costly to develop, it is possible to imagine that a well-funded criminal organization might actually create an MMPORG for the sole purpose of masking and/or advancing its criminal objectives.

All of these hurdles may make investigation and enforcement of the various current laws very difficult, if not impossible, unless greater monitoring and reporting requirements are attached to the virtual world. Given the current state of things, we truly have entered into a "brave new world."

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