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## **Second Life cracks down on unregulated banks**

**Linden Labs, the San Francisco-based creator of 3D online universe Second Life, is banning all unregistered and unregulated 'banks' from the virtual world.**

In a blog Linden Labs says it will be prohibited to offer interest or any direct return on an investment from any object, such as an ATM, located in Second Life, "without proof of an applicable government registration statement or financial institution charter".

Linden Labs says it is implementing the new policy to protect "the integrity of our economy". The virtual world uses its own currency, called the Linden dollar, which can be exchanged at the rate of about 270 to 1 US dollar at Linden's currency exchange.

The company says it has received complaints about several 'in-world banks' defaulting on their promises. "These banks often promise unusually high rates of L\$ return, reaching 20, 40, or even 60% annualised," says the blog.

The complaints follow the collapse of so-called virtual bank Ginko Financial in August 2007. Ginko Financial offered a 40%+ interest rate, but speculation among Second Life residents over whether it just a pyramid scheme eventually caused a run on the bank. According to press reports Ginko ran out of funds owing customers more than US\$750,000 in real money.

Linden Labs says unregulated firms such as Ginko Financial have brought "unique and substantial risks to Second Life" and are "in most cases doomed to collapse".

"As these activities grow, they become more likely to lead to destabilisation of the virtual economy," says the blog. Any unregulated 'banks' operating in the universe have until 22nd January to settle up with their 'customers'.

According to reports, Second Life residents rushed to withdraw their funds from in-world banks, such as JT Financial, Midas Bank and BCX Bank, as news of the policy change spread.

However, in addition to the in-world firms, real-life regulated financial institutions have looked to cash-in on the rising popularity of Second Life. A number of real world banks have also set up shop in the virtual universe, including Germany's

Wirecard Bank, Danish online investment bank Saxo and Dutch banking groups ING and ABN Amro.