

Fintech, Blockchain and Sports in the Middle East

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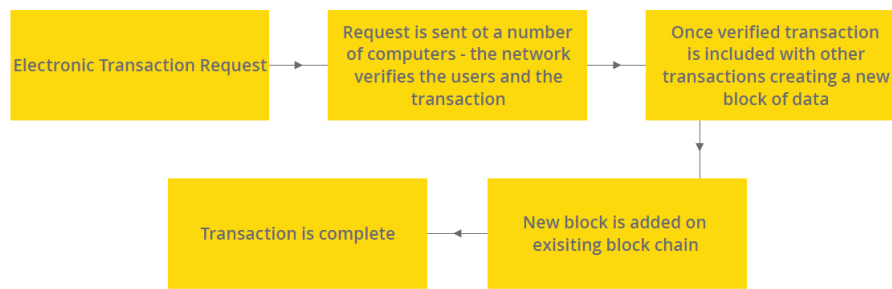
The technology revolution continues to rapidly gather pace on a global scale. Terms such as “FinTech”, “blockchain” and “cryptocurrencies” are becoming every day terms. But how is the technology revolution relevant to the sports industry? The simple answer is, very. This article touches on various examples where blockchain technology can potentially be of benefit in the sports industry.

Blockchain & Smart Contracts

Many articles have been written about blockchain. Simply put, blockchain can be described as a public decentralized e-ledger of transactions or data enabling a network of computers to create an audit trail through the internet. It is, in essence, an online form of bookkeeping where the books are not owned by one person. For a single transaction for example, there will be different members of a network involved in the process who will act in accordance with the rules or protocol of the network and who all have visibility over the ledger. The record is secure and is virtually irreversible.

Smart contracts are an important element in a blockchain transaction. These are self executing contracts, the terms of which are written as code into a blockchain. A trigger event can be written into the contract for example, an expiration date or a strike price and once that event is met, the contract executes itself according to its terms.

The diagram below shows a high level process of how blockchain can work:



Blockchain's best attribute is that it any information that must be securely and verifiably transmitted between entities can benefit from using the technology. As blockchain is intended to make the transaction process transparent and safe, in sectors where payment fraud is a concern, the introduction of blockchain technology can be particularly appealing.

Although blockchain first gained widespread public attention as the technology underpinning the Bitcoin crypto-currency, blockchain is now recognised as having the potential to significantly impact many other sectors in the digital age, including the sports industry. Indeed, a blockchain-based sports microfinancing platform, SportyCo recently organized the World Sports Blockchain Summit, which was described as one of the largest live online events, targeting crypto investors, athletes and sports enthusiasts.

Sports Industry

eSports, which can be defined as competitive multiplayer gaming, is a sector that is relatively unregulated but gaining worldwide popularity. There are often security concerns in relation to financial transactions regarding eSports – such as how entrance fees are paid and recorded or prize money distributed.

In the eSports environment, various terms could be written as code into a blockchain creating a 'smart contract' which can define terms and obligations relating to a transaction. These smart contracts could allow gamers to register for a competition and pay entrance fees. It could also allow gamers to receive prizes as soon as games are won. Prizes could be cash or could take the form of tokens which could potentially be used to pay for items in a virtual environment.

Wearable Technology

Blockchain can also be used to aid and benefit more traditional sports. It is possible and increasingly common to track an athlete's performance by the use of wearable technology. Most elite sports teams now use such technology on a daily basis so that they can track its user's activities, heart rate, diet and performance. Such data is then used by the clubs to see how a player's performance can be improved. Such information can be very sensitive and by using blockchain technology, the data can be securely stored, verified and transferred.

Anti-Doping

Doping scandals are a huge issue in certain sports and can seriously undermine the integrity of a sport and damage an athlete's career. Often where a doping scandal exists, sponsors "run for the hills" and governing bodies will investigate an issue and sanction an athlete or a team if foul play is found. Access to accurate and credible medical records of a suspected athlete are key to any investigation. Blockchain technology can be used to better manage the security of medical records. Such records could include

information on the test results of an athlete and drugs that they have taken. The authenticity of the information is according to the computer network system as in a traditional blockchain transaction before being added to the blockchain and suitably encrypted. Such a system could therefore provide a credible and reliable source of information relating to the testing of drugs.

Broadcast Data and Interaction

Broadcasters can also benefit from the use of a blockchain network. As consumers' viewing habits continue to change, broadcasters are also becoming accustomed to delivering content by way of different means. Where such content is being delivered by way of on-demand services, for example, a smart contract can be used to facilitate payment.

Blockchain technology can also potentially be used by sports clubs to further engage with its fans. Potentially, blockchain can be used to create a safe and credible ticket exchange between fans wishing to sell genuine tickets. The clubs could also have a stake in the system and which could potentially combat illegal ticket resales.

Potential Developments

Some commentators have suggested that in the future, blockchain could make it possible for sports clubs to introduce their own cryptocurrency. This could be used to purchase tickets, merchandising and provide other benefits which could even include purchasing hot dogs at matches. Sponsors could even get in on the act as there could be potential for them to engage and transact with fans by accepting such cryptocurrencies. There may be some way to go to achieve all of this, as it would be subject to such cryptocurrencies being subject to a proper regulatory framework within their jurisdictions of operation.

An interesting development in the sports industry is the use of Blockchain technology in relation to owning part of an athlete's IP rights. Subject to third party ownership restrictions, various blockchain startups are engaging with athletes to promote them and offer investors the opportunity to own part of their IP rights. The Jetcoin Institute is one such start up which has introduced a cryptocurrency named Jetcoin. Athletes (as well as entertainers and musicians) can enter into an arrangement with the Jetcoin Institute giving part of their image rights to the Institute. The Institute then offers such rights to be purchased by the Jetcoin holders through the Jetcoin platform. The idea is that as the athlete progresses in their career, revenue is generated in relation to their image rights which is distributed to the Jetcoin holders.

GlobalTalent has a similar concept. It describes itself as a blockchain decentralization platform where clubs and athletes can seek funding by selling future revenue rights to fans worldwide. Investment is by way of a tokenized system through smart contracts. The tokens can also be traded on a secondary market. Again, as mentioned in the context of cryptocurrencies for sports clubs, there may be regulatory issues to deal with in relation to this platform.

Middle East Market

How does all of this apply to the Middle East? It is no secret that the Middle East region is rapidly adopting and developing blockchain based applications, including but not limited to FinTech. It is also no secret that the Middle East has an insatiable appetite for sports. An increasing number of sports events are held in the region, which already hosts two F1 Grand Prix (Bahrain and Abu Dhabi), cycling races, cricket matches and tennis tournaments. In addition, Qatar will be hosting the FIFA World Cup. The introduction of blockchain can be adapted to sports industry in the region. These could, for example, prove to be beneficial in

developing players and teams in the region especially where wearable technology is used, promote sports events in the region when considering fan interaction, as discussed above, and promote or monetizing a home-grown player, in the form of selling IP rights.

In terms of FinTech generally, the government of Bahrain is actively promoting the technology. Bahrain used to be the main financial hub in the region and has been looking at ways to increase its competitiveness in this field. Fintech appears to have presented this opportunity. As has been widely reported, Bahrain has opened Fintech Bay, described by the Economic Development Board (“EDB”) as the largest Fintech hub in the Middle East. In addition, the Central Bank of Bahrain has launched a “regulatory sandbox”, which provides a virtual space for companies looking to test their Fintech solutions.

Blockchain is an important factor in the FinTech area but taking a step back, consideration needs to be given to the legal effect of a blockchain transaction and the validity of smart contracts from a Bahrain law perspective. The Bahrain Civil Code and the Bahrain Law of Commerce allows for parties to transact freely and agree terms between them subject to public policy issues. The elements of creating a contract in Bahrain includes, offer, acceptance and consideration. So as long as these elements can be evidenced and verified in a blockchain transaction through use of smart contracts, Bahrain law is likely to recognise such transactions. Bahrain also has in place an Electronics Transactions Law which states that unless otherwise agreed by the parties, an offer and acceptance of an offer or any other matter that is material to the formation of a contract (including any amendments, revocation or acceptance of the offer) may be undertaken in whole or in part electronically. Whilst the Electronic Transactions Law does not specifically deal with smart contracts and blockchain technology, the foundations are in place in Bahrain law to allow for the development of blockchain technology and FinTech generally.

Bahrain wants to become a pioneer in the burgeoning FinTech space and according to the EDB’s Chief Executive, H.E. Mr. Al-Rumaihi, national adoption of blockchain technology will be a key enabler of this. The sports industry could therefore be a sector where Bahrain is well placed to apply blockchain technology in the region.

Conclusion

Whilst the use of Blockchain technology was initially focused within the financial industry, the Middle East and especially Bahrain could prove to be fertile ground to develop blockchain based solutions within the region for the sports industry. There will undoubtedly be issues that are unique from a cultural and local law perspective that will need to be considered in the use of blockchain relating to sports in the region, but the potential for development and utilisation is significant, considering the fact that countries in the region share a common language, a passion for sports and a relatively young population, which is quick to embrace new technologies.

Raj Pahuja is a key member of the Al Tamimi & Company’s Sports Law and Events Management practice. For further information, please contact Steve Bainbridge (s.bainbridge@tamimi.com).