

# Under the radar of regulation, crypto conmen spin brazen Ponzi schemes

Around 500,000 people have put their money in crypto Ponzi schemes, and these fraudsters have syphoned off more than Rs 4,000 crore by fooling gullible people

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Bitcoin was unnoticed by the Indian govt, but it got the attention of a few opportunists who were not shy of deceiving the gullible

Scammers in India have always been early tech adopters and a step ahead of law enforcement authorities

While direct distribution companies like Amway and Herbalife must, a fraudulent cryptocurrency doesn't even deal with a physical product

Agencies have identified 54 cryptocurrency Ponzi schemes running in India, there are many still in the shadows

There are many fake cryptocurrencies in the market nowadays, but as a 'member' of the Indian government, Amit Lakhanpal often assures, he's got a safe bet for buyers which will shortly overtake even bitcoin.

This must interest you just a little bit, after all, bitcoin has been the buzzword lately—the cryptocurrency which made many early adopters of the technology millionaires overnight. But those who missed the bus with bitcoin are now left confused, as hundreds of new crypto-assets have emerged and it's hard to tell which one is going to be the next best thing.

[Amit M Lakhanpal](#), MD of a real estate [firm](#), also claims to be a member of the Ministry of Finance and winner of awards like Pride of India, Rashtriya Ekta Puraskar, and Mahatma Gandhi Gaurav Samman. Covered in gold accessories, he claims he's got the next big cryptocurrency.

## **To the moon**

Bitcoin, the world's first cryptocurrency came into existence in 2009. Since then it has rallied from \$0.06 per coin to \$5,600, a rally of 9333233%, as per the Coindesk price indicator.

Cryptocurrencies are a volatile asset class and hard to understand. Having someone who is seen as a government official, a guide in the sea of confusing blockchain based assets, would seem reliable to many. The blockchain is a decentralised and distributed public ledger which is used to record transactions across a network of computers.

Lakhanpal is the founder of Money Trade Coin (MTC), a new cryptocurrency, which as per their [press release](#), "is forecasted to exceed the value of \$500 (~Rs 32,500) per coin this year across cryptocurrency exchanges."

There's just a tiny problem. It's fake.

MTC is the product of a bizarre merger between the murky world of multi-level marketing (MLM) or Pyramid schemes and cryptocurrencies, a technology that maintains its legitimacy by being public and transparent.

MTC has no public blockchain, no mining process or a wallet that could store the coin and is run like a pyramid scheme by direct distributors.

Mining is the process through which each entry is verified and registered over a blockchain. A cryptocurrency wallet is a software (like Jaxx) or hardware (like Trezor) which is used to store, send and receive digital tokens.

As per Lakhanpal, MTC is a centralised cryptocurrency. This is quite similar to E-Coin, a fake cryptocurrency which was [recently closed](#) by Switzerland's financial regulator.

According to [coinmarketcap.com](#), a website which tracks the price movement of digital currencies, there are 1159 cryptocurrencies globally as of now. The number comprises both genuine and fake cryptocurrencies as the website does not “judge the merits of any cryptocurrency” and as long as any token “meets the listing criteria, it's eligible to be on the site.”

This story is about how one of the most important technological inventions since the internet—bitcoin—remained unnoticed by the Indian government but got the attention of a few opportunists who were not shy of deceiving gullible people.

The world of pyramid schemes is closed to outsiders, and it is hard to have an honest conversation with the promoters who are at the top of the chain. *The Ken* had sent a detailed questionnaire to all of the cryptocurrency firms mentioned in the story, but none of them replied. We have put together this story based on information shared by experts in the field in direct selling, enforcement authorities, people who fell prey to these false promises and legal experts.

### **Person of interest**

In a recent interview with *India News*, Lakhanpal denied that MTC is an MLM scheme.

Talking about the future of MTC, Lakhanpal says that if the government gives them a legal license for a trading platform then the price of MTC “will be more than around \$2500 (~Rs 1,62,958) in a year, that I can guarantee.” He also mentions that he has sent

a written appeal to Prime Minister Narendra Modi, urging him to legalise MTC. Of course, a request to Finance Minister Arun Jaitley would've made better sense.

Lakhanpal also promises that the company will share 60% of its profits with the Indian government and will also provide some “additional technology feature of blockchain” to government departments.

When *The Ken* reached out to one of the direct sellers and expressed false interest in buying some coins, we received the following response.

Pranjal R Daniel is a policy expert on direct selling and MLMs at Strategy India, a consultancy firm which keeps a tab on dubious MLM schemes as well. He told *The Ken* that Strategy India's investigation of MTC found that after Lakhanpal's Finance Ministry [post](#), more people got interested, and the daily inflow of money into the scheme saw a spike of around 30%.

It's hard to pin down the exact amount these schemes get, for a bulk of the collection comes in the form of cash which is hard to track. However, the direct seller we got in touch with told us that around Rs 8-10 crore (~\$1.2-1.5 million) was being raised by MTC on a daily basis.

Strategy India's investigation further discovered that these firms are generating tokens on an excel file and not on a public blockchain by the process of mining. In short, the entries in the wallets of these cryptocurrencies were as good as any person sitting on a computer and making entries.

Unlike other direct distribution companies like Amway and Herbalife, where you become a member and sell an actual product, with a fraudulent cryptocurrency you don't even have to deal with a physical product.

*The Ken* then sent emails to four departments of the Ministry of Finance asking them to confirm whether Lakhanpal is actually associated with the ministry, and we're yet to get a single response.

## **Others at the party**

Of course, Lakhanpal is not the only one who's making a killing out of crypto MLMs. Similar schemes are being run by many in the country at the moment, two of which piqued our interest—Subhash Jewria's ATC coin and Amit Bhardwaj's GainBitcoin.

Unlike MTC, which calls itself a centralised cryptocurrency run and maintained by Amit Lakhanpal, Jewria's ATC claims to be a decentralised currency pretty similar to bitcoin.

Now, a peer-to-peer decentralised, deregulated cryptocurrency has two key features – 1) an open public blockchain and 2) a mining process in which anyone and everyone can participate without any permission.

ATC has none of them.

ATC was running a pyramid scheme where each distributor in the chain is allowed to have only three front-line distributors, and their fake product was selling like hot cakes. Luckily, the Economic Offence Wing (EOW) caught a whiff of this racket.

*The Ken*, while discussing the matter with a senior official in the EOW, informed him about the various fake coins and schemes which included ATC coin. The officer, who

doesn't want to be named as the investigation is still on, requested us to hold on to our story as a major development was in the offing.

On 5 October, the EOW asked ICICI Bank to freeze the accounts of Jewria under Section 102 of Criminal Procedure Court Code 1973.

The officer said that in such scams the authorities usually react after the damage is done, but luckily, as complaints came early in this instance, the police was able to prevent ATC from flourishing.

The quantum of money frozen in these accounts is around Rs 90 crore (~\$13.8 million), he confirmed.

Responding to this development, Jewria [reached out](#) to his investors on YouTube on 7 October and assured them that this was just a temporary setback.

While Jewria seems to have fled the country (as the EOW official informed us on 12 October), [Amit Bhardwaj](#), the [controversial](#) founder of the bitcoin-mining pool called GBMiners, continues to be in the news. Bhardwaj runs the cloud mining scheme GainBitcoin, Bitcoin Growth Fund and a token called MCAP.

He also enjoys a certain amount of celebrity, what with book endorsements from Bollywood stars like [Shilpa Shetty](#), [Neha Dhupia](#), [Vir Das](#), etc.

When Bharadwaj launched his cloud mining scheme called GainBitcoin in 2015, he promised to give 10% return per month. By investing one bitcoin (now priced at around \$5,600 or approximately Rs 362,166), a customer signs a mining contract of 1.5TH/s for 18 months and can earn 0.1 bitcoin per month.

But the math doesn't add up. For a hash rate of 1.5TH/s, one cannot sustain to give 0.1 bitcoin a month as it will take an entire year just to generate that many coins.

Hash rate is the speed at which a mining rig can compute or mine new blocks in the blockchain. For every new block, the miner who discovers it gets rewarded. Hence, higher the hash rate, more the chance of discovering a new block and accumulating more rewards in the form of the cryptocurrency being mined.

In the background, GainBitcoin arranged many seminars to get more people on board and introduced a referral system where every user got a commission for each contract sold through a binary pyramid scheme.

A source who didn't want to be named fell for the scheme in early 2016. After realising that with the given hash rate, such huge returns were not possible, this is what he did.

### **Grey area**

“One should note that even direct selling and MLM schemes can be lawful if they are not fraudulent (often called pyramid or Ponzi schemes). Recently, the Direct Selling Guidelines, 2016 were issued by the Central Government to provide guidance on the subject. Some States have also issued similar guidelines,” Jaideep Reddy said.

In 2017, Amit Bhardwaj launched [BitcoinGrowthFund](#) (BGF) which issued a token called MCAP. This, our source explains, was Bhardwaj's exit strategy. “Bhardwaj said that now all the GainBitcoin payouts will happen in MCAP tokens and not bitcoin,” he says.

Here's the catch, Bhardwaj doesn't provide the entire value of the payout as the price of MCAP tokens is artificially inflated. For example, 1 MCAP is equal to 0.0021715 bitcoin (BTC), as per the BGF site. On other exchanges like [C-CEX](#), the value of one MCAP is 0.00048368 BTC, which is almost 5 times cheaper than the price listed on BGF.

“So, if a GainBitcoin user is expecting a payout of 5 BTC , he or she is forced to get only 1 BTC instead,” says the source.

The GainBitcoin payouts are converted to MCAP tokens as per the price on the BGF site.

Our source got out of the nexus unscathed by getting commissions on referrals that amounted to his principal amount. Zero profit, zero loss.

### **Point missed by many**

India has always been a laggard towards new technology adoption, whereas scammers in the country have always been early tech adopters and a step ahead of law enforcement authorities. So what if one company is running a pyramid scheme disguised as a cryptocurrency? Indian regulators have warned citizens of [cryptocurrencies](#) and [MLMs](#) in the past, it is the investors' fault for putting money into such Ponzi schemes, right?

Well, that's not entirely correct. A word of caution to investors by the Reserve Bank of India (RBI) or the Securities and Exchange Board of India (Sebi) is not enough because there are viable direct distribution business models and legitimate cryptocurrencies.

The lack of regulatory oversight on both—cryptocurrencies and MLMs—has led to a world of suspect investment schemes which has taken many Indians to the cleaners. The hands-off approach of regulators has made the perpetrators of such predatory schemes extraordinarily complacent and confident.

For example, Lakhanpal has not just openly called himself a member of the Indian government but has also advertised MTC on mainstream news channels like [ABP News](#), [India News](#), and [Times Now](#). (On a side note, the promotion of a Ponzi scheme, even if branded, wouldn't possibly help the news channels in the foreseeable future.)

Forming a legal framework around cryptocurrencies has been a headache for regulators around the world. How do you regulate a payment network that is, by design, deregulated and capable of overcoming all attempts of control?



But the same excuse cannot be made with direct selling schemes. A [report](#) by Ficci states that the direct selling industry originated in India around 1995, but the space has been left unchecked for long, and now variants like the crypto MLMs have become a monster that might bite soon.

According to Strategy India, the turnover of crypto MLM scams in India in the last 15 months (evaluating from the daily collection) in hard cash, bitcoins and via bank transfers is likely to be more than Rs 4,000 crore (~Rs 613 million).

### **Taming MLMs**

Daniel suggests that the Consumer Protection Act should ensure that these type of schemes are clearly separated from viable direct selling business models. “The Banning Act should be made robust to ensure that there is a severe punishment for perpetrators and the people who support them including the founders or the promoters who instigate people to invest,” he adds.

As per their investigation, this amount comes from more than 500,000 people who have invested in 54 such crypto MLM schemes. To put this into perspective, the infamous National Spot Exchange Limited (NSE) scam in 2013, which was again a result of the lack of government oversight, involved a payment default of over Rs 5,500 crore (~\$844 million) to around 15,000 investors.

This also begs the question: Why isn't there a complete ban on MLM schemes altogether?

“There are laws regulating direct selling and MLM schemes already in place,” says Jaideep Reddy, Technology Lawyer at legal and tax consulting firm Nishith Desai.

“Authorities regularly take action against unlawful schemes through the Prize Chits and Money Circulation Schemes (Banning) Act and the Indian Penal Code. For example,

authorities recently initiated action against an allegedly fraudulent scheme known as OneCoin,” he adds. Besides, says Reddy, a ‘vigilant’ consumer “dealing with reputed parties and reporting any instances of fraud” can “help enforcement” against such Ponzi schemes.

## **RBI or Sebi, who’s responsible?**

In April this year, an [inter-ministerial committee](#) was made to study virtual currencies and among the many things it was tasked to do, one was to “suggest measures for dealing with such virtual currencies, including issues relating to consumer protection, money laundering, etc.”

The committee was supposed to submit its report by July, but nothing has been made public yet.

A source in the Home Ministry privy to the developments around the legal framework of cryptocurrencies said that RBI and Sebi are still quarrelling over the ownership of this new technology. Emails with a detailed questionnaire were sent to both RBI and Sebi, to which both the parties declined to comment.

JN Gupta, former Executive Director of Sebi told *The Ken* that the need for regulation in cryptocurrencies and MLMs is long overdue. “These are outliers, and there is a definite need to regulate them,” he said.

## **Reporting fraud**

One can report any suspicious or fraudulent money deposit scheme on Sachet ([www.sachet.rbi.org.in/](http://www.sachet.rbi.org.in/)), which then forwards the information to the relevant law enforcement authority. Regarding fraudulent cryptocurrencies or cloud mining schemes, one can share the details with Strategy India or [badbitcoin.org](http://badbitcoin.org), and they will add it under their ‘scam alert’ list.

As for who should regulate it, Gupta says MLMs and cryptocurrencies will not come under Sebi's domain simply because they are not securities. Leaving such investment schemes unchecked is not sitting well with the entire scheme of things the government has planned, he adds. Because on one side the government wants to get rid of black money, shell companies, etc, and on the other, if such schemes are not curbed, then a channel for transferring black money remains open.

Strategy India arrived at the above-mentioned figure of Rs 4,000 crore (~Rs 613 million) from 54 crypto MLM scams that it was able to pin down. There are many more that are going on a rampage.

Just while reporting for this story, we came across two dubious-looking cryptocurrencies called The [ChampCoin](#), a self-proclaimed king of cryptocurrencies and [IkonCoin](#). According to Daniel, they don't pass the litmus test and will soon be listed under their website's '[scam alert](#)' section.

If left unchecked for long, crypto Ponzi schemes could become a mess hard to clean and will result in long drawn legal battles, the likes of which we have witnessed with NSEL and Saradha scam.