

# Indian banks' crypto crackdown sends investors to buy over the counter

With banks and the government turning up the heat on exchanges, more people are now paying cash to buy cryptocurrencies

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As banks and government crackdown on exchanges, it makes way for traders to use cash to buy cryptocurrency over the counter

Already OTC platforms like LocalBitcoin are seeing unprecedented number of trades in exchange for Rupee

OTC trades leave no trail, unlike those with exchanges. This could encourage more hoarders of black money to buy cryptocurrency

Without banks' support it is the end of road for exchanges

'What is Bitcoin?'

'How to buy a Bitcoin?'

The former was the second most searched 'What is' term and the latter, the third most popular 'How to' query in 2017, as per a Google Trends report. In 2018 though, don't be surprised if you see 'How to buy Bitcoin with cash' instead.

That's what it is coming down to as Indian cryptocurrency exchanges feel the heat from banks and the government. Exchanges are where users can buy and sell virtual currency like Bitcoin by paying for them digitally using bank accounts.

A source in the Union Home Ministry said that as in China, the Indian government, too, is looking to crackdown on exchanges. This is because there are concerns about cryptocurrencies being used for money laundering and tax evasion.

Over the course of the last few weeks, all top private banks—HDFC Bank, Kotak Mahindra Bank, Yes Bank, Axis Bank and ICICI Bank—have reportedly been asking the exchanges to close the accounts they hold with the banks. The top exchanges have about 1 million users each which see trading volumes of about Rs 150 crore (\$24 million) a month.

“Account opening of entities dealing in trading of cryptocurrency or Bitcoin is prohibited” reads a notice from HDFC Bank, which *The Ken* reviewed. It adds that the bank won’t be accepting any new user or applicants who would be trading in cryptocurrencies and they are going to block the accounts of those who already deal in such currencies. The aforementioned banks did not respond to a detailed email with questions *The Ken* sent last week.

Dharani Venkatesan, a cryptocurrency trader told *The Ken* that his credit and debit cards belonging to HDFC Bank have blocked payments made towards crypto trading. “Earlier, I used to trade on cex.io and xapo.com using my HDFC Bank cards but two weeks back they stopped processing payments made towards these sites.”

“It turns out that they have stopped processing payments on all sites related to cryptocurrencies,” he adds.

But make no mistake. A crackdown on exchanges does not mean people will stop buying or selling cryptocurrency. It will simply move users to other channels like the over the counter (OTC) market, where one can buy cryptocurrency for cash. That’s what happened in China when exchanges were banned in September 2017. In India, the OTC channel is picking up.

OTC platforms like LocalBitcoins and Paxful, where currencies like US dollar, Rupee, among others, are exchanged for Bitcoins, are seeing a surge in India. And more such platforms are bound to crop up for every kind of altcoin (cryptocurrency other than Bitcoin) there is. For instance, otherwise inactive channels like LocalMonero, where one can trade the altcoin Monero, are suddenly seeing Indian users post ads for trading Monero in exchange for cash.

Currencies like Bitcoin and Monero, interestingly, were designed to be censorship-resistant. Many have termed them 'antifragile', meaning they gain resilience from disorder. Trying to break Bitcoin could perhaps only make it stronger.

## Sell Monero online in India

| Buyer              | Payment method                | Price/XMR    | Limits                |                      |
|--------------------|-------------------------------|--------------|-----------------------|----------------------|
| ██████████         | National bank transfer: India | 25130.36 INR | Up to any amount INR  | <a href="#">SELL</a> |
| ██████████████████ | IMPS Bank Transfer India      | 20104.29 INR | 500.00 - 10000.00 INR | <a href="#">SELL</a> |

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## Sell Monero with cash in India

| Buyer              | Distance  | Location                            | Price/XMR    | Limits                 |                      |
|--------------------|-----------|-------------------------------------|--------------|------------------------|----------------------|
| ██████████████████ | 115.32 km | ██████████ Pune, Maharashtra, India | 20104.29 INR | 1000.00 - 50000.00 INR | <a href="#">SELL</a> |

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Beyond these channels, messaging platforms like WhatsApp and Telegram can also be used for the trade, much like in China.

### Cryptochat

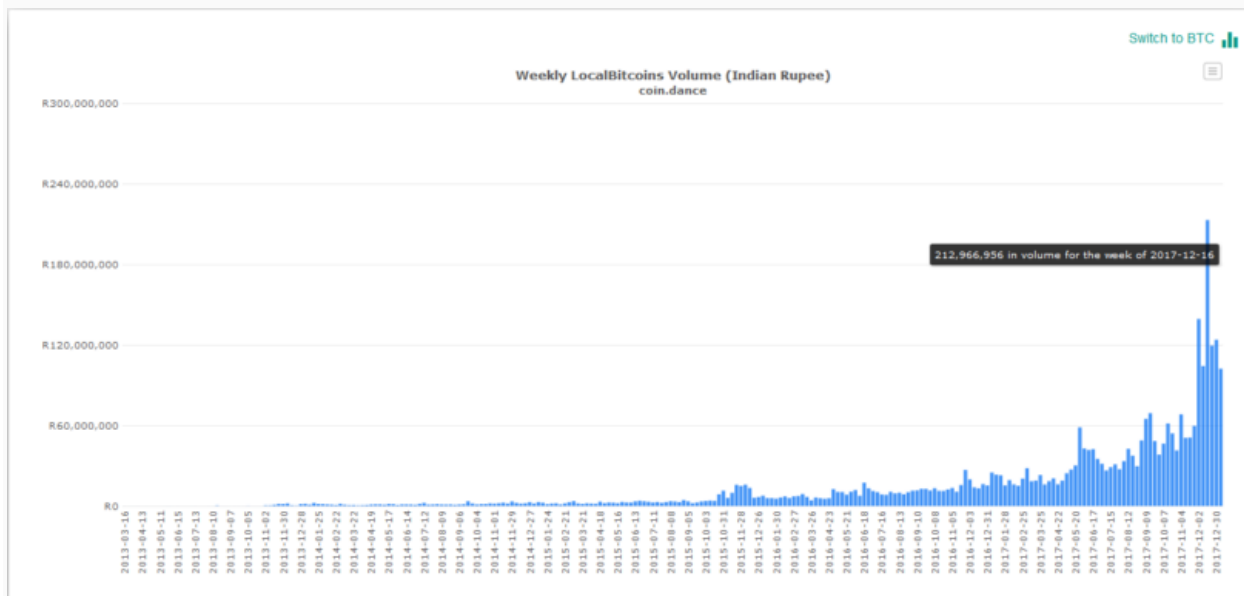
There have been multiple requests for OTC trade on the Indiabits' Telegram group but group founder and admin Gabru said users making such proposals are blocked

### Cash for Crypto

The top destination to buy Bitcoins for cash is the Helsinki-based portal LocalBitcoin. It is a five-year-old platform and is present in 248 countries. On it, users post ads with exchange rates and payment methods for sale and purchase of Bitcoins. Others reply to these ads or even agree to meet in person to buy Bitcoins with cash or through online banking.

Though Indians have been trading on it since 2013, it saw low activity. For instance, in December 2016, only Rs 7.8 crore in cash was exchanged for Bitcoins. This changed in December 2017, as in the third week alone, when the pressure from banks built up, the OTC

platform saw Rs 21.3 crore being traded for Bitcoins. And for the entire month of December, Rs 70 crore in cash was used to trade. It was an all-time high level for trades using Indian Rupee on the platform. This sum is still half the volume of what an exchange sees in a month, nonetheless, the trade is clearly on the upswing.



Similarly, Tallinn, Estonia-based Paxful, which is a two-year-old company, saw little to no activity from Indian users. On Paxful, besides cash, one could also use gift cards to buy cryptocurrency. In December 2016, Rs 1.1 lakh was traded, and this dramatically rose to Rs 1.64 crore in December 2017.

One of the reasons why the government wants to stub out cryptocurrency is because it is seen as a vehicle for money laundering and other illegal activities. But with cash now becoming a more mainstream option, banks, RBI and the government may end up presenting a channel to black money hoarders.

And it is not like banks are not aware of the consequences of withdrawing support to the exchanges. "We know what will happen. But we don't want to provide an official channel for this activity," said the executive director of a Mumbai-based private bank.

While the entire idea of cryptocurrency is to remove the need for trusted third-parties like the government or the central bank (and to secure the privacy of its users), with the current technologies, that has changed. Now, these cryptocurrencies are easily accessible to users only through trusted third-parties such as exchanges. At present, exchanges are the only set of companies that have one leg stuck in the centralised and institutionalised world.

In India, the major exchanges like Zebpay, Unocoin, Coinsecure, demand that every user provide their Know Your Customer, Pan Card and Aadhaar details to trade on these platforms. Even though there are no regulations, the exchanges want to make sure they have a definitive trail of their customers. Plus it helps monitor tax gains from trading.

### **Tip-of-the iceberg**

It is hard to size-up the Indian cryptocurrency market. Most exchanges do not share their APIs with market tracking sites like cryptocompare, which says only 0.03% of global trade in Bitcoin is done with Rupee. This is data from just Unocoin and LocalBitcoins. There are about a dozen exchanges in India

That's right. The other problem with using cash to buy Bitcoins is that it leaves no audit trail making tax evasion easier. Also, multi-level marketing schemes dressed as cryptocurrencies could increase as new users of cryptocurrency in the absence of exchanges may find it tough to access virtual currencies like Bitcoins.

Shutting down exchanges will lead to more instances of fraud as people will buy cryptocurrencies only through peer-to-peer modes, which are not entirely secure, says Shivam Thakral, CEO and co-founder of BuyUCoin, a cryptocurrency exchange.

Moreover, cryptocurrency investors could also move their cryptostash to foreign exchanges like Bittrex or Binance which allow users from any part of the world to trade on their platform. Once there, they can use it to exchange their cryptocurrency with other altcoins, says Shubham Yadav, co-founder of Coindelta, an exchange. **However, this could be in violation of regulations under the Foreign Exchange Management Act (FEMA), which require payments received for exports routed through banking channels.**

“With the lack of regulatory clarity today, Cross-border barter, exchange of one crypto token for another on platforms like Bittrex or Binance may be a technical violation of FEMA as the cross-border transaction happens outside banking channels. This is something that most Indian investors are unaware of today,” said Arvind Ravindranath, who practices law with the Technology Media and Telecom team at Nishith Desai Associates.

## **Bearish Banks**

Banks’ hostility stems from the Income Tax survey of nine Indian exchanges in December. For the first time, the government knows the quantum of Indian Rupee that is being traded for cryptocurrencies.

Plus, the sheer growth in trading volume is more reason for banks to get spooked. For example, Bengaluru-based Bitcoin exchange Unocoin processes more than 1000 buy and sell orders each a day—a 3X growth since the last quarter. Same is the case with the other exchanges. The volume of new applications was so overwhelming that many of them declared that there will be delays with KYC verification. BuyUcoin currently has 42,000 unverified customers and this delay is from the company’s end, Thakral says.

So banks are looking at all crypto dealings and are trying to pull the plug on them.

Ironically, for a currency that is meant to be decentralised, a bank’s support is crucial for exchanges to operate. One still has to buy the virtual currency using a fiat currency like Rupees or Dollars, and banks don’t want to be a part of that. So while users may still be able to take part in the crypto craze, without banks’ support, it is the end of the road for exchanges.

Unocoin, which banks with State Bank of India said it has not faced any such issues. However, Zebpay, one of the top exchanges in the country, has stopped accepting payments into its HDFC Bank account. Zebpay did not respond to emails seeking a comment.