Market

India's digital currency plans put pressure on crypto industry

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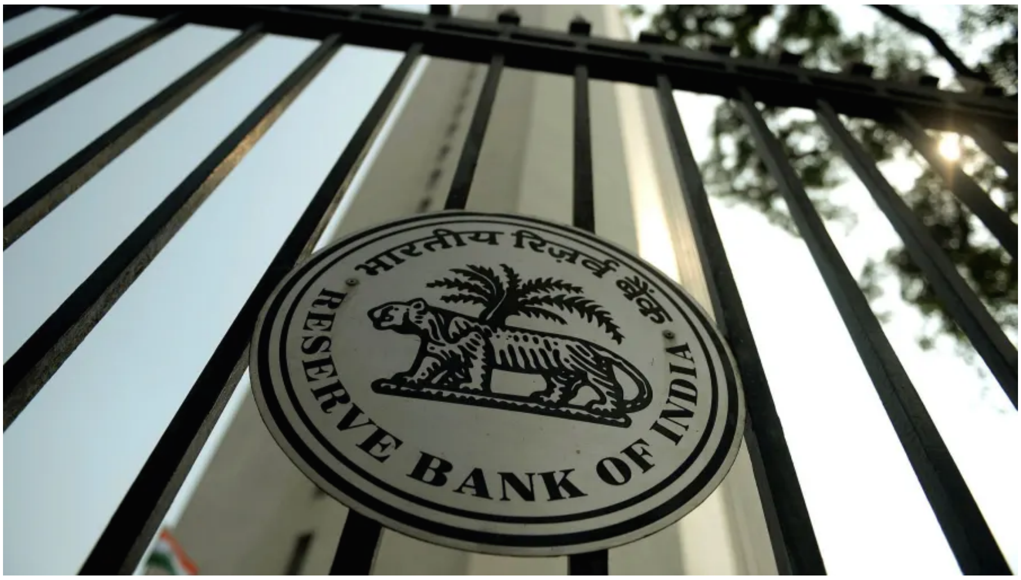

The future of cryptocurrencies in India is in doubt — *again* — as the government prepares long-awaited legislation that could see the country of nearly 1.4bn ban digital currencies.

Prime Minister Narendra Modi frequently touts the importance of technology and innovation to his vision for the country. India has, for example, proved a leader on digital payments since the introduction of its Unified Payments Interface in 2016.

It is hoping to build on that record by laying the groundwork for the introduction of an official, central bank-run digital coin. In the process, however, it has threatened to clamp down on any rivals.

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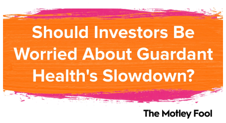

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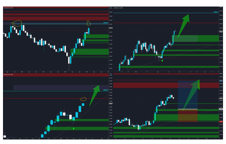

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The government earlier this year said it planned to introduce a bill to parliament that would "prohibit all private cryptocurrencies", aside from "certain exceptions to promote the underlying technology of cryptocurrency and its uses".

An outright ban would place India among the world's most draconian governments when it comes to digital currencies. Reuters reported last month that the government is considering forcing anyone holding crypto to liquidate their positions or face criminal penalties.

More recently, seemingly conciliatory statements by officials have raised hopes that India might take a softer approach. But the uncertainty adds to what has already been a difficult few years for India's crypto entrepreneurs and investors.

In 2018, the Reserve Bank of India prevented financial institutions from dealing with anyone involved in crypto, and a government committee floated banning them completely in 2019.

Yet a Supreme Court order last year overturning the RBI's directive had begun to pave the way for normalisation of the sector, allowing banks to begin serving the industry.

WazirX, a homegrown crypto exchange, reported a 2,600 per cent surge in trading volumes in the financial year that ended in March, according to Mint, with its user base growing to more than 2m. Other exchanges have seen a similar surge in interest.

Crypto enthusiasts cite the potential for digital currencies to flourish in India as millions of its citizens come online and dabble with new financial instruments. The sector has attracted global interest too. WazirX, for example, was bought in 2019 by Binance, the world's largest crypto exchange by trading volume.

But Indian officials have expressed concern that the growth of cryptocurrencies could prove a vehicle for illicit activities such as terrorist financing, while undermining the rupee.

Jaideep Reddy, a lawyer at firm Nishith Desai Associates, said the government's intentions are not yet clear. "It's largely a wait and watch situation," he said. But he believes that an outright ban would prove unconstitutional, arguing that it would likely be found excessive.

"We are very clear that we are not shutting all options," finance minister Nirmala Sitharaman said last month. "We will allow certain windows for people to do experiments on blockchain, bitcoins or cryptocurrency."

Minister of State Anurag Thakur echoed a similar sentiment. "We must always evaluate, explore and encourage new ideas with an open mind", he said, referring to crypto and blockchain technology.

Salman Waris, a partner at law firm TechLegis, said he thought India's tough stance on private crypto was designed to ensure that its own digital currency would have an advantage. "It's all the build up to the official cryptocurrency that's being launched," he said.

Despite the challenges, some in the industry see the glass half full.

Nischal Shetty, WazirX's founder, said he believes the recent statements from officials signal a future where, as in some countries like Indonesia, crypto assets can be bought and sold like commodities even if they can't be used as payment instruments.

Recent events are "still a step forward because India has now started talking about regulation," he said. "How this industry will evolve and be set into the country's law, that's a long journey. A lot of groundwork has to be done."

Quick Fire Q&A

What's your name? Capitolis

Where are you based? New York, London and Tel Aviv

Who are your founders? Gil Mandelzis, Tom Glocer, Igor Teleshevsky

What do you sell, and who do you sell it to? Capitolis is a capital markets marketplace that allows banks and financial institutions to collaborate in order to create more efficient balance sheets.

How did you get started? We wanted to deploy the concept used by sharing economy companies like Airbnb — finding and utilising excess, idle capacity — to capital markets.

How much money have you raised so far? $170m

What's your most recent valuation? Not disclosed

Who are your major shareholders? VCs including Andreessen Horowitz, Index Ventures, Sequoia Capital, and Spark Capital, and global banks including Citi, JPMorgan and State Street.

There are lots of fintechs out there — what makes you so special? The audacity of the mission — we really are trying to reimagine the structure of capital markets.

Fintech Fascination

Plaid's $13bn fundraising: Plaid, the San Francisco-based payments infrastructure specialist, has not wasted any time since its planned sale to Visa collapsed at the start of the year. Last week it announced a fresh round of fundraising that valued the company at almost three times what Visa had agreed to pay until the takeover was blocked by regulators.

Neobank bosses on weathering the pandemic: After a bruising year of falling revenues and rising pressure to reach profitability, Britain's largest digital banks are trying to go back on the offensive. In a trio of interviews with the FT, Revolut's Nik Storonsky, Starling's Anne Boden and Monzo's TS Anil explained how they're hoping to hold on to recent gains and move toward long-term sustainability — and took a few potshots at each other.

MTN seeks $5bn valuation for mobile payments arm: MTN, Africa's largest mobile phone company, is hoping to take advantage of investor interest in the payments sector with a plan to sell or list a stake in its mobile payments business. Chief executive Ralph Mupita discussed the plans in an interview with the FT this week. It follows a similar move by smaller rival Airtel Africa, whose Airtel Mobile Commerce business was valued at more than $2.6bn after recent investments from Mastercard and the impact investing arm of TPG.

Greensill fallout spreads amid fraud concerns: The collapse of one-time fintech high-flyer Greensill Capital has morphed into a major political scandal in the UK, with Boris Johnson commissioning an independent inquiry into the company's relationship with government, including lobbying by former prime minister David Cameron. The inquiry was announced days after the FT revealed that some of the loans from Greensill to its largest customer were made on the basis of suspect invoices. Catch up on the whole saga here.

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