



Republic of Namibia

Financial Intelligence Centre

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FOREWARNING REPORT: PONZI SCHEMES

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1. Background:

The Financial Intelligence Centre (FIC) has noted with great concern increasing incidents of members of the public becoming targets of fraudulent investment schemes, particularly schemes that appear to have indications of the infamous “Ponzi”.

Generally, an investment is the act or process of committing funds with a view to earning a return, additional value or profit from such investment in future. The original sum of funds or money placed in an investment is often referred to as the Principal amount. A return or profit is the amount accumulated as a percentage of the initial amount invested.

A **Ponzi scheme** is an investment fraud that pays existing investors with funds collected from new or other investors. The scheme relies on a constant flow of new investments to continue to provide returns to other or older investors. It promises abnormal higher rates of return on investment with little risk to no risk to investors. For example, the perpetrator may have promised a return of 50% in 40 days or 100% in 80 days. This is how Ponzi schemes continuously attract the public to invest in their schemes.

Usually, a Ponzi scheme can be operated by an individual or an organization. New investors are vital to maintain the operations of such schemes as they fuel funds to repay older clients/investors in the schemes (especially those whose investment has reached maturity).

Ponzi is a ‘get rich quick’ scheme which promise investors significant amounts of money on their investments in extremely short periods of time.

The FIC has of late observed an increase in the frequency of scams related to these fraudulent investment schemes, aimed at defrauding innocent members of the public. Minimizing the occurrence of this scheme equally reduces the chances of laundering proceeds from such activities in the financial system. It is against this background that the FIC presents this communication to enhance awareness of these alarming activities.

2. How do these Schemes operate?

The perpetrators may use various advertisement platforms such as Facebook, Twitter, Instagram, Newspapers, Radio, WhatsApp and other online networks to attract members of the public or potential investors. Below are some of the red flags that prospective investors or members of the public should keep an eye on:

- ❖ **Unregistered Investments** - These schemes usually involve business/ investments that are not registered and unauthorized by regulators in their country of origin. Locally, such regulators would include the Bank of Namibia and Namibia Financial Institutions Supervisory Authority (NAMFISA). Many such illicit schemes are not registered or licensed by such regulators to undertake investment activities;
- ❖ **Using hard-sell techniques** - Fraudsters usually exert pressure on their targeted persons (clients) to make investment decisions without adequate time to conduct the necessary due diligence;
- ❖ **Schemes promise unusually high returns (profit)** - The involved operators of such schemes use new investors' funds/money to pay earlier investors while promising unusually high rates of return within a very short period of time and with a little risk to no investment risk. The perpetrators are known to use complex investment services terminology to justify the unusually high rates of return. Most of their targeted clients may not understand such terminology and language used;
- ❖ **Suspicious of unsolicited offers** - Members of the public are usually engaged through unsolicited means including invitations to investment seminars;
- ❖ **Paperwork** - Normally, legitimate investment companies would provide investors/members with the copies of all relevant information for diligence and other reviews, upon request. In the case of Ponzi schemes, there are usually questionable documents availed or no documents availed at all;

- ❖ **Spread the Word/testimonies of friends and associates** - Initial investors would be paid and this serves as a reliable testimony of the said investments. Most investors who would have received returns on investment would gladly 'spread the word' about their investment returns, and by so doing they are drawing other investors into the scheme;
- ❖ **Extremely consistent positive returns** - Investments in financial markets tend to fluctuate over time. The indications of a Ponzi scheme can be found in their tendency to consistently generate positive returns regardless of poor market conditions;
- ❖ **Difficulties in receiving return Payments** - Ponzi scheme operators usually try to encourage investors to continue investing their returns with the promise of even greater future returns. They discourage investors recalling their investments or from claiming payouts when such investments have reached maturity. Legitimate investment companies would have clear procedures for recalling investments, claiming returns and cashing out investments should the investor so wish;

3. How do I protect myself from these Schemes?

- ❖ **Due diligence** - Members of public are cautioned to be mindful and refrain from participating in investment schemes with unregistered or unlicensed operators. It is always advisable to request for registration and licensing documentation. Once obtained, follow up with relevant authorities to verify the authenticity and legitimacy of such before considering investments with service providers, their financial advisor's brokers etc.;
- ❖ **Background and history of service provider** – As part of the due diligence process to be conducted, potential investors are urged to gain some understanding of a service provider's performance history from reliable sources. For example, the company's management information, past and present operations, products/services offered, published financial performance records (financial statements) and other relevant information that could avail information about the nature of such potential investment;

- ❖ Reasonableness of return and risk – Generally, higher return investments carry a significantly higher risk of losses. Members of the public are urged to be cautious of investments that promise higher returns with minimal or no risk;
- ❖ Unsolicited invitation to invest - Members of the public are urged to be careful when entertaining unsolicited telephone calls, emails, social media adverts and other means of communication, offering any form of investment. Scammers are skilled at convincing people that the investment offered is legitimate;
- ❖ Record keeping - Insist that investment service providers avail their communications, commitments, investment advice and contracts in writing. Keep records of such for reference purposes;
- ❖ File a report with NAMFISA - Be aware that scammers often share details about people they have successfully targeted or approached, using different identities to commit further frauds. If you become a victim of investment scam, file a report with NAMFISA or contact the FIC or nearest police station. This can enable intervention that reduces risks of future illicit activities;

REMEMBER

All financial service providers operating within Namibia are registered and licensed by NAMFISA. Foreign based service providers should be registered and licensed in their countries of origin by an authority similar to NAMFISA. Scammers generate funds by applying pressure tactics that forces unsuspecting persons into making hasty decisions influenced by great promises. Therefore, exercise extreme caution and verify the legality and status of the involved investments before engaging them. Always contact NAMFISA if in doubt about the service of a financial institution.