



Republic of Namibia

Financial Intelligence Centre

P.O.BOX 2882, Windhoek
Tel: + 264 61 2835100, Fax +264 61 2835259

Web address: www.fic.na
E-mail address: helpdesk@fic.na

PYRAMID SCHEMES

ISSUED: NOVEMBER 2022

1. Background

The Financial Intelligence Centre (FIC) has noted with great concern innocent members of the public increasingly becoming victims of fraudulent investment schemes presented in the form of “Pyramid” schemes, also known as illegal financial schemes¹.

Pyramid schemes are fraudulent businesses where participants are paid to recruit others to participate. The initial promoters recruit investors, who in turn recruit more investors, and so on. The scheme is called a "pyramid" because, at each level, the number of investors increases.

Members who join the scheme earlier may benefit from the membership fees that have been paid by the new members they recruited. As the scheme expands, the originator and participants at the top of the pyramid generate more revenue. However, when the schemes get too large and cannot raise enough revenues from new investors to pay earlier investors or when the pool of recruits is depleted, the scheme eventually collapses.

Although pyramid schemes are often confused with Multi-Level Marketing (MLM), they are not the same. Legitimate MLM involves recruiting persons to sell products or services that actually have some intrinsic value. Profits made are based on sales of such products or services and not on the number of people recruited to join. Although members may be encouraged to recruit others to join as salespeople whose sales add to the recruiting person's revenues, such recruited persons may choose to only sell the products directly to customers without recruiting other investors.

2. How do Pyramid schemes operate?

Pyramid schemes are so named because their compensation structures resemble a pyramid. The scheme starts with a single point on top where the original members exist and the scheme becomes progressively wider toward the bottom as people are recruited by every level of recruits.



The perpetrators make use of various advertisement platforms to promote their schemes such as social media, newspapers, radios, home meetings, seminars and other online networks promising high returns. To enhance credibility, the schemes usually produce illicit referrals, testimonials and information to lure their victims. Below are some of the red flags to look out for:

- * Pyramid schemes place more emphasis on recruiting people rather than on selling their products (if any);
- * Pyramid schemes charge significant joining fees for joining and usually non-refundable membership fees;
- * Pyramid schemes promise high returns in a short period of time. The involved operator of the scheme may use funds from new investors to pay existing or earlier investors. The operator promises high rates of returns within a very short period of time to new investors;
- * Fraudsters involved in pyramid schemes use 'hard-sell' techniques to pressure their victims into making rushed decisions, giving them no time to consider the nature of the investment; and
- * Pyramid schemes usually involve business/investments that are not registered with the relevant authorities.

3. How do I protect myself from Pyramid schemes?

- * It is crucial to know whom you are dealing with and understand any investment before making any commitments or payments;
- * Whenever you are considering any type of investment, always remember: *“if it seems too good to be true, it most probably is.”* Investments yielding higher returns typically involve high risks. Be highly suspicious of investments with high returns but minimum risks for losses. Some Pyramid schemes even guarantee investment returns without opportunities for losses;
- * Members of the public are warned to be very cautious of suspicious and unsolicited telephone calls, emails, social media adverts and other means of communication offering any form of investment, from a person/institution not well known in the market for offering investment services;
- * Before committing money, conduct research on the broker, financial advisor, investment advisor etc. by contacting the Namibia Financial Institutions Supervisory Authority (NAMFISA) or the Bank of Namibia to verify if the investment company or associated professional(s) are licensed to operate;
- * Try to obtain written copies of all available company information including audited financial statements. Ask those with the necessary know-how to confirm or verify legitimacy and reliability of such information, in as far as it can give you assurance on your potential investment; and
- * Beware of any investment scheme that allows five or more levels of distributors to collect commissions on a single sale.

4. What to do if you become a victim of a Pyramid scheme?

Report the fraud immediately to the Namibia Financial Institutions Supervisory Authority (NAMFISA), Bank of Namibia, the FIC or the nearest police station. If you think you are actively participating in a pyramid scheme, break off all contact with the scheme immediately and report same to the authorities cited above. Do not invest any more funds until you have received guidance from such authorities. Keep any written communications you have received from the pyramid scheme, as it may assist law enforcement authorities;