



Republic of Namibia

Financial Intelligence Centre

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PYRAMID SCHEMES

ISSUED: July 2018

1. Background:

The Financial Intelligence Centre (FIC) has noted with great concern innocent members of the public increasingly becoming targets 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. Pyramid schemes are so named because of the hierarchical structure that is formed by their investors or recruits. These schemes will typically begin with initiators recruiting a number of investors who are then expected to recruit a number of new investors and so this chain continues.

Members who join the scheme earlier may benefit from the membership fees that has 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.

A successful pyramid scheme combines an illegitimate, but seemingly credible business concept with a simple money-making formula that only benefits the initiators.

Pyramid Schemes are often broken into two categories:

1. **Product based Pyramid schemes:** Participating persons not only contribute funds to a person(s) identified at the top of the pyramid but are also encouraged to sell products associated with the person(s) at the top of the scheme. These product based pyramid schemes are often disguised as “business opportunities”; and
2. **Non-product based Pyramid schemes:** Participants contribute funds only to a person(s) identified at the top of the pyramid, with no products being sold. These schemes constantly require new members for profits to be realized. This drives

¹ Banking Institutions Amendment Act, 2010 (Act No. 14 of 2010)

existing members to keep recruiting new members as that results in more revenue from various forms (membership fees etc.).

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 values. 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 may be difficult to recognize immediately because they come in many different forms. However, they all share one principal characteristic, namely: They promise consumers or investors large profits based primarily on introducing new members into the scheme, not based on profits from any real investment or real sale of goods to customers.

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;
- Pyramid schemes offer money as returns for recruiting other people into the schemes. This money can come as commission from the sale of a starter kit or as a recruitment bonus;

- Pyramid schemes charge significant startup costs 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. To new investors in particular, the operator promises high rates of return within a very short period of time;
- 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;
- If you have provided the fraudsters your bank account details, alert your bank immediately. If any, instruct the bank to stop facilitating any direct payments/deductions from your account to such schemes;
- Keep any written communications you have received from the pyramid scheme. They may help law enforcement authorities;
- Be aware that you will likely be a target for other frauds as scammers often share details about their victims to such other fraudulent schemes. As such, other fraudulent schemes will reach out to you, using different identities, to enable the commitment of further frauds against you; and

- Beware of the **fraud recovery fraud**. This is when fraudsters contact people who have already lost money through fraud and claim to be law enforcement officers or lawyers. They advise the victims that they can help them recover their losses, but they request a fee.

Pyramid schemes are illegal because there is mathematical certainty that the last people to enter the scheme will lose the funds they invest. Therefore, minimizing the occurrence of these schemes reduces the chances of laundering proceeds from such activities in the financial system. It is against this background that the FIC presents this guidance to caution and urge members of the public to be mindful and refrain from participating in these illicit financial activities.

REMEMBER

All legal financial service providers, inclusive of those who can generate returns on investments are registered and licensed by NAMFISA or the Bank of Namibia. 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 parties before engaging them. Always contact NAMFISA or the Bank of Namibia if in doubt about the service, legitimacy or licensing/registration of persons who appear to be offering activities which relates to pyramid schemes.