

**Do your selected Investment avenues are “Bogus” or “Worth”?**

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**Abstract:**

*There have been rising instances of gullible investors getting cheated by fraudulent investment schemes that mostly offer high returns within a short period of time. Investors while investing their hard core money in investing avenues needs to be alert and stay away from “Bogus” investment avenues. But the question arise how to identify these avenues. This article is a recognition way of identifying Ponzi schemes so called “Bogus” investment avenues around us which are promising very high in the short period of time. It covers an overview about the functioning and Indian context scenario of ponzi schemes . Further some remedies to overcome from this fraud for public at large are suggested . Yet lawful actions are to be taken which is need of hours from the regulatory bodies to handle these issues.*

**Keywords:** Ponzi schemes, investment avenues, Bogus.

**Introduction:**

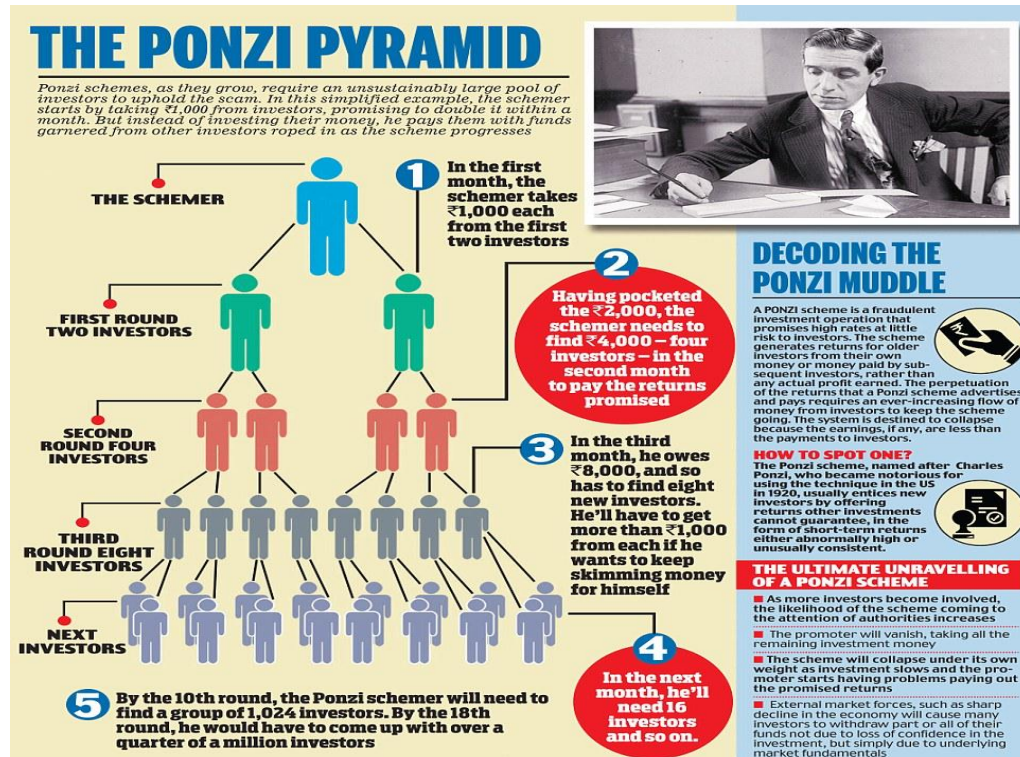
A Ponzi scheme (“Bogus” investments) is a fraudulent investment scheme where money brought in by the newer investors is used to pay off the claims of older investors. This creates an impression of a successful investment scheme. Of course, as long as money entering the scheme is greater than the money leaving it, all is well. The moment the situation is reversed, the scheme collapses.

The scheme takes after the name of Carlo Ponzi (1920s), an Italian fraudster who promised to double the investment of clients in 3 months’ time, basing the model on cash flows from new investors and the arbitraging gains from discounted postal reply coupons between Europe and US. The scheme collapsed in a year’s time and caused loss of US\$20 Mn to investors.

**Characteristics of a Ponzi scheme:**

1. The scheme appears to be a genuine investment opportunity initially, but at the same time it is murky enough to prevent any scrutiny by the investors.
2. The operators in the scheme influence investors to roll over the profits into the next investment cycle. So the returns for investors remain on paper. Since the money remains with the operator the Ponzi scheme keeps running.
3. Most Ponzi schemes start with an apparently lawful or legal purpose.
4. Brand building is a natural part of a Ponzi scheme Nearer and Dearer to develop the public trust.

## Functioning of Ponzi Pyramid



Sources: [www.dailymail.co.uk](http://www.dailymail.co.uk)

### Law related to Ponzi scheme:

To protect people from ponzi schemes, a Parliamentary panel has suggested framing of a model central law with clear cut definitions to curb illegal money pooling activities done in the garb of direct selling. Moreover, it said, the model law needs to define the scope of schemes in "unambiguous and specific terms" as broad definition of 'money circulation' has scope for large-scale circumventing by unscrupulous operators. There have been rising instances of gullible investors getting cheated by fraudulent investment schemes that mostly offer high returns within a short period of time.

The Parliamentary Standing Committee on Finance has proposed a "model central law that would be comprehensive and all-encompassing including in its ambit collective investment schemes, chit funds, direct selling schemes and such other activities which are presently permissible but are defined and regulated in a dispersed manner". The law should contain separate section or chapter on non-permissible schemes as well, clearly spelling out the nature of such prohibited activities with its penal consequences.

In the recent cases it is observed that 'money circulation' is the main reason for the failure of Prize Chits and Money Circulation (Banning) Act, the panel said there should be clear cut definitions so that prohibited schemes do not operate by camouflaging as legitimate schemes like direct selling.

"These offences should be treated as offences committed against the state analogous to the Indian Penal Code and accordingly made non-bailable and cognizable."The proposed law should also invoke the concurrent administrative jurisdiction of both the central and state governments in the implementation of the law in the light of recent enforcement experiences with the money circulation/ collection schemes. The report is on 'Efficacy of regulation of collective investment schemes (CIS), chit funds, etc'.

In order to complement strict enforcement action, economic offences courts may be set up or designated in every state for trial of such economic offences, including those under Sebi Act, RBI Act, State Depositors Protection Act, Prize Chits and Money Circulation Schemes (Banning) Act, etc,

### **Indian Scenario**

The CBI has registered 72 cases, including one preliminary enquiry, related to ponzi schemes during the last three years, the government said today.

Three cases were registered in 2015 (till June 30) while 62 were registered in 2013. The central probe agency had registered seven such cases in 2013. The information was given by Minister of State for Finance Jayant Sinha in a written reply to Rajya Sabha. According to RBI, ponzi schemes are not under its regulatory preview and also it has not come across any such scheme floated by NBFC registered with the central bank. "Further, the words 'ponzi schemes' are not defined in law in India. However, the regulators have been receiving complaints about entities collecting money from public allegedly in violation of law. Currently 139 cases pertaining to the so called 'chit fund' companies to Serious Fraud Investigation Office (SFIO) for investigation. Investigations reveal that these companies were operating mostly in the Eastern and North-Eastern States of the country and had intensive network of branches spread across these states

To quicken the investigation process, Computer Forensic Lab has been set up in SFIO for analyzing the database of companies under probe. High level Inter-Ministerial Group (IMG) has been constituted for identifying gaps in the existing regulatory framework for deposit taking activities. The IMG has also been tasked to suggest administrative/ legislative measures including formulation of a new law to cover all relevant aspects of 'deposit taking'. A typical ponzi scheme involves the operator collecting a large amount of money from investors and paying them returns from their own pockets or the money collected from subsequent investors, rather than from profit earned by the person or the entity operating such a scheme.

### **Fraud/ Scam/schemes look like**

1. Prize winning pop- ups offline or online
2. Hacking of Passwords through telephone or internet
3. Credit card limit updation call made to collect your personal information.
4. Lottery emails by any Government body or foreign country.
5. Employment emails regarding collection of money by reputed companies.
6. Any agent or person claiming high return on your investment – extra ordinary rate of interest.
7. Any type of NLP Marketing investment options.

**Remedies**

1. Small investors should get aware about the various ponzi schemes which promise very high returns in a short duration.
2. Arranging financial literacy awareness campaign about numerous firms running ponzi schemes in India which siphoned of thousands of crores of rupees from unsuspected investors through such fraud schemes.
3. Advised investors to save themselves from ponzi scheme scamsters by checking their credentials first.
4. Investors should verify that does the investment scheme belong to any regulatory bodies or not. By visiting their websites or brochures or any printed material.
5. Invest through only licensed financial institutions and authorized dealers.
6. Avoid cash transactions.
7. Keep the receipt record with every step of investment.
8. Don't rush to investment which promises to give high return in the short span of time.
9. Don't trust anyone blindly in financial matters.
10. Don't do any transaction orally, keep written record.
11. Use of social media.
12. For any help contact sebi at [www.scores.sebi.gov.in](http://www.scores.sebi.gov.in).

**Conclusion**

Stay away from such schemes, or else you will lose your hard earned money. If someone comes to you and promises high returns, ask him if his company / chit funds is registered with Sebi / Chit funds Act 1982. If they are not registered, then you must refrain from investing in that company/chit funds. Though Securities and Exchange Board of India (Sebi) has been taking action against such firms, investors may not get back their money easily. "Many such companies/ chit funds have usurped poor people's money.

However, no matter how stern action we take, it remains a challenge to get back that money and return it to investors. It may take years due to several procedures. Thus, the best way is to remain alert and stay away.

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