

PONZI SCHEME

WHAT IS IT?

This is a form of fraud in which investors are encouraged to recruit other investors. It is based on recruiting people rather than selling products.

HOW IT WORKS

The originator of the scheme usually makes an initial payment and thereafter others need to be recruited. The continued growth of the scheme is dependent on the recruitment of subsequent investors. The scheme resembles a pyramid like structure with those on top benefitting the most.



POSSIBLE INDICATORS

- Rapid cash deposits of a similar amount into a single account
- Shared geographic footprint of depositors
- Transactions inconsistent with customer profile
- High volume of deposits within a short period
- Large amount of cash from unexplained sources
- Large volume of cash deposits into bank accounts on a regular basis

CASE STUDY



A SUSPECTED PONZI SCHEME |

Alerted by 13 000 cash deposits into one account in one day, the FIC worked with the Asset Forfeiture Unit and the South African Police Service's Commercial Crimes Unit to identify a suspected Ponzi scheme.

The scheme promised unrealistically high, quick returns and a lavish lifestyle of international travel in return for an investment of just R295.

Prospective members were required to deposit money and attend a seminar on travel arrangements and investing. Little training was actually given at these seminars. Instead, participants were encouraged to recruit as many new members as possible into the scheme. Like all pyramid schemes, it was heavily dependent on continuous membership growth.

The investigating team froze five bank accounts containing R26 million and obtained preservation orders against the main accounts. ■