

Ponzi Scammer: Old Wine in New Bottles?

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Abstract

The purpose of this research is to learn how Ponzi scheme perpetrators recruit victims and to gain knowledge of the reasons why this fraud persists. This research used a qualitative methodology to collect data from Ponzi schemers. Most swindlers are the same people using various schemes, modes, and instruments. Public figures are used by scammers to build victims' trust, get access to various communities, and manipulate information. Public figures must be careful because scammers use them to attract victims. The novelty of this research is to fill the research gap on Ponzi schemes with a qualitative approach from the con artist's perspective.

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INTRODUCTION

Since Charles Ponzi's idea in the 1920s, Ponzi schemes also existed in surfacing in a variety of nations, such as Rentier in Albania, Ezubao in China, FX Capital Consultant and FX Consultant in Malaysia, Menzgold in Ghana, MMM in Russia, Twinkas in Nigeria, and QNET in Indonesia, and many others. Famous people including Bernard Madoff, Allen Stanford, Thomas Petters, Scott Rothstein (American), Sergei Mavrodi (Russian), and Sidra Humaid (Pakistan) were a part of the scheme.

These schemes continue to grow and evolve with diverse methods and instruments because of the supporting ecosystem (Neisius & Clayton, 2014). The internet and social media make investment ideas spread like an epidemic (Shiller, 2014); computing and communication make virtual crime easier (Grabosky, 2001).

Money games, illicit investments, robot trading (Hamjen et al., 2023), smartphone applications (Amanda et al., 2022), high-yield investment programs (Agarwal & Vasek, 2022), equity crowdfunding (Baucus & Mitteness, 2016), and investments in the name of sharia (Ullah et al., 2020) are examples of the tactics applied. Several instruments, including underlying assets and derivatives like cash, foreign exchange, gold, and cryptocurrencies, serve as investment camouflage.

The victims of schemes are not only the rich with lots of money but also the poor. Scheme victims include both people with low financial literacy and educated people with high financial literacy. Low-regulated countries such as Albania have experienced the greatest impact of Ponzi schemes that have emerged in many countries (Hunter Monroe et al., 2010) because the absence of or weak regulation is a gateway to financial crime.

In Indonesia, illegal Ponzi and pyramid scams are still growing. Despite the Financial Services Authority's efforts to stop these illicit activities, the number of fraudulent investment schemes, the victims, and their total losses are increasing. Illegal investment losses reached IDR 123 trillion between 2017 and 2022. The largest loss of IDR 109.67 trillion occurred in 2022 (Bestari, 2022). Ponzi and pyramid schemes are used by the majority of the listed illegal investments in Indonesia, using a variety of methods and instruments.

The impact of schemes (Mohammed, 2021), investor characteristics (Sadiraj & Schram, 1999), scheme characteristics (Raval & Raval, 2019), how to detect schemes (Wang et al., 2021), regulations to prevent schemes (Mugarura, 2017), scheme mathematics (Artzrouni, 2009), and factors that attract people to join are a few topics covered in articles on Ponzi schemes (Hidajat et al., 2020). To our knowledge, however, there are no articles that discuss Ponzi and pyramid schemes from the viewpoint of con artists. As a result, it is challenging to comprehend the pattern of crime due to the lack of empirical research looking at their motives for committing financial fraud.

We fill this gap by discussing Ponzi schemes and analyzing them qualitatively from the con artist's perspective. In this study, a scammer is a leader who has been enlisted by the owner of the investment scheme to serve as a "symbol of success" and persuade people to participate in the scheme.

How scammers operate these schemes is an interesting question. According to Carey & Webb (2017), understanding how schemes operate can help prevent or uncover fraud early. The primary goal of this study is to discover how scammers locate victims. This study makes a contribution by gaining insight from those who commit investment fraud in order to explain why these schemes still exist and how con artists engage in this risky investing activity.

Ponzi and pyramid schemes

The Ponzi scheme is named after Charles Ponzi, a man who committed investment fraud in 1919. During 1919–1920, Ponzi used coupons redeemable through the US Postal Service as an investment instrument by establishing the Security Exchange Company. This scheme promised a fantastic return on investment for three months, but in August 1920, the company was declared bankrupt.

Ponzi and pyramid schemes are investment schemes that provide high returns to earlier investors, although the returns actually come from new members' money. Ponzi and pyramid schemes have

similarities and differences, however the terms are sometimes used interchangeably (Cunha et al., 2013). Parsons (2011) lists the following as some traits of a traditional Ponzi scheme:

- Returns are not obtained from real business, but rather from deposits placed by new investors.
- Only specific investors are given the chance to participate, creating the appearance that the scheme is exclusive and nearly impossible to join.
- Scammers prey on people who belong to particular communities, such as individuals that are based on race, religion, or age.
- The scheme consistently delivers on its promise to give existing investors returns on investments.
- Only claims of having an investment strategy are made; there is no explanation of how to earn profit consistently.
- Potential investors are reassured that their money is safe because of the fund manager's reputation and the duration of time the company has been in business.

Although both Ponzi and pyramid schemes use the deposits of new investors to generate returns for current investors, they differ in how participants are recruited. Scammers are the ones actively seeking victims in Ponzi schemes. Investors in a pyramid scheme must actively look for new investors.

Both investment models can be identified, despite having different appearances, by one of the following traits: offering excessively high returns, depending on income from new investors, and the value of the product or service (if any) being only a guise that is not comparable to the real price.

METHODS

This research used qualitative methods. The informants in this research are Ponzi or pyramid scammers, i.e., those who officially represent and are appointed by the scheme owner to recruit members. Since it was difficult to find them, we used snowball to track down seven con artists in Wonosobo City. Interviews took place between February and November 2022.

Table 1. Informant Profile

Initial	Profession	Gender	Age	Education	MLM Leader
AH	Businessman	Male	52	Senior High School	Yes
BD	Unemployed	Male	45	Senior High School	Yes
BG	Salesman	Male	41	Diploma	Yes
LS	Salesman	Male	55	Senior High School	Yes
MF	Forex trader	Male	44	Bachelor	No
WY	Salesman	Male	49	Senior High School	Yes
YS	Businessman	Male	51	Bachelor	No

In 2010, Ponzi and pyramid schemes shocked the modest Indonesian city of Wonosobo in Central Java Province. During that time, *Win-Win Link Solution* and *Bina Sinar Sejahtera*, two entities operating as limited liability companies, did run the scheme.

During its operation, *Bina Sinar Sejahtera* collected IDR 108 billion from about 4000 consumers. Participants earn a return of 0.8% per day or 16% per month over three-month, six-month, and nine-month contract periods with a minimum capital of IDR 2,500,000 and a maximum of IDR 20,000,000. Credit business, gold investment, savings, crowdfunding, energy bill payment, cattle, umrah, and hajj payments are some examples of fraud methods used by *Win-Win Link Solution*. Participants will get a 10% return per month for one year.

RESULTS AND DISCUSSION

This research aims to explain why Ponzi schemes still exist and how scam artists use this harmful business model. Seven con artists were interviewed in order to find out more about how they survive, why they operate the scam, how they know how it works, who they targeted, and how they recruit victims.

How do they manage to survive?

Leaders in direct sales or multi-level marketing (MLM) are the majority of con artists. They can easily move from one scheme to another since they have a lot of followers and many friends as MLM leaders. When the scheme is about to collapse, they will enter and exit together.

I have many friends who share the same attitude. I can easily get them to join, move in, and leave. - AH

Getting people to sign up for a scheme is not difficult at first. Like an IPO, many people prove they will benefit when a new scheme emerges. – MF

We have a community that not only looks for potential members but also looks for new schemes that emerge. – LS

You operated this scheme in the 2010s. Are you still engaging in that activity today?

I was still running some similar schemes up until now. Technology makes it easier for me to find potential members. - BG

Of course, there are also more choices. Even now, there are numerous methods and instruments available. - WY

When a scheme goes badly, how do you defend the participants?

I am aware of the risks. However, I can contend that I am also a victim of the scheme owner's promises when a scheme fails and its participants demand promises.- BD

I think the risk is with the owner. We, as leaders, are in the same position as other members. So why worry? - YS

The main motivation of scammers

The main motivation for becoming a scammer is to earn a lot of money. For con artists, having money indicates success. More money means greater success. It makes sense that scammers would easily move to other schemes offered the promise of more money.

Truly, I'll accept any deal that will boost my income - AH

My motivation has been to make a lot of money ever since multilevel marketing and schemes like this were introduced. - BG

The reason the con artist wants to make a lot of money is because they are struggling financially.

My family is accustomed to a high standard of living. This opportunity offered a lot of money, so I jumped at the chance. - YS

I truly rely on this kind of company as my main source of income. - BD

This outcome is in line with Kadoya et al. (2020), who performed research in Japan and discovered that persons who are unhappy financially may take part in dangerous and dishonest activities. They are so unhappy with their financial situation that they will take any risk to achieve what they want.

There are scammers that are driven to join because they lack money, as opposed to fraudsters who are unhappy with their financial situation:

I have a lot of debt that I must pay each month, so I must work to make money. - LS

The fact that I can make a significant amount of money to pay off my debt is more essential to me than the business itself. - WY

Scammer's knowledge of the scheme

Despite having the legality of a business entity, all con artists know the schemes offered are Ponzi or pyramid schemes. This fact shows that scammers deliberately seek members (victims) even though they know that the scheme will fail.

Even though it was legally registered as a company, I knew right away that this investment scheme was a member-get-member scheme.- YS

The forex business of this company is solely for camouflage. I know that the money given to old members actually comes from new members' money. - MF

I know this business is illegal because I was invited to join by the same person. - BD

In Hidajat's (2020a) three classifications of Ponzi investors, namely Predator, Strong Prey and Weak Prey, informed investors are Predators. Predator is the term for an investor who understands the fraudulent scheme but consciously takes the risk by joining early to gain more profit. Predators know that the business is very risky. They actively look for investors as well as new Ponzi or pyramid schemes to join.

I had a premonition that the company would fail and I could predict when the problems would start. - WY

Target participants in the scheme

Many individuals want to get wealthy quickly and with minimal effort, and cunning con artists know how to take exploit of that desire (Surdam & Surdam, 2020). Rich and poor people who are unhappy with their finances and want to earn money quickly are the targets of scammers.

Individuals who want a lot of money instantly are the main target of these schemes, and there are many of them.
– BG

There is no difference between rich and poor, both need money. The rich want to get richer, and the poor want to get rich quickly. - MF

This condition is consistent with the conclusion by Kadoya et al. (2020) that people who are financially unsatisfied are more likely to become victims of financial fraud. Using the "big five personality traits," Kadoya found that low conscientiousness was the only personality trait that increased the likelihood of being a victim of fraud.

There are many highly educated members of the scheme. I sometimes wonder why they want to join. – AH

Although it is easier to persuade those who are less financially savvy, educated people often join.- LS

Some methods for persuading potential members

Scammers employ a variety of techniques to find new victims. They rely on emotional appeal and well-known figures to attract potential members.

Trust heuristic

Scammers understand that religious leaders, traditional leaders, or public figures influence trust in a scheme. As a result of the trust heuristic, people are more trusting of well-known personalities.

People trust me more when I have many relationships with public figures. - WY

I use my relationship with religious figures to attract others to join. – YS

Trust acts as an "alternative uncertainty absorption mechanism for increased information" (Tomkins, 2001). Vasek & Moore (2019), who analyzed the supply and demand of Bitcoin-based Ponzi schemes through *bitcointalk.org*, found that one of the things that makes a scam survive is when scammers interact a lot (post comments) with victims.

Affinity fraud

Scammers exploit closeness to well-known people in addition to trust to gain over the public.

In order to find victims, scammers join the community through the group leaders (Reurink, 2016).

To find targets, I joined many communities. If the community leader participates, targets are easier to achieve.- BG

The most impressionable communities are religious groups. My closeness to their leaders will increase their trust that this business is right. – LS

This occurs frequently because Ponzi schemes are one of the "affinity frauds," which are financial frauds that target specific demographics like the elderly, the professional class, people of a certain religion, etc (Perri & Brody, 2012).

Framing information

Through seminars and mass media such as local newspapers, scammers use framing to attract victims' attention. Framing is the tendency for a person to respond or judge something based on the context of the information being framed (Pompian, 2006). People will remember more events that have recently happened or triggered emotions.

We always invite motivators and successful members to stir the emotions of prospective members. – AH

Barron & Leider (2008) assert that people's methods of information receiving can affect how they behave. Scammers present information to new members in a favorable perspective, such as the achievements of earlier members. Potential members will join when receive good information or news.

I invited some participants who had achieved success in the business to the seminar to just provide testimonials. - BD

Early participants will almost likely profit and provide as "evidence" of the legitimacy of the program. This was possible because, at the time of the Ponzi scheme's inception, the scheme owner was able to consistently provide benefits to members by recruiting new members. Charles Ponzi could only fulfill his promise for the first three months of his scheme before giving up.

Sniderman & Theriault (2004) assert that information sources like the media have an impact on how individuals think. Scammers understand this and exploit it by presenting information through the media that is not entirely false but misleading.

I published ads and flyers with testimonials from some of my successful members in the local newspapers. Of course, I didn't discuss any of the members who lost money as a consequence of this scam. – MF

Ponzi schemes continue to exist because there is supply, demand, and behavior that makes these schemes grow and thrive. The scammers have a network ready to expand the business with the primary motive of making a lot of money.

Scammers that are knowledgeable about a plan are also aware of when to take money out before the scheme fails. Due to the information asymmetry between the two groups of investors, it is frequently thought that this is the primary cause of Ponzi schemes (Sadiraj & Schram, 2018).

Financial knowledge was not important because scheme participants ranged from low to high financial literacy. According to Eisenberg & Quesenberry (2014) and Wilkins et al. (2012), Ponzi scheme victims are not only individuals with low financial literacy, but also investment-savvy professionals.

It is fairly common for educated persons to fall victim to Ponzi scams. The victims of Bernard Madoff's investment scheme came from investment companies (Reurink, 2016), charitable institutions and universities (Parsons, 2011), and highly educated individuals (Jacobs & Schain, 2011). In fact, individuals with high financial literacy should be able to minimize the chances of making financial mistakes (Raven, 2005) and make good financial decisions (Baker & Ricciardi, 2014).

According to Hunter Monroe et al. (2010), financial literacy programs are one way to sensitize the public and prevent the growth of these schemes. However, financial literacy is not the only solution because Ponzi schemes involve not only knowledge but also cognitive and emotional elements that play a role in investment decision-making (Hidajat et al., 2020).

In this study, all con artists were men. This fact is consistent with the notion that men like risky and sensation seeking behaviors (Ball et al., 1984). The Ponzi scheme is a risky investment model, as it disadvantages the majority of members and will end dramatically. Ponzi scammers also have sensation seeking personalities because they are willing to invest time, effort, and thought despite the high risk. In the financial literature, risky behaviors are widely associated with overconfidence (Xia et al., 2014), and men are more confident than women (Barber & Odean, 2001).

Financial and non-financial pressures can influence a person's decision to commit a crime (Albrecht et al., 2011). The perpetrator looks for a solution by seizing opportunities based on both financial and non-financial motives. Opportunity, which in this case is joining a Ponzi scheme, is a circumstance that gives someone the chance to commit fraud (Hidajat, 2020b).

According to Hollow (2014), personal financial stress can occur due to gambling, debt, alcohol or drug addiction, and unexpected financial loss or need. Negative life behaviors such as indebtedness can have a systemic impact because several studies have shown that debt affects household vulnerability (Hidajat, 2021). The higher the debt, the greater the household's vulnerability to shocks (Andersen et al., 2016).

Despite knowing that the scheme will end, scammers deliberately seek out members (victims). To borrow Sadiraj & Schram's (1999) term, they are "informed investors" who keep inviting others to join despite knowing that the scheme is against the law.

Scammers influence victims in various ways, such as utilizing public figures and playing on emotions. The reputation of the public figure attracts people to join the scheme (Keith Blois & Annmarie Ryan, 2013), because if someone has a good reputation, others will quickly develop trust in that individual

(McKnight et al., 1998). According to Deason, Rajgopal, and Waymire (2015), individuals who trust others too much will be easily deceived and join Ponzi investments.

Scammers use trust to maintain a fraudulent relationship with victims. They understand what and why investors trust by targeting victims based on three characteristics: propensity to trust, financial knowledge, and affinity (Carey & Webb, 2017).

Deason et al. (2015) stated that affiliations to racial, religious, or public figures are found in the majority of Ponzi schemes. Madoff was able to attract investors because he was well-known on Wall Street as an observant Jew, and Charles Ponzi was able to launch his scam through an immigrant community that shared the same values.

The scammer frames the information or news in a positive frame to attract the target's interest. Many members were initially drawn to join because they saw other members who had benefited successfully from the scheme. They were optimistic that they would experience the same (Eisenberg & Quesenberry, 2014) and underestimated the risks.

This condition occurs because humans are not fully logical beings and are able to make right or wrong decisions at all times (Kahneman, 2011). There are conditions when humans see things solely on the basis of the information presented at the time because they are too lazy to think and prefer cognitive comfort.

Framing has a significant role because it can influence decision-making based on the information presented. According to Twersky and Kahneman (1981), the presentation of information on several options affects decision making. In other words, decision making is a type of emotional response to the presented information.

The Prospect Theory, developed by Kahneman & Tversky (1979), explains why framing results in choice bias. A person will prefer a certain outcome above an uncertain one, according to this notion. When faced with benefits, people will usually be risk-averse, and vice versa. As a consequence, both positive and negative information presentation can influence how decisions are taken. Positive framing encourages potential members to join right away to reduce the chance of losing money. They want to join a scheme so they can reap benefits right now without losing momentum (fear of missing out).

Humans are irrational creatures that are influenced by cognitive biases and emotions (Statman, 2014). Due to the reaction of cognitive processes, emotional bias in decision making will result in irrational decisions (Fairchild, 2014). Thus, the most appropriate approach to solving the Ponzi scheme problem is through psychology (Elan, 2010; Lewis, 2012), because this scheme is characterized by irrational exuberance (Robert J. Shiller, 2000).

CONCLUSIONS

History repeats itself. Ponzi history repeats itself with the same principles but different modes and instruments. Today, there are various Ponzi schemes through money games, illegal investments, trading robots, smartphone apps, high-yield investment programs, equity crowdfunding, and investments under the guise of religion or belief. These schemes use several instruments, such as cash, forex, gold, and cryptocurrencies, as camouflage.

The majority of Ponzi scammers are risk-seeking men with experience in direct selling and multi-level marketing. They have friends (followers) with the same goal of earning a lot of money due to financial dissatisfaction and distress. They easily move from one scheme to another. When a scheme collapses, they will move to a new scheme.

Scammers target not only the rich and poor, but also people with high and low financial literacy. They are also looking for people who are financially dissatisfied, experiencing financial stress, and want to get money quickly. Financial knowledge has no effect on the decision to invest in Ponzi schemes because humans are irrational beings who are influenced by cognitive biases and emotions.

Scammers take benefit of this bias by influencing prospective members through the use of public figures, traditional leaders, or religious leaders. The trust heuristic makes the reputation of public figures

attractive to potential members. They also enter communities to influence potential members through group leaders.

Scammers publish information with partial truths in order to win the trust of potential members. To mislead potential members, they keep unfavorable information and only share positive information.

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