

Ponzi Schemes in South Africa

A practical discussion by Eckhard Volker CA(SA) CFE

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A few years ago an acquaintance, Neville, bragged about how clever he was. He said that he had taken early retirement, cashed in his pension and invested it in a wonderful scheme which was, and would continue to make him extremely rich. He demonstrated how every month, without fail, he was earning 15% on his capital investment of R400 000, guaranteed. He knew it was legitimate as he had invested R10 000 earlier and received his interest payments regularly and on time. Rather than cash in on his investment, he said he had increased it.

I advised caution. In fact, I urged him to get out of the scheme immediately. I told him about Ponzi schemes and explained that most investors will lose their capital, guaranteed.

He knew better. He said nobody would dare to steal from him and if they tried they would learn the error of their ways quickly. He would also drive there with his bakkie and load up all their computers and furniture. He talked a big game.

Whenever I saw Neville in the following months he maintained the smug attitude about me being wrong and him being right. "I told you so", he said many times.

I persisted in my warnings, to no avail.

The next time I saw Neville he was much quieter. He let it slip that the investment company had missed a payment or two, but said that he was confident that it was no problem.

Soon after that the rumours started. The main principal of the investment scheme was no longer available telephonically and was hardly ever at the office. The staff had been retrenched.

Neville panicked and in desperation asked my help. It was too late, the money was gone.

Neville is working again and will have to continue to work for many years.

The Ponzi scheme

Neville is the victim of what Charles Ponzi immortalised in about 1920 and is now called a "Ponzi Scheme". It is the most popular and the most devastating form of investment scam, especially so as pensioners and other soft targets are usually the victims and they face lifelong financial devastation.

There are many such schemes. The biggest (hopefully for ever) was uncovered in the USA when after the global recession, Bernard (Bernie) Madoff could no longer conceal his ruse and the bubble burst leaving the victims US\$55 billion poorer. The fact that Madoff faces life in jail (sentenced to 150 years) and that his son has committed suicide, provides no relief to the many, many victims.

South Africa is not immune to Ponzi schemes. In fact we have many. As I write, I am involved in the investigation of at least eight such scams, some of which are still operating. South Africa's largest finalised matter was the Kiron indictment where, in 2010, several members of the Pretorius family

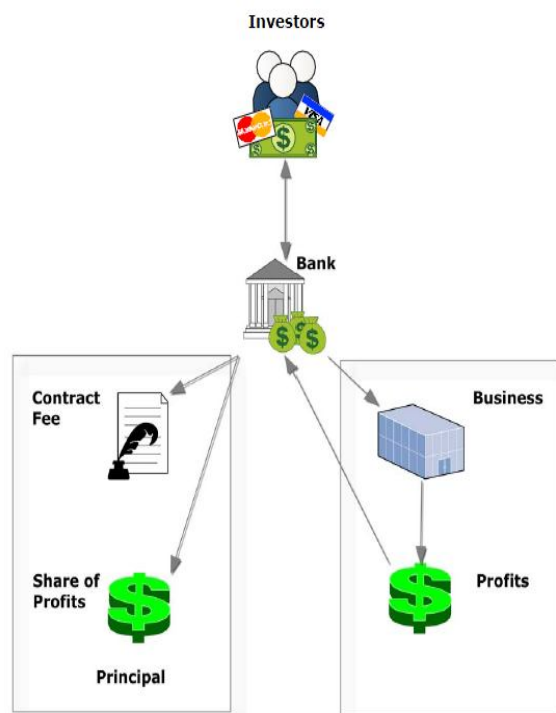
were charged with 218 682 criminal counts, most of which related to the operating a “Ponzi” scheme from about 1998 to 2002. They were found guilty and sentenced to lengthy jail terms. Once again, this provides no financial relief to the victims who lost R1.5 Billion. Others which were notable in South Africa include Barry Tannenbaum (allegedly as large as R10 billion), Fidentia and Masterbond, or the more recent Durban scare. There are many, many more, several of which the bubble is about to burst.

According to Wikipedia a “Ponzi scheme is a fraudulent investment operation that pays returns to separate investors, not from any actual profit earned by the organization, but from their own money or money paid by subsequent investors.” Also according to Wikipedia, Charles Ponzi (March 3, 1882 – January 18, 1949) was born in Italy and became known as a swindler for his money scheme. His aliases include Charles Ponei, Charles P. Bianchi, Carl and Carlo. The term “Ponzi scheme” was coined because of Charles Ponzi's scam and today it is the description of any scam that pays early investors returns from the investments of later investors. Charles Ponzi promised clients a 50% profit within 45 days, or 100% profit within 90 days, by buying discounted postal reply coupons in other countries and redeeming them at face value in the United States as a form of arbitrage.



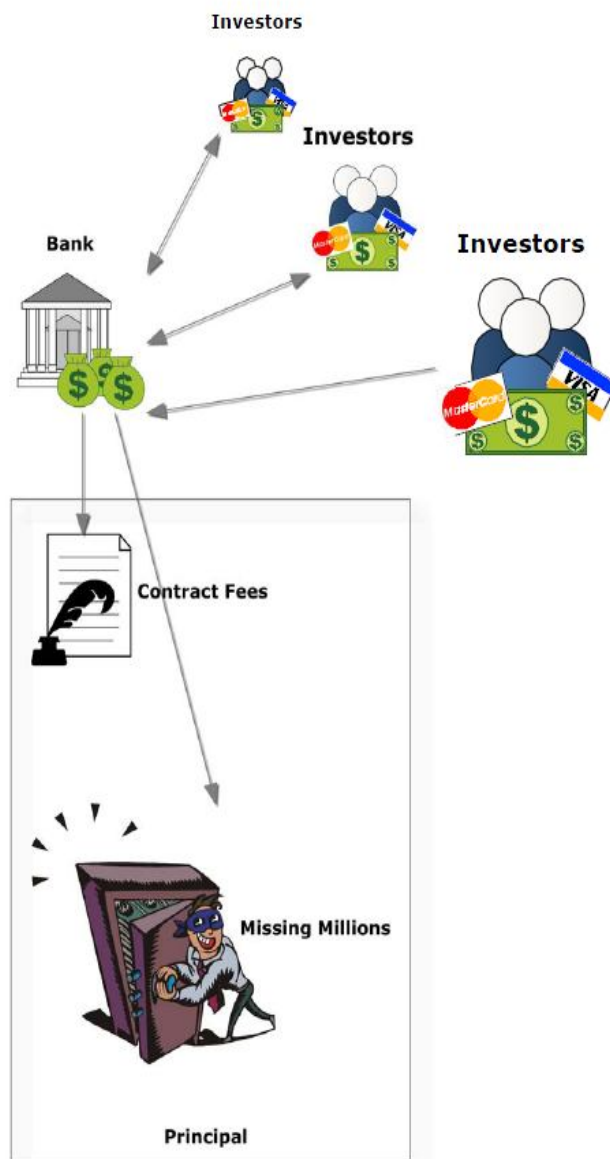
Modus Operandi of a Ponzi scheme

Although there are innumerable variants of these schemes the core principles remain very similar. In a Ponzi scheme, the principal will market the scheme as a business opportunity where an investor may invest with the company and benefit from exceptional returns. The explanation with regard to how these miraculous returns will be generated varies greatly. In one of the first Ponzi schemes in South Africa, milk cultures, grown by investors was the moneyspinner. Other explanations include trading on the stock exchange, property speculation or development, farming, mining, retail, and travel to name but a few. The principal will explain that the funds will be banked and injected into such a business venture from where it generates profits which will be banked again and distributed back to the investor. Typically, the principal will claim an “administration fee” or “contract fee”, which is agreed to by the investor. Also, by agreement, the principal will be entitled to half of the profits generated by the investment. Schematically, therefore the scheme is simplistically depicted as shown.



The reality is very different. Investors will engage in an agreement and will deposit their funds into the bank account. The principal will be entitled to, and will withdraw his contract fee. There is, however, no business to which the funds are transferred. They will be pooled in the central bank account and be used for two primary purposes. The first is to assist the principal to maintain the “front”, where funds are spent to create the appearance of wealth and success. This includes spending a lot of money on the office and the person in the form of expensive furniture, flashy cars, not to mention the personal apparel of the principal. Included in this section is what I refer to the “missing millions” where funds are mulcted out of the account for unknown destinations.

The second category of payments makes the scheme both credible and attractive and represents



payments to the investors. These payments are usually in the form of guaranteed monthly returns and could include the occasional capital redemption. I refer to the occasional capital redemptions, because most investors will be encouraged to reinvest their funds when the contract matures. At this time, the investor will have earned significant returns and will need little encouragement to re-invest (and possibly introduce more) funds.

It is not by accident that there are ever increasing levels and numbers of investors. This has to be so for the Ponzi scheme to “succeed”, as money is paid to the investor under the guise of “phenomenal profits” or “guaranteed returns”. Per example, using the principles explained above, an investor introduces R10 000 on a six month contract, which is deposited into the bank account. Immediately the contract fee is withdrawn, say R500, leaving

R9 500 in the account. If 25% returns are on offer, every month the investor will earn (and be paid) R2 500. As the principal (or alleged business owner) only distributes half of the profits, it is expected that he would also have earned R2 500 per month. At the beginning of the second month, (with a bank balance of R9 500) the investor is paid R2 500 and the principal withdraws his R2 500, leaving R4 500 in the account. In the second month the investor is paid another R2 500 leaving only R2 000

before the principal has taken his share. That is it, there is no more money left! Usually, unless more funds are collected from other investors, the investor will not receive a third payment and will complain (possibly even to the police) as he believes he is owed R20 000 (his capital amount of R10 000 and the outstanding four payments of R2 500 each for the remainder of the contract). Technically as all payments are classified as returns (as opposed to capital redemptions), the scheme is technically insolvent from the first month. To overcome this inevitability, more investor must be recruited, in ever increasing numbers. Hence the term "pyramid scheme" and in legalese also referred to as "borrowing from Peter to pay Paul". It should be noted that on the diagrammatic representation, the flow of funds from the third tier of investors is one directional, i.e. they will not get their money back, unless more investors are introduced. Crudely put, the lowest level of investors can only be paid if more money is stolen from their friends and families.

As no profit resulting from the fictitious business venture is ever injected into the pool of money, such a scheme must fail. To continue paying out bogus "profits" to existing investors, new investors must constantly be recruited. When the pool of possible new investors is exhausted the scheme collapses and the majority of the investors become victims.

Whilst this is happening the principal is getting very rich. The original (first level) investors are also getting rich and they recruit more investors with tales of "easy money". Every Ponzi scheme relies on "word of mouth" marketing. It is typically referred to as the "social feedback loop" (which is a fancy term for word-of-mouth marketing), were every "happy" investor tells several of his friends who will in turn tell all of their friends. Ultimately the marketing takes care of itself and the principal benefits from "plausible deniability" where he can claim not to have made any misrepresentations.

The confidence trickster

How are the potential investors duped into believing this scheme is a good investment? Enter the confidence trickster. The confidence trickster is typically a well dressed, very intelligent, eloquent, confident and visibly successful individual who actually is very effective at hiding his devious, egotistical, manipulative, selfish and sometimes sociopathic or psychopathic core. The confidence trickster cares little about swindling those that can least afford to lose their money out of their pension and will make them feel privileged in the process. They will "talk the talk" with wonderfully complex explanations, vague inconsequentialities, and everything you wish to believe. They promise the world and prove the legitimacy of their business by introducing you to the many happy and content investors who have so "richly benefitted from this limited, prestigious opportunity". "Just sign here and transfer your money"!



Origin of the term "Confidence Trickster"

William Thompson was an American criminal whose deceptions caused the term "confidence man" to be coined.

Operating in New York City in the late 1840s, a gently-dressed Thompson would approach an upper-class mark, pretending they knew each other, and begin a brief conversation. After initially gaining the mark's trust, Thompson would ask "Have you confidence in me to trust me with your watch until tomorrow?" Upon taking the watch (or, occasionally, money), Thompson would depart, never returning the watch.

Thompson was arrested and brought to trial in 1849, in a case that made newspaper headlines across the country. The New York Herald, recalling his explicit appeals to the victim's "confidence," dubbed him the "confidence man." Per the Oxford English Dictionary, the first known use of the term was printed in The New Orleans Picayune.

It is often difficult to understand why otherwise conservative and financially literate individuals would invest their pension in such a scheme. If you have worked for say 25 years to build up a pension for your retirement, why would you gamble your final 20 years financial security (your retirement) in such a dubious scheme. No-one I have ever met has knowingly and willingly invested their pension in a scam. They all believed that it would work.

To understand this, we need to explore the environment in which a Ponzi scheme operates. Different schemes target different markets. It is said that the original Charles Ponzi targeted financially unsophisticated investors. Bernard Madoff, however, did not. Many, if not most of his victims are financially intelligent, informed individuals, who carefully considered their options before choosing Madoff's investment opportunities. Madoff did not offer a get-rich-quick scheme like most of our local Ponzi scheme variants. He offered a steady and reliable return of about 10% per year. He had the right contacts, held prestigious positions, was considered well connected and he had a long "successful track record".

Professor Stephen Greenspan (emeritus professor of educational psychology at the University of Connecticut and author of the 2009 "Annals of Gullibility.") refers to the term "Irrational exuberance". According to his publications, the basic mechanism explaining the success of Ponzi schemes is the tendency of humans to model their actions — especially when dealing with matters they don't fully understand — on the behaviour of other humans. This mechanism has been termed "irrational exuberance," a phrase often attributed to former Federal Reserve chairman Alan Greenspan, but actually coined by another economist, Robert J. Shiller, who later wrote a book with that title. Mr Shiller employs a social psychological explanation that he terms the "feedback loop theory of investor bubbles." Simply stated, the fact that so many people seem to be making big profits on the investment, and telling others about their good fortune, makes the investment seem safe and too good to pass up. In Mr Shiller's view, all investment crazes, even ones that are not fraudulent, can be explained by this theory.

Ironically, Greenspan states that he lost much of his pension to Madoff's scam himself.

There were many, many red flags which could have fingered Madoff much earlier. I believe the most compelling red flag was that he was always right (in the choice of the investment trades he alleged he was making, but was actually not). It is easy to state which trades work if you already have the benefit of hindsight, as Madoff did in his reports to his investors, but very difficult in real time. Madoff did not trade, and chose investment opportunities after the event which could be verified by the prudent and conservative financial analyst or investor. Where other investment opportunities were affected by "ups and downs", Madoff's investment returns were only and always "ups".

In my experience, most of the South African Ponzi scams are less sophisticated and do not stand up to close scrutiny. Most of them offer unrealistic returns such as 30% per month. Some of the more ridiculous schemes now on offer, promise to guarantee a return of 300% in 30 days. (I am convinced that poor Charles Ponzi would have been ashamed to have his name associated with such folly.)

As mentioned before, the principal will explain how he is making all of the money, using the appropriate technical terms and other complex explanations. Very few potential investors will understand what it means, but will feel embarrassed about asking for a more detailed explanation.

The company's name is likely to include something like "Holdings", "International", "Group", "Intelligence" and they will refer to Blue chip equities, gold or diamonds, etc. (I am still distrustful of anyone using the term "paradigm shift", after several such encounters where it was used to confuse investors). All the investors actually want to hear is that there are many other investors (who might have checked it out in detail) and that the scheme works, i.e. that the investors are being paid their returns on time. This, it seems, is all it takes to evoke the "Madness of Crowds" effect with investors scrambling to be part of the act and the share in the profits.

There are other factors which might influence the prospective investor in the decision to invest, or not. One of these is the trust you may have in your financial advisor with whom you might have a long standing professional relationship. If this individual were to recommend this business opportunity, you would assume that the advisor has performed the necessary due diligence and would not expose you to a potential scam. I refer to this concept as "trust by association". You might not know, however, that your longstanding financial advisor has recently been dismissed from his reputable firm and has absconded with his client list and is earning a major commission from the "Ponzi principal" for introducing potential investors. I noted with interest in one of my investigations that the investors invested alphabetically, which proves that they were targeted from a list. The financial broker/advisor, I refer to, now acts as an agent to the scheme, usually with non disclosure of what commission he/she is earning on the successful introduction. Most of these I have encountered earned about 25% "off the top", payable immediately when the funds were deposited.

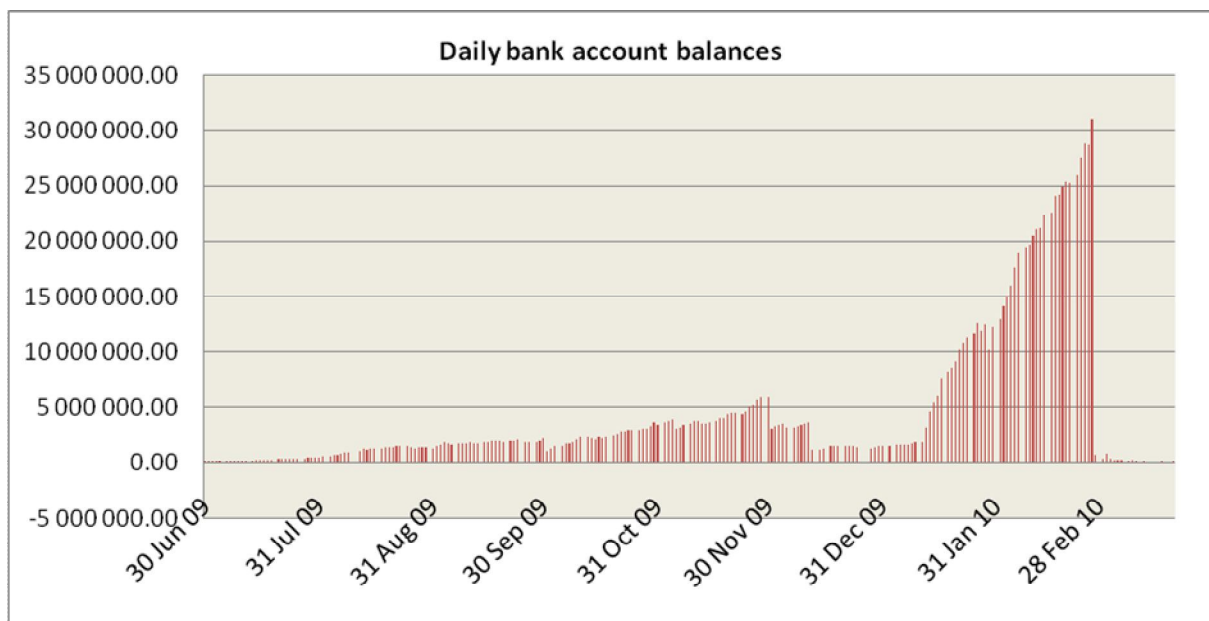
With this capital reduction it makes it more infeasible for the investment to be able to generate the promised returns. Per my earlier example (where the investor introduced R10 000), if there was a commission of 25% payable to the broker (as well as the 5% contract fee), only 70% of the capital is available to generate a monthly "profit" of R5 000 (R2 500 to the investor and R2 500 to the principal). This suggests that the monthly returns must equal 71.43% every month, or 857.14% per annum. It is just not credible.

How much of the principal's personal money is invested in this investment opportunity? Nothing, of course, because it is a scam. That should be a major red flag, available to auditors.

Financial profile of a Ponzi scheme

Speaking of auditors, in my experience they hardly play a prominent role in Ponzi schemes as the accounts are usually not presented for audit. Very few, if any Ponzi scheme companies will appoint a large audit firm, but would rather choose a smaller, typically one or two partner firm, purely to be seen to be compliant with the requirement of having an auditor. It is very easy, however, to delay an audit year after year and the auditor might not have the opportunity to conduct any audit which might, or should, uncover the scheme. If the audit is conducted, the auditor would have to make a report of a material irregularity to IRBA if a Ponzi scheme is evident. Notwithstanding the legal requirement in terms of section 45 of the Audit Profession Act, it is not a popular action by auditors as it is generally perceived to be like "scoring an own goal", as the company will not survive such a report if the authorities act on the report. I encourage auditors to realise that it is cheaper to lose their audit fee than to face possible litigation later. Another factor why auditors play a very small role is that the more aggressive, or "greedy" Ponzi schemes, i.e. where returns of 30% are paid per month, is that these tend to self destruct within a year, long before the accounts could be presented for audit.

The banks are in a far better position to recognise a Ponzi scheme before it escalates dramatically and ruins thousands of investors' livelihoods. It is very easy to recognise a Ponzi scheme if you have access to the bank account. The profile of the transactions is mostly very similar. They will include ever increasing number and values of deposits from different investors usually in round amounts and many times in cash. The values and volumes will increase every month as the word of the investment opportunities is spread (remember the comments about the social feedback loop, discussed earlier). I append a graph from one of my reports to demonstrate this trend. In this graph we focus on only the daily bank balances to demonstrate how the funds flooded in, all from investors. In this matter, 30% returns per month was on offer and it is not surprising that the scheme was identified and stopped within 8 months.

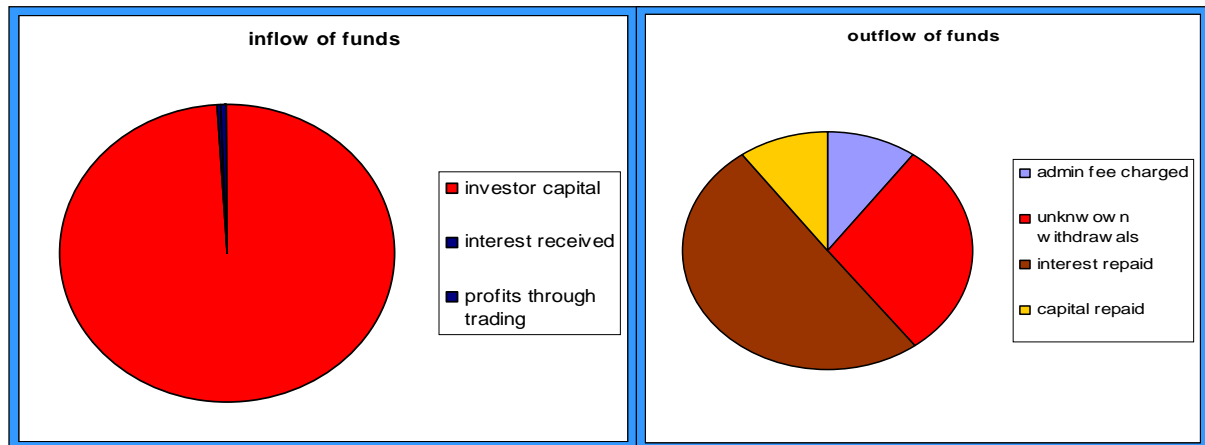


The expenditure side also follows a predictable trend. There will be many cash withdrawals by ATM (which is very unusual for a normal company) and large round transfers to other accounts. Every month, at predictable times there will be many payments to individuals representing their interest at the offered percentage of their capital injection. There are often also expenses which should not be there, for example the purchase of luxury vehicles, household furniture and appliances and the like. It is not unusual to see Ponzi operators to make sizeable charity or church donations. This often gives them credibility and is designed to show that they are "good people".

Conspicuous by its absence are the investments in any business activity, purchases of products or share trading and, especially, any income from any source other than investment capital injections. I can also not remember any Ponzi scheme company to ever having paid any tax, either VAT, PAYE, income tax or even UIF and other levies.

If there are trading activities these are likely to be small in comparison (sometimes required to perpetuate the "front") and usually only for the first few months. In most cases significant trading losses are incurred as Ponzi operators are hardly ever skilled stock traders, regardless of what they claim.

I draw from a report I worked on in about 1993 (Dymarco Holdings Limited, where the accused were convicted of fraud to the value of R205 984 736.34), where I had analysed the inflows and outflows of the consolidated position of seven bank accounts, which demonstrates these principles.



Money Laundering features reasonably prominently in most Ponzi schemes. The objective of money laundering is to conceal the true nature of money (proceeds of crime) and to render it “clean” and useable, for the offender. We refer to the three phases of money laundering as “placement” (introducing it into the formal bank accounts), “layering” (where with multiple transfers, purchases and sales, etc the accounts are “muddled”) and “integration” (where assets are purchased from the results of the layering process from which the offender receives a seemingly legitimate income). In a Ponzi scheme the second, or layering process is used extensively by means of multiple transfers between different bank accounts, use of false or misleading descriptions for the electronic funds transfers, short term trading in stock, shares or commodities (where funds might be transferred into a trading account and withdrawn immediately under the guise of “profits from a trading account”, and similar ploys. The fraudster has an ongoing advantage as what might take ten minutes to plan and execute might take the investigator months to uncover as the new accounts must be identified and subpoenaed.

I fear there are also money laundering offences by the investors. If a person is in the possession of proceeds of crime, it is very easy to invest it in a Ponzi scheme in cash (many investors invest using cash and the bank managers are quite used to it and would no longer consider it suspicious). When the proceeds are paid by the Ponzi scheme, the investor can use the money, claiming it represents the returns on his investments, seemingly clean.

Corporate Risks

Although the fraudsters usually target the individuals in a Ponzi scheme, I encourage corporate entities to carefully consider their own heightened risks. Companies might face direct or indirect risks. The direct risk could range from “troubling” to “catastrophic”, either financially or to their reputation. Indirect risks faced by companies relate to the repercussions they are exposed to if a number of their employees become involved in such a scheme.

Examples where a company might face direct risks arise where the entity (or its representatives) acted as financial advisors and endorsed or recommended the “investment company/product”. When the scheme is detected, every investor may claim that they invested only on the recommendation of their trusted financial advisor and they will seek restitution from that company. (Lawyers refer to this as the vicarious liability principle.) Other circumstances which will at least embarrass or expose a company financially and undermine its reputation include where a company’s venue, letterhead, senior officer, secretary, etc were used by the Ponzi schemer to give it credibility “by association”.

In 2010 a reputable law firm (established about 130 years ago) discovered that a senior representative of the firm was involved in such a Ponzi scheme. Colin Cowan, the principal behind that scheme (of about R170 Million) committed suicide and left the “mess” for his previous business partners. The law firm’s reputation is devastated by his actions and only time will tell what the financial implications might be for this firm. According to media reports and ongoing litigation, the firm’s letterhead was used by Cowan to sign guarantees, its offices were used for meetings with investors and their staff provided some secretarial support, allegedly orchestrated by Cowan to give his scheme credibility. Regardless whether they can weather the storm, this company has serious exposure.

A company will also be affected negatively if many of its employees become involved in a Ponzi scheme. Because a Ponzi scheme relies on constant introduction of new members /investors, it provides a perfect “hunting ground” from a recruitment perspective. If, for example, every investor was required or encouraged to introduce new members (on secret commission basis), a large corporate entity has many new potential victims.

Before the bubble bursts, the company will lose productive time when employees abuse their time and usually corporate facilities (like e-mail) to recruit new members. The real implications, however, become clear only after the scheme has been exposed.

When an individual loses his/her life savings or cannot pay his or her liabilities, his or her employer is affected. This might be when an employee becomes unproductive as he is distraught about his financial crisis, which becomes overwhelming to the exclusion of everything else, which in turn is unpleasant and undermines morale for all the colleagues. More directly, the company is usually requested to provide financial relief or loans, even salary advances, all of which are unpleasant.

If such a person was introduced to a scheme by a colleague, the personal relationship will be destroyed, which will also have a detrimental effect on the organisation and the morale. More acutely, however, the problem is exacerbated when a more senior officer “introduced” a subordinate to a fraudulent Ponzi scheme. Under those circumstances, the office hierarchy is disrupted and the employee has a personal problem with the boss, which become an operational problem of the company.

The employee fraud risk immediately becomes more significant. According to the “Fraud Triangle” theory which was developed from the studies of Dr Crassey in the fifties, employees might commit fraud when they have unshareable pressures (usually in the form of dire financial needs), they have opportunities to commit the offence and they can rationalise their actions to themselves. In cases described above, the employee has lost everything and now experiences financial crisis (the

pressure) and holds a compelling grudge against his superior (the rationalisation). If the controls are weak and an opportunity exists, the person might well try to recover the Ponzi scheme losses from the company through fraud.

I believe a company should be aware of these risks and prevent them. They could explore the following options:

- Be alert for, and become aware of any discussions amongst staff members relating to “get rich quick” schemes.
- Alert and train your staff about these type of schemes through newsletters, intranet, staff information sessions and in general communication.
- When you hear the first rumours about what might be such a scheme (with key words of quick, guaranteed returns for little risk), be proactive and research it and warn your staff about it specifically.
- Formulate and enforce a corporate policy which prohibits any staff member from promoting or marketing any scheme, with a reporting obligation to management.
- Prohibit all forms of multilevel marketing within the organisation and its employees, including the legitimate variants of these.
- Prohibit any personal financial transactions or dealings between a senior and his or her subordinates.
- Use electronic means to detect and block high risk e-mails or web sites, prohibit staff members from passing on chain letters and introduce additional spam filters.
- Take an active role by embracing corporate social responsibilities, by protecting the staff against external threats, even when it does not appear to be your direct corporate concern.

Response by Authorities

Many of the Ponzi schemes are reported by the banks either to the South African Reserve Bank, the Financial Intelligence Centre or to Financial Services Board. This is critically important, as they are in the best position to identify such a scheme in its infancy. It is also vital that the regulatory bodies take appropriate and prompt action as investors will never report their suspicions to the police until it is too late. In the Madoff saga, regulatory authorities attracted massive criticism for not taking action even when compelling allegations were brought to their attention.

Investors will never report a Ponzi scheme whilst it still operates as it serves to fatally compromise their investment. Even if an investor realises that it is a Ponzi scheme, he or she will know that the only chance they have of recouping their capital is if the scheme recruits another layer of “fools” so that they can get paid. This proves to become a major stumbling block for the police as the investors will not co-operate with the authorities whilst there is hope that the scheme can continue at least long enough for them to recover their money. I crassly use the term “fools” as every investor feels like a fool or even an idiot when the truth of such a scheme is uncovered. Many, if not most, have a profound sense of embarrassment at having been duped, especially when in hindsight, there were

so many compelling red flags. It is even worse for those who have encouraged others to invest in such a scheme (in good faith) and many longstanding personal relationships have been destroyed in this manner.

When the authorities act, they are widely criticised. If it is the South African Reserve Bank, general comments amongst investors are that the Reserve Bank closed the scheme because they are jealous of the informal banking environment outperforming the formal banks. Although this is clearly nonsense, investors have to cling to any hope they can.

The South African Reserve Bank, and in particular the Bank Supervision department will take decisive action if allegations of "deposit taking" are brought to their attention. All Ponzi schemes take deposits, typically from members of the general public. The Banks Act of 1990 prohibits persons or entities from "conducting the business of a bank" unless they are a public company and registered as a bank. According to the act "The business of a bank" is defined as " the acceptance of deposits from the general public (including persons in the employ of the person so accepting deposits) as a regular feature of the business in question".

"Deposits" are defined as
" deposit" , when used as a noun, means an amount of money paid by one person to another person subject to an agreement in terms of which–
(a) an equal amount or any part thereof will be conditionally or unconditionally repaid, either by the person to whom the money has been so paid or by any other person, with or without a premium, on demand or at specified or unspecified dates
(b) no interest will be payable on the amount so paid or interest will be payable thereon at specified intervals or otherwise,
but does not include -
(aa) the acceptance of a deposit by a person who does not purport to accept deposits on a regular basis and who has not advertised for or solicited such deposit : Provided that -
(i) the person accepting deposits as contemplated in this paragraph shall not at any time hold deposits from more than twenty persons or deposits amounting in the aggregate to more than R500 000;...

Although deposit taking might seem as a technicality, it is an important component of Ponzi schemes which can be acted on decisively and timeously. In terms of its powers the Reserve Bank can appoint a Temporary Inspector and later a Manager, who would be empowered to take appropriate action which could include closing the scheme, freezing its assets and repaying the investors. The Banks Act makes provision for significant criminal penalties, if the law is contravened.

The Financial Services Board (FSB) might also intervene. The FSB has authority to investigate possible contraventions of Financial Advisory and Intermediary Services Act, no 37 of 2002. The FSB was established as an autonomous regulatory body to exercise supervision over the business of financial institutions, in terms of Financial Services Board Act, no 97 of 1990.

A Ponzi scheme can be prosecuted from many contraventions. Earlier in this article I referred to the Krion matter. The accused were charged in 121 categories of primary or alternative charges relating to contravening different sections of the Banks Act, the Companies Act, the Prevention of Organised Crime Act, the Income Tax Act, the Insolvency Act and others. Typically the prosecutors will consider including Financial Advisory and Intermediary Services Act or Financial Institutions (Protection of

Funds) Act 28 of 2001. Some of the Krion accused were sentenced to 25 years imprisonment. Money Laundering or Racketeering offences (as per Prevention of Organised Crime Act) could attract life imprisonment and or a fine of not exceeding R1billion.

I believe there is sufficient legislation available to empower regulatory bodies or the police to close a Ponzi scheme and to seek a prosecution, even if there are few or no complainants to the fraud charges.

Are there any winners in a Ponzi scheme? Yes, but unfortunately limited to people like myself who are paid to investigate them professionally. The principal is likely to be prosecuted and between the Reserve Bank, the Asset Forfeiture Unit, the Receiver of Revenue and the liquidators, he or she is likely to lose all of the proceeds. The earlier investors who might have “creamed it” will be hounded by the liquidators for the next 15 years. That leaves the losers, the many individuals who lost everything.

Conclusion

In conclusion, I urge everyone who might be tempted to invest in a “too good to be true” opportunity to think long and hard before depositing their money. There is no such thing as a risk free “get rich quickly scheme”. I also urge potential investors to ponder why, if there was such an opportunity, the principal would be willing to share it with strangers, as opposed to becoming extremely wealthy himself. In particular, constantly think of what you are planning to do in the last twenty years of your life, and how your plans might be compromised if your pension is gone. Most financial decisions are governed by the fine balance between fear and greed. Let the fear prevail.