ADVISORY

Advisory - Ponzi and/or Pyramid Schemes in the Territory

Friday, June 28 - The Financial Investigation Agency and the Royal Virgin Islands Police Force wish to alert and caution the public of the many possible “get rich quick schemes” (“Ponzi and/or Pyramid”) and other fraudulent investment scams that are being promoted within the Territory.

Ponzi schemes encourage participants to recruit new persons to repay existing participants using money deposited by new entrants, and often falsify records of nonexistent transactions to characterize the money as profit.

Pyramid schemes frequently promise a lucrative business or investment opportunity that requires an initial investment by participants for products or services to be sold. Such schemes usually entice new participants by promising abnormally high short-term returns that other legitimate investment operations are unable to guarantee. It should be noted that returns on legitimate investments are usually paid periodically (quarterly, annually, etc.) with some form of investment statement or reporting mechanism, with other related fees.

While different, Ponzi and Pyramid schemes can cause equally devastating outcomes to the participants once the schemes can no longer be sustained. In this current post pandemic environment, with possible lingering financial difficulties affecting persons, it is exceedingly important that the public be mindful of the risks associated with such activities. Persons are encouraged to be more vigilant, as these schemes are transforming and adapting in the form of free or discounted travel and vacation packages and other related services, that are being promoted within selective circles and groups to avoid detection.

Key Characteristics

The majority of Ponzi and/or Pyramid schemes have similar characteristics. The following elements should serve as red flags to potential participants:

Appearance of legitimacy or impeccable reputation

Large Ponzi and/or Pyramid schemes tend to be very organised operations with fabricated track records of legitimacy. These schemes are usually managed by persons with impressive but falsified credentials used to enhance the credibility and legitimacy of the scheme.

Above-market or guaranteed return

To entice prospective participants, the schemer offers an attractive above-market or promised financial return.

To encourage prospective entrants, they may:

- Share testimonials by existing participants; or
- Show evidence of returns to existing participants, thus attempting to demonstrate that the operation is "legitimate."

The goal is to use current participants to reassure prospective new participants that the fraudulent "investment" is sound and that they will also receive a payout.

Marketing and exclusivity

Marketing is targeted and very selective, usually through the word-of-mouth of initial participants. The scheme sells itself through promises of attractive monetary returns, which helps to attract new participants. The fraudster does not necessarily want a wide and diverse pool of potential investors as that increases the probability that someone might recognize red flags, ask too many questions, or report the scheme to relevant authorities.

Existence and exploitation of human greed (going to the extreme to gain more money)

As a basic aspect of human nature, Ponzi and/or Pyramid schemes thrive on greed. Fraudsters need innocent or inexperienced investors to leverage greed via a Ponzi or Pyramid scheme. Once a fraudster is successful in building the illusion of above-market or guaranteed returns, he can more easily entice people or organizations to

reinvest, based on this expectation of high returns.

Advisory

To avoid becoming victims of fraud or inadvertently becoming a perpetrator of a fraud, the public is advised to exercise extreme caution when presented with investment opportunities exhibiting the above characteristics. Fraud and money laundering are two distinct but interconnected financial crimes that pose significant threats to individuals, businesses, and global economies and are punishable offences in the Territory.

If you are approached by what you suspect to be a Ponzi or Pyramid scheme, please report suspicion of these activities to the FIA at (284) 852-3200 or reportingauthoritygroup@fiabvi.vg or the RVIPF at intelligence@rvipolice.vg.

How would you know if you were involved in a pyramid scheme fraud?

- You've been approached about a multi-level investment scheme that offers great-sounding profits with little or no risk.
- You've paid a fee to join the scheme.
- You've enrolled others in the scheme and already earned money from your efforts.

How would you know if you are a victim of a pyramid scheme fraud?

- You "invested" money with promises of quick and large returns but have not received the level of benefits promised.
- You tried to collect your benefits but are unable to contact the organisation.
- You have difficulty removing your money from the investment scheme.

What should you do if you are a victim of a pyramid scheme fraud?

- Report the fraud to the Financial Crime Unit of the RVIPF at intelligence@rvipolice.vg.
- If you think you are actively participating in a pyramid scheme, break off

contact with the fraudsters immediately and do not invest any more money.

- If you've given the fraudsters your bank account details, alert your bank immediately.

- Keep any written communications you've received from the pyramid scheme. They may help you to provide pertinent evidence to the authorities.

- Be aware that you are now likely to be a target for other frauds. Fraudsters often share details about people they've successfully targeted or approached, using different identities to commit further frauds.

- People who have already fallen victim to fraudsters are particularly vulnerable to recovery fraud. This is when fraudsters contact people who have already lost money and claim to be law enforcement officers or legal practitioners. They advise the victim that they can help them recover their lost money – but request a fee.

Protect yourself against pyramid scheme fraud.

- If you are considering any type of investment, always remember: if it seems too good to be true, it probably is. High returns can only be achieved with high risk.

- Pyramid schemes often involve products that are overpriced and have no real resale value. You should think about the true value of your investment before convincing friends and family to join the scheme.

If fraud has been committed, report it to the RVIPF at intelligence@rvipolice.vg.

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