



**Will your investment take
you to the top?**

#SpotTheNot



Know the difference between an investment, stokvel, pyramid & Ponzi scheme



Have you ever made an investment in a financial product; saved your money with a trusted stokvel; or have you participated/engaged in a pyramid/Ponzi scheme? If an investment offers you very high returns, you need to start asking questions about the legality, as well as risk associated with that opportunity. This resource will help you to understand the differences between an investment, stokvel, pyramid and ponzi scheme.



Contents page

1. What is a pyramid scheme?	4
2. How does a pyramid scheme work?	4
3. How pyramid schemes are disguised as stokvels	6
4. What is a Ponzi scheme?	7
5. How does a Ponzi scheme work?	7
6. How to protect yourself from being lured into a pyramid or Ponzi scheme	8
7. How to distinguish between an investment, stokvel or pyramid/Ponzi scheme	10
8. Important questions you should ask when you are invited to invest	12
9. What to do if you are a victim of pyramid/Ponzi scheme fraud	13
Useful contacts	



IDENTIFY AND PROTECT YOURSELF FROM PYRAMID AND PONZI SCHEMES



1. What is a pyramid scheme?

A pyramid scheme is a scheme where participants receive compensation derived primarily from recruiting other people as participants into the scheme rather than from a sale of goods or services. In a pyramid scheme, participants attempt to make money by recruiting new participants. These schemes are often disguised as business / investment opportunities aimed at selling legitimate financial products or services. **THEY ARE ILLEGAL!**



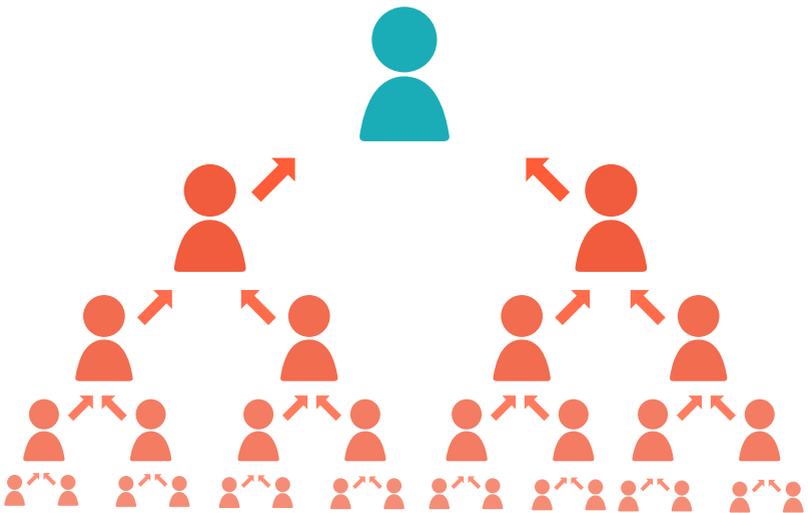
2. How does a pyramid scheme work?

A pyramid scheme marketer or recruiter can be anyone. It can even be someone you admire or trust. They feed on your need for financial security and your desire to believe that it really is possible to find wealth quickly. These scammers can be very convincing and will tell you stories of their life and their success. What they may tell you may sound like it is legal – however, this is how they get you to join a pyramid scheme. Remember, scammers do not care about you, they only want your money.

The initial promoters of a pyramid scheme recruit so-called 'members', who in turn also recruit one or more members. The enormous returns promised to the older members are paid from the funds of new members. For the new member to get a return, more members must be recruited. In most cases only the few old members, who may even be the operators of the scheme, benefit. Members who join the scheme later always lose.

That is why this is called a pyramid scheme. The bottom is made up of more people and the people at the top benefit the most. A higher percentage of the income is always paid to members who joined the scheme earlier and are higher up in the pyramid.

The problems start when there are no more people to recruit and there is no more money coming in, to be passed up the pyramid line. This is when people start losing their money or cannot get their money back. By the time members report this to the authorities, it will be too late. It is unlikely that the authorities will be able to recover members' money, as the scammers would have either disappeared or there are no funds to be found to refund members.



With a pyramid scheme, the initial schemer recruits other investors who in turn recruit other investors. Those at the bottom of the pyramid pay the ones at the top of the pyramid.



Note: There are always new pyramid schemes popping up every year and you need to equip yourself with the knowledge on how to identify one. You also need to know what questions to ask.



3. How pyramid schemes are disguised as stokvels

Traditional stokvels are a trusted savings mechanism in South Africa. Unfortunately, scammers have found a way to rob unsuspecting savers of their money by using various online means and methods to steal your money. A WhatsApp stokvel is nothing more than a pyramid scheme in a new guise.

This is how it typically works: You are invited to join a stokvel group via WhatsApp (which is represented as a WhatsApp chat group), but before you are added, you must pay a joining fee of about R200 with the promise that you will earn around R1 000 if you recruit more people to join the group.

A **stokvel** is when a group of people come together for a common goal and purpose. They commit to putting money in kitty each month and depending on the nature of the stokvel each member has a turn to receive the total sum of the money. Example: 12 Members put in R100 per month. Each member will get a turn to get R1 200. Each member continues paying in R100 per month even after they have received their payout. They commit to the arrangement for a certain period.

To ensure that the entity you are dealing with is a legitimate stokvel, check if it has been registered with the National Stokvel Association of South Africa (NASASA). The stokvel should provide you with a NASASA registration number.





4. What is a Ponzi scheme?

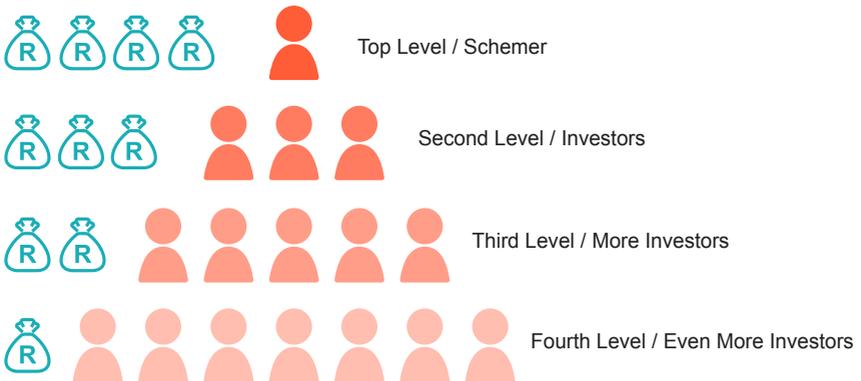
A similar kind of fraudulent scheme is the Ponzi scheme, named after Charles Ponzi who operated such a scheme in the 1920's. Ponzi falsely promised investors that they would make a profit of 50% in three months.



5. How does a Ponzi scheme work?

Ponzi schemes are based on fraudulent investment management services. Members contribute money to the fake “portfolio manager” who promises them a high return. When those members want their money back, they are paid out with the incoming funds contributed by participants who join at a later stage. The person organising this type of fraud, manages the entire operation. They merely transfer funds from one client to another. There is no real investment product.

Ponzi schemes are also sometimes run via WhatsApp by scamsters who use a method of fraud known as “identity hijacking”. Here, a well-known person’s identity is used fraudulently by criminals, posing as well-known financial institutions, to extract money from individuals.



With **Ponzi schemes**, investors give money to one fake “portfolio manager”. Then, when they want their money back, they are paid out with the incoming funds contributed by later investors.





6. How to protect yourself from being lured into a pyramid/Ponzi scheme

The best way to protect yourself from being drawn into a pyramid is to make sure you know who you are dealing with:

- Research the company that is offering you the investment opportunity. A website is not necessarily proof that the company exists and is legitimate.
- If you want to invest money, it is important to get financial advice from an authorised financial advisor.
- Get their contact details, physical address and visit their offices if possible. Remember, just because their building may look fancy and the people working there are well-dressed, it does not mean that they are a legitimate company. Many of these companies are “fronting”, which means they appear to be what they are not.

- Check with the Financial Sector Conduct Authority (FSCA) if the company is authorised to conduct financial business in South Africa. There have been cases where schemers steal the registration number of an approved financial services provider to lure members and try to look legitimate. Find out if the company is indeed linked to the person offering the financial service, and whether the service they offer is approved by the FSCA.
- Check with the National Stokvel Association of South Africa (NASASA) if a stokvel is registered and whether their constitution corresponds to the scheme being advertised. They need to have a NASASA registration number.
- Pyramid schemes usually recruit new members at seminars, home meetings, over the phone, by email, letters or social media. They use people to “testify” at “recruitment” meetings, to entice you to join. As some legitimate organisations use the same recruiting methods, always make sure of what you are letting yourself into.
- Do not be secretive about the offer that has been made to you. Get the opinion of your children, friends and neighbours. If they know about such a scam, they will warn you. If you identify this offer as a scam, then you can warn others.

Beware: Some pyramid schemes will make a first payment to new members – enticing them to make a bigger contribution.



Example:

You “invest” R1 000. After a month, the scheme pays out R200 on your investment, which is 20%. This seems like good news to you – the scheme seems to work! You give in to the temptation of making more money and you contribute another R1 000. What you do not know, is that the R200 actually came from your own contribution of R1 000. So, from the R2 000 you contributed to the scheme, the scammers now have R1 800 and you only have R200.

Remember, if it looks too good to be true, it probably is!





7. How to distinguish between an investment, stokvel or a pyramid/Ponzi scheme

Investment	Stokvel	Pyramid/Ponzi scheme
An investor is not required to recruit other investors to the scheme.	A member is not required to recruit other investors to the scheme. All stokvel members know each other, share a common objective and have a genuine and enduring relationship.	People are always required to recruit others into the scheme and are promised high returns within a short period of time.
An investor knows where his or her money is invested and the rate of return.	A member knows where his or her money is invested and how much will be paid out to them after a specified period. The member benefit is well specified in terms of quantum and timing.	Money simply exchanges hands with no real economic activity or financial products attached to it. Where financial products are sold, they are simply a smoke screen to hide the scheme. Significant returns are derived from the recruitment of people and not from the actual sale of the product.
All investment risks are communicated so that investors can make an informed decision.	Since stokvels have become more formalised, the risks are fewer, but some remain, such as members not contributing regularly, mismanagement of funds, being susceptible to scammers running pyramid schemes and unclear rules about how the money will be saved and spent. Stokvels are centred around a constitution. The constitution articulates the purpose and operational processes of the stokvel group. By reviewing the constitution, a potential stokvel member can determine whether the stokvel fits with their risk appetite and whether there is an alignment with their needs by joining the group.	Unrealistic returns are promised, and the risks associated with losing your money are not communicated.

Investment	Stokvel	Pyramid/Ponzi scheme
The investment advisor is registered with the FSCA.	A stokvel group is required to be a member of the National Stokvel Association of South Africa (NASASA) or a similar body approved by the Registrar of Banks. The FSCA is a regulatory partner of NASASA.	Promoters are not regulated and not registered anywhere. Some scheme operators register their companies with the Companies and Intellectual Property Commission (CIPC), but this does not mean that they are allowed to take money from the public.
The investment advisor is traceable and accountable for his/her actions and advice.	Stokvel groups must be members of NASASA or a similar body approved by the Registrar of Banks and are therefore traceable.	Because it is often difficult to trace the scheme's origins or the promoters, some scammers manage to avoid arrest and disappear without a trace when the scheme fails. Even when the scammers are arrested and prosecuted there is little chance that people will get their money back.
Legal and safe way of investing money.	Legal and trusted way of saving money.	It is a criminal offence to participate and promote a pyramid/Ponzi scheme. Participants risk losing money.
Recourse mechanisms available.	Recourse mechanisms available.	Hardly any recourse available.





8. Important questions to ask when you are invited to invest

- Are you registered with the FSCA? What is your Financial Services Provider (FSP) license number?
- In the event of a stokvel – Are you registered with NASASA? What is your registration number?
- May I look through your constitution for this stokvel? Who are the leaders of the stokvel and what are their contact details, so that I can communicate with them?
- How long have you been in the investment business?
- Are you registered with the Financial Planning Institute (FPI)?
- Can you show me proof of your company registration?
- What are your qualifications?
- Do you require me to introduce or recruit other people?
- What are the risks of this scheme?
- What financial product am I investing in? (Be especially careful of crypto currency products as they are not regulated in SA and there is currently (2020) no recourse available).
- Will I receive copies of signed documentation?





9. What to do if you are a victim of pyramid/Ponzi scheme fraud

- Report the fraud to the South African Police Services (SAPS).
- 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 have given the fraudsters your bank account details, alert your bank immediately.
- Stop all debit orders immediately.
- Keep any written communication you have received from the pyramid scheme. This may help as evidence for the relevant authorities.

Be aware that you are now likely to be a target for other fraudsters or fraudulent schemes. Fraudsters often share details about people they have successfully targeted or approached, using different identities to commit further fraud.

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

Useful contacts

Financial Sector Conduct Authority

To check if a financial services provider or financial advisor is authorised to sell you financial products and services, you can contact the FSCA.

Call Centre: 0800 20 3722 (FSCA)

FSCA switchboard: 012 428 8000

Fax number: 012 346 6941

E-mail: Info@fsc.co.za

Physical address:

Riverwalk Office Park, Block B,
41 Matroosberg Road, Ashlea Gardens,
Pretoria, South Africa 0081

Postal address:

P.O. Box 35655, Menlo Park, Pretoria, 0102

Website: www.fsc.co.za

FSCA's Consumer Education Department (CED).

For more consumer financial education information contact CED.

E-mail: CED.Consumer@fsc.co.za

Website: www.fscamymoney.co.za

National Stokvel Association of South Africa (NASASA).

To check if a stokvel is registered, contact NASASA.

Telephone: 087 898 0987

E-mail: info@nasasa.co.za

Physical address:

Kildrummy Office Park, Building 8 Glenfiddich,
Witkoppen Road & Umhlanga Avenue, Paulshof,
Sandton, 2191

Website: www.nasasa.co.za

South African Reserve Bank (SARB) or Prudential Authority (PA)

Report illegal deposit-taking schemes to the SARB or PA.

Telephone: 012 313 3911 /

0861 12 7272 (General enquiries)

Fax: 012 313 3758

E-mail: SARB-PA@resbank.co.za

Physical address:

South African Reserve Bank,
370 Helen Joseph Street,
Pretoria 0002

Postal address:

Prudential Authority,
South African Reserve Bank,
P O Box 8432, Pretoria 0001

Website: www.resbank.co.za

National Consumer Commission (NCC)

Report pyramid schemes to the NCC.

Telephone: 012 428 7000 / 012 428 7726

E-mail: complaints@thencec.org.za

Physical address:

Building C – South African Bureau of
Standards Campus, 1 Dr Lategan Road,
Groenkloof, Pretoria

Postal address:

PO Box 36628, Menlo Park, 0102

Website: www.thencec.gov.za

To learn more about scams and to check if you are being targeted visit the

Fraud Alert website.

Website: www.fraudalert.co.za

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