Chapter 95
"Truth," Lies, and Deception in Ponzi and Pyramid Schemes

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ABSTRACT

The popularity of alternative online investment platforms has become worrisome in recent times. Adopting explorative methodology, this chapter examines the discursive practices of truth, lies and deception inherent in Ponzi and Pyramid schemes through their method of operation, recruitment strategies, products/ services and reward system via Bitconnect, OneCoin, and Zarfund – three online-based Ponzi schemes. The study reveals that the greatest deception of Ponzi schemes lies in the high returns they promise to potential investors and the low work requirement. These claims make it difficult for potential investors to make rational decisions before investing. This study recommends that proper evaluation and due diligence – basic financial literacy – be conducted before investing in any AFIP. Alternatively, expert advice may be sort before any financial commitment.

INTRODUCTION

Social media platforms enable individuals and business organizations to utilize the opportunity of mediatized relationships on the Internet to do business and create wealth. Significantly, the emergence of virtual currency that allows individuals to carry out financial transactions online, without the use of credit cards, has given rise to new forms of legal and illegal financial practices. The popularity of Internet-mediated financial institutions and transactions has in turn yielded the growth of fraudulent financial investments, such as Ponzi and pyramid schemes. These schemes that parade as alternative financial institutions, persuade investors using different approaches. Ponzi schemes which although, existed before the emergence of the Internet, have been made popular through the emergence of virtual currencies.

An important feature of the rise in these alternative financial practices online, is the rise of new ways of making money online promoted through peer to peer platforms. As virtual currencies increase, the financial means of acquiring them has also increased, giving rise to the proliferation of Ponzi schemes in the guise of cryptocurrencies, investment schemes and currency exchange platforms. The impact of

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this new trend of financial fraud is evidenced by a report that there were over 1800 Bitcoin-based Ponzi schemes as at 2016 (Bartoletti, Ses & Serusi, 2018). Some of these schemes are built on half-truths and outright lies, intended to deceive victims and cajole them into making financial commitments that in some cases, result in losses. It is noteworthy that while these schemes are Internet-based, meaning that there is almost no direct contact between promoters and their prospective clients, the use of language whether verbal or non-verbal, plays important roles in the recruitment process of investors.

Although there is an emerging body of research on internet-based Ponzi schemes, these studies have explored the workings of Ponzi schemes related to Bitcoin and Ethereum, their ecosystem, as well as their risks (e.g Vilkins, Acuff & Hermanson, 2012; Vasek & Moore, 2015). The current study draws attention to the reproduction of ‘truth,’ lies and their juxtaposition as discourse practices that enable deception in Ponzi, Pyramid schemes and scam cryptocurrencies. This study which is qualitative, is an attempt to explore the discourse structures of these schemes as promoters of online mediated deception with a view to contribute to existing literature in this regard.

BACKGROUND

Ponzi Schemes

Ponzi scheme is named after Charles Ponzi who perpetrated the act in the twenties. It is described as a fraudulent scheme, which extorts money from investors with the hope of paying high returns (Walsh, 1998). The money collected is never invested in any business venture but is usually handed back with a fraudulent pretense that they are proceeds of investments (Frankel, 2012). The scheme began in December 1919 when Carlos Ponzi, who later changed his name to Charles Ponzi, started obtaining loans from friends in what he called a Ponzi plan (Walsh, 1998). Ponzi started inviting friends and relatives to his new plan where he asked them to invest some money in stamp coupons. He deceived them into believing that he had 100% profit for borrowing out money and needed more money to give out. Few of Ponzi’s friends decided to risk this new business and in ninety days, Ponzi had raised over 750 million dollars in interest. As the profit increased, other people soon joined the scheme. With a promise to repay 150 dollars in 90 days for every dollar loaned, Ponzi convinced thousands of people to invest in his business. In eighteen months, Ponzi had received over nine million dollars while he issued notes of fourteen million dollars (Frankel, 2012).

Frankel (2012) explains that Ponzi had no proper means of earning but actually paid investors from money collected from earlier investors. While some reinvested, others walked away with their money. Ponzi in a bid to answer question raised by authorities, hired a public relation officer who exposed that Ponzi had no business plan. By the end of the scheme, Ponzi had borrowed ten million dollars from investors in Boston and New York. The scheme collapsed eight months after its establishment leading investors to loss. The scheme which started years ago has permeated different economic systems.

One of the well-known and perhaps, the greatest Ponzi fraud in American history is that involving Bernard Madoff, a former NASDAQ Chairman and founder of the Wall Street firm (i.e. Bernard L. Madoff Investment Securities LLC). Madoff started his career as a stock broker selling over the counter stock at the New York Stock Exchange between 1960 and 1990 (Arvedlund, 2010). As his business grew Madoff began to convince his investors that he could beat the stock market by promising 10-12% annual returns on investment. While Madoff was able to pay early investors, he simply diverted the funds to

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