REINING PONZI KINGPINS AND PHONEY AGENTS

By
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In 1919 Charles (Carlo) Ponzi, a clerk in Boston , who later earned notoriety as a financial con artist, duped Americans with a scheme that now bears his name. Ponzi didn't invent this eponymous scheme — but he lent star power to one of the oldest scams known to us and pioneered its more subtle variation .At a time when interest rates stood at 5 percent, Ponzi made an amazing promise of doubling investors' money in 90 days. The pitch was to buy postal coupons—used for buying foreign stamps- in a particular country, and then capitalize on exchange rate differences by redeeming them at a profit in the US. Ponzi only bought a handful of stamps. But he kept the scam going by robbing from Peter to pay Paul; old investors were paid back with money from new investors, and thus, he formed a cycle. The Italian immigrant, who had tremendous charisma, coaxed thousands of people into sinking millions before his scheme finally crashed in 1920. Ponzi scams keep coming back because they are so lucrative and so easy to do in many variations of them.

India has always been a fertile ground for such scammers who have exploited the illiteracy of the poor to bilk them of millions of rupees. There have been so many fraudulent operators in rural areas that the poor have now become wary of investing money even in credible organizations. These mercenary agents use enticing traps to net gullible investors like sharks preying on small gold fishes in the big bad financial ocean.

The Ponzi sponsors are authors of the dreamers' landscape: get-rich-quick schemes and rags-to –riches stories and have an unerring gift of charming others The ruse works like this: the perpetrators of Ponzi schemes typically promise gullible customers almost the moon- stratospheric returns on investments. They scout new depositors to meet their promise of guaranteed returns to existing savers, thereby giving an illusion of solvency. These schemes can snowball but are eventual collapse when the potential pool of new savers runs dry. This will happen when the scheme hits the natural limits of its strategy for recruiting investors.

What is a Ponzi Scheme?

A Ponzi scheme is a classic swindle, similar to a pyramid scheme in the sense that both are based on using new investors' funds to pay the earlier investors. The promoters tout phenomenal returns for investors. One difference between the two schemes is that the Ponzi originator gathers funds from new investors and then distributes them. Pyramid schemes, on the other hand, allow each investor to directly benefit in proportion to the number of new investors recruited. Older members are allowed to withdraw money after a certain period of time and receive bonuses for encouraging new entrants to sign up. In this case, the person on the top of the pyramid does not at any point have access to all the money in the system.

Instead of investing the funds, the remarkably uncouth Ponzi operator uses the commitments to pay off earlier investors and takes a cut for himself .The gullible investors are normally illiterate and do not understand the nuances of finance. They don't realize that existing investors are paid money not than from genuine business profit. They believe their funds are a sound and legitimate business. The swindler's dark genius lies in understanding their audience and combining a toxic blend of affability ,creativity and sociopathy to lure good prospects and parry questions about his legitimacy and trustworthiness with huge dividends, sometimes even consistently beating the market . He builds a phantom fund and huge assets to appear as blue chip operator. If enquirers have worries, the staff assigned to field the queries has already been provided with a reassuring script tailored to their audiences. They are polished talkers whose accent veers depending on who they are peaking and treat them like royalty.

The scam actually yields the promised returns to early-stage backers, as long as new savers keep adding to the fold. The liabilities actually exceed assets and the firm is permanently insolvent .The scheme moves seamlessly delivering steady returns and without raising a faintest hint of suspicion, until a point when it is no longer able to attract new investors. The promoters even pay the fanciful returns, perhaps even higher than the promised dividend, out of their personal funds, thus confirming the promoter's credibility. They plough on until the whole structure collapses like a house of cards when the flow of fresh money dwindles and the perpetrator can't honour the redemptions, because the outflow of cash exceeds the inflow. Savings disappear, debts mount up and the scammer goes slowly under. He tries to siphon off as much of the money as he can before the scheme fails .The crucial piece in the jigsaw is the incompetence of the regulators who either know about these scams and do nothing or they completely overlook it on account of powerful promoters who have political links .

Need For Financial Literacy

While we should continue to make a case for strong regulations to protect consumers against unscrupulous firms, we must remember that good financial literacy among citizens is the most effective antidote against these moral abuses. To blunt the potential for risk, it's more important than ever to arm customers with skills they need to responsibly borrow to get a business idea off the ground or to acquire an asset like a house, save to build their assets, insure to stay resilient through life's worst moments without being pushed deeper into debt and to keep distance from unscrupulous and dubious investment schemes that have lacerated the financial lives of multitudes after they got into serious mess with them. Stories commonly abound of people having been stripped of every cent they earned by the time they realized they'd been conned.

Financial knowledge is particularly important in times when increasingly complex financial products are deluging the market. On account of lack of proper financial counseling, people buy insurance policies without planning and give up midway because they don't have money to pay the premium. Hard selling prevents the agents from properly assessing the consistency in income streams of the buyers for servicing their policies. The customers end up losing heavily due to harsh penalties. Insurance has become so complex that it is necessary to study ambiguous phrases to unearth what lurks behind them. To keep abreast, even those who are financially literate need to brush up on financial skills. This is a critical problem that has pockmarked the financial landscape.

People who have a strong grasp of financial principles are able to better understand and negotiate the financial landscape and avoid financial pitfalls. Conversely, people with a lower degree of financial literacy struggle to understand money matters and the potential impact on their financial well-being.

Refer RBI Portal for Safe Investments.

The good news is that there are now several channels of information and resources to help the public build their financial stability. **To safeguard the hard earned money of investors and curb the pervasive menace of illegal money pooling by companies, Reserve Bank of India (RBI) has set up a portal —sachet.rbi.org.in—to enable the public to obtain information about registered entities who accept deposits, get information regarding illegal acceptance of deposits, and lodge complaints .The portal also facilitates filing, and tracking of complaints**.

Finally, the individual must use his commonsense and wisdom in a financial decision .Basic and rudimentary financial literacy is a part of the informal knowledge network in all societies. In fact, most financial literacy programmes have codified and documented this traditional wisdom in their mainstream systems. Women who are the stewards of household savings should be part of a family's financial decision as they are usually risk averse and have greater propensity for savings than borrowing. The ubiquitous financial mantra should also be: savings first, credit last.

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