

BEWARE

OF ILLEGAL FINANCIAL SCHEMES

ALSO KNOWN AS
PYRAMID SCHEMES
OR PONZI SCHEMES

“ They make unrealistic promises and have secretive business models. ”

Bank of Namibia



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What is an illegal financial scheme?

As its name indicates, illegal financial schemes is structured like a pyramid. It is an illegal investment scam which typically starts with one person – the initial recruiter – who is on top of the pyramid.

This person recruits a second person who is required to “invest” a certain amount, which is paid to the initial recruiter. In order to make his or her money back, the new recruit must recruit more people under him or her, each of whom will also have to invest.

If the recruit gets more people to invest, he or she will make a profit with just a small investment. Illegal financial schemes are often product-based to disguise the true nature of the business.



Some of the tell-tale characteristics of a illegal financial schemes are as follows:

- You are offered a chance to join a group, scheme, program or team where you need to recruit new members to make money. Your income is based mainly on the number of people you recruit, and the money those new recruits pay to join the company — not on the sales of products to consumers;
- The scheme involves offering goods or services of little or doubtful value that serve only to promote the scheme, such as information sheets;
- There are big up-front costs (e.g. you’re required to buy lots of inventory/stock);
- The promoter makes claims like “this is not an illegal financial scheme” or “this is not illegal”;
- You’re forced to buy other things you don’t want or need just to stay in good standing with the company.

Why are illegal financial schemes illegal?

- The conducting of, and/or involvement in illegal financial schemes business is prohibited by section 55A of the Banking Institutions Act, No 2 of 1998, as amended.
- The problem with illegal financial schemes is that the scheme cannot go on forever (unsustainable), because there are only a certain number of people who can join the scheme. People are deceived into believing that by giving money, they will make more money; however, no wealth has been created, no product has been sold, no investment has been made, and no service has been provided.



- The fraud lies in the fact that it is impossible for the cycle to sustain itself, so people will lose their money somewhere down the line. Those who are most vulnerable are those toward the bottom of the pyramid, where it becomes impossible to recruit the number of people required to pay off the previous layer of recruiters. This is the reason why illegal financial schemes are illegal in Namibia and most countries throughout the world.

What are the risks of participating in an illegal financial scheme?

- You may lose your money. The chances are very high that you will not be repaid the funds you invested.
- You may be convicted of a criminal offence. The Banking Institutions Act No 2 of 1998 (as amended) not only prohibits the conducting of this type of business, but also involvement - directly or indirectly. This means that simply by participating in the scheme, you may be held criminally liable and be subject to a fine not exceeding NAD 1 million or to imprisonment for a period not exceeding ten years, or both.

What is the difference between Illegal financial schemes and Multi-Level Marketing?

- Multi-Level marketing (MLM) is legal and involves the recruitment of personnel in order to sell a product or service that actually has value. As a recruit, you can make a profit from the sales of the product or service, so you don't necessarily have to recruit more sales people below you. While you may be encouraged to recruit other sales people whose sales would give you more profits, you can stick to just selling the product directly to the consumer if you choose.
- An illegal financial scheme, however, will most likely sell a product with no real value, or it is largely overpriced. In this kind of illegal financial scheme, you would be required to recruit new members in order to make a profit and keep the scheme alive. The business cannot operate without the element



What are some of the red flags of an illegal financial schemes?

- Promises of "extra income", "get-rich-quick" businesses with high investment returns that carry little risks. Promoters of illicit businesses often try and sell the idea of a secret formula which is designed to attract innocent unsuspecting investors.
- Unregistered or unlicensed businesses. Pyramid and other illegal financial schemes typically involve "fictitious companies" that have not been registered with the Bank of Namibia or other financial institution regulators. Registration is important because it provides investors with access to key information about the company's management, products, services, finances, and authenticity or credibility.
- Secretive and/or complex strategies. Avoid investments you do not understand, or for which you cannot get complete information.
- Web-based or foreign businesses. Fraudulent schemes operating from foreign countries are a lot harder to trace, locate and prosecute by Namibian authorities.
- Be sure to do your research before investing in internet-based or foreign businesses.

I'm considering making an investment with a company, but I am not sure if it is a illegal financial schemes. What should I do?

- If you are not sure whether a potential investment opportunity is a illegal financial scheme, be sure to contact the Bank of Namibia for more information. If an assessment has not been carried out on the particular business already, the Bank will take the following steps:

- Invite the promoters of the company to present the business model of the company to the officials of the Bank;
- Investigate how the business operates, how many people have joined and conduct an assessment in order to determine whether it can be considered an illegal financial scheme in terms of the provisions of the law;
- After the assessment is finalized, the Bank will make a determination and communicate the outcome of the investigation;
- If it is determined that it is an illegal financial scheme, the Bank will direct the promoters to reimburse the funds persons have invested and take any further action deemed necessary.

I'm a victim of illegal financial schemes fraud. What should I do?

- Report the illegal financial schemes to the Bank of Namibia;
- If you think you're actively participating in an illegal financial schemes, break off contact with the promoters immediately and don't invest any more money;
- If you've given the promoters your bank account details, alert your bank immediately;
- Keep any written communications you've received from the illegal financial schemes. They may help you give evidence to the authorities;
- Cooperate with the officials of the Bank of Namibia.



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