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Ponzi Schemes

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The Fall of JJPTR

The alleged cyberattack on the forex-investing entity, JJPTR has garnered nationwide attention towards the illegal investment scheme during late April. Investors panicked as they saw their capitals frozen along with the shutdowns of all office branches. The incident purportedly caused a massive loss of RM500 million in malicious forex trades. Unsurprisingly, the statement was met with public scepticism, with most pointing out obvious red flags and labelling the scheme as a Ponzi scam.

Since 2015, JJPTR has been proclaiming itself as an investment company that promises its' investors a monthly 20% Return on Investment (ROI) on their capital, with a maximum cap that increases as membership matures. Additionally, members are also offered a 5% monthly commission on capitals of recruits. Despite being placed on Financial Consumer Alert list by Bank Negara Malaysia, the company continued to rise in popularity.

A Glimpse into Ponzi Schemes

Regardless of the authenticity of JJPTR, Ponzi schemes are not new occurrences in Malaysia. Ponzi scheme is a fraudulent investment structure where dividends paid for early members are funded by capitals from newer members. It is difficult to tell apart Ponzi schemes from legitimate investment plans on the surface as no Ponzi scheme have ever labelled itself as one anyway. However, Ponzi schemes have generally offered absurdly high ROI - some even reaching a monthly 40% rate with abnormal consistencies. Comparing this rate to renowned investors such as Warren Buffett (Berkshire Hathaway), who managed to generate an average of 20.3% annual return on stocks to investors, it is difficult to see how these schemes' managers have not topped Forbes World's Billionaire list.

Complementing the high return rate is also the commission system, where upliners will be paid additional dividends on the capital brought in by their recruits. This generates a continuous entry of funds into the system. Eventually, the input of funds is insufficient to support the dividends of prior investments, the operators escape while reaping huge profit out of it. It is only a matter of time before a new similar scheme with different name emerges. However, on closer inspection, the modus operandi remains largely similar.

The Case for Unregulated and Unauthorised Tradings

According to Bank Negara Malaysia, Bitcoin has yet to be recognized as a legal tender in Malaysia. As in the case of foreign exchange, aside from commercial and Islamic banks, BIMB Foreign Currency Clearing Agency Sdn Bhd and RMEX Trading Sdn Bhd are the only clearing houses authorised to conduct foreign currency trading. These make investing in these vehicles in Malaysia ambiguous.

The lack of strict regulations and exploitation of legal loopholes still make way for citizens to trade in these currencies. For instance, the modus operandi for forex-trading entities is to siphon the money to company offshore where foreign exchange trading is legal. The effect is the inability of local authorities such as Bank Negara Malaysia and Securities Commision Malaysia to prosecute them with illegal deposit taking. Thus, the entire structure becomes opaque due to the lack of legal documentations and identity.

Fraudulent companies have been known to set up their own servers which they could manipulate and trick investors into believing they've reaped huge profits. Despite these companies being placed on watchlists by central banks, consumers would often continue engaging as it is easy to claim that the enlisting were simply due to the illegal yet profitable nature of the activities. These same concepts apply equally on Bitcoins and other unregulated currencies. The lack of transparency within these self-proclaimed investment entity allows schemes operators to easily deceive unaware financial consumers into believing their legitimacy.

The Genneva Gold Futures Scandal swept an estimated RM5.5 billion deposits of 35,000 investors. The venture responsible, Geneva Sdn Bhd, resembled that of a Ponzi scheme and was charged with more than 1000 counts of charge including money laundering, tax evasion, misrepresentation and appointments of agent without license. The scam peaked at a time when economic uncertainties were at its' highest in 2008 during the subprime mortgage crisis, and when gold trading was an unregulated activity with no licensing and approvals required.

How Consumers Can Protect Themselves?

It is best that one only engages in licensed financial activities from regulated financial institutions in Malaysia. All legitimate investment schemes should come with a prospectus from Securities Commission that must be produced to protect investors.

While this article does not condemn the act of investing in unregulated commodities, it should be made known that these investment scenes have dreadful propensity for fraudulent entities to exploit the loopholes. Hence, financial consumers should look for obvious red flags before engaging. Amongst these are abnormally high interest rates and ROI, high frequency of dividend payments, purported dealing in unregulated and obscure currencies, multi-leveled marketing system, guaranteed returns, companies enlisted on Financial Consumer Alert List and have neither registrations, verifications by authorities nor financial statements released to investors and the feature of a charismatic spokesperson setting up irrelevant businesses in the region. Investors attempting to trade in foreign currencies through a company should communicate with relevant regulatory agencies in the country to verify the credibility of forex brokers.

According to FMT News, the relevant regulatory agencies for respective countries are National Futures Association (NFA) and Commodity Futures Trading Commission (CFTC) in the United States, Financial Conduct Authority (FCA) and Prudential Regulation Authority (PRA) in the United Kingdom, Australian Securities and Investment Commission (ASIC), Swiss Federal Banking Commission (SFBC), Bundesanstalt für Finanzdienstleistungsaufsicht (BaFIN) in Germany and Autorité des Marchés Financiers (AMF) in France. All in all, when making investments, the simplest way to protect yourself is to avoid decisions that are ‘too good to be true’.

References

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