



PONZI, PYRAMIDS AND THE EXILED PRINCE

UNCERTAIN FINANCIAL TIMES RAISE THE SPECTRE OF SCAMS, AND THEY'RE NOT AS CREATIVE AS YOU MIGHT THINK. ROWENA EVERSON OFFERS SOME NOTES OF CAUTION

AS financial scams go, the “recently exiled Princes of Nigeria and Albania” are not particularly sophisticated. In fact, you can usually spot them with a spell-checker. What makes them interesting, however, is that people are still falling for them. According to US investor watchdog the Federal Trade Commission, fraudulent investment schemes are on the increase as people become desperate to find ways of making money in turbulent markets. So this month I thought we could take a look at some of the classic (and revamped) financial scandals that have duped investors, both mighty and humble, and how you can make sure you avoid them.

The Exiled Prince: This is a very crude phishing attack and follows a fairly standard format. Recently exiled royal or diplomat has been forced to flee his homeland, leaving all his assets behind. In order to release the millions of dollars in his bank account, he needs an overseas account to transfer the cash into, which is where the investor comes in. You provide your bank details, he transfers his cash, you take a commission. In reality the cash moves in the opposite direction and the only thing you take is a hit to your bottom line. Never fall for this one.

The Pyramid: The classic pyramid

scam can involve a genuine product like a cosmetic or cleaning aid, but victims can never make enough money by merely selling the product, especially when they have had to pay to buy into the scheme. A businessman comes to you with a highly profitable sounding proposal that will doubtless be backed up by proof of its money making potential. You buy into the scheme in return for a licence to sell the product and an inventory (eg a box of cleaning chemicals). In addition to selling your product, the fraudster will allow you to recruit your own team who pay you a commission (less a sizeable chunk to the scam runner) to receive their licences and inventory. Your recruits get recruits and so on. Ultimately, the recruits will begin to find it difficult to hire their own recruits, the product will turn out to be less than amazing and only a few at the top of the pyramid will get really wealthy. Pyramids may be illegal in most countries but they just keep cropping up.

The Ponzi Scheme: Named after Charles Ponzi, these are similar to a pyramid in that existing investors' returns are funded by incoming investors. The difference is that all cash goes initially to the Ponzi head. In the early twentieth century, Italian

immigrant to the US Charles Ponzi started a scheme to arbitrage international reply coupons for postage stamps. High projected returns enticed financially ignorant investors, who believed their cash was being invested in Ponzi's arbitrage scheme. In fact, Charles Ponzi took all the money for himself and only started paying out money to earlier clients from the investment funds of later clients. Ponzi was eventually caught and jailed in 1910, yet only one third of their investments was returned to his clients. The latest “Ponzi” scheme may well emerge to be the biggest scam of all time. Bernard Madoff's US\$50 billion “hedge fund” was based on the classic principle of paying early investors with new joiner's fees, however it differed in a number of ways: unlike classic Ponzi victims, Madoff's clients included financially astute fund managers and millionaire businessmen; he also eschewed the showy high return promises, instead providing a steady (in the end too steady) 10 per cent return, which eventually drew suspicion to the former Nasdaq chairman. The moral of the Ponzi is, if it looks too good to be true, it probably is.

Phishing: With the recent bout of bank mergers has come another wave of phishing attacks. More sophisticated than

According to US investor watchdog the Federal Trade Commission, fraudulent investment schemes are on the increase as people become desperate to find ways of making money in turbulent markets.

many predecessors, the current phishing attacks use the fact that if you have an investment or a loan like a mortgage with a bank that has since merged or been taken over, procedures for your online banking may have changed. Emails that appear to come from the acquiring bank ask users to update, validate or confirm personal details like credit card information, date of birth etc by clicking on a link. The link takes you to a website that looks like the actual site of the new financial institution – but, of course, it isn't. It's a bogus site whose purpose is to trick users into giving up personal information, which can then be used to steal their money. International anti-fraud squads expect this time of scam to increase in the next few months.



And finally, to Singapore's own biggest ever fraud. On 2 April 2004, Chia Teck Leng was sentenced to 42 years in jail for swindling S\$117m from banks over four years. Chia, an accountancy graduate who had worked at Arthur Andersen, was finance manager at Asia Pacific Breweries, earning S\$250,000 per year. In addition to counting beer bottles, Chia also supported a hefty gambling habit, which landed him in millions of dollars of debt. To relieve the debt (and generate more money to feed his gambling habit) Chia made fake loan and credit applications to banks in Singapore, forging board resolutions and signatures. He was eventually caught in 2003 and is currently serving the longest jail term ever meted out for a commercial crime. ■