



Advisory Warning No. 1 of 2020

ADVISORY WARNING

issued under s. 4(1)(l) of the Financial Services Commission Act, 2001

PYRAMID SCHEMES

Tortola, British Virgin Islands – 1 July 2020 – The British Virgin Islands Financial Services Commission (the “FSC”) is warning the public to beware of Pyramid Schemes and other related investment scams. While there are some legitimate uses of pyramid structures to sell products or other services, a pyramid structure can easily become a pyramid scheme that is used for illicit purposes and result in financial loss.

A pyramid scheme can be defined as a fraudulent money-making scheme based on an unsustainable business model that involves the exchange of money primarily for enrolling other people into the scheme without a legitimate product or service being delivered.

A pyramid scheme generally requires you to recruit friends or family members to enter the scheme and make contributions. If you do this successfully, you are paid or gifted out of their contributions. Your family and friends are then told to recruit others to keep the chain going. Your money is not actually invested in any product. Instead, it is simply passed in some defined sequence to other members.

Eventually, without an unlimited pool of persons, the number of new recruits fails to sustain the payment structure and the scheme collapses with most people losing the money they paid in. This is particularly true for small territories with a small or finite population.

In the current environment where persons may have financial vulnerabilities due to the pandemic, it is important that the public remain vigilant to these schemes. These very old schemes may look like new opportunities or appear similar to cultural arrangements like ‘*partner hands*’ or ‘*sou-sou hands*’. New versions also are promoted as not being pyramids while exhibiting the very same characteristic, for example, each person must recruit two persons, and each of these two persons must recruit two persons, et cetera.

Pyramid schemes have several distinguishable characteristics; key among others are:

- ***No genuine product or service is sold.*** There is no legitimate or tangible product or service involved (i.e. you often do not get a product or service in return for your initial monetary contribution or investment);
- ***Emphasis on recruiting.*** There is no financial return unless you have successfully introduced a number of new recruits into the pyramid, who in turn introduce other recruits; and
- ***Promises of high returns in a short period of time.*** They revolve primarily around members earning money by merely recruiting new people perpetually; the failure of which would cause the scheme to fall apart.

Because pyramid schemes are unauthorized and make no legitimate investments and therefore no profits, a member is very unlikely to recover any monies contributed, while the fraudster at the top will collect most of the profits. Very often, those who entered the scheme later loses.

The FSC strongly advises the public to exercise extreme caution when presented with ‘investment’ opportunities exhibiting the above characteristics. Members of the public should seek professional advice from competent persons to help evaluate potential investment opportunities, minimize risks, and avoid becoming victims of fraud.

The FSC is the Territory’s regulator for all financial services business. For more information, contact the FSC’s Enforcement Division at Enforcement@bvifsc.vg or (284) 494 4190.

The FSC is issuing this Advisory Warning under Section 4 (1)(1) of the Financial Services Commission Act, 2001.