FACING GLOBAL DIGITAL REVOLUTION

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Foreword

In terms of industrial revolution 4.0, what technological aspect can disrupt jobs nowadays and change the business model? The digital revolution has re-imagined how individuals live. Technology is changing the traditional business model and reinterpreting the value for the customer in economic circumstances. Kavadia et al. (2016) contradict the idea that technology is exclusively responsible for the transformation of the industry. Westerman (2017) supports that view, noticing that "technology doesn't provide value to a business, but that technology's value comes from doing business differently because technology makes it possible."

Facing the digital revolution has shown how business, economy, and management have been affected by technological changes in a more personalized product/service offering, a closed-loop process, asset sharing, usage-based pricing, and a more collaborative ecosystem, an agile and adaptive organization.

The 1st Business and Economic Series: Economics, Management, and Accounting Conference 2019 (1st BES 2019) presented various articles that discuss research in business, economy, management, and accounting in a digital era. The research needs to be emphasized by a continuous study for a more significant impact.

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Predator and prey: Ponzi and pyramid investors

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ABSTRACT: This paper proposes to present a new perspective on the tricky investment practices through the classification of investors' Ponzi and pyramids scheme. This study used qualitative methods through interviews with victims of the scheme from 11 cities in Indonesia. The sample in this study were individuals who were victims of investment fraud with both systems. The method applied was snowball sampling. The small number of samples was a limitation of the study. Based on the interviews, there were three classifications of investors of both schemes: Predator, Strong Prey and Weak Prey. The current study might be expected to be the first research on investor classification on Ponzi and pyramid scheme.

1 INTRODUCTION

Illegal investment "getting rich quick scheme" through Ponzi and the pyramid schemes still exist. The victims of this scheme can be found not only in developing countries but also in developed countries. There were more than 500 bad impacts of Ponzi schemes during 2008-2013 in The United States (Maglich, 2014) and 700 illegal businesses practices during June 2007 that were dissolved by the Malaysian government (Sulaiman, Moideen and Moreira, 2016). The same schemes also exist in Russia, Bulgaria, Romania, Serbia, Slovakia, Czech Republic, Albania (Bhattacharya, 2003), China (Albrecht et al., 2017), Indonesia (Hidajat, 2018), et cetera.

In Indonesia, some companies that operate Ponzi and pyramid schemes were part of 262 illegal investments as released by the Indonesian Financial Services Authority in 2014. From 262 illegal companies, 52 of them were operating Ponzi and pyramid schemes. This amount is too little because there are many companies that are not detected. When it first appeared in Indonesia, the most widely used scheme was the pyramid through chain letters. Although there is no official record of the presence of this scheme in Indonesia, the presence of Bratajaya Nilawati in 1975 showed that this mode of investment had emerged that year. The method used at that time was through chain letters whose payments were made through money orders.

Along with people's changing behavior, preferring to get results quickly, the popularity of the pyramid scheme is fading and has been replaced by Ponzi schemes. Instruments that come in the guise of investment, in general, are forex, gold commodities or other derivative transactions. On the internet, this scheme often arises through high yield investment programs (HYIP).

Some studies had been conducted on the existence of Ponzi and pyramid schemes in several countries, such as Caribbean (Carvajal et al., 2009), Jamaica (Tennant, 2011), South Africa (Krige, 2012), United States (Deason, 2012), and Papua New Guinean (Cox, 2014). There is also research that discusses the high yield investment program (HYIP) - a Ponzi and Pyramid scheme using the internet - like Moore, Han, & Clayton (2012) and Artzrouni (2009). Other research addresses efforts to avoid schemes (Baucus and Mitteness, 2016) through regulation (Sulaiman, Moideen and Moreira, 2016) and the causes of investors joining the scheme (Jacobs and Schain, 2011; Tennant, 2011; Lewis, 2012; Wilkins, Acuff and Hermanson, 2012).

However, to our knowledge, there has been no research that discusses the classification of investors in Ponzi and pyramid schemes. This classification is important because not all investors in both schemes have the same knowledge and motivation. For example, Moore, Han, & Clayton (2012) stated that HYIP is 'postmodern investment' because investors who participate in the program know the fraud committed by the schemer, but they still take risks by joining early and taking profit at the right time. This paper aims to classify Ponzi and pyramids investors. This classification is important because it is useful to know the characteristics of each group.

2 PONZI AND PYRAMID SCHEMES

Innovations in financial markets did not only give rise to various types of trust investment, but they were also able to create negative creativity with the existence of illegal investment schemes. The phenomenon of "getting rich quickly" through Ponzi and pyramid schemes was one of the illicit investments that have been occurring continuously until now.

A Ponzi scheme is "a type of investment fraud in which returns are paid to investors either from their own money or out of money paid in by subsequent investors, rather than from profits generated by investment or any genuine business activity" (Lewis, 2012). In a Ponzi scheme, the schemer will search potential investors to join. Investors only invest their money and wait for profit sharing without doing anything. According to Parsons (2011), some characteristics of the classic Ponzi scheme are: (i) The source of income for this scheme comes only from investors; (ii) exclusivity. To give the impression that the system is exclusive and not easy to follow, only certain investors are allowed to follow the scheme; (iii) Affinity fraud. Schemer will generally look for targets, namely new investors from specific communities based on religion, race, age, and so on. In Madoff's case, many investors came from the Jewish community and the stock investor community; (iv) Consistency. The scheme consistently fulfils the promise of providing investment returns to old investors and attracting new investors; (v) Secret element. The schemer will never explain how to get income consistently. In general, they will claim to have several investment strategies; (vi) Perceived legitimacy. Schemer reputation factors and have been operating for a long time, making investors feel confident that their funds are in the right hands.

Although the profit received by investors comes from other investors, the schemer usually generally states that the return on investment is a result of legal investment (Deason, 2012) or the result of applying a specific investment strategy by the schemer. Bernard Madoff for example, publicly stated that he used a split-strike investment strategy in managing investor funds (Bernard, 2009; Clauss, Roncalli and Weisang, 2009; Gregoriou, 2009). The schemer usually also uses trust factors such as public figures to attract attention. Prospective investors who have confidence in certain individuals tend not to carry out investigations to detect fraud (Carey and Webb, 2017).

The pyramid scheme is similar to a Ponzi scheme where returns received by an investor also come from other investors money. According to Akinladejo et al. (2013), "A pyramid scheme is often described as a 'business opportunity'. The distinctive characteristic of this 'business opportunity' is that the only way participants can make money is by recruiting other members to the scheme who quickly find out that their successes depend entirely on their ability to recruit other persons to the scheme." In contrast to the Ponzi scheme where the managers act actively to find investors, in the pyramid scheme, investors are the parties that actively seek another investor. If new investors are not obtained, they get nothing.

In a pyramid scheme, there are two types of models: the naked pyramid and the product-based pyramid (Akinladejo, Clarke and Akinladejo, 2013). In the naked pyramid, the existing mechanism is derived from the recruitment of new investors. To give the good image that this investment scheme is true or logical, the product-based pyramid model incorporates the product as camouflage. For the ordinary people with low level of financial knowledge, this model is sometimes complicated to distinguish from legal and true investment because there are other products or services provided, so it looks as multi-level marketing (MLM) business.

From the discussion, the Ponzi and pyramid schemes can be defined as "investment schemes that promise high or certain returns level to investors, but really, the rewards or returns given to those investors were derived from other investors money".

3 METHOD

This research uses interviews through questionnaires with victims of Ponzi and pyramids schemes. The sample in this study were those who were or had participated in one or more investment offers from high yield investment programs (HYIP) and 52 companies that run Ponzi and pyramid schemes. The fifty-two companies are part of a list of 262 companies considered illegal by the Indonesian Financial Services Authority in 2014.

The sampling technique used is snowball sampling because it is difficult to find victims of investment fraud as stated by Sadiraj & Schram (1999). We found respondents one by one respondent based on information from other victims of the scheme. The number of samples obtained was 98 people from 11 cities in Indonesia consisting of 17% of the pyramid scheme investors and 83% of the Ponzi scheme.

4 RESULTS AND DISCUSSIONS

The interview results illustrate that the average age of pyramid scheme investors is 50. This is an indication that this scheme has been around for a long time being the most numerous compared to other schemes. Almost all the respondents in this category are pensionary and risk avoiders. This finding is consistent with Bosley & Knorr (2017) that those who have just retired are one of the groups targeted by the schemer. They want to get money but do not want to lose money from an investment.

Unlike pyramid investors, almost all Ponzi (non-HYIP) scheme investors are adults with an average age of 45 years and Ponzi investors (HYIP) are young people with an average age of 24 years. This result is in line with the existence of the scheme in Indonesia which in recent years has been dominated by Ponzi schemes. Ponzi (non-HYIP) scheme investors tend to be neutral to risk while Ponzi investors (HYIP) are risk seekers. It was surprising that 85% respondents did not know the investment they participated in included a Ponzi or pyramid scheme, while 15% of the respondents who were all Ponzi investors (HYIP) knew about this. From the description of the respondent, the characteristics of the Ponzi and pyramid scheme investors are (i) almost all investors in pyramid schemes are old, risk avoiders and do not know the mechanism of fraud committed by the schemer; (ii) Ponzi investors consist of two groups, Ponzi HYIP and Ponzi non-HYIP. Ponzi HYIP consists of young people and risk takers because they know how the schemer works. They are difficult to influence and join investments because of their wants.

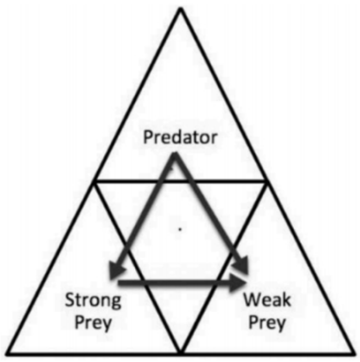

Figure 1. Ponzi and pyramid investor.

From these results, this paper proposes three types of investors in the Ponzi and pyramid schemes, namely Predators, Strong Prey and Weak Prey. The terms are based on John Maynard Keynes's statement that "animal spirit" could be implemented to describe human behaviour such as bullish, bearish, herding, et cetera. Predator is a term for investors who understand fraudulent schemes but deliberately take risks by joining earlier to get more profits. Predators know that the system is a very risky business scheme. Predators exist in both Ponzi and pyramid schemes. They not only want to find new businesses that appear with Ponzi schemes or pyramids but also actively seek other investors (prey) to join, especially in pyramid schemes. Most of them have experience in the same scheme. They also understand when they must enter (participate) and exit (profit taking). They are often sought out by schemers of pyramid schemes to become leaders that have just emerged and to influence others (prey) to join.

Strong Prey was a term attached to investors who did not understand the scheme mechanism, but they joined in Ponzi or pyramid scheme more due to their intention. Strong Prey were in Ponzi and pyramid schemes. They considered that the business scheme was followed was a legal business or investment. Although they tended to be Prey for Predators, Strong Prey was difficult to influence. Weak Prey was a term for investors who did not understand the scheme mechanism, but they joined in it because of the persuasion, influence or just following the others. Generally, Weak Prey were present in the pyramid scheme, and they were at the latest line in the system. They were the parties who were almost always the victims of this tricky scheme because of their ignorance, and others very easily influenced them. They were also easily moved from one scheme to another because of persuasion from others. The existence of weak prey indicated the presence of "unexpected hanging paradox". It was a condition wherein a pyramid scheme, almost certainly no one wants to join the latest, but in real fact, there were always parties who decided to join.

5 CONCLUSIONS

Illegal investment offers through Ponzi and pyramid schemes continue to occur using several tricks. The existence of these schemes cannot be separated from investor profiles in each scheme. Learning from cases in Indonesia, Ponzi investors or pyramid schemes are grouped into three types: Predator, Strong Prey, and Weak Prey.

Predators are the type of investor who best understands the scheme and influences Strong and Weak Prey to join. Even so, Strong Prey is prey that is more difficult to influence than Weak Prey. Weak Prey is a group of investors who get nothing from a scheme.

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