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Dari Meja Pengarang

The 4th bulletin, the 2nd issue for 2022 of our bulletins, is finally ready. The world is opening, welcoming travellers from everywhere. It is like the world is coming to life again, and so are the campuses. Life started to get busier, but it is a relief that many are still taking precautions to avoid spreading C-19. In all the excitement, we must remember that C-19 is still lurking around so as online scammers. The digital world has opened more opportunities for scammers to carry out their dirty acts to con victims. Please stay safe and play our roles in curbing the spread of both the virus and scams. Enjoy the reading!

Dr Raziah Bi Mohamed Sadique
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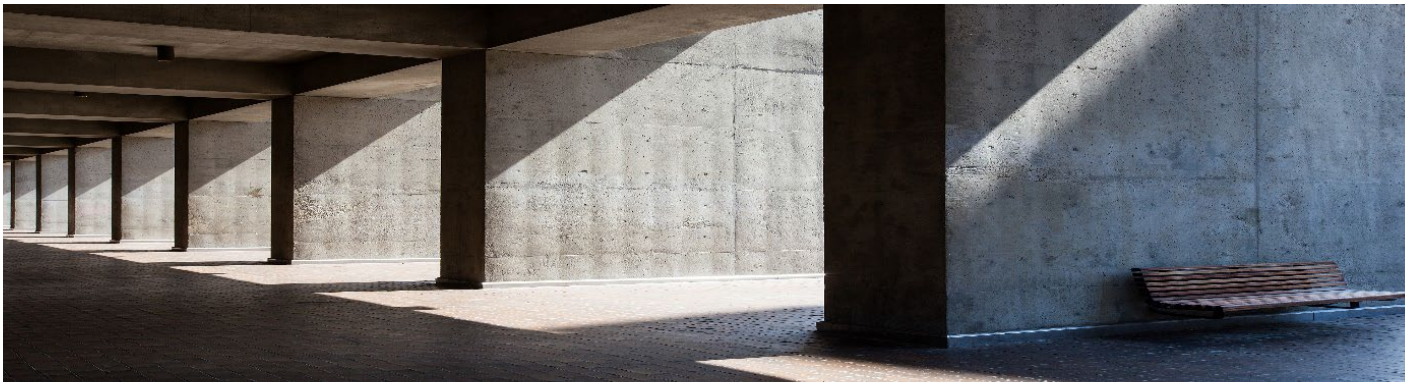

Recognising The "Red Flags" Of Get-Rich-Quick Schemes

by Eley Suzana Kasim, Norlaila Md Zin, & Hazlina Mohd Padil

In the late 1980s, Malaysians were shocked to find out about a get-rich-quick scheme organised by Osman Hamzah or more famously known as Pak Man Telo. He was a man from Taiping, Perak who was employed as a journalist of local newspapers in the 1960s and 1970s. His modus operandi involved setting up a company in 1972 that offered a fraudulent deposit taking activity known as Skim Pertama Berhad or Skim Pak Man Telo. In total, there were around 50,000 subscribers who contributed an estimated amount of RM90.9 million to the scheme. The scheme was very attractive at the beginning as "investors" were paid high dividend pay-out even though there was no real business model used by the perpetrator. It was not until a few months have elapsed that the depositors started to realise it was a scam and demanded they were to be refunded with their "investment" money.

Since Pak Man Telo, many other get-rich-quick schemes were devised with the same aim to obtain money illegally. Unfortunately, people keep being deceived by so many versions of get-rich-quick schemes up until today. What makes it interesting is the evolution of the fraud modus operandi to keep pace with technological advancement. Nowadays, perpetrators manage to keep abreast of the latest digital technology and use it to their own advantage to cheat people such as using social media.

So, a question arises as to why people keep on getting cheated even though cases after cases of get-rich-quick schemes are found and alerted by authorities. In Malaysia, several government agencies play their role in creating awareness among the public on fraudulent schemes. For example, Royal Malaysia Police (RMP) set up a formal department known as the Commercial Crime Investigation Department (CCID). Established in 2006, the department is responsible to arrest, carry out investigations and prosecute white collar criminals who commit fraudulent acts, criminal breach of trust, cybercrime forgery and the like, whether such activities are committed by individuals or by syndicates.

Apart from RMP, Bank Negara Malaysia (BNM), acts as the regulatory body involved in preventing get-rich-quick schemes. At BNM, complaints regarding get-rich-quick schemes received will be followed up by conducting preliminary assessment. The assessment will be based on the requirement of the law and must be furnished with documented evidence such as brochures and agreements. If the complaints are sufficiently considered as a case to be highlighted, the case will be forwarded to a working committee or the investigation department. Despite the authorities' role in preventing the scams, members of the public should be proactive in deterring themselves from becoming victims of the fraudulent schemes. This is where the public should be aware of signs or "red flags" that could indicate the wrongdoing before they venture into the schemes. Lifshitz (2021) and Raghuram & Dubey (2021) highlighted several red flags as shown in Figure 1.

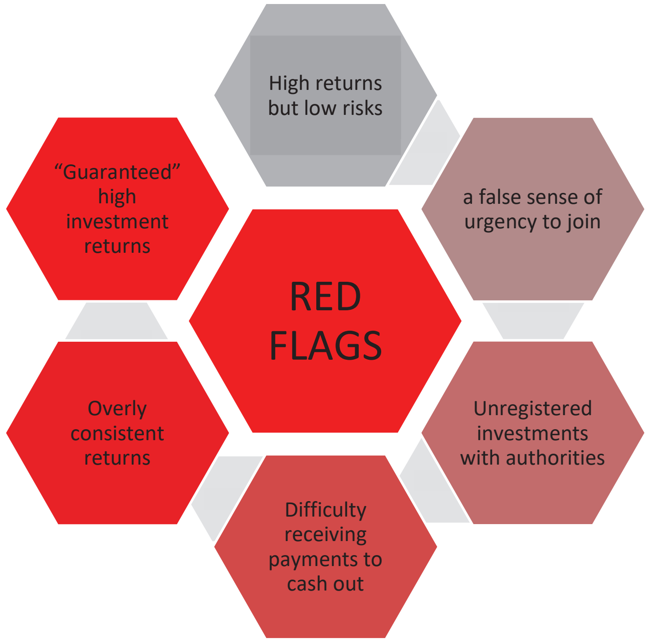

Figure 1. Red Flags of Get-Rich-Quick Schemes

1. High returns but low risks

There is cause for concern when there is a substantial guaranteed return on investment and no risk associated with the transaction. No risk-free investment yields a high return in the financial markets. When investing, the rule of thumb is always that the greater the potential reward, the greater the associated risk. Anyone who hears "hidden markets" or "primary bank guarantees" should immediately escape.

2. A false sense of urgency to join

Perpetrators will normally try to coerce potential investors to invest without providing the time needed to consider the investment. There will be possibilities that potential investors fall trap to the artificial time constraint. Investing requires careful consideration from potential investors before parting their money. Apart from potential returns, there are other elements to be considered as well including the financial position of a company that offers the returns.

3. Unregistered investments with authorities

Prospective investors should be cautious if they invest with unregistered investments. A thorough check with the relevant agencies to confirm that they are dealing with a registered business is needed. Bank Negara Malaysia and the Securities Commission require investment professionals to be licensed or registered to enable authorities to trace scammers. The Securities Commission provides a regularly updated list of websites, financial products, businesses, and individuals that are not legitimate. As a result, investors must be diligent in their research to avoid becoming easy prey for criminals.

4. Difficulty receiving payments to cash out

The initial return, which is normally a very high return, barely alerts an investor. Problems arise when investors decide to cash out the returns. In most cases of get-rich-quick schemes, victims complain of the difficulty in receiving payments when they decide to withdraw money. Perpetrators will give excuses of lengthy process, or they can even influence the victims to re-invest the returns to avoid payments to the victims.

5. Overly consistent returns

One of the warning signs of get-rich-quick schemes is when the return on investment is guaranteed to remain constant regardless of the ups and downs of the business cycle. Although risk can be minimised, it can never be fully eliminated. Returns on investments almost always mirror the cycle of the economy. When the economy is booming, returns go up, but they go down when the economy is in a recession. It is therefore questionable if an investment provides a promise of consistent returns over a long period of time.

6. "Guaranteed" high investment returns

Investment is an uncertain endeavour and that a "guaranteed" high investment returns should alert potential investors of being potential victims of investment scam. Perpetrators often lure potential victims by giving promises that their investment schemes can guarantee high returns. Depending on the duration of the investment, low-risk investments such as guaranteed investment certificates from licensed banks can usually provide returns of less than one percent per year and up to slightly more than two per cent per year.

Conclusion

Potential investors should be more knowledgeable when it comes to choosing their investment portfolios. Investing in illegal get-rich-quick schemes must be avoided. By recognising the red flags of fraudulent schemes, investors would be more protected against unnecessary losses.

So, protect yourself from being a victim of get-rich-quick schemes!

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'Tell me and I forget. Teach me and I remember. Involve me and I learn'

-Benjamin Franklin-

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