

## **Beware of Their Tactics: Avoid Pyramid Schemes at any cost!**

As the time-tested proverb goes, “wealth gained hastily will dwindle, but wealth accumulated through diligence will endure”, it is a well-established reality that financial prosperity cannot be achieved overnight through legitimate means. True wealth is built over time through sustained effort and prudent financial management. Despite this fundamental truth, fraudulent schemes promising rapid financial gains—such as pyramid schemes—continue to proliferate. These deceptive ventures entice individuals with the illusion of quick wealth, yet they are far more destructive than they initially appear. In terms of the provisions of the Banking Act, participation in such schemes constitutes an offence, punishable by significant fines and imprisonment.

To safeguard one's hard-earned money and avoid falling victim to financial fraud, it is essential to understand the nature of pyramid schemes, the tactics used by promoters, and the legal ramifications of involvement. This article provides a comprehensive analysis of these fraudulent schemes, their operational mechanisms, and the urgent need for collective effort to eradicate them. By fostering awareness, individuals and communities can play an active role in combating financial exploitation and ensuring a more secure economic landscape.

## **Understanding Pyramid Schemes and their Legal Implications in Sri Lanka**

A pyramid scheme is a fraudulent financial arrangement in which earnings are primarily derived from recruiting new participants or from increasing the contributions made by the participants rather than from legitimate business activities. Under Section 83C of the Banking Act, No. 30 of 1988, any scheme exhibiting even one of these characteristics is considered illegal and subject to legal penalties. This law not only penalizes those who directly initiate such schemes but also those who facilitate them in any form, including offering, promoting, advertising, financing, or directing these operations. It is clear that the legal consequences of engaging in a pyramid scheme are quite severe. Accordingly, any individual found guilty for any of the above offences is punishable with a fine of up to one million rupees or with an imprisonment for up to three years. Where the offence is committed knowingly or with the intent to cause financial harm, the penalties become more severe. In such cases, offenders may face rigorous imprisonment for a term of three to five years and a fine of two million rupees or twice the amount received from participants, whichever is higher.

Given these stringent legal measures, individuals must exercise caution and avoid any involvement in pyramid schemes. Despite strict legal prohibitions, many people continue to fall victim to these fraudulent ventures due to the deceptive tactics used by fraudsters. Therefore, raising awareness and developing the ability to recognize such schemes is crucial to preventing financial loss and legal repercussions.

## **Beware of Deceptive Tactics**

Regardless of the stringent legal framework in place, fraudsters employ a range of deceptive strategies to disguise pyramid schemes as legitimate business ventures. These tactics are designed to mislead potential participants and create the illusion of legality. Some of the most common methods used by schemers to exploit individuals for financial gain are discussed below:

### **1. Trying to present pyramid schemes as businesses with multi-level marketing**

In Sri Lanka, operating a business using a multi-level marketing (MLM) model is not inherently illegal. For example, consider a supply chain where agents import smartphones into the country. These agents sell bulk orders to wholesalers, who then distribute the products to retailers, ultimately reaching end consumers. This structure involves multiple levels of marketing, from manufacturers to retail shop owners, all of whom earn profits through the legitimate sale of goods.

However, individuals promoting pyramid schemes often attempt to misrepresent their operations as legitimate MLM businesses. Even though they might seem similar at first glance, the fundamental difference lies in how profits are generated. In a genuine MLM business, revenue is earned through the direct sale of products or services to customers. Additionally, consumers purchasing from such businesses receive after-sales services and can compare product prices with similar offerings in the market. Crucially, wholesalers and retailers profit by selling products—not by making mandatory personal purchases.

Pyramid schemes, in contrast, do not follow this legitimate business model. If a product is involved, it is typically sold at an inflated price, serving merely as a façade to mask the scheme's true nature. Rather than focusing on direct sales, participants are encouraged to recruit others; the participants are rewarded with commissions based primarily on recruitment rather than product transactions. These businesses offer little to no after-sales support, and their profitability hinges on continuously enrolling new members rather than on sustainable product sales. Additionally, individuals must often make an initial purchase before they can begin selling, a requirement that extends to every new recruit.

Another red flag is the type of products associated with such schemes. Pyramid scheme operators frequently use obscure or niche products that are not widely available in the market. In the past, items such as solar panels, healthcare products, electronic devices, and bio-disks were leveraged as fronts for these fraudulent operations.

By carefully analyzing these characteristics, individuals can effectively distinguish between legitimate multi-level marketing businesses and illegal pyramid schemes, safeguarding themselves from financial exploitation.

### **2. Misuse of Business Registration to Deceive the Public**

Fraudsters often exploit the process of companies registration to create a false appearance of legitimacy. By formally registering a company under the guise of conducting a lawful business—

such as selling goods—they obtain official registration documents. These documents are then used to mislead individuals into believing that their operations are legitimate, when in reality, they are running pyramid schemes.

Given the deceptive nature of this practice, individuals should exercise caution before engaging with such businesses. A company's registration alone does not guarantee its legitimacy. It is essential to scrutinize its actual business activities and verify their alignment with the stated purpose to identify and avoid fraudulent schemes.

### **3. Unrealistic Promises of Wealth in Pyramid Schemes**

Individuals promoting pyramid schemes employ various deceptive tactics to create the illusion of rapid wealth accumulation. One of the most common strategies is showcasing so-called “success stories” of individuals who have supposedly become wealthy within a short period—purchasing luxury vehicles, traveling abroad, and achieving financial prosperity in just a few months. However, these individuals are often merely promoters working to attract others into the scheme rather than genuine beneficiaries of sustainable earnings.

These fabricated narratives exploit the natural desire for financial success with minimal effort, misleading individuals into believing in an unrealistic path to wealth. It is crucial to recognize that legitimate and legally sustainable financial success requires dedication, effort, and time. As the saying goes, “The only free cheese is in the mousetrap” if an opportunity appears too good to be true, it likely is. Therefore, individuals must remain cautious and skeptical of anyone promising extraordinary financial gains with little to no effort. More often than not, those promoting such schemes are simply waiting for the right moment to disappear with the investments of unsuspecting participants.

### **4. Manipulative Promotion Strategies used in Pyramid Schemes**

Unlike conventional businesses that advertise their products and services through mainstream media, pyramid scheme operators primarily rely on word-of-mouth promotion. Their strategy involves persuading participants to recruit friends, colleagues, and acquaintances, leveraging personal relationships to expand the scheme. If individuals fail to recognize these tactics, they may not only become involved in an illegal operation but also inadvertently encourage others to do the same.

Another common promotional tactic used by schemers is associating their operations with well-known, reputable individuals. By featuring prominent figures who share seemingly inspiring success stories, they create an illusion of credibility and legitimacy. However, these narratives are often carefully fabricated to manipulate potential recruits.

Additionally, schemers frequently employ fluent English speakers and skilled orators to enhance their presentations, making their schemes appear sophisticated and professional. Regardless of the façade they present, it is essential to recognize the underlying deception. Staying vigilant and

critically evaluating such promotions can prevent individuals from falling victim to these fraudulent schemes.

## **5. Online Deception and Cryptocurrency Scams in Pyramid Schemes**

With the widespread use of the internet and social media, pyramid scheme operators increasingly leverage these platforms to promote their fraudulent businesses. Exploiting personal data and social media engagement, they invite individuals to join their schemes by making online payments. Participants are often asked to perform meaningless tasks, such as clicking on ads and links, under the false promise of earning money. Additionally, they are encouraged to recruit others into the scheme to receive further benefits.

It is important to recognize that legitimate businesses do not offer financial rewards for performing trivial online activities. Any earnings generated in such schemes are derived solely from the money brought in by new recruits, making the operation unsustainable and fraudulent. Furthermore, engaging in these schemes online not only results in financial loss but also exposes personal information, which can lead to additional risks such as identity theft and data exploitation.

A particularly deceptive tactic used by fraudsters is the false promise of cryptocurrency investments, often citing assets such as USDT (Tether), a widely known stablecoin. They claim to provide opportunities to invest in digital currencies and promise returns based on price fluctuations. However, it is crucial to note that cryptocurrencies are not legally recognized in Sri Lanka, and only currency issued by the Central Bank of Sri Lanka holds the status of legal tender.

In many cases, participants are instructed to download mobile applications and invest large sums of money, with assurances of significant returns. However, the figures displayed in these applications are artificially manipulated through programming tricks, creating the illusion of profitability. Ultimately, these schemes are designed to deceive participants and extract their funds. Therefore, individuals must exercise caution and avoid such fraudulent online investment opportunities.

## **6. Fraudulent Training Programs as a Front for Pyramid Schemes**

Another deceptive strategy employed by pyramid scheme operators is the promotion of so-called "training programs." Under the guise of professional development, they invite individuals to participate in one- or two-day training sessions, charging exorbitant registration fees. However, rather than providing legitimate educational value, these programs are structured to sustain the scheme by requiring participants to recruit others in order to receive financial benefits.

It is important to recognize that these organizations often lack the necessary accreditation or authority to issue recognized certifications. Their primary objective is not skill development but rather the continuous inflow of new participants' fees. The revenue generated is not derived from the quality of training but solely from new admissions, making the entire operation unsustainable. Once recruitment slows, the scheme inevitably collapses, leaving many individuals with financial

losses. Therefore, individuals should exercise caution when approached with training programs that emphasize recruitment over genuine skill-building and recognized certification.

Now it is clear that pyramid schemes employ a variety of deceptive tactics to attract unsuspecting individuals, often misrepresenting their operations as legitimate business ventures. By understanding these fraudulent strategies, including the misrepresentation of MLM structures, misuse of business registration, misleading wealth promises, manipulative promotions, online scams, and fraudulent training programs, individuals can better protect themselves from financial exploitation.

### **Consequences of Engaging in Pyramid Schemes**

By now, you should have a clear understanding of the deceptive tactics used by pyramid scheme operators to attract individuals into their fraudulent schemes. If you inadvertently become involved in such a scheme and invest your money, the consequences can be severe. First and foremost, the risk of losing your entire investment when the scheme inevitably collapses. This collapse may occur due to the unsustainable nature of the scheme or as a result of legal intervention by the authorities. In cases where law enforcement agencies take actions, the fund associated with these schemes may be subjected to freezing orders, making recovery impossible.

Beyond financial loss, involvement in pyramid schemes can lead to serious economic and social repercussions. Financial instability may arise, causing difficulties in meeting personal and professional obligations. Additionally, disputes may emerge with those who introduced you to the scheme, and in some cases, fraudsters may retaliate against individuals who attempt to hold them accountable. Such conflicts can damage your reputation and strain your relationships with family, friends, and colleagues, leading to social isolation.

Legal consequences also pose a significant risk. Prevailing laws in Sri Lanka strictly prohibits participation in pyramid schemes, and those found guilty may face financial penalties and imprisonment. The repercussions extend beyond individuals to the broader economy and society. A stark example of this occurred in Albania during the 1996–1997 financial crisis, where pyramid schemes expanded rapidly, accumulating debts that exceeded half of the country's GDP. The collapse of these schemes triggered severe social unrest, political instability, and even violent incidents, demonstrating the far-reaching dangers of financial fraud.

To protect yourself, your financial well-being, and the stability of the country, it is crucial to remain vigilant and avoid any involvement in pyramid schemes. Recognizing their deceptive nature and understanding their consequences can help prevent financial loss and societal harm.

### **What should you do to avoid pyramid schemes?**

Pyramid schemes, as previously discussed, cannot be entirely eradicated through legislation and regulations alone. It is essential to reduce the demand for such schemes by reducing the number of individuals engaging with them. First and foremost, raising awareness is crucial. Utilize the

resources and educational materials provided by institutions such as the Central Bank of Sri Lanka, including videos and surveys, to increase your understanding. If you suspect an entity is involved in prohibited activities, you may contact the Central Bank's **Hotline No. 1935** for further inquiries. Additionally, sharing this knowledge with others is vital. Whether you are a teacher, journalist, lawyer, or a concerned citizen, it is your responsibility to educate your community on how to avoid illicit investments and how to engage in legal financial practices. Pyramid schemes often proliferate through word-of-mouth within personal networks, making them difficult to detect in their early stages. If you encounter information about such schemes, you can report them to the nearest police station or contact the Central Bank of Sri Lanka via e-mail [\*\*ferd@cbsl.lk\*\*](mailto:ferd@cbsl.lk) or by sending a mail to the **Director, Financial Consumer Relations Department**, Central Bank of Sri Lanka, No. 30, Janadhipathi Mw, Colombo 01.

Protecting our nation's economy is a collective responsibility, and we encourage you to deepen your understanding of pyramid schemes and take steps to avoid them.

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