

MAIN IMPLICATIONS AND REACTIONS FOR THE PONZI SCHEMES' VICTIMS

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Abstract: *In the last years, the economic frauds have increased and diversified, the Ponzi schemes being one of them. This purpose of this paper is to highlights the main implications and reactions for the Ponzi schemes' victims using a review method of books, articles and reports. The consequences of the Ponzi frauds on the victims are various, including financial, health and emotional aspects (depression, physical problems, and suicide attempts) and behavioural issues (self-blame, guilt and shame). Following a Ponzi scam, victims reported various reactions, including feelings of shame and guilt, while some tried to hide the they are victims to a fraud or to avoid the reporting to authorities. However, finding the types of effects and reactions of the victims may lead to awareness of existing risks and to a greater willingness of present and future victims to report these fraudulent acts.*

Keywords: *Ponzi frauds, financial crime, victimization, victim's behaviour.*

Introduction

In the last years, the economic illegal practices increase and diversify worldwide. Individuals and groups are searching for illegal material and financial advantages from victims using various tools and methods. Ponzi scheme is one of these methods of financial fraud, taking into consideration the method developed by Charles Ponzi in the earlies 1920. This scheme aims to collect money from victims instead of promising high profits, while cooks illegally use the funds (Frankel, 2012). Although victims are aware that high profits without risks are impossible, they frequently make irrational choices, suggesting that the human behaviour can be different to patterns predicted by economic rational models (Diacon et al., 2013). Sometimes victims blame themselves for their weakness, and try to hide the losses incurred to them, instead of filing a complaint with the police in order to avoid public humiliation. This conduct gives validity to the attitude that they could have avoided the losses, and their silence, stemming from the shame of the victim, even helps the crooks to evade punishment and continue their deception.

The economic uncertainty caused by the global pandemic has created a stimulus for Ponzi schemes. Beyond the consequences of Covid-19 pandemic from medical and economic perspectives, people had to endure restrictions. The mobility of people was restrained and affected the consumption behaviour (Sorcaru et al., 2020). The lack of mobility, the limited access of high-standard products, and the collapse of several companies due to the lockdown prompted people to commit frauds or to search illegal methods to raise their profits. In this context, the number of frauds increases.

Even large companies that committed or fallen victim to Ponzi scams prefer to avoid exposure and remain silent. They are afraid of being perceived as companies that are not careful in managing their assets, which can deter customers and cause losses.

The paper aims to highlight the main implications and reactions for the Ponzi schemes' victims using a review method of books, articles and reports. The paper has three parts. The first one includes the implications for the Ponzi victims, while the next section is related to reactions of them. The last part presents the conclusions.

Implications for victims

The consequences of the Ponzi frauds on the victims are devastating and some victims indicate that they felt as if they had been raped (Deem, 2000). The main implications are related to financial, emotional, behavioural and health aspects, while some effects were recorded in terms of employment, family unity and business community.

Regarding the financial implications, some victims were forced to sell properties they own (often their homes), return to work after they have already retired, and conduct themselves financially while failing to obtain a credit. In severe cases, they even go bankrupt (Button et al., 2009). Almost 20% of fraud victims had difficulty obtaining credit and had to deal with other financial problems as a direct result of a fraud (Deem, 2000). Another aspect is the amount of time victims are forced to invest in dealing with the economic harm. For example, victims of identity theft are forced to spend an average of 48 hours to clear their name (Fraud Advisory Panel, 2006).

In terms of emotional consequences, for some of the victims, the level of fear of hacking into their personal database has risen for some victims, especially those who suffered an identity theft. Others suffered from distress and nervousness, and some felt severe invasion of privacy, stress, and anger (Pascoe et al., 2006). Even among victims of mass marketing frauds the emotional consequences included feelings of stress, anxiety and loss of self-esteem (George, 2006). Fraud victims feel themselves to some extent guilty of falling victim to a fraud (Titus & Gover, 2001), similar to the self-blame experienced by victims of rape and violent crime.

Some victims experienced changes in behaviour patterns. Spalek (1999) found that people who fell victim to Maxwell's pension fraud had previously perceived themselves as immune, but after the fraud became known their self-perception changed and they began to feel more vulnerable. They also chose other channels to invest their money. George (2006) shows that over 50% of fraud victims have changed their behavioural patterns in terms of purchases and payments. It was also found that some victims stopped shopping online.

Unlike crooks, and perhaps due to the fear of social condemnation, many Ponzi victims agree with the finger of blame directed at them. The emotional consequences for fraud victims include self-blame, shame, and guilt. They fear social condemnation, the prevailing attitude they have received what they deserve because of greed and stupidity on their part, and social isolation (they do not expose the losses due to the fear of alienation and the accusing finger pointed at them). The shame they feel intensifies in the absence of a supportive environment and they feel completely alone. Indeed, society seems to convey to the fraud victims the message that they should have guarded themselves against the crooks and are condemned for their lack of vigilance (Frenkel, 2012).

As regarding health consequences, Spalek's (1999) study revealed that some of the women who were victims of Ponzi scams testified that they believe the scam accelerated the death of their husbands. Ganizi et al. (1990) examined the consequences of Ponzi scams on the victims and found that many of them suffered from depression, which also adversely affected their physical health later on. In some cases, victims of fraud even try to commit suicide.

Besides these implications, there are some consequences in the field of employment. Victims who work as self-employed lost their source of livelihood in the event that their business is harmed because of the fraud. Often, was recorded a family disintegration, when couples separated due to loss of property and the very concealment of the occurrence of fraud. Even when family members implored a potential victim not to cooperate with the crook, this led to the breakdown of the relationship (Button et al., 2009). Trust in the business community may be damaged too. According to the Fraud Advisory Panel (2006), consumers may stop buying products online, as an expression of distrust on their part. This will also hurt legitimate companies operating in the field of telemarketing and mass marketing (George, 2006).

Reactions of the Ponzi victims

Victims reported experiencing different emotions after being exposed to the scam. The feeling of shame and guilt was an important element because such feelings influenced the victims not to share their immediate social environment about the scam. Among those who chose or were forced to share their environment, there was even a growing sense of shame that they were perceived by their environment as guilty of their situation or had flaws in their judgment. "Blaming the victim" created conflicts in their interpersonal relationships and even exacerbated the victims own negative emotional response (Harvey et al., 2014).

One of the most common reaction of the Ponzi victims is the tendency of no reporting falling victim to a fraud. In contrast to cases where identity theft took place and all of which were reported to the authorities, in cases of Ponzi fraud and mass marketing the reporting rate is very low, about 1% -3% (Button et al., 2009).

There is a variety of explanations for the low reporting rate by fraud victims. In the first line, some people are unaware of the fact that they have fallen victim to a fraud. On the other hand, many see themselves as guilty, in part or in full. Mason and Benson (1996) found that victims, who blamed themselves or believed that they shared responsibility with the crook, were less likely to report the scam. Secondly, because of the perception that they share the guilt, some of the victims feel ashamed and want to hide from their families and their environment the losses they have suffered. In other cases, victims perceive the fraud as ambiguous in the sense that they are unsure whether it is a failed investment or a fraud (Button et al., 2009). Thirdly, when it comes to the loss of relatively small sums of money, victims are less likely to report (Mason & Benson, 1996; Copes et al., 2001). At the same time, there are scams that are pre-planned that their legality would seem not unequivocal, and therefore the victims find it difficult to harness law enforcement agencies to open an investigation. In some cases, there is a perception of victims that the justice system does not take them seriously (Mason & Benson, 1996; Titus, 1999).

Copes et al. (2001) attempted to establish an affinity between "Black's Law Behaviour Theory" and fraud reporting patterns. They found that morphology and cultural context are significant predictors of the tendency to report a fraud. In addition, it appears that the higher the amounts of money lost, the greater the victims' tendency to report the fraud.

Sometimes, it is not clear to the victims which authority they should report the fraud. The confusion even increases in cases where the police dismiss their complaint because it is a "civil matter", and they move from one enforcement authority to another without anyone taking responsibility for handling the complaint (Button et al., 2009). Among fraud victims in the U.S., it was found that less than 50% "trusted" or "fairly trusted" the authorities to successfully deal with frauds (Reisig & Holtfreter, 2007).

Another type of reaction is to request for help. Following the discovery of a scam, the victims sought help from various bodies, including authorities, a dedicated website, police stations, banks, accountants, financial advisers and lawyers. The responses they received were varied, from registering their complaint without further treatment to opening a large-scale investigation and even a conviction. Victims did not always report the scam, either because they treated it as a petty matter or because they believed the report would not bear any fruit (Harvey et al., 2014).

However, the authorities' handling of complaints was different among the victims. Some victims were experienced positive answers to the complaints and reported receiving practical intent. Victims who were satisfied with the treatment they received also held the view that the organization did not have a real ability to deal with the fraud in light of the fact that the funds they lost within its framework had not been fully reimbursed. In addition, regarding the police treatment, some of the victims described it as a negative experience, feeling that they were underestimated and even blamed for investing in a company under no supervision. Some victims reported that it was not clear to which official body they should file a complaint and that they were even referred from one body to another. Other victims reported anger towards the authorities due to inaction on their part. However, there were victims that showed understanding for the burden placed on authorities in investigating investment frauds and believed that small-scale scams should be avoided in order not to burden the system. Some even refrained from reporting repeated frauds because they believed no action would be taken (Harvey et al., 2014).

Regarding the relation of victims with fraudsters after the fraud was exposed, victims were able to break away from the fraud following various scenarios. In some cases, the crook disconnected relationship with the victims and in other cases; it was stopping the fraud by an official or the police. Some victims became aware of the fraud after the intervention of other parties, including bank representatives who applied regarding transfers made to the account or an investment advisor who expressed concern when he learned of the investment made by his client. Victims were not always convinced that this was indeed a false investment. In other cases, the crook's behaviour has created suspicions: for example, the presentation of unprofessional documents, excessive pressure on the participant to invest, the demand for additional funds as a condition for the release of the investment funds, or discrepancies in the information provided by the crook regarding the investment (Harvey et al., 2014).

Victims who discovered the fraud because of intervention of other factors or the behaviour of the crook, found it difficult to disengage from the fraud. They negotiated with

the crook or tried to embarrass him in the hope that he would get their money back. Some tried to outwit the crook in order to extract information from him and pass it on to the authorities, such as, giving him uncovered checks or lied that they wanted to attach a wealthy friend to the investment. Although they knew he was a crook, some reported feelings of guilt or apprehension that they were breaking the law, due to their attempt to outwit him. Victims who managed to break away from the fraud testify that they sent a sharp and clear message to the crook that they do not intend to transfer money to him at all, or to transfer additional money to him (Harvey et al., 2014).

Conclusions

The consequences of the Ponzi frauds on the victims are various, including financial, emotional, behavioural and health aspects. While the emotional and behavioural implications imply self-blame, guilt and shame, some victims suffered depression, physical and financial problems, bankruptcy or even try to suicide. Other victims incurred consequences regarding losing their jobs, their trust in business community and family disintegration.

After being exposed to the Ponzi schemes, victims expressed different reactions. While some people felt shame and guilt, other tried to hide the fact that they have fallen victims to a fraud. Even if people agreed to report falling victim to a fraud, their reactions differ. Some victims trust in authorities and requested for help from different sources, other do not. The relation with authorities following a complaint recorded both positive and negative response. Some people were satisfied by the authorities' response and treatment, while other were anger because no action was taken. However, victims who managed to break away from the fraud through various forms tried to recover some funds from the fraudster and did not intended to transfer new funds to him.

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