AN ASSESSMENT OF PONZI SCHEMES IN KENYA AMONG THE FINANCIAL MARKET PLAYERS

BY

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UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

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FINANCIAL MARKET PLAYERS

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A Project Report Submitted to the Chandaria School of Business in Partial Fulfillment of the
Requirement for the Degree of Global Executive Masters in Business Administration (GeMBA)

UNITED STATES INTERNATIONAL UNIVERSITY AFRICA

SPRING 2017
DECLARATION

I, the undersigned, declare that this is my original work and has not been submitted to any other college, institution or university other than the United States International University in Nairobi for academic credit.

Signed…………………………………………Date ………………………………………..

Rosemary Omanyo (650766)

This research project has been presented for examination with my approval as the appointed supervisor.

Signed ……………………………………..     Date………………………………..

Dr. Peter Kiriri

Signed ……………………………………..     Date………………………………..

Dean, Chandaria School of Business
DEDICATION

I humbly dedicate this project to my late father Agabus Muluka Akolo, for always encouraging me to pursue education and work on fields that influence the society.
ACKNOWLEDGEMENT

My deepest gratitude goes to God for providing me with all that was needed to complete this project in time.

I appreciate my family; my husband Norbert, and my children Vanessa, Cornelius, Leo and Aurelius’ for all the patience and support that they gave me throughout the period that I worked on this project. Thank you. My love for all of you can never be quantified. God bless you!

My sincere gratitude goes to my supervisor, Dr. Peter Kiriri, for his insightful guidance, understanding, encouragement and valuable advice throughout this project. You helped me make it through this project.

I would also like to acknowledge and thank my family for their love, encouragement and support throughout the execution of this research project.

Special thanks to all my lecturers and fellow students in the GeMBA program for rendering an enriching experience to share and procure knowledge.

Lastly, I wish to express my profound gratitude to all my friends for their encouragement during the course of my study.
ABSTRACT

The limitations in the quantity of research in the existence of Ponzi / pyramid schemes had paved way to the purpose of this study. The study sought to determine the regulatory and policy gaps that exist in the handling of Ponzi and Pyramid schemes in Kenya. The general objective of the study is to establish the regulatory challenges and loopholes that have existed and therefore paved way for the existence of Ponzi and Pyramid and the effect of this schemes to the economy. The study specifically sought to To establish the effects of Ponzi and Pyramid schemes to the subscribers and the Kenyan economy: to identify the regulatory challenges in the management of Ponzi and Pyramid schemes and to determine the risk mitigation strategies that financial market players can employ to deal with the policy and regulatory failures and help deter the Ponzi and Pyramid schemes from existing.

The research methodology adopted for this research was the cross-sectional explanatory survey. Simple random sampling method was employed in the research and the sample size the study used was 100 respondents. Stratified sampling technique was used to select the specific companies from each cadre. The method of data collection involved the administration of a questionnaire that was semi-structured with only one open-ended question at the end of the questionnaire. The data analysis methods involved descriptive statistics approaches while the data presentation and summarization, the researcher made use of tables. Data coding took place immediately after the collection of the data from the respondents. Each of the questionnaires was assessed and the data coded into a statistics program with the most preferred program being SPSS. I considered various methods of analysis in the analysis including the use of descriptive statistics and graphs. The data will be presented in tables and figures.

This study focused on the assessment of Ponzi and Pyramid schemes among the financial industry players. The objective of the study was to assess the effects of Ponzi schemes on subscribers and economy, identify the regulatory challenges, and determine risk mitigation strategies for Ponzi and Pyramid schemes among financial market players. To this effect data was collected from financial industry players inclusive of the insurance companies, investment banks, and the commercial banks. The study also found that Ponzi and pyramid schemes continue to operate in the country The lack of a strong legal and regulatory environment to deal with the problem explains why the schemes continue to operate in the country.
My key conclusions from the study were Ponzi and Pyramid schemes had continued to operate in the country despite the establishment of a task force to investigate their operations. Secondly the study in identifying various challenges to the regulation of Ponzi and Pyramid schemes. Concluded that political interference in investigations was considered a key challenge to the regulation of Ponzi and Pyramid schemes. In the study, it was deduced that lack of a strong legal and regulatory environment to deal with the problem of existing Ponzi and Pyramid schemes, explains why the schemes continue to operate in the country. The study also found that the establishment of self-regulated organizations would be a major step towards the deterrence of Ponzi and Pyramid schemes, as well as the re-engineering and redesigning of investment products would greatly push the fight against the unregulated investment schemes in the country. Overall, the study observed that collaboration between the government and the financial industry is the single major weapon that can lead to the elimination of Ponzi and Pyramid schemes in the country.

The study recommended the education of citizens on the operations of unregulated investment schemes. Secondly the study recommended the creation of laws expressly dealing with unregulated investment schemes. The creation of laws would enable easier identification of such schemes as well as the apprehension of the perpetrators of promoters of such investment schemes. The study also recommended full implementation of the identified risk mitigation strategies in order to deter the operations of unregulated investment schemes as well as further research on the issue of Ponzi and Pyramid schemes in Kenya. Areas of further study would include the mutation of Ponzi and pyramid schemes especially based on the finding that new technologies had transformed the manner in which the schemes operate both locally and internationally.
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<td>CMA Capital Markets of Kenya</td>
</tr>
<tr>
<td>IRA Insurance Regulatory Authority</td>
</tr>
<tr>
<td>IMF International Monetary Fund</td>
</tr>
<tr>
<td>KYC Know Your Customer</td>
</tr>
<tr>
<td>NSE Nairobi Securities Exchange</td>
</tr>
<tr>
<td>SRO Self Regulatory Organization</td>
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<td>UIS Unregistered Investment Schemes</td>
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CHAPTER ONE

1.0 INTRODUCTION

1.1 Background of the Study

Corporate fraud encompasses a wide spectrum of financial activities including fraudulent deception, embezzlement of funds, bribery, forgery or transactions, extortion, collusion, theft, conspiracy, misappropriation of funds, and concealment of material facts in order to rob the taxpayers of their hard-earned money (Bhattacharya, 2003). One major definition of corruption or corporate fraud that should be included in the activities above is the thorn of Ponzi schemes and Pyramid schemes that was the subject of discussion in the rest of this discussion and one that involves fraudulent deception and the main method of arm-twisting theft of financial and other resources. These problems affect virtually all countries across the world. How thoroughly a country deals with the problems makes all the difference (Bhattacharya, 2003).

In the recent past, the United States was dealing with one of the country’s largest fraudulent schemes termed as the Bernard Lawrence "Bernie" Madoff Investment Scandal. The scandal was the greatest and most pervasive Ponzi scheme in the history of the United States (Smith, 2010). According to court filings and reports published by the Wall Street Journal, the Bernie Madoff Scandal robbed innocent investors of more than $65 billion. The scandal towered over similar scandals such as the Allen Stanford’s scandal and the Tom Petters’ scandal that fraudulently deceived investors out of $8 billion and $3.7 billion respectively. After the discovery of the Bernie Madoff scandal, the 70 years old culprit was sentenced to 150 years in prison while other persons taking part in the scandal were sentenced to not less than 30 years in prison. According to analysts, the jail term was not literal considering the age of the culprit. Rather, it was symbolic of the stern action that would be expected if in future any other persons would be caught in anything similar or close to Madoff’s Ponzi scheme. This was in addition to the stringent regulatory measures put in place by the SEC to help in dealing and ultimately ensuring that such fraudulent schemes do not take root in the United States or any company that trades with the United States’ investors and citizens (Soverall, 2012).
In the United Kingdom, Ponzi schemes are not as popular as the slightly adjusted but similarly fraudulent Pyramid schemes. Both forms of fraudulent dealings were outlawed as early as 1973 when Fair Trading Act was amended. In subsequent years, various acts were instituted to strengthen the resolve to deal with Ponzi and Pyramid schemes. Famous regulations dealing with such schemes include the Trading Schemes Act of 1996, Trading Schemes Regulations of 1997, and the Consumer Protection from Unfair Trading Regulations of 2008. The strong regulatory environment in the UK was a culmination of various experiences with some of the Ponzi schemes that operated in the United States since the 1920s as well as several incidents fraudulent business dealings in the UK (Anwar, 2009). Out of the considerations of how the UK instituted policies on dealing with fraudulent Ponzi and Pyramid schemes, the country is considered as a major benchmark on regulating the schemes while the United States provides examples how to deal with offenders (Financial Conduct Authority, 2016).

Coming closer home, Africa as a region is prone to Ponzi and Pyramid scheme frauds with Nigeria and South Africa leading the race (Krige, 2012). Research indicates that only a small number of Ponzi and Pyramid schemes are recognized as such by the victims and hardly are these schemes reported to the authorities. Additionally, research indicates that there exist weak regulatory systems in the region with Central Banks being the major investigators of the schemes. These institutions are not empowered to investigate Ponzi and Pyramid schemes, there are not laws to expressly deal with the fraudulent schemes and additionally, the investigative processes are considerably lengthy and on many occasions, the perpetrators get away with the ills of their activities. Notably, there has been little to no research in many African countries on the prevalence of Ponzi and Pyramid Schemes. This trend is observed in many other developing and underdeveloped nations with Puerto Rico, Haiti, and Jamaica falling squarely under the wrecking ball that is Ponzi and Pyramid schemes (Woker, 2003).

The prevalence of Ponzi and Pyramid schemes in Kenya reflects the situation in East Africa and Africa at large. Notably, various schemes had operated in Kenya with little to no action being taken against the rogue perpetrators. Many Ponzi schemes operated in the period between 2004 and 2007. The greatest among them was the DECI Investment scheme that robbed the Kenyans more than $8 billion. The founder of the unregulated financial scheme was known as George Donde and he passed on in 2012 without having gone through trial for his founding and involvement in fraudulent financial activities. More than ninety four thousand victims of DECI Investment are still pursuing legal
processes through the National Pyramid Schemes Victims Initiative (NPSVI) which to date has sued five government agencies including the Attorney General’s office and the Central Bank of Kenya. One of the major complaints forwarded by the complainants in the various cases in Kenya’s courts includes the lack of regulatory frameworks that should protect the Kenyans from rogue investors such as Donde. Additionally, numerous complaints against the entire court processes had been raised with complainants indicating the need to had investigations and prosecutions expedited. Research indicates that the worst observation is the fact that there exists cartels that stifle administration of justice through undue delay in the hearing and determination of court cases. Fraudulent operators use the monies stolen from the citizens to slow down the investigative and court processes (Tomasic, 2011).

The handling of Ponzi Schemes and Pyramid schemes in Kenya is a slow process conducted by a special task force that has established that about 271 schemes had existed in Kenya. Reports from the task force indicate that the Ponzi and Pyramid schemes range from the very small ones such as Brucobi that was stemmed out as soon as it was established to the largest one that was DECI involving 93,485 investors and more than $28 million invested. The task force has indicated that more than 600 complaints had been received and documented. The most important to note form these complaints are not that the citizens were robbed but that citizens were robbed and the Kenyan government has done nothing. The failure of the government to detect fraud by promoters of the pyramid schemes was also cited by the Ombudsman who indicated that in some instances some agencies actually collude with the promoters of fraud and then subject the citizens to public-relations stunts about ongoing investigations every now and then. Notably, there has also been the concern of pyramid schemes running right under the nose of the government in form of network marketing groups that require the citizens to subscribe by purchasing certain overpriced items and then enlist others to the system (Kwena & Turner, 2013).

Kenya’s former Chief Justice Dr. Willy Mutunga once said that Kenya has become a bandit economy (Lindijer, 2016). The first chief justice under Kenya’s new constitution was referring to the corporate fraud that continues to taint the name of the republic and continues to place the country in the list of the world’s most corrupt countries. The sentiments form Dr. Mutunga did not auger well with many parties in the state. However, it got me thinking about the various forms of corruption and corporate fraud that Dr. Mutunga had experienced while at the helm of the country’s Supreme Court. Considering those sentiments, I decided to train my focus on regulation of Ponzi and Pyramid schemes
in Kenya. There are hardly any academic papers on Ponzi and Pyramid schemes in Kenya, yet this is one of the greatest problems in our country (Lindijer, 2016).

1.2 Statement of the Problem

A quick search on major research databases indicates that there is limited research on the impact of Ponzi and Pyramid schemes on the subscribers and the economy. Secondly, here exists limited research on the regulatory challenges with regard to the management of Ponzi and Pyramid schemes and thirdly, there exists limited research on the strategies that should be used for the deterrence of Ponzi and Pyramid schemes. The limited research is as a result of failure to recognize the unregulated investment schemes as a problem in Kenya. The limitations in the quantity of research indicate the existence of a knowledge gap with regard to how the fraudulent schemes should be handled at the national, regional, and global level especially when considered that the internet allowed some pyramid schemes to operate on a regional and, at times, global scale (Brakebill, 1995).

The second major concern relates to the fact that there is limited evidence of regulatory frameworks in many regional nations and this applies to Kenya. Instead, the country used a temporary task force to investigate and launch inquiries into the Ponzi schemes. From our experience in Kenya, the task force groups take long to release results of their inquiries and the recommendations made by such task force groups and commissions and the culprits of the findings may never be prosecuted in the local environment. Notably, these challenges exist since there are weaknesses in regulations to control Ponzi and Pyramid schemes. Former Chief Justice Dr. Willy Mutunga pointed out the regulatory environment when he termed the nation as a bandit economy (Lindijer, 2016). However, in a recent transparency and accountability state house summit the President abdicated the regulatory environment. Considering the gaping holes identified, the research proposed herein has the capacity to look into the regulatory and policy gaps that exist in the handling of Ponzi and Pyramid schemes in Kenya (Lindijer, 2016).

Thirdly, there exist policy gaps that would enable the deterrence of Ponzi and Pyramid schemes among the financial market players in Kenya. The lack of a clear framework and policies to detect fraudulent activities and the spawning or operating Ponzi and Pyramid schemes hence allowed the fraudulent schemes to continue operating in the nation. This is the reason why the number of the
schemes is as high as 271 accounts in Kenya (Kwena & Turner, 2013). Most importantly, players in Kenya’s financial industry majorly instigate these schemes. As such, it was important to conduct research on how the various stakeholders would be involved in constructing and pursuing long-term strategies that deter the operations of fraudulent schemes in the nation.

1.3 General Objective

To assess the effects of Ponzi schemes on subscribers and economy, identify the regulatory challenges, and determine risk mitigation strategies for Ponzi and Pyramid schemes among financial market players.

1.4 Specific Objectives

Considering the general objective as provided above, there were three specific objectives that include:

1.4.1 To establish the effects of Ponzi and Pyramid schemes to the subscribers and the Kenyan economy.
1.4.2 To identify the regulatory challenges in the management of Ponzi and Pyramid schemes.
1.4.3 To determine the risk mitigation strategies that financial market players can employ to deal with the policy and regulatory failures and help deter the Ponzi and Pyramid schemes from existing.

1.5 Significance of the Study

The study is significant to various interest groups that include the financial industry regulators including the Central Bank of Kenya (CBK), Capital Markets of Kenya (CMA), Insurance Regulatory Authority (IRA), Nairobi Stock Exchange (NSE), and BF DI among others. It was also significant to the financial industry players including investment banks, securities brokers and dealers, and all other depository institutions in the financial industry. Thirdly, the study is significant to the public and lastly, the study is significant to the field of financial research and academia.
1.5.1 The Regulatory Agencies

To the regulatory agencies, the study provided insights on how the challenges in establishment of policies and regulations can be overcome or controlled. This would expedite the process of establishing the regulatory and policy frameworks that would help in rooting out Ponzi and Pyramid schemes in the country.

1.5.2 Financial Markets Players

To the financial industry players, the study provides insights on how to detect fraudulent activities that may be linked to Ponzi and Pyramid schemes. The study is also significant in increasing the confidence in the financial industry and the players would be able to attract more investors in the mainstream financial markets.

1.5.3 The Public

To the public, the study is significant in the revelation of the major weaknesses in the regulatory environment that lead to dragging cases, failed investigations, and collapsing court cases. The study is also significant in the definition of the Ponzi and Pyramid schemes hence helping the public to identify such schemes when approached. Additionally, the study significantly influences the public’s understanding of the risks posed by Ponzi and Pyramid schemes. The public learns how to avoid the risks and instead, pursue legitimate investments in stock and bond markets among other mainstreams areas of investment (Monroe, Carvajal, & Pattillo, 2010). Additionally, the study is significant in informing the public the actions that should be taken when fraudulent entities and business dealings with the characteristics of Ponzi and Pyramid Schemes are identified.

1.5.4 Academia

Lastly, the study significantly contributes to the research available on Ponzi and Pyramid schemes both locally and regionally. This benefits academia by increasing the available knowledge on fraudulent schemes and using the research findings, further studies can be conducted to shed more light on the area of study. It was important to note that very little research focuses on Ponzi and Pyramid schemes in Kenya yet the number of operating schemes is high.
1.6 Scope of the Study

The study focuses on Ponzi and Pyramid schemes from the context of financial markets players in Nairobi, Kenya. The population of financial markets players including portfolio managers, research analysts, deal originators, investment product developers, the securities brokers and dealers, commercial bankers, investment bankers, and insurers. The research was cross-sectional in design in that the concentration was on the state of the problem as of March, 2017.

1.7 Definition of Terms

1.7.1 Ponzi Schemes

By definition, a Ponzi Schemes refer to fraudulent investment operations that pay returns to separate investors from their own money or money paid by subsequent investors, rather than from any actual profit earned (Bhattacharya, 2003). The schemes derive the name from Charles Ponzi, who became notorious for using the technique in 1920 in United States of America (Jory & Perry, 2014).

1.7.2 Pyramid Schemes

A pyramid scheme is an illegal investment swindle based on a hierarchical setup. New recruits make up the base of the pyramid and provide the funding, or so-called returns, the earlier investors/recruits above them receive. A pyramid scheme does not involve the selling of products. Rather, it relies on the constant inflow of money from additional investors that works its way to the top of the pyramid (Cherry & Wong, 2009).

1.7.3 Financial Market Players

Financial market players include all entities and persons dealing with the financial markets including the investment banks, commercial banks, stockbrokers, and insurance. The players include portfolio managers, business developers, research analysts, deal originators, and all persons involved in the financial markets.
1.7.4 Regulatory Constraints

Regulatory constraints as used in this study include the challenges, hindrances, and inhibitors to the development of laws, regulations, and policies that would sternly deal with offenders in Ponzi and Pyramid schemes. Regulatory constraints include all the bottlenecks in the political-legal environment that make it difficult or impossible to develop laws to deal with the fraudulent schemes herein identified (Dorn, 2009).

1.8 Chapter Summary

In summary, this chapter is the first chapter in a five-chapter study. The chapter presents the background of the study, the statement of the problem, the research objectives, and the scope of the study among other information. The study focuses on the regulatory constraints to the Ponzi/pyramid schemes among financial market players in Kenya. The general objective of the study is to establish the regulatory challenges and effects of Ponzi and Pyramid schemes to the economy. In meeting this objective, the study collected data from various players in Kenya’s financial markets. The next chapter covered the review of empirical and theoretical literature on the subject matter. In chapter three the research methodology was presented chapter four covered the results and findings while the summary, discussion of findings, conclusions, and recommendations were covered in chapter five.
CHAPTER TWO

2.0 LITERATURE REVIEW

2.1 Introduction

This chapter provides a review of literature on the assessment of Ponzi schemes in Kenya among the financial market players. The literature review focusses on the various theories and concepts that exists on Ponzi and Pyramid schemes. The review was organized into three sections. The sections include effects of Ponzi and Pyramid schemes to the subscribers and the economy, regulatory challenges in the management of Ponzi and Pyramid schemes, and strategies that financial market players can employ to deal with the policy and regulatory failures and help deter the Ponzi and Pyramid schemes from existing.

2.2 Effects of Ponzi and Pyramid Schemes to the Subscribers and the Economy

The conviction of Bernie Madoff and briefly highlighted in the introductory paragraph of the study provides an idea of the possible implications of Ponzi schemes to the economy. Madoff was sentenced to 150 years in jail with the jail term used as an indicator of the stern action that the government was ready to take in dealing with fraudulent investment schemes in the United States (Langevoort, 2009). Madoff’s conviction can be interpreted from the perspective of signaling theory. Signaling theory, when applied to this case, would mean that the jail term provided to Bernie Madoff signals the extensive impacts that Ponzi and pyramid schemes may had on the economy.

The general understanding of Ponzi and pyramid schemes is that they are unregulated investment schemes that promise high returns to the investors over a short period. The schemes do not provide for how the returns provided to the investors are made. The promoters of the fraudulent schemes usually hope that the schemes would outlive them meaning that many promoters usually look forward to die before the pyramid collapses and before the schemes are identified as fraudulent. However, the schemes rarely outlive their promoters with many promoters taking their own lives as soon as the pyramid schemes get exposed or collapse. At other times, the pyramid schemes get exposed when the players are already too old (Mandell, 2015).
A pyramid scheme does not involve the selling of products. Rather, it relies on the constant inflow of money from additional investors that works its way to the top of the pyramid (Cherry & Wong, 2009).

Table 2.1 Comparing Ponzi and Pyramid Schemes

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<th><strong>Pyramid Scheme</strong></th>
<th><strong>Ponzi Scheme</strong></th>
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<tr>
<td>Typical &quot;hook&quot;</td>
<td>Earn high profits by making one payment and finding others to become distributors of a product. The scheme typically does not involve a genuine product. The purported product may not exist or it may be &quot;sold&quot; only to other people who also become distributors.</td>
<td>Earn high investment returns with little or no risk by simply handing over your money; often the investment does not exist or only a small percentage of incoming funds are actually invested.</td>
</tr>
<tr>
<td>Payments</td>
<td>Must pay a one-time or recurring participation fee and recruit new distributors to receive payments.</td>
<td>No recruiting necessary to receive payments.</td>
</tr>
<tr>
<td>Interaction with original promoter</td>
<td>Sometimes none. New participants may enter the pyramid scheme at different levels.</td>
<td>Promoter generally interacts directly with all participants.</td>
</tr>
<tr>
<td>How the scheme works</td>
<td>Funds from new participants are used to pay recruiting commissions to earlier participants.</td>
<td>Funds from new investors are used to pay purported returns to earlier investors.</td>
</tr>
<tr>
<td>Collapse</td>
<td>Fast. An exponential increase in the number of participants is required at each level.</td>
<td>May be relatively slow if existing participants reinvest money.</td>
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Ponzi and pyramid schemes had various implications with none being a positive implication. These implications can be considered at two levels that include the individual level and from the level of the economy. At the individual level, the loss of life savings to the deceptive investment schemes is the first major impact. Some pyramid schemes are organized into the structure of savings and credit companies where the investors are encouraged to save and take loans in order to enjoy high returns. Such schemes capitalize on providing returns to a few people at the beginning of the program with the objective being to ensure that they encourage the investors to save more. The implications of the scheme are that the investors start considering putting more money to the scheme in order to gain higher returns and as that happens, the schemes collapse leading to massive losses on the part of the savers that were duped into investing with the dubious schemes (Arrawatia & Pande, 2016).

The loss of life-savings results in other effects on the individual investors. Many investors had taken their lives after losing life savings to the fraudulent investment schemes. Other investors had been rendered unable to take care of their respective families and many families had collapsed as a result. Additionally, the investors were unable to take children through school with some even developing mental problems after losing their savings. These effects by the collapse of Ponzi and pyramid schemes are experienced majorly by the savers at the bottom of the pyramid especially when considered that they are the new recruits to the pyramid or the Ponzi schemes and since there are no other people recruited to the scheme, they had not been repaid. Notably, all persons who reinvest their money into the scheme also lose (Arrawatia & Pande, 2016).

The impact of Ponzi and pyramid schemes is the cumulative effect of losses incurred by the individual investors. Notably the Ponzi schemes survive by recruiting many people into the scheme. The collapse of the scheme then affects people from across the entire economy with some schemes drawing people even beyond the national boundaries of one country. The impact of Ponzi and Pyramid schemes has been felt in several countries across the world including Lesotho, Colombia, the Caribbean, Jamaica and other countries (Soverall, 2012). One of the major effect is reducing confidence in a country’s investments. The fraudulent schemes scare foreign direct investment as many investors are afraid of getting defrauded. Secondly, the net savers are scared of investing in products that they do not understand. In the undeveloped world, these include the capital markets. If the net savers fear getting into new investments, then there exists a credit crunch meaning that legitimate businesses are not able to raise funds for investment. The falling investments in a country result in contraction in the GDP
(Gross Domestic Product). Research indicates that in some countries, the gross domestic product contracts by more than 12.5% annually after the collapse of Ponzi and pyramid schemes (Cecchettin & Schoenholtz, 2014). During the last global financial crises many countries were hurt not because they were exposed to the subprime mortgages in the US but because Ponzi and Pyramid schemes collapsed over the period (Nesvetailova, 2008).

Apart from the reduction in the GDP, the Ponzi and pyramid schemes result in anarchy in the country. Many countries reported rising levels of protests as victims of Ponzi and Pyramid schemes lobby the governments to provide justice. The protests lead to looting of businesses, closure of businesses, destruction of property, pressure on the economy, and in some instances the governments had collapsed under the pressure of collapsed Ponzi and Pyramid schemes (Cecchettin & Schoenholtz, 2014).

In summary there are various impacts of Ponzi and pyramid schemes to both the individual investors and to the economy of the nation allowing the fraudulent schemes to exist. To the individual investors, the loss of life-savings the resultant reactions is a major concern when considering the impact of the schemes. To the economy, the possible collapse of governments is the major concern for many states (Cecchettin & Schoenholtz, 2014). However, there are also other impacts such as contractions in the gross domestic product, reduced foreign and local investments, and the worsening of the business environment. These impacts are a major concern for any nation and consequently, these was used in emphasizing the importance of having a properly regulated economy that deters the operations of Ponzi and pyramid schemes. Developed Economies Perspective

Ponzi schemes had been major concern globally with the developed nations having developed structures to root out and prevent the operations of Ponzi and Pyramid schemes (Nesvetailova, 2008). Knowledge about the operations of Ponzi schemes dates back to the 1920s when Charles Ponzi operated one of the world’s renowned fraudulent schemes. Ponzi was a citizen of the United States and as such, the innovations that resulted to the Ponzi schemes are considered a result of the actions of Ponzi.
The United States is one of the oldest destinations of Ponzi schemes. The country has experienced the effects of Ponzi schemes. Cherry & Wong (2009) investigated the impact of postmodern Ponzi schemes to the economy. According to their study, the collapse of American International Group (AIG) at the wake of the last global financial crises is a key demonstration of the effects of Ponzi schemes and claw backs. The researchers indicated that when the considerably innovative derivative products were designed in the United States the consideration was to promise the investors high returns as the benefits accrued to management of the companies that led to the collapse of AIG and the global economy. The researchers iterated that such are the modern day Ponzi schemes in the United States and the impact as experienced in the last global financial crisis. Defending the assertions made above, Moore, Han, & Clayton (2012) indicated that the collapse of AIG was preceded by investment in unregulated financial products that were simply derivatives. The impact of the collapse was seen in the lost homes, the lost investments among the Americans, and the lost lives of persons that had their faith in AIG and other companies. The article asserts the position that in the postmodern world, Ponzi schemes must not only be considered from the perspective of the traditional models as first applied by Charles Ponzi but as increasingly complex organizational structures that allow claw back of returns to management in a similar manner to the Ponzi and Pyramid schemes (Cherry & Wong, 2009). Notably, the companies could be legitimate or appear as legitimate until they collapse with investors’ money.

Bhattacharya (2003) also put emphasis on post-modern Ponzi schemes, and their impact to both individual investors and the economy. The researcher indicated that it was difficult for a rational agent to design a Ponzi scheme that is certain to explode. The author asserted that the existence of political economies continues to support the existence of Ponzi schemes that are gigantic to the extent that they are too big to fail hence warranting bailout from governments. Notably, the effect of such politically supported Ponzi schemes was to ensure that through bailout, monies are redistributed from the non-participants to the participants. This indicates that the Ponzi schemes affect not only the investors that are subscribed to the program but also the innocent citizens that are not subscribed to the schemes and who are patriotic taxpayers. The research asserted that by allowing legitimate companies to illegitimately and uncontrollably pursue profit concerns amounts to political support for Ponzi schemes and this survives in political economies.
2.2.1 Developing and Underdeveloped Economies Perspective

Ponzi and pyramid schemes appear to thrive more in the developing and underdeveloped economies. This is because of the lack of regulations in many of those countries (Dorn, 2009). In fact, the mention of Ponzi and pyramid schemes in the context of developed countries is considerably different from the understanding of the same perspective to the developing and underdeveloped economies. This is because in the latter, the fraudulent unregulated schemes are still in their definitive forms and are not in any way considered to be innovative.

The International Monetary Fund investigated the impact of Ponzi and pyramid schemes in the Caribbean and published the findings in 2009 (Carvajal, Monroe, Wynter, & Pattillo, 2009). The report indicates that unregulated investment schemes grew quickly in the period between 2006 and 2008. The Ponzi schemes were majorly a system of referrals by existing members. Low levels of detection and prosecution of the promoters of such schemes occasioned the prevalence of Ponzi schemes in the region (Tomasic, 2011). The study summarized the effects of unregulated financial schemes to include undermining of confidence in the financial markets, incurred fiscal costs in case of bailouts, and causing swings in consumption driven by paper profits and early withdrawals. The effects also include the tarnishing of the reputation of the political authorities, the regulators, and law enforces for the failure to prevent open frauds and address money laundering or for supporting illegal enterprises by the schemes’ operators. Additionally, the study also found that the schemes divert savings from the productive courses to unproductive courses. In some instances, the savings are diverted from the local economy to foreign economies.

Lastly, the schemes lead to the diversion of deposits from the banks, lead to increase in the levels of non-performing loans especially in cases where the loan proceeds were diverted to the schemes. On top of these factors, the study revealed that experiences of different countries indicated the possibility of leading to large-scale economic and institutional damage. Some of the countries in the Caribbean were greatly affected by the last global financial crises mainly because of the exposure to unregulated investment schemes (Soverall, 2012).

Walsh (1998) attempted to explain why Ponzi and Pyramid schemes were increasing in the developing and underdeveloped world. The author indicated that the lack of value systems has been the major
reason for the continued growth in the operations of fraudulent schemes. For instance, the author indicated that majority of the investors are not honest and this has been the reason for the continued losses on the part of the investors.

One interesting observation from the text is that the losses incurred from Ponzi schemes do not only have the physical impacts that are reported but also it affects the value systems. The authored reported that in most countries rules and regulations were reported after the collapse of Ponzi schemes. This implies that instead of many countries being proactive in the prevention and regulation of Ponzi and pyramid schemes, they react to failures and then produce regulations. This means that value systems and regulations are one of the effects of Ponzi schemes (Dorn, 2009).

Focusing on African countries, major Ponzi and pyramid schemes had been reported in Nigeria, South Africa, and Lesotho (Krige, 2012). The common thing about these countries is that there still are no laws to deal with Ponzi and Pyramid schemes. Secondly, the politicization of the unregulated schemes results in major fails in the detection of the schemes and at the same time, it becomes difficult for the promoters of Ponzi schemes to be prosecuted.

Consequently, some of the effects of Ponzi schemes are the many dragging court cases that are usually thrown out of court for the lack of evidence. The effect of this is that there lacks precedents that would deter the operations of Ponzi schemes and as an effect, the continued operations of Ponzi schemes are a result of failed deterrence systems (Krige, 2012).

2.2.2 Local Perspectives

Focusing on the local perspective, there exists limited research on the effect of Ponzi and Pyramid schemes in the country. However, one of the major effects, in addition to the factors identified in the sections above, is the issue of continued operations of fraudulent schemes in the country. Research indicates that even after the collapse of schemes such as Deci, there continues to exist other pyramid schemes.

As an effect of past fraudulent schemes, the new schemes are an indicator of the failed regulations on the fraudulent unregulated schemes. Statistics indicate that there are about 271 fraudulent schemes in the country (Kwena & Turner, 2013). There are several schemes that are still operational despite
having been enlisted, there are still persons registering and investing in the schemes. Notably, one of the concerns about the schemes is whether the ‘get rich quick’ belief actually yields results for the investors.

Research indicates that some of the schemes that are under consideration by the task force had continued to exist. According to analysis, the fact that there has not been any successful prosecution has continued to encourage the schemes (Kwena & Turner, 2013). Secondly, the schemes had continued to exist among the poor with poverty and the promise for quick returns being used to trap the citizens.

The impact of the schemes has been seen in the continued pilfering of funds from the pockets of the poor and filling the pockets of the rich persons that orchestrate the crimes. Political inclination to the schemes is also observable in many of the Ponzi schemes (Tomasic, 2011).

In summary, this section looks into the implications of Ponzi and pyramid schemes on individuals and the economy. Major effects include the loss of savings for the individual investors, the slowing down of the economy, and continued operations of existing and new schemes is no prosecutions are made. The analysis also identifies low identification rates as one of the reasons why the pyramid schemes had continued to exist.

2.3 Regulatory Challenges in the Management of Ponzi and Pyramid Schemes

Ponzi schemes exist both as regulated and unregulated in various countries and regions of the world. According to Carvajal, Monroe, Wynter, and Pattillo (2009) the International Monetary Fund refers to the Ponzi and Pyramid Schemes as unregulated investment schemes (UIS). The reference has been used in many developing countries (Moore, Han, & Clayton, R. (2012. However, the case of Bernie Madoff indicates that the schemes also exist in highly regulated environments such as the US.

The view that the cases appear even in environments where there are stern regulations meant to deter the promoters is indicative of other factors that support the continued operations across the world (Dorn, 2009). Notably, one of the factors cited by many authors is the issue that the investment schemes had been regarded as financial innovations until the bubble bursts and investors suffered loses and lost their homes due to unfulfilled investment promises and finally closure of the investing parties.
Researchers also argue that many of the crimes performed by the investment schemes often begin as legal, operate in a legal environment, and then spin off to the unregulated terrain. This sequence of operations makes the investment schemes difficult to detect while political economies support their continued existence. Arguably, therefore, the existence of Ponzi and Pyramid Schemes is not out of the lack of proper regulation but due to other challenges as discussed in the empirical review.

2.3.1 Developed Countries Perspective

Developed countries including the UK and the US had properly regulated environments with specific laws focusing on the Ponzi and Pyramid schemes (Financial Conduct Authority, 2016). However, these laws had not deterred the existence of the fraudulent schemes especially when considered that schemes such as the Madoff’s investment scheme operated in the country for a long period without detection. The implications of this observation are that regulations alone do not deter the existence of the unregulated investment schemes. Rather, there needs to be other mechanisms to support the regulations and these include the enforcement mechanisms of detection and prosecution (Tucker, 2009).

When there exists political influence in the operations of the Pyramid schemes, it becomes difficult for the schemes to be detected. This was cited as one of the reasons why the Madoff scandal was not detected early. Bernie was a common name in the corridors of power and worked closely with the regulators. This made it difficult for the regulators to suspect his dealings. According to research, the existence of a political economy is the single major reason for the continued existence of unregulated investment schemes in the US.

The development of regulations in the developed world was preceded by the major bubble bursts in unregulated investment schemes. In explaining this behavior, Smith (2010) indicated that the continued problem of investor sophistication was major reason why there are undetected Ponzi schemes. Smith indicated that the financial industry was increasingly complex with the development of complicated investment products such as the derivatives that marked the beginning of the last global financial crises.

In addition to Smith’s views on the challenges facing regulation of investment products, Brakebill (1995) indicated that the continued development of internet investment products was posing major
challenges to the regulation of investment products in the industry. Tucker (2009) gave the example of the digital currency and the darkness of the internet as major reasons why regulation of dubious investment schemes was increasingly becoming a challenge. For instance, the internet allowed investors from any part of the world to attract investors across borders. The promoters had also learnt the weaknesses of the regulatory environment. Hence, they capitalize on the weaknesses in the law to rob the investors (Brakebill, 1995).

Koehn (2001) indicated that multi-level marketing schemes had been a major starting point for many Ponzi schemes. The multi-level marketing schemes use the sale of low value items to make them appear legitimate. The schemes use the items to enlist and entice new investors into a pyramid schemes. The purchases are required to sell the products to other persons and the mere fact that they are selling items makes the purchases or investors feel like that are not defrauded. Consequently, the International Monetary Fund (IMF) and other regulators had observed this as one of the challenges in eliminating Ponzi and pyramid schemes (Carvajal, Monroe, Wynter, & Pattillo, 2009). Notably, it was difficult to separate the legitimate multi-level marketing companies from fraudulent schemes and this allowed the schemes to operate. Similar challenges are observed in the regulation of the businesses (Koehn, 2001).

### 2.3.2 Developing and Underdeveloped Perspectives

Focusing on the developing and underdeveloped nations, the challenges in the regulation of Ponzi and pyramid schemes are considerably different from those observed in the developed world. Research indicates that corruption and lack of value-based systems are the two major challenges when it comes to the regulation of the schemes (Walsh, 1998).

Secondly, the environment is characterized by high levels of political influence in the processes of regulations, the investigation and detection of Ponzi schemes, and in the prosecution of perpetrators of these schemes (Tucker, 2009). According to case analysis from Nigeria and Lesotho, majority of the Ponzi schemes that were uncovered had promoters with connections to the government. Interference by powerful persons in the political leadership resulted in major fails in the regulation, detection, and even the prosecution of the perpetrators of fraudulent financial schemes (Tomasic, 2011).
In developing nations such as Jamaica the Ponzi schemes are promoted and operated by the elite class at the expenses of the poor masses. The promoters of the Ponzi and pyramid schemes are persons aware of the weaknesses in the financial systems. For instance, they are persons who worked in the financial industry. These persons capitalize on the trust of the society to defraud the poor and as a result, the weaknesses make it difficult to regulate the schemes.

In Lesotho, the lack of comprehensive understanding of the various mutations of Ponzi and pyramid schemes has made it difficult to develop comprehensive laws to deal with such fraudulent schemes. In South Africa where the judicial system is more advanced, the regulatory frameworks are continuously challenged in court and laws suspended hence allowing the Ponzi schemes to continue with their operations. Notably, the challenges in the regulation of Fraudulent schemes increases in complexity as the modernization of communities increases and it was for this reason that there are differential challenges in the developed, developing, and underdeveloped nations (Tucker, 2009).

### 2.3.4 Local Perspectives

The Kenyan context, like many nations in the developing world, does not had comprehensive laws and regulations to deal with unregulated investment schemes. Research indicates that the task forces appointed specifically for that purpose handle Ponzi and pyramid schemes holistically (Kwena & Turner, 2013). The prosecution of perpetrators of such schemes is based holistically on the penal code and banking fraud laws. Notably, the collection evidence on the perpetrators happens to be one of the major reasons why the government has not managed to tame the fraudulent financial schemes (Kwena & Turner, 2013).

Kenya is considered a political economy where financial and other matters are politicized. On many occasions, investigations into fraudulent schemes had been hampered politicization of issues. The claim that investigations are targeted to various political sides has been a major hindrance to the regulation of fraudulent schemes (Kwena & Turner, 2013).

Secondly, politicians are usually involved in economic decisions with the lack of proper structures to separate policy making for such issues and policy making for other facets of the political matters. Notably, the policies adopted by the politicians do not always target the interests of Kenyans. Rather, personal interests of the politicians majorly inspire them.
Other than the factors mentioned above, there has been the lack of proper cooperation between the regulators in financial sector and the industry players. This results in the lack of proper structure for the reporting of fraudulent accounts in the financial sector and at the same time, the lack of structures to ensure that binding policies for the regulation of fraudulent investment schemes in the nation (Kwena & Turner, 2013).

The third concern has been the lack of cooperation between the court system, lawmakers, and the law enforcers. There exists high levels of intolerance between the various agencies and as a result, the processes of regulating and enforcing the regulations are highly disintegrated (Kwena & Turner, 2013).

In summarizing this section, there are various challenges to the regulation of fraudulent schemes in the industry. The challenges vary from the developed world to the developing and underdeveloped world. Complexity in the regulatory environment is dependent upon the level of development as well as the level of political interference. Notably, the challenges in the local market include the lack of cooperation among the various agencies as well as the increasing complexity of the adoption of technology in the industry.
2.4 Financial Markets risk mitigation strategies that can deter existence of Ponzi schemes

Walsh (1998) indicated that the development of value based systems has always been and will always be the leading strategy in dealing with the fraudulent schemes. Walsh observed that if the promoters of Ponzi and pyramid schemes were honest and had other virtues such as that, then the unregulated schemes would not exist in the first place. However, Walsh does not lay all the blame on the shoulders of the promoters. Rather he also observed that if the investors wanted honest returns derived out of diligence, the schemes would not exist either.

Other than the development of value systems, the second major observation was that there needed to be collaboration among various stakeholders to handle the fraudulent schemes. Unregulated schemes do not exist because there are no regulations; neither do they exist because the authorities are not aware that they do. The problem is that there lacks the collaboration and one voice required to term them as wrong and hence root them out from the onset. Instead, many agencies focus more on their differences and not on the problem. It was not until the pyramids collapse and the investors lose to Ponzi promoters that the regulators, enforcers, and the judicial systems come together to deal with the problem. In all, collaboration among the various stakeholders is an important tool in the fight against fraudulent schemes (Walsh, 1998).

Craig John McKim was convicted of a ponzi scheme, however he continued to entice investors with lucrative returns out of prison. Ponzi scheme operators are addicted to their operations and they derive happiness in enticing more and more investors into their schemes. On the other hand (Walsh, 1998) is of the view that, investors would see a suspicious scheme more clearly if they did not mix their business decisions with non business matters. He is of the view that public opinion plays an important role in the lives of individuals, hence one must look at both the players and how the public views the Ponzi providers and the victims.

2.4.1 Developed World Perspective

The handling of fraudulent schemes in the developed world has always been used to mirror how other nations should deal with the schemes. The regulation of the financial system is considered the first step towards dealing with investment schemes. The legal frameworks in the UK, the US, and Sweden provide for stern actions against financial industry players that fail to detect transactions that may
point to Ponzi Schemes in their business (Financial Conduct Authority, 2016). Placing liability on the banks ensured that they enforce strategies to know the customer and ensure that they provide data that may lead to early detection of fraudulent schemes. Unless there were not express indications of such schemes, the banks would be fined heavily in order to prevent the industry players from considering the schemes (Barth, Caprio & Levine, 2008).

In countries such as Lesotho, Colombia, Jamaica and other Caribbean countries efforts to close down pyramid schemes have been met with a lot of difficulties. In many case the difficult faced is due to lack of regulation as well as lack appropriate enforcement tools, such as the ability by the different countries to freeze assets or completely shut down the schemes operations at an early stage. The data given is also not accurate. Most of the data is on estimated values hence establishing even basic facts such as amounts lost in the schemes and the number investors affected is difficult. Most governments’ reluctance on closing this fraudulent scheme is due to the fact that when the scheme becomes too large curtailing its ability to meet cash flow obligations could lead the subscribers to blame the government’s intervention rather than the scheme’s inherent flaws.

Punitive punishment is another strategy employed by the industry regulator to maintain the industry’s identity. As research indicates, the industry has been struggling for self-regulation (Financial Services Authority, 2015). However, being allowed to self-regulate also comes with the costs of ensuring that the SROs institute policies and measures to ensure that the schemes do not operate under their business (Omarova, 2010).

Secondly, the financial industry players are required to institute policies that would enable players to detect fraudulent activities and to prevent collusion between the players of the industry and the promoters of fraudulent schemes. In the analysis of Madoff’s investment scandal, Smith (2010) indicated that the financial industry was the first point of the detection of the scheme and not the lost funds.

2.4.2 Developing and Underdeveloped World Perspectives

The developing and underdeveloped world considers that the solution to the Ponzi and pyramid schemes must come from the political goodwill of the leaders. This is because the schemes are believed to be heavily controlled by the political class and political institutions heavily influence
investigative processes. Notably, the belief in political solutions has been embodied in various protests against the authorities in countries such as Albania (Cortés, Santamaría & Vargas, 2016). In some developed nations, the effectiveness of the government agencies was rated based on the handling of such schemes.

One would think for instance that a more country based approach would be the best approach to deal with this scams. However investors are lured into Ponzi schemes by getting paid high returns, this phenomenon thrives in both developed and underdeveloped worlds. In the United states the sophisticated regulatory framework failed to prevent the rapid growth and collapse of the Bernard Madoff’s scheme in late 2008 as well as the subsequent collapse of many other Ponzi schemes during the global financial crisis.

Ponzi schemes if left unchanged grow exponentially and inflict financial damage an broader economic and institutional damage on investors who divert savings from productive investment hence undermining confidence in the institutionas that offer financial advise. In some countries for example Albania they led to political and social instability on their collapse.

The financial markets sector in the developing and developed world is not yet fully developed. Consequently, dealing with the fraudulent investment schemes is considered a challenge at the individual players’ level. However, the use of investigative commissions comprising of the industry’s players has been major strategy in dealing with the schemes. Research indicates that in countries like Nigeria and South Africa, the players in this industry had been using investigative commissions comprised of financial markets specialists to help detect and deter fraudulent financial schemes.

The financial markets players had been cited as the major players in the industry that help flag suspicious accounts leading to the detection of fraudulent schemes. However, there are still challenges in the sector that emanate from political interference. This has been the result for the sector’s pursuit of self-regulating mechanism (Omarova, 2010).
2.4.3 Local Perspective

A study of the local environment indicates that strategies for dealing with the fraudulent financial schemes are majorly handled by the government agencies with little to no contribution of the financial markets players. Research indicates that the financial industry players are only involved at the stage of investigations and majorly after the fraudulent investment schemes had already collapsed.

Notably, the implications of this observation are that the involvement of the financial industry players is considered limited (Barth, Caprio, & Levine, 2008). However, recently the regulator demanded banks to track money-laundering schemes by insisting on the need for the banks to identify their customers and employ the KYC strategy. This strategy is considered important in helping reduce the spread for fraudulent financial schemes.

According to Barth, Caprio, and Levine (2008), rethinking of the banking regulation is considered one of the most important mechanisms of helping curb money laundering and the fraudulent investment schemes such as Ponzi and pyramid schemes. The implications of reconsidering the banking regulation would include legal procedures in case banks collude with the financial industry players. The brokerage firms as well as the CMA and NSE would also be required to ban from trading all persons who engage in Ponzi and pyramid schemes.

Additionally, there is the requirement to coalesce the regulators in order to ensure a comprehensive and collaborative approach to the detection of fraudulent schemes. These schemes ought to replace the task force committees that had in the past not completed any investigations into the operations of Ponzi schemes.
2.5 Chapter Summary

In summary, this chapter covered the literature review. The review indicates that there exist research gaps in the developing and underdeveloped world with regard to the matter in this study. The same case is observed in the local context with there being no studies that focus on Ponzi and pyramid schemes. Regulatory gaps were considered a major reason for the continued existence of unregulated investment schemes in the developing and underdeveloped world.

However, in the developed world, the Ponzi and pyramid schemes are built out of complex financial products and this has made it difficult for them to be detected. The review of literature revealed that the strategies required to deal with the unregulated investment schemes require a more collaborative approach that involves players from different areas of the economy. The following chapter focused on the research methodology.
CHAPTER THREE

3.0 RESEARCH METHODOLOGY

3.1 Introduction

The objective of the chapter was to demonstrate how the research study was conducted. It presented the research methodology applied in the assessment of Ponzi schemes in Kenya among the financial market players. The chapter was organized into several subtopics that include the research design, population and sampling design, data collection methods, research procedures, and data analysis methods.

3.2 Research Design

The cross-sectional explanatory research design was employed in assessment of Ponzi schemes in Kenya among the financial market players. Robson and McCartan (2016) explain cross-sectional research design as an approach that allowed collection of large amounts of data within a short period. Notably, cross-sectional research is the collection of data at a point in time and it was contrasted with longitudinal research that collects data over long periods. Zikmund, Babin, Carr and Griffin (2012) observed that the use of cross-sectional explanatory research provides adequately accurate information while Collis and Hussey (2013) found that the research design to be more formalized, well structured, and with clearly defined objectives of study that are identified with research hypotheses.

Application of cross-sectional explanatory research was relevant to the study at hand since it allowed the researcher to identify some of the constraints that had been affecting the fight against Ponzi and Pyramid Schemes over the years. Through data collection, the research enabled the researcher to identify and define the various issues that the regulators and the financial industry players can address in order to wage a spirited war against the operations of Ponzi and Pyramid schemes in Kenya.
3.3 Population and Sampling Design

3.3.1 Population

The population in a research study involves all the respondents or items under study. In this study the group of people was chosen from the financial markets, where the researcher was of the view that they shared a common characteristic of having knowledge around investment products. On the other hand in a census, the entire population must be studied. The population for this study includes financial markets players. The financial markets players fall into three general categories that include the insurance companies, commercial banks, and investment banks. The table below shows the number of institutions under each category.

Table 3.1: Sample Size Distribution

<table>
<thead>
<tr>
<th>Institution</th>
<th>No. Of Firms In Kenya</th>
<th>No. Of Firms With Group Capacity</th>
<th>Population In Group Companies</th>
<th>Population Sample Size</th>
<th>Percent Of Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Companies</td>
<td>51</td>
<td>3</td>
<td>300</td>
<td>40</td>
<td>57%</td>
</tr>
<tr>
<td>Commercial Banks</td>
<td>42</td>
<td>3</td>
<td>150</td>
<td>35</td>
<td>28%</td>
</tr>
<tr>
<td>Investment Banks</td>
<td>19</td>
<td>3</td>
<td>75</td>
<td>25</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>112</td>
<td>9</td>
<td>525</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>

Source: IRA Research Department (2015)

Out of the above firms the study identified firms that offer group facilities in Insurance, Banking and Investment as umbrella Institution hence representative of the individual institutions in the industry. However in order to get common characteristic of having knowledge around investment products the group avenue proved more reliable.
3.3.2 Sampling Design

3.3.2.1 Sampling Frame

The sampling frame comprises the list of all items in the population that had the potential of being included in the sample. For purposes of this study, the sampling frame included members of the insurance companies, commercial banks, and investment banks with offices at Liberty House. Liberty House has offices for members of the three main financial markets players as identified herein.

The rationale for considering the sampling frame was to ensure that it was representative of the population being studied (Collis, & Hussey, (2013). In this particular frame, it was important to ensure that the sampling frame brings together all the players in the financial markets who operate as a group. This ensured that views from the various subsectors in the financial markets industry are well represented. Secondly, it enabled us to have a holistic view of a more enlightened population on matters of investment hence quite readily identify the loopholes in the regulation framework and process.

A representative sampling framework is one that holistically represents the characteristics of the population. Therefore before moving to the field the researcher had to ensure that the strata is mutually exclusive, as well as collectively exhaustive, hence identified players who housed all the components within the group of financial players, thus they had insurance both long and short term, they had a bank within the group, they had an investment house and a brokerage wing.

3.3.2.2 Sampling Technique

The research employed the use of stratified random sampling technique because the study noted that the subpopulation within the overall population in the financial markets varied. Stratified random sampling is a method of sampling that involves the division of a population into smaller groups known as strata. In stratified random sampling, the strata are formed based on members' shared attributes or characteristics. In this study, there was the main group company and then the three stratas included insurance companies, commercial banks, and investment banks.

Respondents from the three strata were selected at random. Random sampling ensured that all members in each strata had an equal chance of being included in the study. The approach also
eliminates research bias in sampling and data collection. Holistically, the stratified sampling approach ensured that data is collected from the most relevant players in the industry since they have shared regulations as well as industry practices, while at the same time maintaining the credibility of data collection.

3.3.2.3 Sample Size

The sample size comprised of 100 respondents who were individuals drawn proportionately from the four sections of the company and who accounted for an fifth of the representatives who operate in the financial markets and who have shared resources in the financial sector offering. The size of the industry as measured by the number of group institutions in each sector was employed as the basis of determining the sample size representation. Insurance respondents accounted for 57% of the entire sample which was representative of a ratio of 1 in 7 respondents in the industry. The commercial banks were represented by 28% of the sample with a ratio of 1 for every 4 working in that space, while the investment banks were represented by 15% of the respondents with a ratio of 1 in every 3. Collis and Hussey (2013) indicated that the purpose of sampling is to enable the drawing of inferences from the sample and generalizing the observable phenomenon in the population.

By focusing on a sample size of 100 respondents, I ensured that all sectors in the financial industry were well represented through the use of group companies who offer the financial services, and it was only by focusing in this sectors directly that one would encounter a population that has encountered unregulated investment schemes including Ponzi and Pyramid schemes.

Table 3.2: Population Size Distribution

<table>
<thead>
<tr>
<th>Strata</th>
<th>No. Of Firms With Group Capacity</th>
<th>Population In Group Companies</th>
<th>Population Sample Size</th>
<th>Percent Of Market Share</th>
</tr>
</thead>
<tbody>
<tr>
<td>Insurance Companies</td>
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<td>35</td>
<td>28%</td>
</tr>
<tr>
<td>Investment Banks</td>
<td>3</td>
<td>75</td>
<td>25</td>
<td>15%</td>
</tr>
<tr>
<td>Total</td>
<td>9</td>
<td>525</td>
<td>100</td>
<td>100%</td>
</tr>
</tbody>
</table>
3.4 Data Collection Method

Data collection methods are the approaches and techniques that the research employed in the collection of the data necessary for the testing of the research hypothesis. Robson and McCartan (2016) indicated that the preferred data collection methods are dependent on the research question and hypothesis and the nature of the data required for the study. The data collected for this study was Likert-type scale data. The Likert-type scale is a tool of self-reporting in which the respondents scale their responses in a research. The scale is such that the respondent can indicate whether they strongly agree, agree, neutral, disagree, or strongly disagree.

For the assessment of Ponzi schemes in Kenya among individuals in the financial market. Robson and McCartan (2016) assert that the methods employed in the data collection approaches are also dependent on whether the data is primary or secondary in nature. Primary data is data that is collected for a particular study through firsthand experience. The researcher is required to interact with the environment or the respondents from whom the data is collected. On the other hand, secondary data is the type of data that has already been collected by others or even a computerized system for different purposes than those of the research at hand.

The study at hand utilized primary data. Consequently, since the researcher has to determine an appropriate tool for the collection of primary qualitative data. The selected method of data collection is a questionnaire. As a tool of data collection, the questionnaire is simply a data collection tool consisting of a series of questions and other prompts and the response to which includes data that is analyzed to answer the research questions. The questionnaire was prepared to include easy-to-understand questions. The questionnaire did not include any jargon, complex sentence structure, or any punctuation that may make it difficult for the respondents to understand the prompts. Secondly, the research questions must not lead the respondents to providing subjective answers, answers that provide private or privileged information, or prompts that would be considered sub judice. It is important to note that some of the Ponzi schemes that may be under this study are still operational or some had collapsed and the perpetrators still in the court process (Kwena & Turner, 2013).
The questionnaire was semi-structured. The rationale of providing a semi-structured questionnaire to the respondents was to make it easy to analyze the data and to ensure that the research is completed in time considering that there was limited time for the research (Collis and Hussey, 2013). Secondly, the semi-structured questionnaire enabled the respondents to provide recommendations on some of the issues that the research ought to have looked into but had been omitted. These recommendations were collected using one open-ended prompt at the end of the questionnaire and it was based on the understanding that there is limited research focusing on fraudulent schemes in Kenya.

3.5 Research Procedures

The research process entailed obtaining consent and a recommendation letter from the university through the supervisor. A consent form and recommendation letter had to be sought from the university to enable the researcher proceed to the field. Buchanan and Bryman (2007) argue that permission must be sought before researchers approach respondents with requests to participate in a particular study.

A consent form was therefore prepared and together the recommendation letter was attached to the questionnaire and the questionnaire was administered to the respondents at Liberty House. The questionnaire was then pilot tested in order to ascertain if the questions captured the areas of research adequately. The purpose of pilot testing the instrument is to ensure that items in the instrument are stated well and have the same meaning to all respondents (Mugenda and Mugenda, 2003). The findings from the pilot test helped to achieve the objectives of the study.

Once the pilot testing was complete, hard copies of the questionnaires were handed to the respondents and follow ups were conducted to ensure that questionnaires were filled and returned promptly. The process of data collection took three days to complete.

3.6 Data Analysis Methods

Data analysis is the process of organizing a mass of raw data into meaningful form (Healey, 2011). The researcher analyzed the data and the findings have been presented in tables and charts. The use of quantitative tools such as confidence interval was used in the interpretation of the findings of the study. Data coding took place immediately after the collection of the data from the respondents. Each
of the 100 questionnaires will be assessed and the data coded into a statistics program with the most preferred program being Microsoft Excel. After data entry, coding, and validation, the study will focus on conducting various tests and analysis on the data in order to draw inferences and meaningful information from the data. The main method of analysis used was descriptive statistics. The last stage in the research process involved the interpretation of the data, reporting of research findings, and preparation of recommendations based on the data collected analysis (Robson, &McCartan, 2016). The data was then presented in tables and figures.

3.7 Chapter Summary

This chapter covered the research methodology section of the study. The research methodology adopted for this research was the cross-sectional explanatory survey. Simple random sampling methods were employed in the research and the sample size was at 100 respondents. The method of data collection involves the administration of a questionnaire that was semi-structured with only one open-ended question at the end of the question. Data analysis methods involve descriptive statistics approaches while the data presentation and summarization made use of tables and figures. The findings are discussed in chapter five and conclusions and recommendations drawn.
CHAPTER FOUR

4.0 RESULTS AND FINDINGS

4.1 Introduction

The fourth chapter presents the results and findings of the study. Data for this study was collected through questionnaires from financial markets players who included the commercial banks, investment banks, and insurance companies. This chapter presents the analysis of that data. The sections presented in this chapter include the objectives that were laid down in chapter 1 thus: Effects of Ponzi and Pyramid Schemes to the Subscribers and the Economy, Regulatory Challenges in the Management of Ponzi and Pyramid Schemes, and Risk mitigation strategies that financial market players can employ to deal with the policy and regulatory failures and help deter the Ponzi and Pyramid schemes from existing.

The study drew responses from the financial industry where they focused on a firm that holdsfroup capability in insurance, investment and banking. In Kenya there are limited firms who in there group of companies offers the three sectors in the financial sector. The three sectors include commercial banks, investment banks, and the insurance. According to Mugenda and Mugenda (2003) a response rate of 70% and over is excellent for analysis and reporting on the opinion of the entire population. We administered 100 questionnaires and asked the respondents to return only if they had experience with unregulated investment schemes including Ponzi and Pyramid schemes. In total 75 questionnaires were returned resulting in a response rate of 75%.

This sample was drawn from financial market players who mostly are the consumers. The findings can be inferred to the general public, showing that around 30% has been directly impacted by the unregulated investment schemes, within the definition of this study. The response rate was appropriate for the study considering the conditioned response.
4.2 Effects of Ponzi and Pyramid Schemes to the Subscribers and the Economy

Prompts 3 to 15 of the questionnaire focused on the respondents’ views on the effect of Ponzi and Pyramid Schemes to the Subscribers and the Economy. The prompts ranged from the understanding of Ponzi schemes to the understanding of the impact that this has on the individuals and the economy.

4.2.1 Understanding Ponzi Schemes

The study drew responses from three industries in the financial sector. The three industries include commercial banks, investment banks, and the insurance industry. The response rate was greatly influenced by a precondition for responding to the questionnaire. The condition required the respondents to have firsthand experience with unregulated investment schemes as either a subscriber, beneficiary/victim, or promoter or, if they have interacted with a subscriber, promoter, or beneficiary/victim of unregulated investment schemes. The findings can be inferred to the general public, showing that around 35% has been directly impacted by the unregulated investment schemes, within the definition of this study. The distribution of responses from the financial markets players is as shown in the chart below.

Figure 4.1: Responses by Industry

Considering the distribution of responses, investment bankers are more likely to get information about unregulated investment schemes, compared to the commercial bankers and the insurance industry. The
observation asserts the importance of investment bankers in the fight against the unregulated investment schemes in Kenya.

Focusing on the experience of the respondents, the data indicates that 68% of the respondents had experience exceeding 8 years. While the remaining 31.58% of the population had experience no exceeding 2 years. The experience was demonstrated by the number of years that each respondent had worked in the industry. The longer the experience, the more knowledgeable the respondents are about the industry and about matters subject to analysis in this analysis. The following is a histogram showing the distribution of the respondents across different levels of experience.

The research finds that the responses received in the completion of this study were appropriate for the study at hand. The sample size is considered representative of the population from which the sample was taken.

One particularly important note from the research is that neither Pyramid schemes nor Ponzi schemes have any benefits on the economy. The research indicated that all the respondents unanimously agreed to the fact that the schemes do not have any benefits of the economy. By interpretation, the response indicates that while a few persons may benefit from the schemes, the overall effect on the economy is negative. This observation is underscored by the many collapsed UIS and at the same time, the noted effect on the financial industry, which was noted by 63% of the respondents.
Table 4.1: Effects of Ponzi and Pyramid Schemes to the Subscribers and the Economy

<table>
<thead>
<tr>
<th></th>
<th>Average Score</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>I had a good understanding of the operational structure of Ponzi and Pyramid schemes.</td>
<td>12</td>
<td>35%</td>
<td>30%</td>
<td>18%</td>
<td>13%</td>
<td>4%</td>
</tr>
<tr>
<td>At least once in my life, I had subscribed to a Ponzi or Pyramid scheme.</td>
<td>11</td>
<td>12%</td>
<td>8%</td>
<td>8%</td>
<td>25%</td>
<td>47%</td>
</tr>
<tr>
<td>I had benefitted from a Ponzi scheme, pyramid scheme, or another unregulated investment scheme.</td>
<td>11</td>
<td>8%</td>
<td>9%</td>
<td>11%</td>
<td>50%</td>
<td>22%</td>
</tr>
<tr>
<td>I know of a person or people who benefitted from investing in Ponzi/Pyramid Schemes.</td>
<td>12</td>
<td>21%</td>
<td>26%</td>
<td>26%</td>
<td>21%</td>
<td>6%</td>
</tr>
<tr>
<td>I know of a person/people who lost funds invested in Ponzi schemes.</td>
<td>12</td>
<td>41%</td>
<td>26%</td>
<td>15%</td>
<td>11%</td>
<td>7%</td>
</tr>
<tr>
<td>I know of family members or close friends who had invested in Ponzi/Pyramid schemes at least once in their lifetime.</td>
<td>2</td>
<td>26%</td>
<td>26%</td>
<td>5%</td>
<td>16%</td>
<td>26%</td>
</tr>
<tr>
<td>I know of Ponzi/Pyramid schemes that had collapsed leading to extensive loss of investor funds</td>
<td>3</td>
<td>37%</td>
<td>26%</td>
<td>5%</td>
<td>16%</td>
<td>16%</td>
</tr>
<tr>
<td>Unregulated investment schemes such as Ponzi and Pyramid schemes are beneficial to the economy</td>
<td>1</td>
<td>0%</td>
<td>0%</td>
<td>5%</td>
<td>63%</td>
<td>32%</td>
</tr>
<tr>
<td>Unregulated investment schemes had a direct effect on the welfare of families that had invested in the schemes.</td>
<td>2</td>
<td>37%</td>
<td>16%</td>
<td>5%</td>
<td>21%</td>
<td>21%</td>
</tr>
<tr>
<td>Investing in unregulated investment schemes including Ponzi and Pyramid schemes is a common problem among my clients.</td>
<td>1</td>
<td>5%</td>
<td>11%</td>
<td>21%</td>
<td>32%</td>
<td>32%</td>
</tr>
<tr>
<td>Collapsed unregulated investment schemes had a direct negative impact on the financial industry</td>
<td>2</td>
<td>32%</td>
<td>21%</td>
<td>5%</td>
<td>32%</td>
<td>11%</td>
</tr>
<tr>
<td>My employer had to deal with at least one Ponzi/Pyramid scheme during the tenure of my employment.</td>
<td>3</td>
<td>21%</td>
<td>6%</td>
<td>5%</td>
<td>41%</td>
<td>26%</td>
</tr>
<tr>
<td>Unregulated investment schemes had a negative effect on the financial markets industry.</td>
<td>3</td>
<td>42%</td>
<td>21%</td>
<td>5%</td>
<td>21%</td>
<td>11%</td>
</tr>
</tbody>
</table>
4.3 Regulatory Challenges in the Management of Ponzi and Pyramid Schemes

Prompts 16 to 27 of the questionnaire focused on the respondents’ views on the Regulatory Challenges in the Management of Ponzi and Pyramid Schemes. Considering the spirited fight against UIS, it would be expected that there are no operating Ponzi and Pyramid schemes in Kenya at the time of the research. However, 58% of the respondents indicated that they were aware of UIS that were still operational. The implications are that the regulatory environment has not yet become strong enough to deter the existence of the Ponzi and Pyramid schemes.
Table 4.2: Regulatory Challenges in the Management of Ponzi and Pyramid Schemes

<table>
<thead>
<tr>
<th></th>
<th>Average Score</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>I am aware of possible operations of Ponzi and Pyramid schemes in Kenya</td>
<td>8</td>
<td>18%</td>
<td>35%</td>
<td>20%</td>
<td>12%</td>
<td>25%</td>
</tr>
<tr>
<td>I am aware of national laws governing the operations of Ponzi and Pyramid schemes in Kenya</td>
<td>5</td>
<td>2%</td>
<td>13%</td>
<td>25%</td>
<td>35%</td>
<td>25%</td>
</tr>
<tr>
<td>My organization has clear policies for the detection and deterrence of Ponzi and Pyramid schemes and their activities</td>
<td>7</td>
<td>25%</td>
<td>25%</td>
<td>20%</td>
<td>15%</td>
<td>15%</td>
</tr>
<tr>
<td>At least once, my organization has been involved in investigations touching on unregulated investment schemes including Ponzi and Pyramid schemes</td>
<td>4</td>
<td>12%</td>
<td>6%</td>
<td>15%</td>
<td>35%</td>
<td>32%</td>
</tr>
<tr>
<td>I believe the government knows of unregulated investment schemes in the country</td>
<td>7</td>
<td>47%</td>
<td>21%</td>
<td>5%</td>
<td>21%</td>
<td>5%</td>
</tr>
<tr>
<td>Political interference is a major challenge in regulation of Ponzi and Pyramid schemes in Kenya</td>
<td>12</td>
<td>37%</td>
<td>16%</td>
<td>21%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Judicial process is a major challenge in regulation of Ponzi and Pyramid schemes in Kenya</td>
<td>7</td>
<td>37%</td>
<td>26%</td>
<td>21%</td>
<td>5%</td>
<td>11%</td>
</tr>
<tr>
<td>The regulator in my sector prohibits transactions with Ponzi and pyramid schemes</td>
<td>8</td>
<td>58%</td>
<td>11%</td>
<td>5%</td>
<td>11%</td>
<td>16%</td>
</tr>
<tr>
<td>The task force charged with investigation of unregulated investment schemes does not involve players in the financial industry</td>
<td>5</td>
<td>5%</td>
<td>37%</td>
<td>21%</td>
<td>16%</td>
<td>21%</td>
</tr>
<tr>
<td>Failed collaboration among the law-making, law enforcement, and the industry stakeholders is the main challenge in regulation of Ponzi and Pyramid schemes in Kenya</td>
<td>7</td>
<td>32%</td>
<td>26%</td>
<td>16%</td>
<td>5%</td>
<td>21%</td>
</tr>
<tr>
<td>Ponzi and pyramid schemes are not fully understood in Kenya</td>
<td>3</td>
<td>42%</td>
<td>26%</td>
<td>21%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Ponzi schemes are not common and are not considered a major challenge in Kenya</td>
<td>2</td>
<td>5%</td>
<td>26%</td>
<td>11%</td>
<td>42%</td>
<td>16%</td>
</tr>
</tbody>
</table>
Speaking of the regulations, only 17% of the respondents indicated having knowledge about national regulations, policies, and laws focusing on unregulated investment schemes in Kenya. This indicate an extremely weak regulatory environment, which explains why some Ponzi and Pyramid schemes operate undetected in the market. Frankly, 65% of the respondents believe that the government is aware of the operations of unregulated investment schemes in the country.

Focusing at the organizational level, one particularly important concern is that only 42% of the organizations from which the respondents were drawn had internal policies for the deterrence of Ponzi and Pyramid schemes. This means that less than half of the financial industry players actually recognize UIS as a problem and had policies to that effect. Only 21% of the organizations had been involved in investigations on unregulated investment schemes, raising the question why these parties are not stakeholders in regulation of UIS.

The study sought to understand some of the major challenges hampering the regulation of UIS in Kenya. About 62% of the respondents placed adequate blame on political interference. The judicial process was questioned by 67% of the respondents while 45% of the respondents blame the task force formed to deal with the UIS. Failed collaboration was blamed at the rate of 55% of the respondents while 73% of the respondents indicated that regulators and subscribers alike do not fully understand the operations of unregulated investment schemes. These challenges had been faced in other nations and considering the observations herein made, it was important for authorities to effectively focus on alleviating the challenges in order to effectively deal with the regulation of UIS.

It was important to note that the regulators in the financial industry had considerably done a good job in prohibiting and preventing UIS with 72% of the respondents confirming that the regulator did a good job in preventing the schemes. It was also important to note that 66% of the respondents believe that the UIS are common in Kenya and they remain a major problem in the financial industry. This underscores the importance of developing a strong regulatory environment.
4.4 Financial Markets risk mitigation strategies that can deter existence of Ponzi schemes

The study was anchored on the view that there are various challenges to the regulation of UIS in Kenya and at the same time, there are a number of risk mitigation strategies that was important in regulation of UIS and the deterrence of Ponzi and Pyramid schemes in Kenya.

The KYC strategy is now widely applied in the financial industry. The study found that 73% of the respondents still believe that this strategy would continue to deter the unregulated investment schemes. About 67% of the respondents asserted the importance of investor education while 65% believe that compliance with the available laws and regulations should mark the end of UIS.

Key stakeholder involvement as well as regulator control are considered as important strategies with scores of 57% and 48% respectively. Similarly, investment product engineering and with a score of 72% and data sharing are considered important strategies in the mitigation of risks facing the regulation of Ponzi and Pyramid schemes in Kenya.
Table 4.3: Risk Mitigation Strategies

<table>
<thead>
<tr>
<th>Strategy</th>
<th>Average Score</th>
<th>Strongly Agree</th>
<th>Agree</th>
<th>Disagree</th>
<th>Strongly Disagree</th>
<th>N/A</th>
</tr>
</thead>
<tbody>
<tr>
<td>Know-your-customer strategy is important in dealing with Ponzi and Pyramid schemes</td>
<td>5</td>
<td>32%</td>
<td>37%</td>
<td>5%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Investor education is employed in dealing with fraudulent investment schemes</td>
<td>5</td>
<td>32%</td>
<td>32%</td>
<td>21%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Emphasis on compliance with regulatory requirements is employed in deterrence of Ponzi and Pyramid schemes</td>
<td>7</td>
<td>26%</td>
<td>37%</td>
<td>5%</td>
<td>16%</td>
<td>11%</td>
</tr>
<tr>
<td>Stakeholder meetings on the state of financial markets are central to regulation of Ponzi and Pyramid schemes</td>
<td>10</td>
<td>26%</td>
<td>37%</td>
<td>21%</td>
<td>5%</td>
<td>5%</td>
</tr>
<tr>
<td>Activities of the organization are highly controlled by the regulator</td>
<td>2</td>
<td>21%</td>
<td>32%</td>
<td>21%</td>
<td>11%</td>
<td>11%</td>
</tr>
<tr>
<td>Designing investment products that meet the investor requirements is important in mitigating the risks of unregulated investments</td>
<td>3</td>
<td>26%</td>
<td>42%</td>
<td>21%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Key stakeholder involvement in the taskforce on unregulated investment schemes is important in deterrence of Ponzi and pyramid schemes</td>
<td>3</td>
<td>26%</td>
<td>47%</td>
<td>16%</td>
<td>5%</td>
<td>0%</td>
</tr>
<tr>
<td>Establishment of strong self-regulated players in the industry is important in mitigating the risks of fraudulent investment schemes</td>
<td>8</td>
<td>42%</td>
<td>42%</td>
<td>11%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Providing data on suspicious trades and client account activity is important in deterring fraudulent investment schemes</td>
<td>7</td>
<td>58%</td>
<td>16%</td>
<td>5%</td>
<td>11%</td>
<td>5%</td>
</tr>
<tr>
<td>Data sharing among the players of the financial industry is important in mitigating the risk of unregulated investment schemes</td>
<td>5</td>
<td>42%</td>
<td>37%</td>
<td>16%</td>
<td>0%</td>
<td>0%</td>
</tr>
<tr>
<td>Application technology in transaction monitoring was important in mitigating the risks of Ponzi and Pyramid schemes</td>
<td>5</td>
<td>47%</td>
<td>37%</td>
<td>5%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Establishment of codes of conduct that prohibit involvement with unregulated investment schemes among the players of the financial markets is important in dealing with the schemes.</td>
<td>8</td>
<td>42%</td>
<td>37%</td>
<td>11%</td>
<td>0%</td>
<td>5%</td>
</tr>
<tr>
<td>Educating the industry players on how to detect suspicious investment schemes is critical in risk mitigation for Ponzi and Pyramid schemes</td>
<td>7</td>
<td>84%</td>
<td>5%</td>
<td>5%</td>
<td>0%</td>
<td>0%</td>
</tr>
</tbody>
</table>
The study was anchored on the view that there are various challenges to the regulation of UIS in Kenya and at the same time, there are a number of risk mitigation strategies that will be important in regulation of UIS and the deterrence of Ponzi and Pyramid schemes in Kenya. The KYC strategy is now widely applied in the financial industry as shown in the table below.

Figure 4.2.: Risk Mitigation Strategies
4.5 Chapter Summary

In summary, this chapter covered the results and findings of the study. The study found that members of the industry had a good understanding of the financial industry. About 35% of the population has been subscribed or directly involved in an unregulated investment scheme. Of those involved in the UIS, only 13% had benefited from the investment schemes. Majority of the population subscribed to UIS had lost funds to the schemes. The most conspicuous observation is the unanimous agreement to the observation that UIS do not had any benefit to the economy. As such, the UIS are considered fraudulent schemes, which benefit a few people at the expense of the economy.

Despite the proven disadvantages of the UIS, the regulatory environment remains weak allowing Ponzi and Pyramid schemes to remain in operation. More than 65% of respondents believe that the government is aware of operation unregulated investment schemes. Only 42% of organizations in the sector had express policies to deter UIS. Secondly, only 21% of the player are aware of any national laws and regulations designed to deter UIS. Challenges to the regulatory environment include political interference, failed collaboration among players, and the failure to recognize UIS as a major challenge or problem to the economy. The findings are discussed further in the last chapter of the study.
CHAPTER FIVE

5.0 DISCUSSION, CONCLUSIONS, AND RECOMMENDATIONS

5.1 Introduction

Chapter 5 is the last chapter of this study. The chapter covered the discussion of research findings, the conclusions, and recommendations. The chapter has been organized into five sections that include the introduction, summary of the study, discussion, conclusions, and recommendations.

5.2 Summary

The purpose of the study was to assess the effects of Ponzi schemes on subscribers and economy, identify the regulatory challenges, and determine risk mitigation strategies for Ponzi and Pyramid schemes among financial market players. The study was necessitated by the observation that unregulated investment schemes had continued to operate in Kenya despite the establishment of a task force to investigate the operations of Ponzi and to recommend a regulatory framework for identification and deterrence of unregulated investment schemes.

The study focused on the collection of data from the key financial industry players who include the insurance companies, commercial banks, and investment banks. Data was collected through the administration of a questionnaire. The data collected was purely qualitative in nature. The study sought the respondents’ experienced opinions on the nature of Ponzi and Pyramid schemes in Kenya, the effects of Ponzi and Pyramid schemes to subscribers and the economy, the identification of the challenges to the regulation of the unregulated investment schemes, and the recommended risk mitigation strategies to deter operations of unregulated investment schemes.

The research collected data from 75 respondents resulting in a 30% response rate. The response rate was preconditioned to having experience with unregulated investment schemes. The questionnaire began by asking the respondents to respond only if they had firsthand experience with unregulated investment schemes as either a subscriber, beneficiary/victim, or promoter or, if they had interacted with a subscriber, promoter, or beneficiary/victim of unregulated investment schemes. The low response rate implies that only 30% of the target population has experience with Ponzi and Pyramid schemes in Kenya.
The study found that that Ponzi and Pyramid schemes had continued to operate in the country despite the establishment of a task force to investigate their operations. The respondents believe that the operations of the unregulated investment schemes are known to the government and that the most important reasons why the Ponzi and Pyramid schemes had continued to exists is the weakness in the regulatory environment (Carvajal, Monroe, Wynter, & Pattillo, 2009). All the respondents unanimously agreed that unregulated investment schemes had negative implications on the economy and that only up to 10% of subscribed persons benefit from the schemes before their collapse.

Focusing on the regulatory environment, the study found that only 17% of the respondents knew about existing national laws and regulations that can deter the operations of Ponzi and Pyramid schemes. Quite notably, this is because there is no express act of parliament that focuses on the regulation of Ponzi and Pyramid schemes in Kenya. Further, the research indicated that only 42% of the studied organizations had internal policies targeted to the identification and deterrence of the operations of Ponzi and Pyramid schemes. This observation implies that the financial industry has not yet instituted express laws and internal policies to deal with the unregulated investment schemes in the country, despite the recorded negative impacts of Ponzi and Pyramid schemes.

The study identified various challenges to the regulation of Ponzi and Pyramid schemes. Quite notably, political interference in investigations was considered a key challenge to the regulation of Ponzi and Pyramid schemes. Judicial process challenges also got a high score on the list of challenges and similarly, the lack of collaboration among financial industry players as well as the failure of the task force to involve the industry feature prominently in the findings. Two of the unexpected findings on the challenges were that there lacks good understanding of the operations and structure of Ponzi and Pyramid schemes among the common subscribers in the economy. Secondly, it was also surprising to find that Ponzi schemes are not considered a priority in dealing with Kenya’s economic challenges.

Considering the challenges identified in the paragraph above, the research identified various risk mitigation strategies that ought to be employed in the deterrence of unregulated investment schemes in the country. The know-your-customer (KYC) strategy was recently emphasized by the regulators to curb corruption. The study finds that this can be tailored to identify and deal with Ponzi and Pyramid schemes in the country.
Secondly, the study found that education of industry players and investors on the operations and structure of unregulated investment schemes would play a critically important role in the mitigation of risks against their operations. Key stakeholder involvement in the investigation process and stakeholder meetings would also play an important role in the alleviation of the problem. The respondents also indicated that compliance with available regulatory requirements is important just as was the control and enforcement of the policies by the regulators. Sharing data is considered important for both the industry and task force as well as among the industry players.

Most importantly, the research found that the establishment of self-regulated organizations would be a major step towards the deterrence of Ponzi and Pyramid schemes. Secondly, the re-engineering and redesigning of investment products would greatly push the fight against the unregulated investment schemes in the country. Overall, the study observed that collaboration between the government and the financial industry is the single major weapon that can lead to the elimination of Ponzi and Pyramid schemes in the country.

5.3 Discussion

5.3.1 Effects of Ponzi and Pyramid Schemes to the Subscribers and the Economy

Ponzi and Pyramid schemes appear to continually operate in Kenya despite the establishment of a task force to investigate collapsed schemes such as DECI and to prevent the operations of new schemes (Kwena & Turner, 2013). Consequent to this observation, one of the important questions that the research sought to answer relates to whether there exists any benefits from investment in the unregulated investment schemes.

According to the research, all the respondents unanimously agreed that Ponzi and Pyramid schemes do not benefit the economy in any way (Kwena & Turner, 2013). The observation is supported by empirical evidence from both the global and the regional perspectives.

Research indicates that in the United States, all unregulated investment schemes had been stamped economic disasters. The determination informs the decisive approach with which the United States handles unregulated investment schemes. According to research, acknowledging that unregulated investment schemes are not beneficial to the economy provides a good reason for the formulation of
policies similar to those of dealing with other economic crimes (Arrawatia & Pande, 2016). This observation is also observable in several European countries including the UK where there are strong policies focused on pyramid schemes.

The unregulated investment schemes benefit only 15% of the subscribers. Critical analysis of this observation underscores the fact that Ponzi and Pyramid schemes only benefit the promoters and early subscribers of the schemes. These persons benefit by collecting the contributions of other subscribers in a fraudulent manner. The schemes then collapse with 85% of the subscribers losing funds and life savings to the fraudulent promoters and a few early subscribers who are normally closely related and associated with the promoters (Tomasic, 2011).

The observation is supported by the understanding of the structure and operations of the unregulated investment schemes. Empirical evidence indicates that Ponzi and pyramid schemes do not had any method of creating value for investors. Instead, contributions and investments by new subscribers are paid to the older subscribers who then benefit from the scheme before its collapse (Tomasic, 2011).

On many occasions, the fifteen percent of beneficiaries only includes its promoters and any persons employed to run the scheme. These are the persons who are used to advertise and market the scheme to new subscribers. Consequent to this understanding, it was possible to explain why the respondents indicated that they had not benefitted from the schemes but knew or a person or persons that had benefitted from the unregulated investment schemes.

Further analysis of data indicated that the investment bankers in particular are more likely to get information on the operations of Ponzi and pyramid schemes. Quite notably, the observation is explained by the fact that the investment bankers interact more with investors, get to understand their investment needs, and they are able to design investment products that would prevent the citizens from focusing on the unregulated investment schemes. Linking the findings to empirical evidence, research indicates that many unregulated investment schemes are started by experienced investment specialists (Carvajal, Monroe, Wynter, & Pattillo, 2009). In the United States, the Bernie Madoff Investment Scandal underscores the important role that investment specialist had played in the sphere of unregulated investment schemes (Mandell, 2015).
To conclude the discussion, unregulated investment schemes are not beneficial to the economy. In developed nations, the unregulated investment schemes are treated as economic crimes with the Bernie Madoff Investment Scandal illustrating the handling of unregulated investment schemes among the developed nations (Mandell, 2015).

In the developing and underdeveloped world however, the unregulated investment schemes are not considered with the seriousness experienced in other parts of the world. For this reason, the unregulated investment schemes had continued to operate in the undeveloped and developing countries. The schemes benefit the promoters and their close allies with 90% of the subscribers losing funds to the schemes.

5.3.2 Regulatory Challenges in the Management of Ponzi and Pyramid Schemes

While the developed world has a well-established legal framework for the identification and prosecution of unregulated investment schemes, the undeveloped world is still struggling with the schemes. Past research indicates that the situation is rife for the Caribbean and African countries (Ffolkes-Goldson, 2015). The common factor in these regions is that they lack express laws focused on the unregulated investment schemes despite being the destination for most new and technology-aided investment schemes. In this section, the discussion focuses on the findings of the study as they relate to the empirical evidence.

The research found that Ponzi and pyramid schemes operate in a highly unregulated environment. Only 17% of the respondents had information on possible laws that can be used to arrest the economic crimes in the country. Further, only 42% of the respondents indicated that their organizations had internal policies focused on deterrence of unregulated investment schemes. Thirdly, only 65% of the respondents indicated to having express knowledge about regulator action against unregulated investment schemes in the region.

The observations made herein are a confirmation of the weak regulatory environment existing in the country. The weak regulatory environment has been observed in many developing and undeveloped nations with researcher indicating that these countries had not yet recognized Ponzi and pyramid schemes as an economic challenge (Ffolkes-Goldson, 2015). Empirical evidence also indicates that as the world advances technologically, the regulatory environment is increasingly complex especially
when considered that the unregulated investment schemes now transcend national and regional borders.

There are various challenges facing the regulation of Ponzi and pyramid schemes in the developing and undeveloped nations globally. Key among those factors is political interferences. In the Caribbean, the promoters of the unregulated investment schemes were observed to have close contact and strong connections with the political elite. The implications are the existence of protectionism leaving the UIS operating freely (Walsh, 1998).

In the case of Kenya, political interference revolves around the involvement of retired and current politicians in the unregulated investment schemes (Carvajal, Monroe, Wynter, & Pattillo, 2009). These persons had been promoters of the Ponzi and pyramid schemes and as a result, the schemes result in the deliberate avoidance of the regulation Ponzi and pyramid schemes. Quite notably, protectionism makes it difficult for the parliamentarians to focus on the making of laws focused on the unregulated investment schemes.

The challenging judicial process was also considered a major challenge in the country. Notably, the judicial process has been blamed for the continued operations of Ponzi and pyramid schemes across several parts of the world. The IMF indicated that challenges in the judicial system had made it possible for the unregulated investment schemes to continue operations in several parts including many African countries (Walsh, 1998).

Cases filed in the Kenyan courts are considered to take unduly long periods of time with the promoters dying without facing charges in courts. In some cases, the court cases are dismissed for lack of evidence and this is after many years of investigations while in some instances, the prosecution has been blamed for frustrating the court processes after being offered kickbacks by promoters of the investment schemes.

The IMF however indicated the single major challenge is the failure to recognize the unregulated investment schemes as an economic challenge. Empirical evidence indicates that the regulators only get concerned when the schemes collapse and the subscribers lose fortunes to fraudulent investors (Walsh, 1998). There has not been any proactive resolve to prevent the operations of the unregulated investment schemes across many parts of Africa.
The empirical evidence supports the view that the unregulated investment schemes are not considered a challenge in the local environment (Soverall, 2012). It also explains the reason why the respondents believe that the unregulated investment schemes continue to operate under the nose of the government. Additionally, it explains the finding that the government has done little to prevent the operations of unregulated investment schemes in Kenya.

In summary, this section discusses the major challenges observed in light of the regulatory environment for both Ponzi and Pyramid schemes in the country. Research indicates that political interference and the lack of political will for the deterrence of Ponzi and Pyramid schemes is the greatest challenge to the regulation of the unregulated investment schemes.

Notably, the involvement of the politicians and law makers in the schemes is one of the reasons why political protectionism is considered a major challenge in dealing with the schemes. Second major challenge is the long and sometimes corrupt judicial process and thirdly, the challenge of failing to recognize unregulated investment schemes as a challenge makes it difficult to regulate and deter their Operations.

5.3.3 Determine Risk Mitigation Strategies

The economic effects of unregulated investment schemes across many parts of the world had resulted in the consideration of the various strategies that can be employed in the mitigation of risks posed by the investments. In the deterrence of the schemes, the know-your-customer (KYC) strategy has been observed as the starting point. In the United States and the United Kingdom, KYC is considered best practice for the financial industry especially when considered that any banks that fail to identify and report suspicious account activity are heavily punished by the regulator.

This strategy was found to be the strongest strategy in the Kenyan context with the respondents holistically supporting the idea that KYC should be employed across the industry in order to avert the operations of the schemes. Notably, the use of KYC is underscored by the observation that the strategy is already in wide application to prevent corruption. Findings of this study indicate that the functionality of the strategy can be extended to encompass the activities of fraudulent investment schemes (Arasa & Ottichilo, 2015).
KYC as a strategy allowed the financial industry to effectively identify and report suspicious account activity (Arasa & Ottichilo, 2015). Notably, the application of the strategy in dealing with unregulated investment schemes enabled the company to effectively identify sources of funds invested or deposited in the accounts at banks, investment banks, and even funds deposited in insurance investment products. The KYC strategy would allow the financial industry to effectively identify suspicious accounts and report them for fast action by the regulator (Arasa & Ottichilo, 2015).

The second strategy recommended for the mitigation of risks encompasses the education of investors as well as the education of financial industry players. The training for the financial industry players should focus on the mutation of unregulated investment schemes. Over the years the unregulated investment schemes had turned out to be more difficult to identify especially where the technologies are presented as startups.

Notably, the technological mutation of the unregulated investment schemes as observed by IMF in the case of operations in the Caribbean indicates the increasing complexity of Ponzi and pyramid schemes with some beginning as network marketing entities (Ffolkes-Goldson, 2015). Consequently, the education of the players in the industry would help them in dealing with the changing face of the schemes in the world.

Focusing on the education of the investors on the operations of Ponzi and Pyramid schemes, it was important to inform the investors of the available investment products. Many investors get into fraudulent schemes due to the lack of adequate information on how to identify the schemes. Notably, educating investors about the schemes ensured that the investors identify the investments that are most suitable for their needs (Eisenberg & Quesenberry, 2014). This perspective would help the investors in understanding the deals that are unlikely to be true as well as the mainstream investments that offer good returns. Investor education would not only ensure low subscription rates for the rogue investments but also this would limit the attractions to quick riches in the country (Eisenberg & Quesenberry, 2014).

Research indicates that across the areas covered in this study, there are various methods that had wide application as strategies for the mitigation of risks against unregulated investment schemes. Notably, these strategies had been tested and applied in other jurisdictions and in dealing with other economic crimes. Such strategies include the establishment of strong codes of conduct by the industry players,
collaboration between the government and the industry, data sharing on suspicious clients and accounts, and the application of technology in dealing with the investment schemes (Dorn, 2009).

In summarizing this section, there are various strategies recommended to deal with the problem of Ponzi and pyramid schemes. These strategies include the KYC strategy, education of the investors and the financial industry players, and the use of technology in dealing with the changing face of Ponzi and pyramid schemes. Notably, these strategies had been tried and tested across the world and considering that they had worked in the developed world, these strategies would work in the Kenyan contest hence helping in dealing with the unregulated investment schemes. The most important note however, is the need to acknowledge the investment schemes as economic schemes considering that they do not benefit the economy in any way. Rather, they only lead to the loss of funds for more than 90% of the subscribers.

5.4 Conclusions

5.4.1 Effects of Ponzi and Pyramid Schemes to the Subscribers and the Economy

In conclusion, this study focused on the assessment of Ponzi and Pyramid schemes among the financial industry players. The objective of the study was to assess the effects of Ponzi schemes on subscribers and economy, identify the regulatory challenges, and determine risk mitigation strategies for Ponzi and Pyramid schemes among financial market players. Data was collected from financial industry players inclusive of the insurance companies, investment banks, and the commercial banks.

Key findings of the study indicate unanimous observation that Ponzi and pyramid schemes do not benefit the economy in any way. Rather, the unregulated investment schemes result in economic losses among the subscribers with more than 85% of the subscribers losing their investments. The schemes should therefore be declared as economic crimes.

5.4.2 Regulatory Challenges in the Management of Ponzi and Pyramid Schemes

The study also found that Ponzi and pyramid schemes continue to operate in the country with 73% of respondents indicating that the schemes operate in full knowledge of the government agencies. The lack of a strong legal and regulatory environment to deal with the problem explains why the schemes continue to operate in the country. Only 21% of the respondents believe that there exist national laws
that can be used to deal with the unregulated investment schemes. Further, only 42% of the companies in the financial industry had internal policies and codes of conduct that can be used to deal with the unregulated investment schemes.

5.4.3 Financial Market players Risk mitigation strategies that can help deter Ponzi Schemes

Focusing on the challenges facing the regulation, the study found political protectionism to be one of the greatest challenge. The hiccups on the judicial processes are also considered a key challenge while the failure to recognize these schemes under economic crimes presents a key challenge on the regulation of Ponzi and pyramid schemes. These challenges can however be addressed through various challenges including the KYC strategy, education for both investors and industry players, and the redesigning of investment products; among other strategies.

5.5 Recommendations

5.5.1 Recommendations for effects of the Ponzi Schemes on the economy

The study recommended the education of citizens on the operations of unregulated investment schemes. Public education should focus on enabling the citizens to identify and report any suspicious investment activities. Public education should also be focused on letting the citizens know of the different investment products that there are in the market. This would help the investors to avoid the get-rich-quick schemes. The following were deduced from the study:

5.5.2 Recommendation on Regulatory Management of Ponzi/Pyramid Schemes

Regulatory challenges were found to be a major cause of concern. The study recommended the creation of laws expressly dealing with unregulated investment schemes. Such laws exist in both the UK and the US among other developed nations. The creation of laws would enable easier identification of such schemes as well as the apprehension of the perpetrators of promoters of such investment schemes.
5.5.3 **Recommendation on Financial Market players Risk mitigation measures**

The study recommended full implementation of the identified risk mitigation strategies in order to deter the operations of unregulated investment schemes. These strategies include the KYC strategy, education of the investors and the financial industry players, and the use of technology in dealing with the changing face of Ponzi and pyramid schemes. Notably, these strategies had been tried and tested across the world and considering that they had worked in the developed world, these strategies would work in the Kenyan contest hence helping in dealing with the unregulated investment schemes.

5.5.4 **Recommendations for Further Studies**

The study recommends further research on the issue of Ponzi and Pyramid schemes in Kenya. Areas of further study would include the mutation of Ponzi and pyramid schemes especially based on the finding that new technologies had transformed the manner in which the schemes operate both locally and internationally. Research could also be focused on the revenue models network marketing, especially based on the finding that some of the schemes had continued develop from companies which began as internet marketing companies.
REFERENCES


APPENDIX

Appendix 1: Data Collection tool

QUESTIONNAIRE

This questionnaire is targeted to assess the effects of Ponzi schemes on subscribers and economy, identify the regulatory challenges, and determine risk mitigation strategies for Ponzi and Pyramid schemes among financial market players. Responses to these questions was treated as confidential and respondents who complete the questionnaire do so anonymously. The researcher requests respondents to complete this questionnaire honestly and to the best of their knowledge.

Please tick (√) where appropriate or fill in the information on the spaces provided. There are no correct or incorrect answers to these questions.

Section A – General Information

1. Which sector best fits your employment status?
   - Commercial Bank □
   - Investment Bank □
   - Insurance Industry □

2. How long had you been with the sector identified above, in years? _________________

Section B: Questionnaire on Effects of Ponzi and Pyramid Schemes

Kindly answer this section if you had firsthand experience with unregulated investment schemes as either a subscriber, beneficiary/victim, or promoter or, if you had interacted with a subscriber, promoter, or beneficiary/victim of unregulated investment schemes. Answer the following questions based on your experience in your sector by ticking (√) in the appropriate column.
<table>
<thead>
<tr>
<th>No</th>
<th>Please answer the questions below using the values 4 to 0 where, 4=Strongly Agree, 3= Agree, 2= Disagree, 1= Strongly disagree, and 0=N/A</th>
<th>4</th>
<th>3</th>
<th>2</th>
<th>1</th>
<th>0</th>
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<tbody>
<tr>
<td>3</td>
<td>I had a good understanding of the operational structure of Ponzi and Pyramid schemes.</td>
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<td>4</td>
<td>At least once in my life, I had subscribed to a Ponzi or Pyramid scheme.</td>
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<td>5</td>
<td>I had benefitted from a Ponzi scheme, pyramid scheme, or another unregulated investment scheme.</td>
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<td>6</td>
<td>I know of a person or people who benefitted from investing in Ponzi/Pyramid Schemes.</td>
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<td>7</td>
<td>I know of a person/people who lost funds invested in Ponzi schemes.</td>
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<td>8</td>
<td>I know of family members or close friends who had invested in Ponzi/Pyramid schemes at least once in their lifetime.</td>
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<td>9</td>
<td>I know of Ponzi/Pyramid schemes that had collapsed leading to extensive loss of investor funds</td>
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<td>10</td>
<td>Unregulated investment schemes such as Ponzi and Pyramid schemes are beneficial to the economy</td>
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<td>11</td>
<td>Unregulated investment schemes had a direct effect on the welfare of families that had invested in the schemes.</td>
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<tr>
<td>12</td>
<td>Investing in unregulated investment schemes including Ponzi and Pyramid schemes is a common problem among my clients.</td>
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<td>13</td>
<td>Collapsed unregulated investment schemes had a direct negative impact on the financial industry</td>
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<td>14</td>
<td>My employer had to deal with at least one Ponzi/Pyramid scheme during the tenure of my employment.</td>
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<td>15</td>
<td>Unregulated investment schemes had a negative effect on the financial markets industry.</td>
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# Section C: Questionnaire on Regulatory Challenges

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<th>No</th>
<th>Item</th>
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<tr>
<td>16</td>
<td>I am aware of possible operations of Ponzi and Pyramid schemes in Kenya</td>
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<td>17</td>
<td>I am aware of national laws governing the operations of Ponzi and Pyramid schemes in Kenya</td>
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<td>18</td>
<td>My organization has clear policies for the detection and deterrence of Ponzi and Pyramid schemes and their activities</td>
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<td>19</td>
<td>At least once, my organization has been involved in investigations touching on unregulated investment schemes including Ponzi and Pyramid schemes</td>
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<td>20</td>
<td>I believe the government knows of unregulated investment schemes in the country</td>
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<td>21</td>
<td>Political interference is a major challenge in regulation of Ponzi and Pyramid schemes in Kenya</td>
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<td>22</td>
<td>Judicial process is a major challenge in regulation of Ponzi and Pyramid schemes in Kenya</td>
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<td>23</td>
<td>The regulator in my sector prohibits transactions with Ponzi and pyramid schemes</td>
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<td>24</td>
<td>The task force charged with investigation of unregulated investment schemes does not involve players in the financial industry</td>
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<td>25</td>
<td>Failed collaboration among the law-making, law enforcement, and the industry stakeholders is the main challenge in regulation of Ponzi and Pyramid schemes in Kenya</td>
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<td>26</td>
<td>Ponzi and pyramid schemes are not fully understood in Kenya</td>
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<td>27</td>
<td>Ponzi schemes are not common and are not considered a major challenge in Kenya</td>
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## Section D: Risk Mitigation Strategies

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<tbody>
<tr>
<td>28</td>
<td>Know-your-customer strategy is important in dealing with Ponzi and Pyramid schemes</td>
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<tr>
<td>29</td>
<td>Investor education is employed in dealing with fraudulent investment schemes</td>
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<td>30</td>
<td>Emphasis on compliance with regulatory requirements is employed in deterrence of Ponzi and Pyramid schemes</td>
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<td>31</td>
<td>Stakeholder meetings on the state of financial markets are central to regulation of Ponzi and Pyramid schemes</td>
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<td>32</td>
<td>Activities of the organization are highly controlled by the regulator</td>
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<td>33</td>
<td>Designing investment products that meet the investor requirements is important in mitigating the risks of unregulated investments</td>
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<td>34</td>
<td>Key stakeholder involvement in the taskforce on unregulated investment schemes is important in deterrence of Ponzi and pyramid schemes</td>
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<td>35</td>
<td>Establishment of strong self-regulated players in the industry is important in mitigating the risks of fraudulent investment schemes</td>
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<td>36</td>
<td>Providing data on suspicious trades and client account activity is important in deterring fraudulent investment schemes</td>
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<tr>
<td>37</td>
<td>Data sharing among the players of the financial industry is important in mitigating the risk of unregulated investment schemes</td>
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<td>38</td>
<td>Application technology in transaction monitoring was important in mitigating the risks of Ponzi and Pyramid schemes</td>
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<tr>
<td>39</td>
<td>Establishment of codes of conduct that prohibit involvement with unregulated investment schemes among the players of the financial markets is important in dealing with the schemes.</td>
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<td>40</td>
<td>Educating the industry players on how to detect suspicious investment schemes is critical in risk mitigation for Ponzi and Pyramid schemes</td>
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