

How Have The Ponzi Schemes/UDSs/CISs Duped the Investors in India



Investor Education and Protection Fund Authority (IEPF Authority)



Indian Institute of
Corporate Affairs
Partners in Knowledge, Governance, Transformation

Preface

Though the nature of duping the public by promising unrealistic returns on their investment has been practiced since ages, in independent India, especially in the last few decades, there have been several such scams related to Ponzi scheme/unregulated deposit scheme (UDS)/illegal Collective Investment scheme (CIS) which have duped millions of gullible persons and have fraudulently collected billions of Rupees from them.

Although the basic premise of these scams have remained same: collect money promising very high returns, pay the initial investors out of proceeds collected from subsequent investors till the scam/schemes bust, etc., the *modus operandi* has been evolving over the years.

The idea for writing a book like this came up in discussion between teams of IEPFA and IICA, when it was discussed and decided to bring to the attention of public various Ponzi schemes/UDSs/CISs which have taken place in India over the years. To spread the message of such defrauding financial scams far and wide this book is being kept as an open source resource.

In preparation of this book, active assistance was provided in terms of carrying out research, writing of cases, etc. by the research associate Shubhasree Bhadra. We are also thankful to the teams at IICA and IEPFA for their valuable comments on the subject.

It is hoped that analysis of the cases contained in this booklet would prove useful to not only the public in saving them from similar defrauding schemes but also those institutions and agencies which impart financial/investor education as well as those who carry out research in this area.

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IEPFA - http://www.iepf.gov.in/	IICA - https://iica.nic.in/
<p>For administration of Investor Education and Protection Fund, Government of India has established Investor Education and Protection Fund Authority under the provisions of section 125 of the Companies Act, 2013 on 7th September, 2016.</p> <p>The Authority, working under the aegis of the Ministry of Corporate Affairs, is entrusted with the responsibility of administration of the Investor Education Protection Fund (IEPF), making refunds of shares, unclaimed dividends, matured deposits/debentures etc. to investors and promoting awareness among investors.</p>	<p>The Indian Institute of Corporate Affairs (IICA) was registered as a society on September 12, 2008 under the Societies Registration Act, 1860.</p> <p>IICA works under the aegis of the Ministry of Corporate Affairs to deliver opportunities for research, education, and advocacy. It is also a think tank that curates a repository of data and knowledge for policy makers, regulators as well as other stakeholders working in the domain of corporate affairs.</p>

Executive Summary

India, being a nation with diverse set of people, has always had fraudsters duping the common man, enticing them for their greed. A series of Ponzi schemes have appeared in various media over the years. All of them have similar characteristic. They all have had legal wrangling with regulators, promise of quick and high return to attract innocent people, influence of local agents, and performance of good and timely return in initial period of operation, which eventually ends with inevitable episode of default, resulting in economic hardship and financial loss to millions of people. All the Ponzi schemes have record of paying back the existing investors out of investment of new investors. When they fail to attract more new investors, the chain breaks down and the scheme defaults in repayment to investors.

In the last few years, scams which have hogged the limelight in regular print/audio/video media and new-age social media are Sahara, Saradha, Rose Valley, PACL, Bike Bot, GainBitcoin, Bitconnect, etc. These are some of the bigger ones. There have been many smaller ones, taking place in local community, which don't raise nationwide alarm.

A number of research paper have attempted to find the major reasons for popularity of the Ponzi schemes among people in India. One of the reasons that has come to the forefront is low financial inclusion and financial literacy in India. As per NSSO 59th round survey, 51.4% of farmer household are financially excluded from both formal and informal sources. It is also gathered from World Bank "Financial Access Survey" that the level of financial inclusion in India is quite low as compared to most developing countries in the World. Most of the Ponzi schemes appear to take advantage of the gap by providing easy investment procedure, high and easy return, with convenient facility of doorstep services.

Reserve Bank of India, and other regulators have taken variety of initiatives to enhance financial inclusion of poor people like – more branches by Regional Rural Bank (RRB) in rural area to cover more villages, more bank outlets in villages, agency banking through Business Correspondents, expansion of ATM (automated teller machine) network, financial literacy initiatives, etc. The apex banking institution and banking sector financial regulator, RBI, has launched

Sachet (www.sachet.rbi.org.in) in 2016. Sachet is a website from where anyone can get information about companies that are allowed to take deposit from individuals. Also individual can lodge complaint or can share information about illegal operation by any unscrupulous entities. It is an initiative by State Level Coordination Committee (SLCC), a joint forum comprising all the states of India, to ease information sharing among regulators like, RBI, Securities and Exchange Board of India (SEBI), Insurance Regulatory and Development Authority of India and Enforcement Directorate to control incidents of unauthorised acceptance of deposits. In addition, it is also an initiative to save the public from becoming victim of Ponzi schemes.

This research project is aimed at throwing some light on different models and features of varied Ponzi schemes that took place in India and also on paradigm shift in the approach of the schemes to attract people in the era of digitalization. Most of the background material covered for preparation of these caselets have been taken from media reports, where, many a times, different reports had different set of data related to number of investors duped by Ponzi scheme, the amount of money collected under the scheme, etc. It has been tried to reconcile the data to the extent possible. The Case-lets (15 in number), which have been covered here, are:

- Sanchaita scam
- Saradha scam
- Peerless scam
- Pearl Agro scam
- Sahara OFCD scam
- IMA scam
- Bike Bot scam
- Noida scam
- QNet scam
- Social Cause scam
- Anubhav Plantation scam
- Rose Valley scam
- Speak Asia scam
- GainBitcoin scam

- Bitconnect scam

Sanchaita scheme duped around two-lakh investors, majorly in West Bengal, by offering, as high as, forty-eight percent astonishing rate of return on their investment. It is said to have garnered more than INR 100 crore from depositors/investors. After a long battle, those investors who had applied for recovery of their investment, got back major part of their investment in 2013.

Kolkata based, Saradha Group of companies, had more than 100 firms registered with Registrar of Companies and dealt in various businesses like, education, automobile, entertainment and real estate, along with chit-fund business. Saradha started its journey as a chit fund entity but by 2012, SEBI was able to classify the group's activity as collective investment schemes rather than chit fund. The estimated collection made by the group was nearly INR 10,000 crore. Mostly the collection was done in West Bengal, Assam, Odisha and Tripura and it affected lakhs of gullible depositors.

Another Kolkata based company, Peerless General Finance and Investment Co Ltd, registered as Residuary Non-Banking Company, was able to attract 12 million people with total deposits of over INR 300 crore in late 70's. After a long drawn pursuit of justice of 15 years by investors, Peerless scam is approaching towards logical end as a result of proactive action by IEPFA. In the year 2019, the Investors Education and Protection Fund Authority (IEPF) has finally compelled the company to transfer deposits worth INR 1514 crore to Investment Education and Protection Fund (IEPF), which will be used for repayment to investors.

One of the biggest chit-fund scams witnessed by the nation has been the PACL (Pearl Agro Corporation Limited) scam. PACL had illegally collected approximately INR 49,100 crore from about 5.5 Crore gullible investors in the name of selling them plots of land over a period of 18 years. It raised money from poor investors by illegally selling title of agricultural land. The refund of money of the investors has been initiated. About 570,706 eligible investors with claims upto Rs 5000 have already got refund. Claims of investors with investment of 5000-7000 is currently being processed.

Another name, Sahara India Pariwar scam is well known within India with dubious record of collection of deposits from gullible investors. Sahara India Real Estate Corporation (SIREC) and Sahara Housing Investment Corporation (SHIC) were under the scanner of SEBI, as they were raising money of thousands of crore from public through optionally fully convertible debentures (OFCD) without permission taken from SEBI. SIRECL and SHICL had raised money aggregating to Rs 19,400.87 crore and Rs 6,380.50 crore respectively from around 3.07 crore subscribers/investors. As per directions of the Supreme Court order, Sahara Group has deposited an amount of Rs 15,448.67 crore to 'SEBI-Sahara Refund' account as on 01.02.2020. The fund would be used for repaying to investors.

IMA scam is very new compared to other cases mentioned here. IMA was accused in 2019 of fraudulently collecting nearly INR 4,000 crore of funds in Karnataka in the form of investments under various Ponzi schemes such as Monthly Plan, Education Plan, Marriage Plan, etc. promising investors dream return on their investment ranging from 36 to 64 per cent per annum. The case is now being investigated by CBI.

Bike Bot scam illustrated another dimension of fraudulent practice for duping investors. The Greater-Noida based company, Garvit Innovative Promoters Limited (GIPL), was accused of duping INR 3000 to 4000 crore of investors. It had distributed franchises across the country to raise money from investors. Investors were encouraged to invest for 3, 5 or 7 bikes, which was promised to yield massive return within one year. That extraordinary estimated profit attracted investors to invest their entire life saving into the scheme. Internet based medium was used for advertisement of the scheme. The case is under investigation by SIT (Special Investigation Team).

In the era of digital world, unlicensed digital investment schemes (UDIS) is now one of the major concern of researcher, regulator, policy maker as well as individual investors. One of the example of an UDIS, applying a new twist to promote fraudulent investment scheme, was Noida scam or Social Trade scam. Similar to this another UDIS is considered in the project, Social Cause scam. Social Cause, had floated the scheme "Hit and Like" which had promised to pay INR 7 for each like of its advertisement and for that investors had to open account with it by paying INR 56,000.

QNet scam had used MLM approach to reach people. It had used e-commerce platform to sell products related to nutrition, personal care, home care and fashion accessories energy, weight management, etc. through its "independent representatives" (IRs). The case is under the scanner of regulators and investigators and before the highest court of the land.

The Anubhav group raised huge amount of money from investors in a form of fixed deposit by selling them teak units. By 1998, through operation in different sectors, the Group became an INR 250 crore group. The group built up a network of 91 offices across the country, had a staff strength of 1800 persons and was headquartered in Chennai. The plantation scheme floated by the group lured investors by inviting them to invest money in 'teak-unit'. After a pre-determined period, a specified quantum of teak or amount in cash was promised to be given back to investors as return of investment. Madras High Court appointed its liquidator to try and repay, at least in part, the depositors of Anubhav Plantations. Amount of investment of 31,431 depositors was refunded.

Another mega Ponzi scheme/Unregulated Deposit scheme, Rose Valley scam, came to light in the second decade of 21st century, when Saradha scam had affected lakhs of investors in eastern part of India. Rose Valley scam gained prominence in the media in the year 2013. Reportedly, over one lakh investors had been duped and the total amount collected under Rose Valley scam was about INR 17,000 Crore. The case is before Supreme Court of India and is being investigated by CBI and ED.

In the year 2011, a new mode of financial deception prominently came to light in India. Speak Asia, came into limelight for swindling about Rs 2200 Crores from about 24 lakh people across the country. Its operating was based on asking the persons to carry out online survey. Speak Asia designed its operation to attract middle class members mainly. Speak Asia asked people that anyone could be its panellist/members who had minimum knowledge of English and had access of internet, as entire operation was to be conducted through internet only. Once the person became a panellist of the company, by paying upfront membership fee, Speak Asia provided e-mail for online survey. After the initial period of training of eight weeks, the panellists was promised payment for completed survey conducted by him/her. Each survey took around 40 minutes to complete. Speak

Asia is also charged with laundering money as the collected fund was remitted to Singapore and other foreign countries. The case is under investigation by Ministry of Corporate Affairs, SEBI and Reserve Bank, etc.

In 2018, a new system of fraud, based on cryptocurrency, came to the light. Charge against Amit Bhardwaj was of duping innocent people through cryptocurrency based Ponzi scheme. He was the mastermind of India's scandalous cryptocurrency based Ponzi schemes run under names GainBitcoin, GBMiners and GB21. Supreme Court of India is hearing the case, though the main accused are out on bail.

Bitconnect, another cryptocurrency scam, made its proposition just in the situation that had emerged in the post demonetization era as it got launched in November-December 2016. Bitconnect exploited the weakness of people hoarding black money in cash, of people who wanted to remain anonymous and at the same time earn huge return. Bitconnect also got bogged down with other illegal activities as its investors also came from suspicious reputation and background.

Table of Content

Sl. no	Title	Page no
1	Introduction	10-12
2	Literature Review	13-16
3	Major Scams in India	17-124
3.1	Sanchaita Investment Scam	19-22
3.2	Saradha Group Financial Scam	23-29
3.3	Peerless Scam	30-37
3.4	Pearl Agrotech Corporation Limited (PACL) Scam	38-43
3.5	Sahara Group Scam	44-51
3.6	IMA Ponzi Scam	52-56
3.7	Bike Bot Ponzi Scam	57-61
3.8	Socialtrade.biz to W-3 Company - Noida Ponzi Scam	62-68
3.9	QNet Scam	69-77
3.10	Social Cause - Hit and Like Ponzi Scam	78-80
3.11	Anubhav Plantation Scam	81-87
3.12	Rose Valley Scam	88-96
3.13	Speak Asia Scam	97-105
3.14	GainBitcoin Scam	106-117
3.15	Bitconnect- Gujarat Crypto Scam	118-125
4	Role of IEPFA	126-130
5	Conclusion	131-133
6	References	134-145

1. Introduction

“When he realised he’d lost all our money, more than \$9,000 in savings, he had a massive heart attack”¹ says Gita Mondal tearfully. Gita’s family, one of the villagers of 300 families in Daspara village, nearly one hour drive from Kolkata, West Bengal lost his husband Sunil Mandol in the year 2014. They had lost all their assets as they had invested proceeds from selling the last plot of land in one of the unregulated ‘investment’ schemes. Gita said that his husband was caught up in the one of the biggest scams and the family had faced severe financial crisis after death of her husband.

Gita’s family, is just one of the millions of families, which have been duped by unregulated investment scheme in India over last few decades. A large segment of India’s population, which is mostly from low-income group, which has relatively low literacy level, and which is mostly financially vulnerable section of the population has been duped by variety of unregulated investment schemes in different parts of the country.

Out-of-the ordinary return on investments is the most prominent feature of these unregulated investment schemes. Factors like convenience to invest, especially door-to-door service by agents, association of celebrities as brand ambassadors to such schemes, etc. attract investors most. The companies, intermediaries and the schemes are not well-regulated in most of the cases.

Despite tight regulation and increasing awareness, investors continue to fall for schemes promising eye-popping returns. Many a times, the greed to make ‘easy’ money of investors overpowers their financial wisdom. As a result, they get attracted to these flashy schemes which promises unfeasible returns. Like – promoters of little-known company in Jaipur promised 27 times return to

¹ <https://www.bbc.com/news/business-29916178>

investors in 18 months. It's only the promise of this kind of flashy rate of return, that this scheme was able to dupe 2 lakh investors, who lost around INR 200 crore of their hard earned money. There have been several schemes which have used assortment of *modus operandi* to fraudulently collected money from investors, who have failed to get back their investment and promised returns.

With the enactment of the Banning of Unregulated Deposit Schemes Act in July 2019 that seeks to regulate the deposit schemes in India and that prescribes stringent punishment for unregulated and illegal deposit schemes, it is hoped that regulatory aspect will become more structured on the supply side of these schemes. On the demand side, active role is being played by institutions like Investors Education and Protection Fund Authority (IEPFA), Ministry of Corporate Affairs (MCA), NCFE, Financial Sector Regulators like RBI, SEBI, IRDAI and PFRDA, etc. in financially educating the public about the risks and returns of such investments. IEPFA has been implementing Investment Awareness Program (IAP) in collaboration with various professional institutes like ICSI, ICAI, etc. and CSC e-Governance Services India Limited across various states of the country in rural, semi-rural and urban areas to improve the financial knowledge and investment concepts for citizens.

This book has been designed to analyse important Ponzi schemes and unregulated investment scams, which have taken place in our country at different time. We have tried to analyse different types of Ponzi scheme, starting from Peerless scam to recent technology driven cryptocurrency scam. We have also considered the case of Anubhav plantation scam, QNet, Bike Bot, etc. which are different in nature. It can be seen after going through the book how all these scams have carefully and strategically woven trap with psychological tools to lure the investors. In the following section of the article, we try to analyse different research articles which have addressed different aspects related to popularity of Ponzi schemes among people. In this book, concepts of Ponzi Schemes,

Unregulated Deposit Schemes (UDSs), illegal Collective Investment Schemes (CISs), and other such schemes have been used interchangeably to mean general financial schemes which collect money from investors, who, subsequently find it very difficult to not only get the promised returns on their investment, but also the principal amount of investment. Specifically, the meaning of a few of these schemes is as under:

Ponzi schemes – Named after Charles Ponzi, Ponzi scheme, requiring initial investment and promising huge return on investment, pays the initial investors not from any genuine business related profit but from the investments made by new participants.

Unregulated Deposit Scheme (UDS) – In Indian context, UDS means a Scheme or an arrangement under which deposits are accepted or solicited by any deposit taker by way of business and which is not a Regulated Deposit Scheme, as specified under column (3) of the First Schedule of the Banning of Unregulated Deposit Schemes Act, 2019 enacted by Government of India.

Collective Investment Scheme (CIS) – In Indian context, a CIS is covered under Securities and Exchange Board of India (Collective Investment Schemes) Regulations, 1999 and it is an approved regulated deposit scheme. It has a specific meaning assigned to it by sub-regulation (2) of the regulation. Any CIS that has not been approved by SEBI is an illegal CIS.

2. Literature Review

In this section, it has been tried to evaluate various research articles which have examined varied factors responsible for popularity of unregulated investment schemes among common people. Despite increasing investors' awareness and stringent regulation, occurrence of investment scam has not been coming down to the desired extent. In the era of technological development, medium used to dupe innocent investors have changed considerably. In connection with this, in this section of literature review we have tried to examine psychological factors that influence greed of investors, psychological factors that influence offenders to commit fraud, economic factors, demographic factors, etc. which have been examined by various researcher on different aspects of Ponzi schemes/CISs and we have tried to map those factors in the Indian context.

Demographic factors of fraud victims

A number of research has been undertaken to identify various demographic factors related to victims, which are responsible for enhancing the chances of victims to be duped by offenders. It has been found that age is one of the factors that determine the level of victimization rate (Carach et al., 2001; Titus et al., 1995; Schoepfer & Piquero, 2009; Van Wyk & Mason, 2001; Lokanan, 2014). There are two set of conflicting findings, however. While one set found that elder generation has lower victimization rate, the other set got reverse finding.

Apart from age, other demographic factors, like location, gender, marital status, employment status, education level, etc. have been found to have significant influence on victims getting involved in ponzi schemes (Obamuyi et al., 2018; Hidajat, 2018). A few research (DeLiema et al., 2018), on the other hand, have found that there is no association between being victimized and age, wealth, sex, marital status, and education in America.

Psychological factors - why people become victim of financial fraud

Over the years, academician and policy makers have been examining different fraud cases to find out psychological factors that induce investors to get trapped into the fraud. It has been found that investors' greed and carelessness are important determining factors of victimization of fraud (Walsh & Schram, 1980; Titus & Gover, 2000; Frankel, 2012). Detail examination of this matter shows that vulnerability to crime is closely related to low self-control of investors (Schreck, 1999; Baumeister, 2002; Holtfreter et al., 2008).

Psychological factors - why people become fraudster

To analyse any fraud case, we also need to know why a person or group of persons commit fraudulent activity. In that respect it has been found that offender may be anyone with a motive to commit a crime and with the capacity to do so (Felson & Cohen, 1980). The mind-set and resultant behaviour of offenders can be best explained by "Fraud Triangle" (Cressay, 1953) and the "Routine Activity Theory" (Cohen & Felson, 1979).

Role of Regulation

From macroeconomic perspective, effective regulatory framework, including presence of regulatory body and stringent regulation to monitor investment schemes, prompt action against offenders, and redistribution of recovered proceeds to victims, can act to show presence of capable guardian which can reduce the instance of criminal offence (Jain, 2018).

In case of Ponzi scheme, it has been found that sound governance structure, strong financial system, effective regulatory framework and swift and quick action against the firms operating the Ponzi schemes are essential for dealing with the such fraudulent investment schemes (Jarvis 2000; Lewis, 2012). Lack of political independence required to deal with such Ponzi schemes is an important factor in letting such schemes flourish (Tennant, 2011).

Relation between economic growth and crime rate

The relationship between country's economic progress and its national crime rate has been well discussed in academic literatures and also in policy-making circle. A number of studies have explained mechanism through which crime imposes cost to society either directly or indirectly (Kirton et.al, 2003; World Bank 2006, 2007; Czabanski, 2008). Numerous research works have explained various aspects of the relationship between crime rate and economic growth (Peri,2004; Goulas and Zervoyianni, 2014). A few studies, on the other side, have also explained that there is no relation between real GDP growth rate and crime rate (Burnham et al., 2004).

Role of social network

Ponzi schemes is one of the financial fraud where investment return of existing investors are made out of new investment of new investors (Jain, 2018). The name, Ponzi scheme came from Charles Ponzi, a Boston –based fraudster, who had applied basic Ponzi technique to swindle money from depositors in 1920. In Ponzi scheme, investors get promise to get significantly high return compare to market (Dutta & Sarker, 2019). Ponzi schemes are operating on basis of simple idea of using connectivity or network in the society. Social network plays crucial role in popularity of Ponzi schemes (Dutta & Sarker, 2019).

Celebrity endorsement and brand

The modern world of marketing communication has become colourful and flooded with advertisements. In this age, celebrity endorsement in advertisement is commonly used to enhance brand value and to attract more customer towards the brand. In this process, the companies hire celebrities from different fields to feature in their advertisement campaigns. They also use celebrity endorsement for their promotional activities to match images of product with the celebrity

image to encourage consumer to fix their choice to that product (Zafar and Rafique, 2012; Mukherjee, 2009; Malik and Guptha, 2014). It has emerged that celebrities were regularly used in Ponzi schemes/CISs like Rose Valley scam, Sahara scam, etc. in India.

Subsequent to review of literature to understand the theoretical background and the relevant research already undertaken, in the next section, it has been tried to scrutinise various Ponzi schemes, Collective Investment schemes and Unregulated Investment/Deposit schemes related scams, which had taken place in different period in India.

3. Major Scams in India

This chapter has been designed to bring out diverse facets of the variety of Ponzi schemes, unregulated deposit and collective investment schemes, which actually took place in India and lured millions of gullible Indian at different point of time.

The previous chapter, literature review, had helped us to understand research that has been already carried out on the subject and provided insight about various factors and issues that led to the popularity of these schemes among general Indians. Review of literatures on the subject has brought out that factors like different motives of victims as well as the perpetrator/offender, economic situation, political stability of a country, greed of people, etc. are important reasons for popularity of such schemes across the world.

Charles Ponzi, from whom the Ponzi scheme derives its nomenclature, was born in Italy, but became infamous because of his operation of financial scheme in USA. In 1920, he had swindled millions of dollars of investors' money by launching an investment scheme with unusually high rate of return within short term of tenure. The scheme launched by him had offered 50% return in 45 days and 100% return in 90 days. As the scheme collapsed, a massive scale of fraud related to the scheme came out in open and millions of people lost their hard earned money. Eventually, such unregulated fraudulent schemes came to be known as Ponzi Schemes. Such schemes gained popularity in not only USA, but also other developed and developing countries causing huge financial as well as economic loss at different point of time.

This section analyses fifteen major cases of Ponzi schemes and unregulated deposit and collective investment schemes that took place in India over the last five decades. It has been tried to estimate amount of financial loss related to those scams, geographical distribution of gullible investors who lost their wealth, promotional policy applied to the schemes, means adopted to attract innocent

people to invest, product characteristics, modus operandi, background of offenders, etc. so that reader get a holistic idea about how and why such scams take place. It has been also tried to illustrate the role played by different regulators like, SEBI, IEPF, Reserve Bank of India, etc., law enforcement agencies like ED, CBI, State Police and Indian judiciary in facilitating the refund of money to investors.

3.1 Sanchaita Investment Scam

Forty year back, in 1980s, which was the period before globalization era, astonishing rate of return on investment attracted investors to invest their life time saving in Sanchaita investment scheme. Sanchaita scheme duped around two-lakh investors, majorly in West Bengal, by offering astonishing rate of return of forty-eight percent on their investment. The scam had apparently garnered more than INR 100 crore from depositors/investors.

Like other Ponzi schemes, initial set of investors of Sanchaita were able to timely recover their principal amount along with interest. Those depositors who invested in the scheme initially reaped rich reward quickly, as on time repayment was made. The initial impeccable record of the firm was a very luring and attractive reason to attract new investors. Like other several Ponzi schemes, Sanchaita was able to maintain impeccable payment to investors out of investment collected from new investors. The flawless performance of the firm was prime force to the creation of larger bubble. The process continued for a few years, before finally bursting in 1980.



Queues of investors at Sanchaita office; Source – Google

Before the bubble burst completely, Sanchaita started defaulting in repayment and failing to return the promised return to depositors. It started paying back much lower rate of return to depositors than it had initially promised to pay. It continued

paying a part of the interest due on the fund to investors for a while and finally it stopped paying back anything to the depositors.

Further investigation revealed the fact that annual rate of return before October 1979 was 48 per cent and additional 12 per cent were offered to agents as commission for creating new cash inflow to the scheme.

Many more persons were suspected to be associated with the scam. A host of Sanchaita 's agents and sub-agents were charged with criminal breach of trust and cheating. It's a different matter that many of them were soon out on bail.

In 2013², a retired government employee, had narrated his story:

"I had invested INR 3,000 in 1979. I got back INR 150 on June 28, 1986. The next instalment came four years later, on June 8, 1990, of INR 85. The third instalment was on December 12, 1994 — INR 765. Today, 19 years later, I got the last instalment of INR 250. So I have got back INR 1,250 in 34 years and that's probably all that I will get."



Loan certificate issued by Sanchaita; Source – Google

Two years after Sanchaita Investment crashed, the prosecution was handed over to a retired district court judge, who was appointed by the Supreme Court to help

² <http://archive.indianexpress.com/news/30-yrs-on-victims-of-bengal-s-other-chit-scam-get-a-pittance/1121589/0>

recover depositors' money. About 2500 depositors had come together to form Sanchaita Depositors' Forum. The trio of the district court judge, Sanchaita Depositors' Forum (SDF) and the West Bengal Government's bureau of investigations joined forces to uncover huge sums of money that had been grabbed by a few of the company promoters and agents.

In 1986, the Supreme Court armed Sanchaita Commissioner Mr. N C Datta with power to seize Sanchaita's property, even those properties which were held in benami names. The Commissioner seized and auctioned over 200 items related to the company. Twenty flats and other real estate in Calcutta and also in Mumbai, cinema halls in West Bengal, ornaments and different bank accounts from all over the country were seized.

Darker side of the case was that, President of SDF received phone calls and got life threatening warning for Sanchaita money trail. Despite of the darker side of the saga, the bright side of the picture was, that the Commissioner had recovered nearly INR 6 core for repaying to the company's depositors and was pursuing to recover another INR 3 crore.

During the trial of the case, another mystery was added to the case. One of the promoters of the Sanchaita committed suicide and the second promoter went underground, as per police statement.

After the crash of Sanchaita investment scheme, large number of investors had filed claims to get refund of the principal amount, they had invested in the scheme. In response to that, the Commissioner's office had prescribed a cut-off date in December 1980 to get refund of the principal and those who did not qualify as per the Commissioner's norms, the same would not be eligible to get the refund. As per Supreme Court order, claims of deposit upto INR 25000 were accepted for repayment. Bigger depositors were to wait for reclaiming their fund from the leftover of fund after paying to those depositors, whose claim was upto

INR 25000. Even in the category of smaller depositors (upto INR 25000), Commission took up the cases of smaller (INR 1,000 to INR 4,000) depositors first and had disbursed cash to the needy.

As a result, by the month of June 1986, INR 1.12 crore had been handed over to 33,500 depositors of the scheme. Those who were suffering from serious diseases were also paid a sum of INR 1000 on priority basis.

Return of the funds to depositors had been continued under supervision of a commission appointed by the High Court till 2013. Subsequently, Mr Mahadeb Ghosh was appointed as Commissioner of the commission to operate the refund process and it was expected that it would take another year to wind up. Mr. Ghosh, a retired district judge, had managed the operation of repayment and refund from 2012.

As per his statement, all properties belonging to Sanchaita had been identified and sold/auctioned to compensate the investors. No more properties were left, which could be seized. As per the guideline prescribed by Supreme Court, all compensations had been made under the supervision of the high court.

As per the commission report, almost all depositors, who had applied for disbursement, had got major share of their investment back in 2013.

3.2 Saradha Group Financial Scam

In month of April 2013, Saradha Group grabbed the headlines of all the newspapers across India. It was because directors of Saradha Group, Sudipto Sen, Debjani Mukherjee and Arvind Singh Chauhan were arrested for Saradha Group Chit Fund financial scandal.



Directors of Saradha Group, Sudipto Sen and Debjani Mukherjee (left to right);
Source – Google

Kolkata based, Saradha Group of companies, had more than 100 firms registered with Registrar of Companies and dealt in various businesses like, education, automobile, entertainment and real estate, along with chit-fund business.

Sudipto Sen was the chairman and managing director of Saradha group. Sudipto Sen, who was in mid-50s at that point of time, was a very soft spoken person, having charming personality and great oratorical skills. In his youth, he had been

part of Naxalite movement in West Bengal as Shankaraditya Sen. In 1990s he changed his name as Sudipto Sen. Sudipto Sen was associated with land development projects in South Kolkata. He formed the land bank in 2000 and that induced him to be a promoter of a Ponzi scheme. Debjani Mukherjee was one of the Executive Directors of Saradha Group. She had been empowered and authorized to sign cheque on behalf of the group. Debjani, who was in mid-30s, was a trained air hostess. She had completed her study from a reputed English medium school in South Kolkata and had done her graduation from reputed college in South Kolkata. Debjani had joined Saradha Group in 2010 as a receptionist. Within a short span of time, a sharp growth took place in her career and she became Executive Director of the company.

Saradha Group of companies started its journey in 2006. Its name and deeds, eventually, turned out to be poles apart! The name, Saradha, was selected to express spirituality to Maa Saradha, wife of Ramkrishna Paramahansa, a nineteenth century mystic of Bengal. Like other Ponzi schemes, Saradha Group too promised enormous rate of return on investment to attract more gullible investors. It offered high return to investors on one hand, and offered lucrative and quick gifts to agents on the other hand to build wide pyramid of agents. The company used to appoint agents from local community, someone who had some influence over local community, by offering substantial amount of fanciful return. As per SEBI notice, the group collected money from investors through agents. In return, investors were assured land or a flat or refund of money with rate of return ranging from 12-24 per cent approximately, as per SEBI notice³. Agents were offered commission ranging from 15-20 per cent of amount mobilized by them. The group also offered long term investment to investors and offered lucrative return. The group promised that their investment of INR 1 lakh for 14 years with

³ The Stock Exchange Board of India (SEBI) in its notice dated April 23, 2013 (No. WTM/RKA/ERO-CIS/19/2013) has given some details regarding the schemes floated by the group

the group would amount to approximately INR10 lakh as compared to amounting to just INR 4 lakh if invested with bank. (Chowdhury, 2013)

The group also invested significantly in highly visible sector and they used it as means of branding of the company. Saradha Group invested in Bengali film industry. It also took part in corporate social responsibility (CSR) activity, invested in two best-known football teams of Bengal (East Bengal and Mohon Bagan), and sponsored various Durga pujas organised by local political leaders. As part of its CSR activities, Saradha Group had donated motorcycle to the Kolkata Police and donated motorcycle and ambulance for Jangalmahol area in West Midnapore. A renowned Tollywood actress was brand ambassador of the company and a renowned Bollywood actor was brand ambassador of Saradha Group's media platform. The group also built rapport with prominent local political party of Bengal. MPs of that party were appointed as CEO of the media group. Under the guidance of the CEO, the group had acquired and established local television channels and newspapers. The group had invested around INR about 988 Crore in the media group. By 2013, the group had appointed 1500 journalists and owned eight newspapers printed in five languages – Seven Sisters Post and Bengal Post (English dailies), Sakalbela and Kalom (Bengali dailies), Prabhat Varta (hindi daily), Ajir Dainik Batori (Assamese daily), Azad Hind (Urdu daily) and Parama (Bengali weekly magazine). It owned Bengali news channel – Tara Newz and Channel 10, Bengali general entertainment channel – Tara Muzic and Tara Bangla, Panjabi entertainment channel – Tara Punjabi, and one FM radio station.

In 2011, Saradha Group bought Global Automobiles. It was a heavily indebted motorcycle company. It also bought West Bengal Awadhoot Agro Private Ltd, located in North - 24 pargana and Landmark Cement in Bankura. The group had invested to diversify its risk and to assure credibility of the company to investors and agents of the chit-fund scheme.

Initially, Saradha Group sold its investment instrument in the form of chit fund. Investors rarely knew about the detail of the investment scheme; they were told that they would get high return after a fixed period of time. And the chit fund operation was under regulation of State government, Chit Fund Act (1982). The chit fund operation was not under regulation of Securities and Exchange Board of India.



Investor's state after swindling by Saradha Group in West Bengal; Source – Google

As per Indian Company Act, 1956, which was applicable at the time of operation of Saradha Group, a company could not raise capital from more than fifty persons without issuing proper prospectus and audited balance sheet. The company needed to have explicit permission for operation in the market from SEBI. In 2009, SEBI raised its objection on the operation and activities of Saradha Group. However, extremely complex tiered corporate structure of Saradha Group confounded SEBI and hampered their ability to compound charges. SEBI

persisted the investigation through 2010. Meanwhile, Saradha Group reacted by changing its method of operation to raise money in West Bengal, Assam, Jharkhand and Tripura. It started variation in collective investment scheme involving tourism packages, hotel booking, credit transfer, real estate, infrastructure finance and motorcycle manufacturing. Again in 2011, SEBI warned State government about chit fund activity of Saradha Group. In the meanwhile, Saradha Group again changed its mode of operation. It acquired and sold large number of shares of various listed company. But the account through which the process of sale took place was not identified till September 2014. By 2012, SEBI was able to classify the group's activity as collective investment schemes rather than chit fund. And SEBI advised the Group to stop the operation until it received permission from SEBI to continue operation of collective investment scheme (CIS). However, Saradha Group by-passed the recommendation of SEBI and continued its operation till it collapsed in April 2013.

Despite several warnings against Saradha Group and complaints to the state government for financial malpractices and fraudulent CIS, Saradha Group operated smoothly and no action was taken against it. In January 2013, Saradha Group faced huge challenge to continue its operation of CIS, because cash inflow had collapsed significantly compared to cash outflow. Sen tried to calm the nerves of uneasy depositors and agents to overcome the situation. However, he failed to gather new cash inflow to run the operation of Saradha Group further. On April 6, 2013, Sen wrote an 18 pages confession letter to CBI about his work and his political connection and also about his compulsion to run the financial malpractices. After the incident he went underground and kept absconding for almost three weeks. On April 17, 2013, nearly 600 collection agents of the scheme assembled and demanded government intervention in this matter. On April 18, 2013 arrest warrant for Sen was issued and on April 23, 2013, Sudipto Sen,

Debjani Mukherjee and Arvind Singh Chauhan were arrested in Sonmarg, Kashmir. On the same day SEBI asked officially Saradha Group to halt further fund raising and return payment to depositors over next three months.

After the scam collapsed and the wrongdoings of Saradha Group became public, West Bengal government set four-member judicial inquiry commission immediately to probe the finance scam by the group. A large amount of relief fund of INR 500 crore was announced by the government to help calm the nerves of investors and agents. Special Investigation Team, comprising State CID officers and Kolkata Police officials were selected to investigate the case. Initially state government opposed all investigation by federal investigation agencies, CBI, ED and SFIO. However, later, the order of Supreme Court, the investigation of the case had to be handed over to the federal agencies.

Immediately after arrest of Sen and other officials of Saradha Group, protest against the company started in Assam. A large number of FIRs were lodged by defrauded depositors. Charge sheets had been filed against 42 people of 15 companies related to Saradha Group and large amount of money was seized from those companies. Government also seized number of bank accounts and seized lump sum amount of money from those accounts. Government also froze more than 99 Bighas of land and identified several buildings related to the case. Finally, Assam state government handed over the case to CBI on May 6, 2013.

Initially, Odisha government ordered Crime Branch of Odisha Police to investigate the case. Economic Offence Wing of the Crime Branch of state police registered criminal case against Sen and Saradha Group. Odisha police seized documents and sealed all offices related to the group. Finally, the state government handed over the case to CBI. Tripura government also handed over the case to CBI and Income Tax Department in 2013.

In February, 2014, Sen was convicted in the case, where he was charged under various provision of employment law as a director of Saradha Group and he was sentenced to three years in jail by the trial court. It was the first conviction in a series of civil and criminal cases, related to corporate fraud and non-payment of deposits.

As per the Supreme Court Bench of justice T S Thakur and justice C Nagappan, the estimated collection made by the group was nearly INR 10,000 crore. This collection was from West Bengal, Assam, Odisha and Tripura, affecting lakhs of gullible depositors. The bench noted that investors were mainly from weaker section, who had fallen to the temptation of handsome return promised by the ‘Chit fund’ company.

Now, the case has been taken over and is being investigated by CBI to probe the larger conspiracy behind the multi crore financial fraud. ED has also initiated parallel probe into the financial aspects of the scam and has made some provisional attachments. It had faced several hurdles at the preliminary stage of investigation and now, it is hoped that smooth flow of information would support subsequent investigation of the scam.

In March 2020, the Calcutta High Court had directed West Bengal government to plan for disbursement of unutilised amount of INR 138 crore out of INR 500 crore relief fund to compensate duped investors of Saradha scam. It had also directed CBI to investigate the chit funds scams involving various companies including Saradha Group and to file before it a progress report of the investigation on a regular basis.

3.3 Peerless Scam

A Kolkata-based, private saving company, the Peerless General Finance and Investment Corporation Ltd., came under the scanner of West Bengal Government for its activities related to finance and investment, which had caused immense miseries to thousands of investors, Reserve Bank of India and LIC in late 70's. Even Central Government also began to take interest in the activities of the company.

Major charges against the company was that it had duped millions of depositors in variety of ways – by selling savings schemes as “insurance policies” and not returning the savings to more than a third of its depositors. The company used various misleading promotional literature to attract individuals towards its “insurance policies”⁴.

Peerless Group started its journey in 1932. It was established by an industrialist Radhashyam Roy, who was a school teacher in Narayanganj, Bangladesh. After few years, in 1935 Peerless shifted its base to Kolkata. Now, the group has its head quarter in Kolkata, West Bengal.

Peerless General Finance and Investment Co Ltd was one of the subsidiaries of the group. It was a registered Residuary Non-banking Company (RNBC). The group also had other subsidiaries like- Peerless Hospital, Bengal Peerless (real estate), Kaizen Holidays, Peerless Hotels and Peerless Securities.

⁴ <https://www.indiatoday.in/magazine/economy/story/19830430-peerless-faces-charge-of-duping-millions-of-depositors-771322-2013-10-22>



Source - Google

Over a period of operation, the company became largest non-banking savings company in India. Even LIC was facing head to head competition with Peerless in terms of mobilisation of fund. As a private savings company, Peerless was able to attract 12 million people with total deposits of over INR 300 crore.

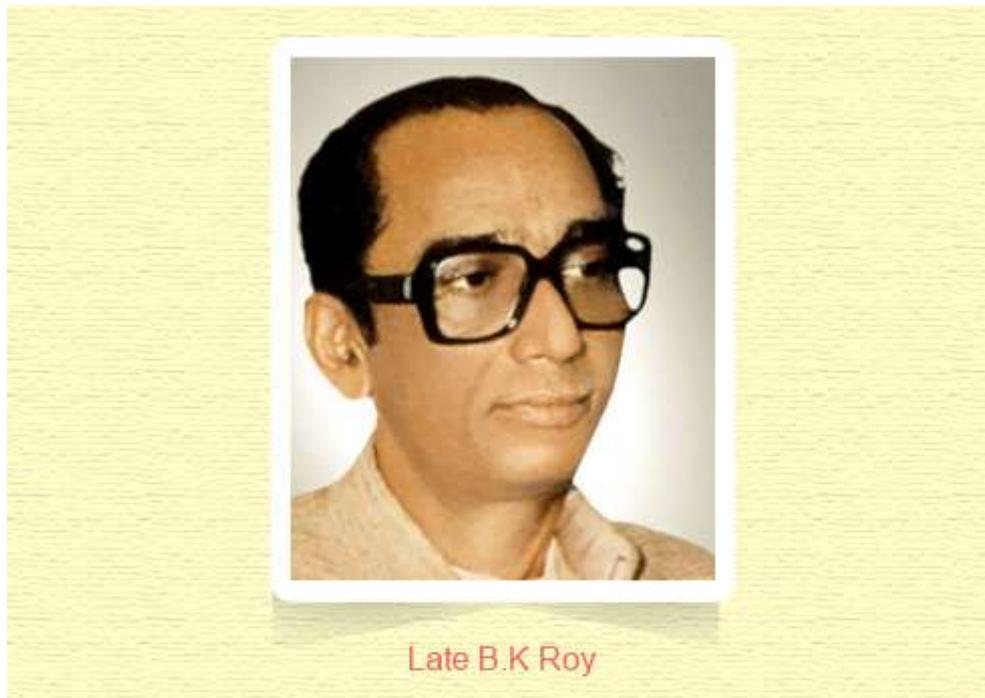
In the year 1979, Reserve Bank of India came up with a series of disturbing findings about Peerless. Government of West Bengal also stepped into the matter and tried to control company's activities under the provision of Prize Chits and Money Circulation Schemes (Banning) Act. In response to that the company moved the court, arguing that the operation of the company did not come under the provision of the Act.

Meanwhile, LIC approached the Central Government to prevent the company from promoting its savings scheme as the equivalent of LIC policies. Finally, in the month of March, 1983 Centre issued directives to General Insurance Corporation not to extend accident insurance cover through Peerless to its deposit-certificate holders.

In response to that B. K Roy, Managing Director of Peerless, argued that "from the state Government to the LIC and the Reserve Bank of India, everyone keeps needling us"⁵. He also argued that no one was able to prove any charges against

⁵ <https://www.indiatoday.in/magazine/economy/story/19830430-peerless-faces-charge-of-duping-millions-of-depositors-771322-2013-10-22>

peerless. He also claimed that depositors were not fool in trusting Peerless! Thus, the company kept on swindling the investors.



Late BK Roy; Source – Google

To counter the inconsistency in the offers and controversy around products, both Peerless and LIC put large advertisement about their own product in newspaper. Peerless advertised major facts which defended the company's record. The company claimed that money of certificate holders was invested with government and Peerless was trying to spread saving habit in common people with small amount of money. It also claimed that it had created 'Smart Rojgar' for 50,000 people who were providing services to customer at their doorstep as Smart Guide.

As a counter to Peerless advertisement, LIC also put out its own advertisement in newspaper, stating the advantages of life insurance policies over some savings schemes. It also highlighted income tax exemptions, availability of loan against

the policies and security of money given to LIC. LIC also promoted the punch line “There is no substitute for life insurance”⁶.

Peerless used to promote its product in a simple manner to convince people about its scheme. People were told that the money invested by them with Peerless was, in turn, invested in government securities and nationalised bank and in return Peerless would give them a ‘moderate’ rate of return. Additionally, the depositors were insured against accidental deaths. Further, to ensure the safety of the investment, Roy added “We can withdraw the money only with the consent of Reserve Bank of India, and such consent is available only at the time of making payment of certificate holders”⁷.

Applying these promotional features, Peerless sold its schemes to general people. People used to invest through Peerless for a contract period of several years and in return company promised to pay interest on the invested amount on regular interval.

Schemes with above mention features floated by Peerless seemed to be very attractive to people. However, Reserve Bank of India did not view these colourful facts about the investment schemes by the Peerless Company convincing and authentic.

RBI found that a large proportion of savings certificate had been made to lapse within two years of those being issued. On the opposite side, company rules stated that money deposited against the certificates lapsed would not be refunded to the depositors.

To keep the lapse ratio high, the company had designed the commission structure very strategically. Agents were offered 70 percent commission for new customer,

⁶ <https://www.indiatoday.in/magazine/economy/story/19830430-peerless-faces-charge-of-duping-millions-of-depositors-771322-2013-10-22>

⁷ <https://www.indiatoday.in/magazine/economy/story/19830430-peerless-faces-charge-of-duping-millions-of-depositors-771322-2013-10-22>

whereas it was only 5 per cent for subsequent deposits by repeat/existing depositors. To enjoy the higher commission fee, agents were putting effort to gather new customer rather than following up with the existing customers. The depositors even complained that agents were purposefully discouraging investors to continue with the investment scheme.

Another accusation against the company was that Peerless were selling savings scheme with the colour of life insurance. It also continued in printing promotional literature comparing Peerless with LIC. But in reality, Peerless was not in a position to offer life insurance, including accidental insurance coverage, under an arrangement with General Insurance Corporation.

Peerless also followed accounting procedures that understated its liability to its depositors. RBI discovered that in the first year after taking deposits, these deposits were not shown in the books of accounts as liabilities to the depositors but as revenue to the company. In connection to that RBI immediately questioned its overriding claim activity.

Also the rate of return that was promised to be offered by Peerless to depositors was under the scanner. A. N Shanbhag, an investment columnist argued that the claim of Peerless about the rate of return higher than LIC was not true. The actual effective rate of interest offered by the company was 8 percent which was lower than banks or public sector companies.

He also argued that accidental insurance coverage offered by Peerless did not make any additional feature to its product. He argued that any depositor could get such insurance cover directly at minimal cost from the General Insurance Corporation. He concluded that

“The modus operandi of Peerless in hooking gullible investors is an excellent example of unscrupulousness within the walls of the law”⁸.

In response to these observations, Roy denied all the charges. He, however, admitted a large proportion of lapse of deposit scheme. He, however, argued that it was not higher than LIC's.

Against all charges, Roy used to point out an affidavit filed by the Reserve Bank of India in the Calcutta High Court in 1978 which said that “The financial position of Peerless is satisfactory”. He also defended the charge against Peerless that depositor's form poor family in rural areas used to take insurance just as a terminology.

Roy also argued that there was no law that stood in the way of the company's operation and adverse publicity would hamper growth trajectory of the company.

It was argued in the case of Peerless General Finance and Investment Company Ltd. and the Reserve Bank of India before the Supreme Court of India in January 1996 that the company Peerless, was incorporated in 1932, under the provision of the Indian Companies Act, 1913 with name Peerless General Insurance and Investment Company Ltd. This was before the enactment of the Life Insurance Corporation Act, 1956. As Peerless could not carry on life insurance business after the LIC Act, it changed its name to “Peerless General Finance and Investment Co. Ltd” to carry out its finance and investment business. During the hearing before Calcutta High Court and Supreme Court of India in the case, it was argued that “It offers small savings schemes to the public at large wherein the subscribers are required to pay a fixed amount as subscription on yearly, half-yearly or quarterly basis for a fixed number of years and or the expiry of the said

⁸ <https://www.indiatoday.in/magazine/economy/story/19830430-peerless-faces-charge-of-duping-millions-of-depositors-771322-2013-10-22>

period, the subscriber is paid a sum of money called endowment sum, which is the face value of the certificate, and certain additional amounts by way of bonus. The said schemes offered by Peerless are somewhat similar to Recurring Deposit Schemes run by commercial bank.”⁹ Earlier, Calcutta High Court had concluded after examination that the schemes offered by Peerless were not covered by the expression” “prize chit” as defined in Section 2(e) of the Money Circulation Schemes (Banning) Act, 1978.

In the year 2019, the Investors Education and Protection Fund Authority (IEPF) has finally compelled the company to transfer deposits worth INR 1514 crore¹⁰ to Investment Education and Protection Fund (IEPF). The amount of INR 1,514 crore does not include the interest that was to be paid to the investors over the years, the officials said. According to the MCA press release, the company had garnered the amount through issuance of around 1.49 crore deposit certificates.¹¹ As per the data submitted by company, 50.77 percent of the total amount was taken in the form of deposit certificates of value of INR 2000 or less from investors across 30 states and union territories.¹² Number wise, such certificates form 85.32 percent of total number of certificates issued. Majority of those investors were common citizens belonging to lower and middle income group.¹³

The money had remained unclaimed with the company for the past 15 years. As per law, company needed to transfer the amount to IEPF if it remained unclaimed for a period of seven years. It would be a good help to large number of investors as they can access the money now directly from IEPFA. So after a battle of 15

⁹ <https://www.casemine.com/judgement/in/5609acdbe4b014971140fd92>

¹⁰ <https://www.businesstoday.in/current/corporate/time-to-claim-the-unclaimed-deposit-from-peerless-general-finance/story/340437.html>

¹¹ <https://www.zeebiz.com/companies/news-peerless-general-finance-transfers-unpaid-deposits-worth-rs-1514-cr-to-iepf-95969>

¹² <https://www.businesstoday.in/current/corporate/time-to-claim-the-unclaimed-deposit-from-peerless-general-finance/story/340437.html>

¹³ <https://www.moneycontrol.com/news/business/companies/iepf-authority-recovers-rs-1514-crore-of-depositors-money-from-peerless-general-finance-3875611.html>

years, resettlement of Peerless scam is approaching towards end and to its logical conclusion.

3.4 Pearl Agrotech Corporation Limited (PACL) Scam

One of the biggest chit-fund scams witnessed by the nation has been the Pearl Agrotech Corporation Limited (PACL) scam. PACL is reported to have illegally collected, over a period of 18 years, approximately INR 49,100 crore from gullible investors in the name of selling those plots of land. The chit fund scam had trapped nearly 5.5 crore investors.



PACL company logo; Source – Google

PACL started its journey in 1982. For 18 years, PACL and Pearl Golden Forest Limited (PGFL) raised money from poor investors by selling agricultural land illegally. The company managed to advertise false allotment of land to the investors, even though, the companies did not have any land in their own name.

PACL first came under the scanner of SEBI in 1997 for running a collective investment scheme without SEBI's permission. Case was filed against PACL for its illegal operation. In 2003, PACL won the case in Rajasthan high court. In 2013, the Supreme Court overruled verdict of Rajasthan High Court and asked SEBI to conduct a fresh investigation against PACL. The investigation by SEBI found that PACL was still running collective investment scheme without permission from SEBI. As per investigation by SEBI, about 5.50 crore investors had deposited their savings in the collective investment scheme. In August, 2014,

SEBI ordered PACL to refund the money to investors within span of three months. In response to the SEBI's order, PACL went to Securities Appellate Tribunal (SAT). Finally, in 2015, SAT supported SEBI's order.

In the same year, SEBI started recovery actions against PACL and its promoter and directors including Tarlochan Singh, Sukhdev Singh, Gurmeet Singh, Subrata Bhattacharya, Nirmal Singh Bhangoo, Typer Joginder, Gurnam Singh, Anand Gurwant Singh and Uppal Devinder Kumar, for failure to refund INR 49,100 crore to investors. During the investigation, in 2016, Chief Metropolitan Magistrate, Sugandha Aggarwal allowed CBI's plea to extend police custody of the four accused by four more days by saying "investigation is to be thoroughly done to ascertain the crime and also to identify all the persons and collect relevant evidence"¹⁴.



Nirmal Singh Bhangoo, CMD Pearl Group; Source - Google

¹⁴ <https://economictimes.indiatimes.com/news/politics-and-nation/investment-scam-court-extends-cbi-custody-of-pearls-group-cmd-nirmal-singh-bhangoo-others-by-4-day/articleshow/50642715.cms>

Following with the legal procedure, accused Bhangoo, CMD of Pearl Golden Forest Ltd (PGF) and ex-Chairman of Pearls Australasia Pty Ltd, Sukhdev Singh, MD and Promoter-Director of Pearl Agrotech Corporation Ltd (PACL), Gurmeet Singh, Executive Director (Finance) and Subrata Bhattacharya, Executive Director in PACL were produced in the court after expiry of ten days of CBI custody. The plea of police custody was opposed by the advocates, who appeared for Bhangoo. Finally, on January 8, 2016 the accused were arrested after two years of CBI investigation ordered by the Supreme Court.

In connection with the case, CBI officials said “From the fact and investigation till now, prima facie it is established that crime has been committed. In fact in the present case, FIR was registered by the orders of the Supreme Court”¹⁵. Properties, related to the scam, worth thousands of crore were identified and located. The CBI prosecutor, while seeking police custody, said “All these properties and criminal proceeds and documents relating to the same will establish the crime committed by the accused”¹⁶.

The investigation shows that PACL was running the scheme through 70 lakh agents. In 2015, The Supreme Court suggested the Lodha Committee to appoint one or more specialized agencies to channelize and monitor the process of selling properties of PACL to ensure transparent process of sale.

In February 2016, Supreme Court ordered to auction company’s properties and refund money to the investors. The Justice (Retd.) R.M. Lodha Committee (in the matter of PACL Ltd.) was constituted by the Securities and Exchange Board of India (“SEBI”) pursuant to the order dated February 02, 2016 passed by the Hon’ble Supreme Court of India and subsequent orders thereof in Subrata Bhattacharya V. Securities and Exchange Board of India (CA No. 13301/2015).

¹⁵ <https://economictimes.indiatimes.com/news/politics-and-nation/investment-scam-court-extends-cbi-custody-of-pearls-group-cmd-nirmal-singh-bhangoo-others-by-4-day/articleshow/50642715.cms>

¹⁶ <https://economictimes.indiatimes.com/news/politics-and-nation/investment-scam-court-extends-cbi-custody-of-pearls-group-cmd-nirmal-singh-bhangoo-others-by-4-day/articleshow/50642715.cms>

Justice (Retd) R.M. Lodha was constituted for selling the properties of PACL Ltd and using the sale proceeds to refund the investors who had invested their money in PACL Ltd.¹⁷

According to Justice Lodha committee, the company had INR 1.86 lakh crore of assets. The committee also argued that the company's assets could be discovered from Australia.

In 2018, the Committee had requested the Court for deposit of earnest money of INR 500 crores and properties had to be sold within outer limit of three year to protect investors.



To resolve the matter, in 2019, the Committee initiated option of engagement of Asset Reconstruction Companies (ARCs) for sale of properties of PACL. The Committee met with officials of four large ARCs based on book value of the asset acquired. As the Securitisation and Reconstruction of Financial Assets and Enforcement of Securities Interest Act, 2002 (SARFAESI Act) facilitates securitisation and reconstruction of financial assets in respect of banks and financial institutions only, the representatives of the ARCs pointed out that under the SARFAESI Act their governing legislation would not allow them to take up such assignment. So, it became necessary to seek prior approval of the Reserve

¹⁷ <https://www.sebipaclrefund.co.in/>

Bank of India (RBI) before any ARCs could be engaged by the Committee to undertake such assignment.

In view of the new facts that had emerged related to ARCs and the SARFAESI Act, on 18 January, 2019, Executive Director, SEBI and member of the Committee Executive Director, RBI and CGM, RBI and the Nodal Officer cum Secretary to the Committee met at the RBI Headquarter to ascertain the viability of engagement of ARCs for effecting sale of the properties for the Committee. Subsequent to the meeting, in February, 2019 RBI became “in-principle” agreeable to the view of the Committee for using ARCs for disposal of assets of PACL. In response to the communication from RBI, it became legally permissible for the Committee to engage the services of one or more ARC/ARCs to assist the Committee in the sale of properties of PACL.

Alternatively, the Committee considered modalities for sale of properties of PACL, including the option of engaging Resolution Professionals to assist the Committee in sale the properties of PACL. After passing the order, the Committee received requests pertaining to sale of properties of PACL.

The Federal Court in Australia also found that the money collected by PACL from investors was used for acquiring certain assets in Australia. In connection with this information, Lodha Committee ordered SEBI to file petition in Federal Court of Australia to plead for return of the asset or the proceeds thereof, on behalf of all investors who were lured by PACL.

During the investigation of the scam, CBI had found 1300 bank accounts of the suspected company, its directors and associate firms. CBI also seized frozen assets valued at around INR 280 crore; additional amount of INR 108 crore had been deposited with Delhi High Court. The agency also managed to seize 20,000 documents related to properties whose purchase value was estimated at INR 5000 crore.

In month of February, 2019, three months before the general election, over 5000 protestors assembled at Parliament Street in the heart of Delhi to protest and to get refund of their money which they had invested in PACL. One of the protestors, Manisha from Aligarh said “I have invested over 2 lakhs in the company, from my small tailoring business and now I have nothing”¹⁸. Manisha also said “*Hum apna pet-kaat ke investment kiye, mehnat ka paisa lagaya* (I made cuts in the budget, invested my hard-earned money)”¹⁹. Gita Bhatia, who had worked for the company as an agent, accused PACL for financial harassment by the company.

According to the protestors, the company, PACL had illegally and fraudulently collected hard-earned money from poor people. They accused PACL as looter with political interests, which had used multi-layered marketing strategies to attract innocent people to invest at the Ponzi scheme.

Thankfully, on account of diligent work done by Lodha Committee, investors/depositors are getting relief by way of refund of their deposits/investments. About 570,706 eligible investors with claims upto Rs 5000 have already got refund. About 2, 59,862 eligible investors having claim amount between INR 5,000 and INR 7,000 have got refund during the period March, 2020 to April, 2020. In a recent notice, SEBI has informed the investors with claims between INR 5,000 and INR 7,000, who have not received the refund, to check the status of their claim applications online and rectify the deficiencies for settlement of the claims. The portal (www.sebipaclrefund.co.in) will be operational from August 1, 2020 to October 30, 2020²⁰.

¹⁸ <https://www.newslick.in/chitchor-massive-mobilisation-against-pacl-chit-fund-scam-delhi>

¹⁹ <https://www.newslick.in/chitchor-massive-mobilisation-against-pacl-chit-fund-scam-delhi>

²⁰ <https://www.livemint.com/news/india/pacl-chit-fund-scam-sebi-asks-investors-to-rectify-errors-in-applications-11595379289375.html>

3.5 Sahara Group Scam

Sahara India Pariwar, an Indian conglomerate that was headquartered in Lucknow, India operated businesses in various sectors like finance, insurance, airways, infrastructure & real estate, media & entertainment, health care, education, hospitality, information technology, etc. at its peak.



Sahara India Pariwar logo; Source - Google

From such a diverse set of business and the reputation that Sahara Pariwar enjoyed, all of a sudden, the group got embroiled into illegal raising of deposits from public. As per SEBI²¹, the two Sahara Group companies -- Sahara India Real Estate Corporation (SIREC) and Sahara Housing Investment Corporation (SHIC) -- had raised money aggregating to INR 19,400.87 crore and INR 6,380.50 crore respectively from around 3.07 crore subscribers or investors by issuing optionally fully convertible debentures (OFCD) without filing offer documents with SEBI and in violation of its regulations.

OFCDs stands for optionally fully convertible debentures. These debentures are issued by the company for raising capital/money from potential investors. OFCD holders have the option of becoming shareholders of the company, if they choose to do so on a prescribed date. Normally, these debentures are unsecured, which means that these investments are not backed by any asset and in case of a default

²¹ <https://realty.economictimes.indiatimes.com/news/industry/sahara-group-deposits-rs-15448-crore-for-repaying-investors/74084076>

and liquidation of the company, the debenture holders are the last set of stakeholders to get back money from the company.

Even though Sahara group was operating from before, in 2008, RBI banned Sahara India Financial Corporation from offering its services in raising fresh deposits. This led to break in the apparent cycle of repaying to old investors and carrying out its other services through the funds raised from fresh deposits. With the RBI's ban, Sahara group required a different financial instrument, which was not only out of the jurisdiction of RBI but also help Sahara Group in raising fresh funds from public.

Thus emerged two new companies under Sahara Group. These were Sahara India Real Estate Corporation (SIREC) and Sahara Housing Investment Corporation (SHIC). It was decided to issue OFCDs through these companies. It was also decided to use OFCD for raising fund, as the purview shifted from RBI to local Registrar of Companies (ROC). At the time of permission from ROC, due diligence seemed to have not been done thoroughly and properly. How would one explain, SIREC, which had share capital of only INR 10 lakh and its net worth being negative getting approval for raising INR 20,000 crore through OFCDs. Similarly, SHIC, with a net-worth around INR 10 lakh, also got approval for raising INR 20,000 crore through OFCDs. Sahara designated the OFCDs as private placement of fund.

The issue with use of OFCDs was not only that it was raising fund from lakh of subscribers, but also the issue was kept open for subscription interminably. As per SEBI and MCA norms, any company raising capital from more than 50 persons requires prior permission from SEBI, the capital market regulator of India, making full financial disclosure and ideally such issues are required to be closed within six weeks from the date of opening of issue. In this case, the number of subscribers was more than the minimum norms as well as the issue was kept

open ended. In fact, it is learnt that one of the group companies kept an issue of INR 17,250 crore open for 10 years.

All this was going on and wouldn't have come out in open and become known to public at large all across country, if Sahara Group had not to file a Red Herring Prospectus for raising capital for Sahara Prime city, a township project, which mandated disclosure of finances of other related and group companies. That is when it came to the notice of SEBI also, especially, the way in which the money raised through OFCDs had been placed/categorized as private placements. It also emerged subsequently that even though the fund had been collected from investors, no proper and full records of the identity of its investors was available. So the question was, at the time of repayment or conversion, how were the investors to be located to whom the repayment was to be made or share to be allotted!

In the month of November in 2010, SEBI barred the operation of Sahara India Pariwar. SIREC and SHIC were under the scanner of SEBI, as they were raising money of thousands of crore from public through optionally fully convertible debentures (OFCD) without permission from SEBI. SEBI had claimed its jurisdiction on raising of capital/fund from market and had objected on raising of fund by Sahara Group Companies for their operation. In response to the objections raised by SEBI, Sahara had claimed that the bonds were hybrid product and raising of fund using OFCD was not under jurisdiction of SEBI. It claimed that the product was governed by Registrar of Companies (ROC) under Ministry of Corporate Affairs and Sahara group companies had taken permission from ROC and submitted prospectus with ROC before issuance of bond. With these premises, Sahara Group moved the matter to court. In the month of December, 2010 Sahara appealed to the Allahabad High Court regarding the matter and the court ordered SEBI not to take action until a court passed order.



Subrata Roy, Chairman, Sahara India Pariwar; Source – Google

In January 2011, Delhi High Court issued a warrant against Subrata Roy, chairman, Sahara India Pariwar and four other officials of the group on the basis of a complaint from investors that these investors had been deceived by Sahara Group in a housing project. In the meanwhile, SEBI continued its investigation against Sahara about OFCD and ordered the two companies of Sahara Group to stop issuance of bond and to return money to investors. In response to the objections raised by SEBI, Sahara Group contested in various courts and finally it went to the Supreme Court. In May 2011, the Supreme Court asked Sahara India Real Estate (SIREC) to furnish the format of the application that were used for OFCD scheme and list of accredited agents, who raised money on behalf of company.

In June 2011, SEBI ordered Sahara Group to refund INR 17,656.53 crore with 15 percent interest. Against that order Sahara Group took the matter to Securities Appellate Tribunal (SAT) on June 23, 2011. SAT held the SEBI findings to be correct. SAT in its order said “What it (Red Herring Prospectus) did not disclose was the fact that the information memorandum was being issued to more than 30

million persons inviting them to subscribe to the OFCDs and there lies the catch...This concealment is, indeed, very significant and goes to the root of the controversy.”

In the month of October, 2011, Securities Appellate Tribunal (SAT), set up by the Supreme Court, ordered two unlisted Sahara companies to refund money to investors within six weeks. The Tribunal also ruled that SEBI had the jurisdiction to regulate OFCDs that were issued by the Sahara companies. Investigation by SAT revealed that the company concealed some vital facts and the disclosure made in the red herring prospectus (RHP) were not true and fair. As per SAT, OFCDs were classified as ‘other marketable securities’ in the Security Contract Regulation Act (SCRA) and these were fully convertible at the option of the investors. OFCDs issued by Sahara were freely transferable, as per Sahara’s RHP. The tribunal also observed that Section 11, 11A and 11B of the SEBI Act applied to all securities, listed and unlisted and Section 55A of the Companies Act was in addition to the powers of SEBI related to issue of capital, transfer of securities and investors protection.

Hence, an unlisted company, issuing OFCDs, which were securities within the meaning of the SEBI Act, was a person associated with the securities market and the company would fall under the regulatory jurisdiction of SEBI.

In response to SAT’s decision/ruling, Sahara India Pariwar moved to the Supreme Court in the month of November, 2011. The apex Court stayed the SAT order and ordered two companies to refund the amount to the investors. It also asked for the details and liabilities of the company.

In January 2012, Sahara India Pariwar was given three weeks’ time by the Supreme Court to return investment made by public in its OFCD scheme.

During the investigation of the scam, around 4600 investors in both the companies, SIREC and SHIC, came forward to claim refund of money that they

had invested. They approached SEBI for refund of many. In response to that SEBI had asked investors to submit refund application with documentary proof.

In May 2012, senior counsel of Sahara India Real Estate Corporation Ltd (SIRECL) informed the Court that SEBI could not take up that issue to Sahara Group of companies on raising funds through OFCD as there was no complaint from any investors.

In June 2012, SEBI informed the Supreme Court that the real estate division of Sahara India Pariwar had no right to mobilize INR 27,000 crore from investors through OFCD without complying the norm of market regulator, the SEBI.

In August 2012, the Supreme Court directed SIRECL and SHIC to refund over INR 24,000 crore to its investors, which were collected from nearly three crore investors through issuance of OFCDs, within 3 months. Sahara was also asked to give entire sets of documents required for verification of investors so that money could be refunded to genuine investors and it was ordered to submit all documents to SEBI. Investors were to be identified using the documents and refund was to be made to those investors.

Consequently, Sahara had sent 128 trucks containing more than 31000 cartons, full of documents, to SEBI. SEBI had to hire a special storage facility for their safekeeping. Later SEBI digitized those documents for easier access. According to the court order, Sahara was ordered to pay the expenses incurred by the SEBI for storage of the documents and other expenses related to refund of the money. Finally, Sahara agreed to take back the custody of all documents after digitization of the original papers by SEBI. SEBI had agreed to return back the original documents under “safe custody under double locking system by SEBI and

Sahara”²². Supreme Court also gave approval for the arrangement of safekeeping of the document.

Along with the documents, Sahara also informed the Court that out of the total amount of INR 24,000 that was repayable to its investors, except for a sum of about INR 5000 Crores, which was still to be repaid, it had repaid to lakhs of the investors.

In November 2012, Gopal Subramaniam, senior counsel appeared for SIRECL and SHICL before SAT because SEBI refused to take custody of all documents tendered by Sahara entity. Gopal Subramaniam²³, appearing for Sahara, argued before the tribunal that *"the appellants are forced to approach SAT in view of the conduct of the respondent (Sebi) in not accepting the documents tendered by them and it is apprehended that the pay order amounting to INR 5120 crore for repaying the amount to the OFCD subscribers will also not be accepted by the Board"*.

In December 2012, Sahara Group again moved to the Supreme Court after SAT rejected its appeal against SEBI. Sahara Group got temporary reprieve from the Supreme Court (SC). The Supreme Court directed the Sahara Group to refund INR 24,000 crores to three crore investors in nine weeks. And the Court also asked market regulator SEBI to accept their pay order of INR 5120 crores as part of payment towards investors of OFCDs. SIRECL and SHICL were directed to deposit the remaining amount in two instalments. The first instalment of INR 10,000 crore was directed to be deposited in the first week of January 2013, and balance in the first week of February in 2013.

However, in January 2013, Sahara missed the repayment deadline set up by the Supreme Court. The company failed to deposit the second instalment amount

²² <https://timesofindia.indiatimes.com/business/india-business/Sahara-to-get-truckloads-of-papers-back-from-Sebi/articleshow/50989184.cms>

²³ <http://archive.indianexpress.com/news/tribunal-dismisses-sahara-group-appeal-against-sebi/1038260/>

with SEBI. Supreme Court dismissed Sahara's appeal for a review of its verdict to SIRECL and SHICL to refund INR 24,000 crore with 15 percent interest.

Finally, in February 2013, the Supreme Court ordered SEBI that it was free to freeze accounts and seize properties of Sahara Group's two companies, SIRECL and SHICL for disobeying court order to refund INR 24,000 crore to investors. In February, 2014 Subrata Roy was arrested by Uttar Pradesh police for failure to appear before the Supreme Court.

On 4 March 2014, Roy, along with two other directors of Sahara were sent to Tihar jail. Roy was sent in judicial custody for a week by the Supreme Court. In March 2015 the Supreme Court stated that the amount of total dues from Sahara had gone up to INR 40,000 crore with accretion of interest. In July 2015, SEBI cancelled the licence of Sahara's mutual fund business.

In May 2016, Roy was released on bail from Tihar Jail to perform last rites of his mother and been out of prison since then.

In January 2020²⁴, Sahara Chief, Subrata Roy had claimed that he had cleared most of the dues demanded by the market regulator to pay public depositors in his group companies. SEBI, on the other hand, informed the court that he had so far paid only a part of the money due, including interest. SEBI had also contended that the total principal with interest (at 15% p.a.) payable by Sahara Group Companies had crossed INR 70,000 crore.

In a written reply to the Lok Sabha, Minister of State for Finance had stated that "As per directions of the Supreme Court order, Sahara Group has deposited an amount of Rs 15,448.67 crore to 'SEBI-Sahara Refund' account as on 01.02.2020."²⁵

²⁴ <https://economictimes.indiatimes.com/news/company/corporate-trends/sebi-sahara-case-supreme-court-exempts-sahara-group-chief-subrata-roy-from-personal-appearance/articleshow/73587382.cms>

²⁵ <https://realty.economictimes.indiatimes.com/news/industry/sahara-group-deposits-rs-15448-crore-for-repaying-investors/74084076>

3.6 IMA Ponzi Scam

Fraudulent activities of I Monetary Advisory (IMA) Group flashed prominently in the news around the middle of 2019 and it came to be known as the IMA scam, 2019. IMA is accused of fraudulently collecting nearly INR 4,000 crore of funds in Karnataka in the form of investments under various Ponzi schemes such as Monthly Plan, Education Plan, Marriage Plan, etc. IMA used to collect under various schemes promising investors dream return on their investment. The promised return ranged from 36 to 64 per cent per annum. IMA scam came to limelight as investors started complaining about the default by IMA in their promised repayments of even the principal amount. In fact, around October 2018, the firm had come under the scanner of Reserve Bank of India, as a few investors had lodged complain against the firm in default of payment of their investment.



IMA office in Bangalore; Source – Google

IMA was an investment company with its headquarter in Bangalore. Collapse of operation of IMA was one in a long line of similar collapses over the preceding few years by various other Ponzi scheme operators. The company had declared itself to be an Islamic banking company. The investment schemes of the firm had used network line with Sharia principles of Islam. To attract investors with religious faith, IMA proclaimed that it was not paying any interest on the

investment to investors, rather it was sharing the profit with investors. Investors of the company were mainly from India and United Arab Emirates. Total loss due to IMA collapse was estimated at INR 2500 crore (US\$ 350 million).

I Monetary Advisory was founded by Mohammad Mansoor Khan. In 2006, actually, Mohammad Mansoor Khan with business partner Iliyas had founded a company Iliyas-Mansoor Advisory. The company was, however, not successful and was dissolved in 2008. Mansoor Khan's next company, I Monetary Advisory, started its journey again in the last decade.



Mohammad Mansoor Khan, founder of I Monetary Advisory; Source – Google

As per record of Ministry of Corporate Affairs, IMA was founded in 2013 as I Monetary Advisory Private Limited, as an Islamic banking company. Khan used network of ulemas and influential people of Muslim community to convince general public that the IMA was a continuation of the same company founded in 2006 and the company ran successfully over last several years. The company

promised to build hospitals and schools to meet their need for medical facilities and education.

To build a façade of legality in its operations, IMA Group had set up diversified businesses in different sectors such as: jewellery (IMA Jewel), real estate (IMA Builders and Developers, founded in 2017), bullion trading (IMA Bullion and Trading, founded in 2014; IMA Bullion founded in 2015 and IMA Gold), groceries (Mulberry Greens), pharmacy (Frontline Pharma), hospitals (Frontline Multispeciality Hospital) and publishing. The publishing subsidiary published an edition of the Quarn and several religious and non-religious books also. Educational subsidiary of IMA Group also funded computer lab. Other subsidiaries, as partnership of IMA Groups, were IM Digital, IM Trends, IM Entertainment, MMK Institute of Education, IMA Women Empowerment Business Module, etc.

IMA Group had, in fact, first come to the attention of authorities in 2015 because IMA jewels gave large discount on purchase of gold in its stores. However, no legal action could be taken because of legal loopholes. In the same year, Reserve Bank of India suspected the Ponzi scheme under the umbrella of the IMA Groups as did the Revenue Department. RBI had written to the Karnataka state government to investigate the operation of IMA. Again no action could be taken, mainly because of two reasons: first, the Karnataka Protection of Interest of Depositors in Financial Establishments Act (PIDFE) only allowed to take action to protect depositors. IMA, being an Islamic banking company, was structured in a way that people paying money to it were legal partners of the business and not depositors, who were making investment. And the second was, till that date no one had complained against the company.

By April 2017, Revenue Department investigated various properties of Mansoor Khan. He had not filed income tax since 2015. In the month of November 2017, the Assistant Commissioner of Bangalore North Sub-Division issued forfeiture

notice against IMA. But Mansoor Khan dismissed the notice in a public statement posted on Facebook. In the same month Revenue Department issued a public notice asking investors to come forward with complaint against the company. Despite the proactive approach by government department, at that time, no complain was lodged against IMA. In the month of December, Mansoor gave a formal reply to the investigators that the company did not accept deposit from any depositors. His company dealt with precious stones and metals, and that did not require any license from the Reserve Bank of India or the Securities and Exchange Board of India (SEBI). As the company did not take deposit from depositors and due to lack of formal complaint from depositors, PIDFE could not be made applicable to the company. The company had Limited Liability Partnership with partners not depositors.

Matter became serious in March 2019, when the company stopped paying dividend, as share in the profit of operations of IMA, to the investors. Customers were unable to meet officials of IMA as offices were closed from May 29, 2019. From June 10, 2019, crowd began to gather outside the Commercial Street Police Station. Once the panic spread amongst investors, complaints from investors surged. The number of complaint reached 41,000 within three weeks of closure. By the end of June, 2019, complaints had risen to 51,500. On the basis of those complaints, police started investigation about allegations that the company was a Ponzi scheme company and investors' money had gone. A Special Investigation Team (SIT) was formed for the investigation and SIT raided the offices of IMA business. Enforcement Directorate stated that Khan had estimated to have received INR 4000 crore based on analysis of 105 bank accounts related to IMA and the estimated loss to investors was INR 2500 crore.

A senior political leader, was arrested at Bengaluru Airport in July, 2019 by SIT for investigation of the IMA Group Ponzi scam. It is alleged that the leader had close connection with Khan and the IMA Group. IMA had funded a government

school in leader's constituency to the tune of INR 16 crore under a special PPP MoU signed at leader's insistence. It was also reported that the leader had aided Khan in trying to solve issued related to the company at the government level and leader's son had reportedly close connection with Khan.



Investors of IMA want justice; Source – Google

After Khan went underground and later ran away from India, Karnataka government ordered SIT to investigate IMA scam. The IMA SIT had started conducting investigations under Karnataka Protection of Investments of Depositors Act 2004 and trying to find people who had taken funds from the company to return them to investors.

Later Khan was arrested upon his return from Dubai. About 25 people have been arrested in the case including the seven directors of the IMA group.

The case is now being investigated by CBI.

3.7 Bike Bot Ponzi Scam

Double the return has been a sure shot call to lure the investors, who, many a times, don't care to check how the investing company itself will generate such return to pay to the investors!

In the new age, there are innovative schemes, implemented by start-up entrepreneurs, coming up to dupe the gullible investors. Such a case was the Bike-Bot Ponzi scheme that duped 2.5 lakh investors from cities like Jaipur, Noida, Meerut, Hyderabad, Varanasi, Hathras and Delhi. Till June, 2019, 40 FIRs had been lodged against the company that offered the lucrative investment schemes to investors. The Greater-Noida based company was accused of collecting more than INR 3000 crore from investors.



Bike Bot Head Office; Source – Google –

Tarun Sharma, a native of Delhi worked as CEO of Bike Bot from 2018. He looked after management of motorcycle and rider recruitment of the fraud company. He also looked after the app services and other executive jobs. Around 40, Sharma was a management guy, who had done MBA from a private college in Pune. Later he had served aviation companies like Air Sahara, Air Charter, etc. For duping 2.5 lakh investors through fraud scheme, Sharma, CEO was arrested in month of August, 2019. Later, other 12 officials including the boss of Bike Bot

Company, Sanjay Bhati was arrested and Bhati had been sent behind the bar. FIRs were lodged against 11 other persons as well.



Trun Sharma, CEO of Bike Bot Company arrested in Noida; Source – Google

Bike Bot was floated as an enterprise with an app under the parent company, Garvit Innovative Promoters Limited (GIPL) in 2017. GIPL was a Greater Noida based company and it came out with multi-level marketing schemes “Bike Bot”. It trapped investors for one-time investment of INR 62,100, as investment in purchase of a motorcycle/bike, and promised that their investment would double in one year. The company had promised to return assured amount of INR 9765 per month after one year, amounting to INR 117180 in a year.

BIKE BOT - THE BIKE TAXI
POWERED BY
GRAVIT INNOVATIVE PROMOTERS LTD.

COST FOR FIVE BIKE
Rs - 3,10,500/-

Rs - 22,950/- Rent (Per Month)
Rs - 25,875/- Bike Cost (Per Month)
+ 9,180/- Two Bike Rent as Bonus
Total = 58,005/- Per Month
Rs - 58,005 x 12 = Rs 6,96,060/-
(In One Year)

Leaflet by Gravit Innovation Promoters Ltd.; Source - Google

The company launched app based service for bike-taxi in about 50 cities. People could download the app from google play store and people used to get bike taxi services like Ola and Uber. The service became popular in Noida, Greater Noida, Ghaziabad, Meerut, Kanpur and Lucknow. As per information by SIT, bike-taxis mainly operated in different districts like, Gautam Buddha Nagar, Ghaziabad, Hapur and Bulandshahr in western Uttar Pradesh. Network of the company was also active in Rajasthan, Madhya Pradesh, Haryana and other states also. Initially, it launched 1500 bikes in 50 cities, but these bikes were not from GIPL. SIT officials also stated that the company had nearly 7000 bikes, out of which 2000 were registered and rest were not. They used to put business plan in front of investors and investors were told to invest for bike in the company. The investors were shown rosy pictures about return from the business and were promised return out of profit of the bike-taxi service. Investors were encouraged to invest for 3, 5 or 7 bikes and were shown to yield very high return within one year. That extra ordinary estimated profit attracted investors to invest their entire life savings into the scheme.



Bike taxi of Bike Bot; Source - Google

GIPL had opened office in many cities of Delhi, Rajasthan, Haryana and Uttar Pradesh. As per company website GIPL also opened office at Muzaffarnagar, Bijnor, Allahabad, Agra also. And it also planned to open office in Faridabad,

Panipat, Ambala, Ludhiana, Jalandhar and other. It also planned to start regional office at Chandigarh, Ranchi, Jaipur, Kota, Udaipur, Indore and Ahmedabad.

Investors were offered two lucrative alternatives. Once investors were identified, through the first alternative, those investors were offered to become partners of the company and they could buy franchise to start own taxi services in their own city and that would generate revenue from bike taxis affiliated to Bike Bot in different cities. Those who were not enticed to become franchisee, were promised fixed amount of monthly return on their investment. The company had used internet, social media, pamphlets and motivators for advertisement of the scheme. The idea was to spread the scheme far and wide and encourage gullible investors to invest in the scheme. Also investors were asked to bring more people to get attractive incentive and exclusive benefit for them.

The company started its journey from the year 2017 and it started defaulting on returns in as early as 2018. As it started defaulting, investors came forward to lodge complaints against the company. From January 2019, company officials stopped all connection with investors and stopped paying return on investment. As accusation came out, Sanjay Bhati, surrendered from Dankaur and also a day after Vijay Pal Kasana, franchise head of the company arrested from a hospital of Meerut.

At the start of the programme, people were lured in with mega launches with politicians to instil confidence about the programme and the company. Because many leaders and officials were present at the launch of the company. Bhati had close connection with political party from Rajasthan. He had also got charge of that political party in Gautam Budh Nagar. When charges against Bhati and his company came out, he was removed from the post. However, by that time, he had used his political influence to lure large number of investors into the fraud scheme.

During its course of action in three years, GIPL managed to get more than 2.5 lakh investors. As modus operandi of typical Ponzi schemes, initially, GIPL transferred small amount of interest (part of what was to be paid monthly) to investors out of investment collected from follow-on investors on monthly basis. Investors were told that rest of the part of the monthly payment was used for buying bike and mobile set up for the bike taxi service.

A significant number of investors were yet to report and that would increase the amount of total scam of thousands of cores in Indian rupees.

On basis of complaint lodged by investors, FIR was registered and SIT (Special Investigation Team) was formed for further investigation. The economic offence wing reported that Tarun Sharma, CEO of the company, was arrested in August, 2019. Bhati and other three additional directors were also arrested in the same month in 2019. Police had applied for custodial remand of two accused persons, Bhati and Kasana for further investigation of the scam and to get detail of the scam and other accused persons, if any.

As per information provided by police, 18 bank accounts, linked to the company and which were used for transaction related to the Bike Bot scheme, were frozen after FIR had been lodged.

Just to give an idea on the extent of hard earned money of investors, which was splurged by GIPL, the SIT had seized over two dozen cars, including Range Rovers, Toyoto Fortuner, Tata Nexon, Mahindra Scorprio and others, which were used for official purpose. These cars themselves cost INR 8.5 crore approximately, as per the statement of SIT.

3.8 Socialtrade.biz to W-3 Company - Noida Ponzi Scam

Shrewd operators are always finding innovative mechanism to dupe investors through Ponzi schemes, which are often marketed and advertised using attractive means of inducements. In the era of digital world, internet fraud, in the form of unlicensed digital investment schemes (UDIS), is now one of the major concern of researcher, regulator, policy maker as well as individual investors.

UDISs are, technically, fake investment schemes which are promoted through digital platform. This type of investment schemes often tends to use social network, text messaging service or digital platform via a domain name/URL. This type of investment schemes also promotes and sells investment instruments which are not under regulation of any regulator. They try to attract investors by proposing high rate of return compared to prevailing market return. Like other Ponzi schemes in pre-digital era, UDIS are often successful in raising large amount of money from gullible investors. They repay initially as the chain in the pyramid is built, but at the end, they fail to repay the existing investors because there is no actual investment on the ground which has been made in any profit generating activity. As a result, the companies fail to attract new investors to raise additional money and they collapse.

One of the examples of an UDIS, applying a new twist to promote fraudulent investment scheme, was Noida scam or Social Trade scam. Ablaze Info Solutions Pvt Ltd, a company promoted by Anubhav Mittal and having registered office in Delhi, had been incorporated in 2010 and it started its operation in 2011, when Mittal was still doing his B. Tech. in Noida. Till 2017, when this Ponzi scheme collapsed, Mittal was accused of having swindled INR 3700 crores from about 7 lakh odd investors. More famously known as Noida scam/Ponzi scheme, it had used digital platform for promotion. The scheme had built strong social media

presence like Facebook using URL (www.socialtrade.biz). It has been one of the biggest internet scams in recent times.



A police team tries to control the crowd outside Ablaze Info Solutions' office in Sector 63, 2017; Source - Google



Anubhav Mittal arrested from Noida; Source - Google

Anubhav was arrested from Noida, along with his two colleagues, Shridhar Prasad and Mahesh Dayal on February 2, 2017 in the scam case of their company Ablaze Info Solutions Private Ltd. Sunil Mittal, father of Anubhav Mittal, was one of the two directors of Ablaze Info Solutions Private Ltd. and Ayushi Agarwal, wife of Anubhav, was additional director of the company. In the month of April, 2017, Anubhav Mittal along with his father and wife were accused of running a Ponzi scheme through their firm Ablaze Info Solution. After the scam became public, Sunil went underground and he kept on changing his location, Finally, he was arrested from Navyug Market in Ghaziabad. Even for this

operations, he had kept on changing his place of work like, Pilkhuwa, Ghaziabad, Delhi and Kanpur.

Anubhav, a 26 years old B Tech graduate, and his company Ablaze Info Solutions Private Ltd. tricked investors through an unlicensed investment scheme operated on digital platform. Shridhar, 40 years old MBA guy and Mahesh, 25 years old guy used to provide technical support required for operation of the scheme.

The trio had launched Social Trade as a pyramid scheme in 2015. But the trio used to change domain name of their website frequently to mislead investors as well as police. Social Trade was changed to freehub.com in December 2016. Later, freehub.com was changed to inmart.com in a short span. Again, in January 2017, it was changed to frenzzup.com. And at last in February, 2017, the trio changed the company name to W-3 Company.

SocialTrade.biz, owned by Ghaziabad-based Ablaze Info Solutions Pvt Ltd, claimed to provide a unique concept of online barter system through its Social Media Exchange (SME). However, on probing further, the whole scheme looked like a money circulation scheme, where the user got paid not for clicking on more 'likes' or promotions, but by enrolling more people in right-left (binary) combination. The website claimed that the Social Media Exchange acted as a platform where a give and take relationship was built between different customers. It also claimed that "You make others popular and others advertise you in return. SME refers to reciprocity (exchange) between two or more actors, generally for mutual benefit." Ablaze Info Solutions, under the SME offered four different 'packages' to earn money. This ranged from INR 5,750 to INR 57,500. On buying one of the packages, the user received commission for daily tasks at the rate of INR 5 per click. In addition, there were promotional and referral income, which was INR 1000 for selling two packages in 1:1 business volume (BV) format. This was nothing but the mechanism of enrolling people in right-left (binary format) combination, which had been used by most multi-level

marketing (MLM) operators. The company also claimed to provide an income, based on the BV and social trade package (STP), of INR 50,000 to INR 2 lakh per week, which it said was ‘capped’. To ensure that the whole scheme appeared genuine and legal, it also deducted administration charges on the promotional income besides deducting tax at source (TDS) too²⁶.

It's modus operandi was to

Kindly note that you can upgrade your account only after 1 month of purchase, and can be upgraded within 1 Month after that.

STP - 10	STP - 20	STP - 50	STP - 100
₹ 5750* INCLUDING ALL TAXES	₹ 11500* INCLUDING ALL TAXES	₹ 28750* INCLUDING ALL TAXES	₹ 57500* INCLUDING ALL TAXES
EPoint : 500	EPoint : 1000	EPoint : 3000	EPoint : 6000
Account Validity : 12 Months			
Filtered Audience : Age, Gender, Profession, Industry, State, City	Filtered Audience : Age, Gender, Profession, Industry, State, City	Filtered Audience : Age, Gender, Profession, Industry, State, City	Filtered Audience : Age, Gender, Profession, Industry, State, City
Package Business : 0.5 BV	Package Business : 1 BV	Package Business : 2.5 BV	Package Business : 5 BV
REGISTER	REGISTER	REGISTER	REGISTER

Source: <https://www.moneylife.in/article/is-socialtradebiz-another-money-circulation-scheme/47992.html>

STP was social trade package and BV was business volume

Company offered related commission as:

²⁶ <https://zulfiqarlegal.blogspot.com/2018/07/ablaze-info-solutions-pvt-ltd.html>

Q. 21. What are the commission rates?

Ans. - Daily Task Rates currently is 5Rs per click. Daily Task rates vary from time to time and depends on market competition & availability of work with company. Daily Task Rates can change with/without prior information on website because it depends on market competition.

- Promotional/Referral income currently is 1000Rs. for selling two packages in 1:1 BV format.

1 Business Volume (BV) is equal to STP – 20. Promotional/Referral Income is Weekly based.

STP 10- 0.5 BV

STP 20- 1.0 BV

STP 50- 2.5 BV

STP 100- 5.0 BV

2. Capping of Income is there with every STP(Social Trade Package) and varies from 50000Rs per week to 2 Lacs per week. Capping of Income can increase or decrease from time to time.

STP 10- Maximum Income- 50000 Rs Per Week

STP 20- Maximum Income-100000 Rs Per Week

STP 50- Maximum Income- 200000 Rs Per Week

STP 100- Maximum Income- 200000 Rs Per Week

Source:<https://www.moneylife.in/article/is-socialtradebiz-another-money-circulation-scheme/47992.html>

The scheme was operated through doubtful URLs. And those URLs were sent to individuals on phones for subscription through clicks. User ID and password were provided to investors and random URL were sent to investors on their phone for ‘Like’ option to get back said amount of money.

Mittal was successful in duping public and running operation of Ablaze Info Solution smoothly until there was availability and supply of fresh batch of investors. Till then, there was no delay or default of payment of return to investors. However, the chain eventually broke and like other Ponzi schemes, it also ended with default of payment to investors. As the default started and grew in scale, investors gathered outside the office of Ablaze Info Solution in Sector 63 in Noida in January, 2017 to reclaim their investment. The number of protestors, including investors and employee of the company, soared up to one lakh. As a result, FIR was registered at Surajpur police station and at Phase III police station and later the case was handed over to Uttar Pradesh – Special Task Force (UP-STF).

The STF team raided the office and found 250 passports that belonged to higher performers and employee of the company, who were to be rewarded for their performance. Police seized INR 520 crore deposited in 12 different account of the company in different banks like Axis Bank, Canara Bank, Yes Bank and

Kotak Mahindra Bank. Police also investigated company's balance sheet, information about investors, detail of money transfer through different bank accounts, etc. STF official revealed information about huge expenses of Ablaze - office rent of Ablaze was INR 7 lakh per month, Mittal's salary was INR 5 lakh per month and Sridhar received INR 1 lakh per month. All these payments were made out of the subscription money. Police also got probe against Mittal for setting up a fake server in Ghaziabad and the server was used for URL termination also.

The Enforcement Directorate, India's financial crime probe agency, lodged FIR for money laundering activity on the basis of initial FIR lodged by UP-STF. Officials of ED investigated further and asked the banks to provide details of transactions for investigation of the case under the anti-laundering act. The trio were in judicial custody at Grater Noida Jail. ED official asked for custody of the trio in court for further investigation of the scam.

During the investigation, it was identified that more than a dozen firms were paid for services through Ablaze but later the money was returned in cash after the firm deducted certain amount as their commission.

Relationship manager of Yes Bank was also arrested for being part of the conspiracy with Anubhav Mittal as he provided information about bank's suspicious transaction report.

The officials also found suspicious transactions involving a core group of nearly 200 big gold and diamond dealers. According to officials, some of these dealers were paid nearly INR 80 lakh per month by Mittal and his company. As per officials, even though the companies were registered under the Companies Act, those companies were on paper only, their operations and transactions were suspicious. Official said that huge payments to core group of gold and diamond

traders were high commission amount, which were based on increasing the number of clients lower down the chain.

Mittal's case has been going on since Feb 2017 at various courts in different cities of Gautam Budh Nagar, Lucknow, Faridabad, etc. but none of the cases has yet been decided. People affected by the scam are still suffering from the loss that they had to bear after their hard-earned money was gone. Bail application for Mittal was filed and heard on 2nd of December 2019. The Bail was not granted to Mittal²⁷.

²⁷ <https://www.edunia.com/news/anubhav-mittal-case-doesnt-seem-to-have-the-decision-yet/>

3.9 QNET Scam

In a scathing statement, Bombay High Court had stated in 1996

“QNet: It is a chain where a person is fooled and then he is trained to fool others to earn Money”²⁸

QNet was founded in 1998 in Hong Kong by Vijay Eswaran. Vijay was born and brought up in Malaysia. He did his higher studies in UK, where he learnt the operational basics of multi-level marketing. After completion of his higher studies, he had joined a multi-level marketing company in Philippines.

QNet was formerly known as QuestNet, GoldQuest, and QI Limited and was owned by QI group. It used e-commerce platform to sell products related to nutrition, personal care, home care and fashion accessories energy, weight management, etc. It started its corporate journey with custom-commissioned commemorative coins and later began to sell jewellery and watches. In 1999, it started its operation in Malaysia and Singapore and began partnership with B.H. Mayer's Mint, a German-based mint coin facility.

In 2001 the company expanded its operation in Dubai, India, Indonesia and Thailand. It started providing travel and vacations related services by partnering with QVI Club brand holidays in 2002 and expanded its operation in Europe, Australia and Sri Lanka. The company had operations in more than 30 countries with offices in Indonesia, Malaysia, Hong Kong, Philippines, United Arab Emirates, Thailand, Taiwan, Vietnam, Saudi Arabia, Egypt, Côte d' Ivoire and Rwanda with franchise companies in India, Singapore and Turkey.

Smartly, Qnet franchised its operations to local companies in overseas countries, thus allowing the head office to earn while relieving it of liability and

²⁸ <https://www.moneylife.in/article/qnet-it-is-a-chain-where-a-person-is-fooled-and-then-he-is-trained-to-fool-others-to-earn-money-says-bombay-hc-order/46857.html>

responsibility from local and national cases of fraud. As Bombay High Court in its order in 2016 observed, QNet changed its name repeatedly and launched at least 76 companies. It often sold lesser known products manufactured by smaller companies using a multi-level marketing or direct sales model. "Independent Representatives" (IRs) of the company, who were typically common people, were taught to sell its products in return of high commission.

Despite claiming to be an e-commerce based business, an ordinary retail customer could purchase a product only if they had a referrer ID of an independent Qnet representative. Qnet used websites such as www.Qnetindia.in, www.Qnetindia.net, www.Qnet.net and www.questnet.net to conduct its business. In 2016, the company had been charged with running Ponzi scheme and multi-level marketing scheme in countries like India. The government of India and the Telecom Regulatory Authority of India banned the site (www.Qnetindia.in) in India after a protest spread in Bangalore.

In India, the franchise of Qnet was Vihaan Direct Selling Private Limited. During the investigation, facts came out that World Billiards champion Michael Ferreira had started operation of QNet, a multi-level marketing company in India via his firm, Vihaan Enterprises. It was alleged that the company had swindled money, with its investment scheme, in excess of INR 1000 crore from more than 5 lakh investors²⁹. The QNet cheating case came out in public when an investor filed complaint against the company after losing INR 30,000.

²⁹ <https://indianexpress.com/article/india/india-news-india/qnet-case-bombay-hc-rejects-bail-of-micheal-ferreira-4-others/>



Michael Ferreira gets bail ; Source – Google

Besides, Ferreira, all other directors of M/s Vihaan Direct Selling (India) Pvt Ltd. namely, Malcom Desai, Vanka Srinivas, Maganlal Balaji and Suresh Themiri, director of Transview Enterprises were also charged under IPC sections 420 (mischief), 468 (forgery), 471 (using forged document knowing it is not genuine). They were also charged with section 3 of Maharashtra Protection of Interest of Depositors in Financial Establishment Act (MPID) which dealt with fraudulent default by a financial establishment.



Source - Google

On the basis of complaint received from investors, Mumbai police had issued notice to Ferreira in 2013. Economic Offence Wing (EOW) had also registered a case against the directors and officials of M/s Vihaan, QNet, Transview and Vanmala Hotel and Tourism in the same year.

Initially, the session court in Mumbai handled the case and rejected their anticipatory bail plea. Then the accused moved the Bombay High Court, which also rejected the anticipatory bail plea of Ferreira and other four accused for money laundering in multi-crore QNet case. Similar stand was taken by the Delhi High Court, which, calling the whole operation of QNet a multi-victim scam, refused to quash FIR against the directors of Indian franchise of Qnet, Vihaan Direct Selling Private Limited. Under the Companies Act and Indian Penal Code,

Serious Fraud Investigation Office (SFIO), Government of India has also filed for prosecution against GoldQuest International and QuestNet Enterprise. During the investigation, police came out with facts that QNet investment schemes involved seeking investment of money ranging between INR 30,000 to INR 7 lakh from individuals. Police also said “They posed as a marketing firm which sold bio-discs, watches, herbal products and holiday packages. They claimed that by using the bio-disc, one can cure cancer and brain diseases”³⁰.

During the prosecution of the QNet case, the Bombay High Court observed and said that the company, QNet scheme was a multi-level marketing (MLM) activity and a pyramid structure of such scheme was prepared so that the members were promised to get money on purchase and sale of the products.

The Justice Mridula Bhatkar said that “The motto of the company, 'sell more, earn more' appears very attractive and innocuous. However, this motto was fully camouflaged. The company worked on a basic presumption that people can be fooled. Thus, the true motto was 'sell more earn more' by fooling people. In fact, it was a chain where a person was fooled and then he was trained to fool others to earn money. For that purpose, workshops were conducted where study and business material was provided with a jugglery of words, promises and dreams. Thus, the deceit and fraud was camouflaged under the name of e-marketing and business”³¹.

After going through the statements of many witnesses, individual representatives and the conclusive report of Serious Fraud Investigation Agency (SFIO), the bench added that “the things are not as straight as they are perceived on the

³⁰ <https://www.moneylife.in/article/qnet-it-is-a-chain-where-a-person-is-fooled-and-then-he-is-trained-to-fool-others-to-earn-money-says-bombay-hc-order/46857.html>

³¹ <https://www.moneylife.in/article/qnet-it-is-a-chain-where-a-person-is-fooled-and-then-he-is-trained-to-fool-others-to-earn-money-says-bombay-hc-order/46857.html>

surface”³². It also added that the business conduct by QNet would be also covered under PCMC Act and under Drugs and Magic Remedies Act, 1954.

The bench also established the finding that in the midway of operation, the action of directors became dubious. It concluded that “The entire business was Internet based and, therefore, the persons who are responsible i.e. the top brass, who were the applicants/accused, were not approachable by the persons who were aggrieved. The nature of the business was knitted in the interest of the Directors and shareholders in such a manner that the persons who were at the lower level of the pyramid could not get any access to put up their grievances. The manner in which the persons were contacted, incentives offered, workshops conducted, etc. are best examples of inducement”³³.

Before the bench, the special Public Prosecutor submitted report that Vanmala Hotels, Travels and Tourism Services Private Ltd and Pallava Resorts Private Limited had created a Website and travel packages. The commission was not paid on the products though the new members were introduced. The report also argued that registered office of Vanmala Hotels, Travels and Tourism Services Pvt Ltd company was a call centre. He also submitted that information to the Ministry of Corporate Affairs (MCA) and MCA sealed their office at Chennai and declared Gold Quest International Pvt Ltd and QuestNet Enterprise (P) Ltd as the fraud companies.

³² <https://www.moneylife.in/article/qnet-it-is-a-chain-where-a-person-is-fooled-and-then-he-is-trained-to-fool-others-to-earn-money-says-bombay-hc-order/46857.html>

³³ <https://www.moneylife.in/article/qnet-it-is-a-chain-where-a-person-is-fooled-and-then-he-is-trained-to-fool-others-to-earn-money-says-bombay-hc-order/46857.html>



Protest against QNet;Source - Google

In 2015, three independent representatives of QNet were arrested in the month of January. Also in the month of March two senior “Individual Representatives (IRs)” of QNet and four associates of the company were arrested at Vijayawada.

In June 2016, Delhi police moved against Vihaan Direct Selling and three independent representatives for fraudulently operating a MLM scheme. Hyderabad police also arrested four QNet associated in September. Mumbai Police recovered 144 crore by freezing bank accounts of QNet. After three-year of investigation, a charge-sheet was filed by Mumbai Police against Vihaan directors and shareholders, which was QNet’s master franchisee in India. SEBI had repeatedly and regularly advised victims to file complaint with appropriate authorities. Both Bombay High Court and Delhi Court stated that QNet operation was not legal and the operation of QNet was a scam.

In March 2017, large number of IRs of QNet were arrested and multiple bank accounts were frozen. In April 2017, Enforcement Directorate provisionally seized QNet properties worth over 150 Crore. In May, Economic Offences Wing Mumbai announced that a unit would be formed to compensate QNet investors

as per court order. IRs of QNet were arrested in different states and cities of India like, Kerala, Meerut, Kochi and Thiruvananthapuram.

In the month of February 2017, the Karnataka High Court quashed criminal proceedings against QNet executive Naresh Balasubramaniam in a cybercrime case over alleged fraud. In March 2017, the Supreme Court of India stayed further proceedings in all the 19 FIRs filed against QNet and its stakeholders across India. Ferreira was granted bail in the case.

In 2019, again QNet appeared in the news as Cyberabad police began investigation of suicide of a former techie owing to suspected loss after investment of INR 25 lakh in Ponzi scheme floated by QNet. Similar case took place in Chennai also. In Odisha, people filed complaint with Economic Offences Wing against QNet for cheating them of lakhs of rupees. In connection with the investigation, Cyberabad police had communicated with several agencies including Reserve Bank of India, ED, Income Tax Department, Serious Fraud Investigation Office, Registrar of Companies, India, etc. about how the company was running Ponzi schemes across the country and had cheated investors over several years. After inspecting the books of Vihaan Direct Selling Pvt Ltd, the franchise of QNet, and, the Registrar of Companies, Bengaluru in Karnataka had filed winding up petition before the National Company Law Tribunal under Section 271 of the Companies Act-2013. The ministry of corporate affairs (MCA) and the Department of Consumer Affairs under the Ministry of Consumer Affairs, Food & Public Distribution, have initiated the filing of a winding up petition against Vihaan Direct Selling (India) Pvt Ltd. It has also issued a lookout notice against several persons, including former world billiards champion Michael Ferreira, who were associated with the company as directors or promoters.³⁴

³⁴ <https://www.moneylife.in/article/qnet-mca-files-winding-up-petition-against-vihaan-direct-selling-initiates-penal-action/58031.html>

QNet is still trying to carry out its operation in India by involving other interested partners and stakeholders. The QNet Distributors Welfare Association had filed a petition before the Telangana High Court alleging that state police authorities were not following the state's notification on the Direct Selling Guidelines, 2017, which were issued pursuant to an advisory issued by the central government's Department of Consumer Affairs, and were indiscriminately registering criminal cases against the independent representatives of QNet's Indian sub-franchisee Vihaan Direct Selling (India) Pvt. Ltd. High court had prohibited police from taking any action against the distributors of QNet. Supreme Court has also issued a notice to the Cyberabad Police in Telengana in February, 2020 on a contempt plea of Vihaan Direct Selling Pvt Ltd against use of 'coercive action' and arrests of independent representatives of QNet³⁵.

³⁵ <https://www.theweek.in/wire-updates/national/2019/02/24/lgd2-sc-qnet.html>

3.10 Social Cause - Hit and Like Ponzi Scam

As the new age social media like Facebook, Twitter, etc., where someone posting a message seeks to judge the worth of her/his message by the number of on her/his message, has gained ground, scamsters and schemers have taken these media as a tool for fraudulently minting money.

After Mittal's scam which had duped lakhs of people in various cities, another unlicensed digital investment scheme (UDIS) operating across NCR came to the limelight. Social Cause was another company, which had floated digital investment scheme like Social Trade. This scam brought back the memories of Mittal's INR 3700 crore scam. In fact, the promoters of this scam had developed their model of duping gullible investors on the same line as had been done by Social Trade/W-3 Company of Anubhav Mittal.

In July, 2019, Social Cause grabbed the headline of leading newspapers on account of the its cheating caused to numerous investors. Investors lodged complaint against "Hit and Like" for being cheated by the company. FIR was lodged against six persons, who apparently ran the company.

As compared to the approach of companies running the conventional Ponzi schemes, the approach of this company was quite different. The company promised to pay for hitting likes on each of its advertisement and for that individual had to open an account with it. Social Cause, had floated the scheme "Hit and Like" which had promised to pay INR 7 for each like of its advertisement and for that investors had to open account with it by paying INR 56,000. The company attracted people by offering enormous return on their investment. Social Cause offered investors the scheme to make their money double within two-three months. It also offered significant percent of commission for adding new members in the scheme. Investors were encouraged for achieving daily limit for

‘Like’ and they were also promised to enhance the limit later. Promise of high return within a very small span of time attracted most of investors to get into the trap.

Like most of the other Ponzi scheme company, Social Cause was able to manage its operation for only a brief period, i.e. during 2017 and 2018. As the veil was lifted off over Mittal’s scam, repayment to investors of Social Cause were stopped. This was probably because, seeing the modus operandi of Mittal and learning about the scam, people became aware about the “Hit and Like” model of Ponzi scheme and new investors could no longer be lured to invest, which, in turn, stopped the cycle of collecting fresh fund! The company shut down its office at Sector 62 in Noida and told investors that the company was shifting to Bangkok. It also promised to pay back investors in Bitcoin.

FIR was lodged against six persons, as one of investors moved the district court of Surajpur against Social Cause. The court directed the local police to lodge complaint for further investigation. FIR was lodged against Yogesh Kapoor, Deepak Rajput, Ajay Gupta, Manoj Gupta, Shivdutt Sharma and Nirmitt Gupta. Anil Kumar, a Gurugram based software engineer, who was associated as investor with Social Cause from 2016 and had deposited INR 28 lakh in different bank accounts of the company over the period felt cheated after the collapse of the scheme. He had started his journey with Social Cause with INR 56000 and was earning from the scheme in the initial phase. Soon, the system of payment collapsed and his investment got stuck. After Mittal’s arrest, he did not get any payment from Social Cause and he lodged complaint against Social Cause.

While discussing about the scam, he stated “They said I would be able to double the amount within two-three months and also get commission of 7% on adding a

new member. Initially, there was a daily limit of 70 likes, which they said, would double to 140 soon”³⁶.

The FIR was lodged against accused person under IPC section 420 (cheating) as directed by the court. Among the accused, three persons, Deepak Rajput, Yogesh Kapoor and Vipin Yadav were sent to jail in March 2017 in another case. Another accused person, Ajay Gupta promised that after they came out in bail the amount would be returned. However, even though Yogesh came out on bail in January, 2019, he refused to give back money to investors.

³⁶ <https://timesofindia.indiatimes.com/city/noida/another-hit-and-like-Ponzi-scheme-comes-to-the-fore/articleshow/70252475.cms>

3.11 The Anubhav Plantation Scam

By the time the offices of Anubhav group of companies started shutting down and the cheques issued by Anubhav Plantation started bouncing in 1997-98, it was too late for investors of Anubhav Plantation to realise that they had been duped! Investors lodged complaint at police station regarding bouncing of cheque and default in repayment as majority of the investors were left cheated through Anubhav Group's teak plantation schemes. Later, on the invite of company, thousands of investors went to company head quarter to collect their money, only to find that the office was locked! Investors could only demonstrate in front of the office in frustration. The main accused, C Natesan, Chairman, Anubhav Group had already gone underground. Other directors of the company claimed innocence and ignorance!



Natesan, a commerce graduate and a dropout from chartered accountancy course, fantasised about gaudy lifestyle with branded car, luxurious office and other comfort of life. With his big dream, Natesan started his career in 1983 by launching a consultancy firm, 'Yours Faithfully Consultancy'. One year later, in 1984, Natesan entered in a construction business with three other partners. After three years, he closed the previous one and set up Anubhav Foundation, which became the parent company of his future businesses and companies. In 1992, Anubhav Plantation Ltd. Was founded as a public limited company. Over the years, Anubhav Group expanded itself in different sectors like, media, advertisement, export, resorts, finance and investment etc. Anubhav Home Pvt Ltd., Anubhav finance & Investments, Anubhav Communications & Advertising Pvt Ltd., Anubhav Royal Orchards & Exports, Anubhav Green Farms & Resorts Pvt Ltd., Anubhab Agro and others were under the umbrella of Anubhav Group. Under these companies, the Anubhav group owned and operated 254 finance firms, including 95 firms of Anubhav finance investments, 169 firms of Anubhav Dhan Varsha and one firm each of Anubhav Agro and Housing developers. Furthermore, the plantation companies themselves had several companies under them. By 1998, through operation in different sectors the Group became an INR 250 crore group, apart from its teak-plantation schemes. The group also built up a network of 91 offices across the country, had a staff strength of 1800 persons and had its headquarter in Chennai.



C Natesan, Chairman, Anubhav Group; Source - Google

Natesan had plan to mobilize funds from investors. The group raised huge amount of money from investors. Investors had the option of getting their investment and related return in the form of predetermined amount of money, or teak units or a combination of money and teak units.

Anubhav Group was market leader in the plantation business. The group operated its plantation and related businesses through four companies under the Anubhav umbrella/group, namely Anubhav Royal Orchard Exports, Anubhav Agrotech, Anubhav Plantation and Anubhav Green Farms and Resorts. As explained above, the plantation scheme floated by the group lured investors by inviting them to invest money in 'teak-unit'. After a pre-determined period, a specified quantum of teak or amount in cash was promised to be given back to investors as return of investment.

Anubhav group had floated three major schemes for investors. These were:

- a) Anubhav Teak Farm Scheme – Option A,
- b) Anubhav Teak Farm Scheme – Option B and
- c) Good Earth Unit Scheme.

Details of the schemes are given below:

Scheme	Detail of the scheme
Anubhav Teak Farm Scheme – Option A	<ul style="list-style-type: none">• Tenure of the scheme- 20 years• Minimum amount of investment – INR 6000• Maximum amount of investment – INR 60000• Rate of return – investor would get 300 sq feet land with three teak saplings for each INR 6000 investment• Schedule of return – investors were promised to be paid INR 1000 in each year for first 6 years and additional

	<p>INR 6000 at end of 6th year and INR 12000 at end of 12th year. Finally at the end of 20th year, the investor was to be paid INR 3 lakhs or 40 cubic feet of teak as per his preference</p>
<p>Anubhav Teak Farm Scheme – Option B</p>	<p>All features of this scheme were similar to the first scheme/option, except the payback amount. In this scheme the investors were promised to get INR 15000 at the end of the 6th year.</p>
<p>Good Earth Unit Scheme</p>	<ul style="list-style-type: none"> • Tenure of the scheme- 20 years • Minimum amount of investment – INR 6000 • Rate of return and schedule of return was very attractive. With investment of INR 6000, the investor was provided outright ownership of the land, as well as a 5-years lease of 100 sq. ft. In turn, the investor was to sublet the land to Anubhav and the investor was promised to be paid INR 500 bi-annually. The investor was also promised to be paid INR 5000 at the end of 5th year and a bonus of 1.13 cubic meter of teak, valued at INR 1 lakh at the end of 20th year.

Source: <https://www.icmrindia.org/free%20resources/casestudies/Finance%20fr eecasestudyp2.htm>

Anubhav Plantation investment scheme started its journey in 1992. With the liberalization of Indian economy in 1991, investment in agricultural commodities was allowed to private entities. Previously, before liberalization, investment in agricultural commodities was only permitted for National Bank for Agriculture and Rural Development (NABARD). Thus, when investment in agricultural commodities was allowed to private entities was allowed by the government,

Natesan saw it as an opportunity to mint money by enticing gullible investors. Natesan also developed association with World Wildlife Fund for Nature (WWF) to convey positive image of the company in front of investors. Along with this positive image of the company, factors like high return of the investment, helpful behaviour of the company's employees, exemption of tax on the return of investment (as it was agriculture income), etc. attracted the investors in hordes. Employees were trained to convince investors for showing high charge/cost for teak plantation and maintenance as compared to the price quoted by NABARD. They gave explanation that they were charging the extra amount for de-weeding, and applying fertilizer and for maintaining the sapling for next 20 years to get quality teak. Not only the cost and maintenance of teak sapling/tree was quoted very high, even the yield of teak plantation was quoted very high (as compared to, for example, the yield quoted by NABARD) to illustrate the very high returns to investors.

Anubhav plantation plan was not the only one. During the early 1990's, businesses around teak plantations mushroomed in southern India. During January to September 1992, 40 such companies registered in Madras and eight in Bangalore. Most of the companies did not have adequate crop insurance and none of them were able to live up to their promises. As pointed out by a CRISIL Report, the risks associated with the plantation investment scheme were too many. The report had stated that factors like inadequate equity base, over dependence on retail fund, erratic cash inflows, excessive expenditure for raising resources, huge gap in asset liability, lack of standard accounting practices, etc. made the investment dubious. Lack of any industry regulation also made it difficult for investors to make distinction between fly-by-night operators and a genuine player. During mid-1990s, media coverage described Anubhav group as an example of a successful company and termed it as a role-model company among more than 500 other teak and agro-based companies listed by SEBI. The media

also portrayed a larger-than-life image of Natesan himself. To add to the frenzy of return from investment, Natesan also portrayed plans of going into manufacturing of furniture from teak wood in future. It was not only that he portrayed rosy picture of his future plans, but also he inflated his financial figures like income earned out of the activities of Anubhav Plantation. For example, in 1996–97, the company posted a net profit of only INR 38.69 lakh, while its plantation income amounted to INR 35.32 crore³⁷.



People demanding refund of money; Source - Google

All glitter around the schemes of Anubhav Plantation came to end in January, 1998 when cheques issued by the company to its investors began to bounce. A large number of investors from different cities across the country like Mumbai, Chennai, Pune, Shimla, Trichy, Sangli and other places started facing same problem with the company. Eventually, Anubhav was accused of having duped large number of investors, with total amount of accumulated amount standing at around INR 400 crore. Media termed it as “Great Plantation Scam”. The investigation revealed that in the plantation investment scheme, old investors used to get their return out of investment by the new investors. When the company failed to channelize adequate new investor towards the scheme, the bubble of investment burst and the scam came in front of all. Even when the investigation authorities were carrying out their job of investigating the scam, a number of investors formed their own city based support and action group to get their

³⁷ https://wikivisually.com/wiki/Anubhav_Plantations

investment refund. Subsequently, Natesan, the chairman and managing director of Anubhav group was caught by the police and placed in judicial custody. A charge-sheet in his criminal case (No. 20501 of 1999) was filed. Madras High Court appointed, M. Ravindran, as liquidator to try and repay, at least in part, the depositors of Anubhav Plantations. After seven years of judicial custody, Natesan was released on bail in 2007. Schemers like Natesan got away lightly because they were operating in a legal no man's land. As the companies were apparently engaged in agricultural activities, they were not governed by the Reserve Bank of India (RBI). Further, as these companies did not issue tradable securities, they escaped from the purview of SEBI as well.

Investment of about INR100 Crore of 31,431 depositors was refunded, while refund to 2044 depositors has not yet been made³⁸.

³⁸ https://en.wikipedia.org/wiki/Anubhav_Plantations#

3.12 Rose Valley Scam

Eastern part of India was affected by another mega Ponzi scheme/illegal Collective Investment scheme in the second decade of 21st century, when Saradha scam had affected lakhs of investors. Rose Valley scam gained prominence in the media in the year 2013. Reportedly, over one lakh investors of had Rose Valley scam been duped and the total amount collected under Rose Valley scam was about INR 17,000 Crore. This amount was several times the amount fraudulently collected under Saradha scam. The All India Small Depositors Association pegged the amount at INR 40,000 crore. Few reports pegged the amount at over INR 60,000 crore³⁹. Seeing the amount involved and number of investors duped, the case was handed over to CBI, which registered a case bearing no. RC 39 (S)/2014.



Screenshot of Rose Valley website; Source – Google

³⁹ <https://www.businesstoday.in/current/economy-politics/rose-valley-scam-all-you-need-to-know-about-the-chit-fund-case/story/316895.html>

Rose Valley group had floated more than 20 companies across India under the ownership of and guidance by Kajal Kundu. After Kajal and his family were killed in a car accident, Gautam Kundu took over the reins of the company.



Gautam Kundu, CMD, Rose Valley Group; Source - Google

In the year 2015, Shibamoy Dutta, Managing Director of Rose Valley group was arrested by CBI for Rose Valley chit fund scam. More than 2500 bank accounts of Rose Valley group were frozen. He was suspected as the main brain behind the modus operandi, where two major financial schemes were floated by the company. Those two major financial schemes were – Ashirbad and Holiday membership, both promising high return and using that promise as a bait to trap and lure the investors. Dutta had started his career as an LIC agent. After leaving LIC, he joined another chit fund company before joining Rose Valley. He started his journey in Rose Valley as a Manager and got elevated to the position of Managing Director by Gautam Kundu, Chairman and Managing Director of the firm within a short period of time. As per CBI officials

“His convincing skills were extremely good which helped him in luring investors. This quality of coming up with new ways of getting investment made him an

*attractive candidate for chit fund companies where he was able to climb the corporate ladder*⁴⁰.

Dutta had long association with Kundu and the operation of the company in the west Bengal was under his supervision. Ashok Kumar Saha, from Tripura, was main person in Tripura. CBI investigation revealed their involvement in cheating general public and misappropriation of public fund. The agency registered case against Dutta in 2015.

The Rose Valley group operated its chit fund business through an outsized network of divisional office, regional office, and bulky numbers of both enlisted and active agents. The company had opened 21 regional offices, 880 branch offices, 20 lakh enlisted agents and 2.7 lakh active agents within a short span of 8 years⁴¹. Along with chit fund operating companies, the group comprised various companies in different sectors like, communication, real estate, media, print, food and beverage, travel, fashion, hotel and entertainments, etc. under the umbrella of Rose Valley. The Rose Valley group included Rose Valley Real Estate & Construction Ltd., Rose Valley Industries Ltd., Rose Valley Food Beverages Ltd., Rose Valley Marketing India Ltd., Rose Valley Infotech Pvt. Ltd., Rose Valley Hotels & Entertainment Ltd., Rose Valley Projects Ltd., Rose Valley Patrika Ltd., Rose Valley Films Ltd. Rose Valley Travels Pvt. Ltd., Rose Valley Housing Development Finance Corporation Ltd., Rose Valley Fashions Pvt. Ltd., Rupasi Bangla Projects India Ltd., Rupasi Bangla Media & Entertainment Ltd., Rose Valley Realcom Ltd., etc.

⁴⁰ <https://economictimes.indiatimes.com/news/politics-and-nation/rose-valley-scam-four-times-bigger-than-saradha-cbi-probe/articleshow/48946957.cms>

⁴¹ <https://economictimes.indiatimes.com/news/politics-and-nation/rose-valley-scam-firm-got-rs-10000-crore-from-investors/articleshow/48950392.cms>

As the Rose Valley scam came in the limelight in West Bengal and other eastern states and as the investigation of the scam involved different states, the apex court transferred the probe to the CBI.

Like Sahara, the main accusation against Rose Valley Group was that Rose Valley Real Estate Construction Ltd. (RVRECL) repeatedly issued secured non-convertible debentures for the years from 2001 to 2008 raising huge amount of money from public at large, allegedly without filing offer documents to regulatory authority and without following the norms of SEBI. It is also alleged that RVRECL issued debenture for a specific project and the funds had been mobilized through the issue of secured non-convertible debentures. Another allegation against the company was accumulation of fund through other schemes like Ashirbad.

Under the Ashirbad scheme, investors were lured to invest through monthly instalments for a period ranging from 1 year to multiple years against the title of piece of land, which was to be transferred in their name at the end of the term of deposit. Investors were convinced that they were paying part of claimed sale price of the plot (in the form of earnest money - EMD), and RVRECL issued money receipt against each such deposit. RVRECL used to provide a pre-determined Credit value against the earnest money so deposited and the accumulated value was adjusted against the purchase value of the plot. The scheme also gave an option to the investors to not take possession of the plot and instead of the plot of land receive the pre-determined full Credit value. The Credit value was shown as more than the total earnest money deposited. The scheme⁴² can be illustrated as under:

Ashirbad Scheme – A (for 1 katta)

⁴² https://www.sebi.gov.in/sebi_data/attachdocs/nov-2017/1512034121677.pdf

Option	Monthly instalment	Total EMD	Credit Value	Excess amount refunded	Annualized return (approx.)
E (12 months)	420/-	5040/-	5400/-	360/-	12.50%
E-1 (24 months)	210/-	5040/-	6050/-	1010/-	17.50%
E-2 (36 months)	140/-	5040/-	6838/-	1798/-	19.00%
E-3 (60 months)	90/-	5400/-	8812/-	3762/-	18.00%

Ashirbad Scheme – B(for 1 katta)

Options	Initial payment	Credit Value	Excess amount refunded	Annualized return (approx.)
E-2 (36 Months)	5000/-	7000/-	2000/-	11.40 %
E-3 (70 Months)	5000/-	10000/-	5000/-	12.00%

There were similar schemes for plot of land of different sizes like 2, 3, 5, 10, etc. katta.

As the data contained in the above tables show, the annual return was not unusually high, still several thousand people were lured to invest, as they were getting not only a plot of land but also return on their investment.

Another popular scheme, which was floated by the company was 'Holiday Membership Plan' where investors were offered a holiday plan against the investment in the scheme.

RVRECL was accused of indulging in variety of financial malpractices.

The Rose Valley Group of Companies was accused to show fake capital to change the colour of public deposits into the company's capital, for making false promises to common people, for manipulation of wording of the deposits certificates to avoid regulatory bodies like SEBI, RBI, etc. to bypass the law and regulation for raising money from the common public. The group was also allegedly involved in laundering money by creating deposits in various banks to project it as untainted money. This was, obviously, a punishable issue under Prevention of Money Laundering Act, 2002.

Before the initiation of the proceedings of the Enforcement Directorate, the RVRECL had received notice from the Registrar of Companies under Section 234 (3A) of the Companies Act, 1956 in the month of April, 2010. In response to that, RVRECL had submitted documents to ROC in the month of April and May of the same year.

In the month of March 2013, during the course of enquiry conducted by SEBI, adjudicating Officer imposed penalty of INR 1 crore on RVRECL for violation of provision of Section 11C (2) and 11C (3) of SEBI Act, 1992. In the next month, SEBI filed a complaint under Sections 24/27 of the SEBI Act, read with Section 11C (3) of the SEBI Act, and Section 405 of the Indian Penal Code before the Chief Metropolitan Magistrate, Calcutta against the RVRECL and Kundu and eight other Directors and office bearers of RVRECL. After taking cognizance

against the aforesaid company and persons, the Chief Metropolitan Magistrate, Calcutta issued an order to the company. It was pronounced by SEBI that the schemes of Rose Valley were falling under Collective Investment Schemes (CIS), and was operated without registration of the scheme as such with SEBI. The schemes were ordered to be wound up and collected money to be repaid to the investors. On March 25, 2015, Gautam Kundu was arrested and in April, 2015 he got interim bail for performing last rites for his father.

After one year of jail term of Kundu by the Enforcement Directorate, in January of the year 2016, CBI had submitted first charge sheet in connection with Rose Valley scam. Mr. R K Gaur, Press Information Officer of CBI said to media

“.....filed Charge Sheet in the Court of the Special CJM, Bhubaneswar against Sh. Gautam Kundu, then Chairman, Sh. Shibamoy Dutta, then Managing Director, Sh. Ashok Kumar Saha and Sh. Ram Lal Goswami, then two Directors of Rose Valley company and others. Cases were registered under 120-B, 420/409 of IPC”⁴³.

Taking on record seriousness of the case, in 2017, Honourable Court directed the trial court to frame charge against the accused persons within two months from the date of communication of the order and to conclude as expeditiously as possible without granting any unnecessary adjournment to either of the parties.

Cases were registered against three companies of Rose Valley Group, Rose Valley Real Estate, Rose Valley Real Estate and Construction and Rose Valley Hotels and Entertainment.

CBI asked the State Government of West Bengal to submit all files related to Rose Valley scam and enquired Officer on Special Duty of the Land Department also. CBI also asked for all details about all land dealings between the State

⁴³ <https://economictimes.indiatimes.com/news/politics-and-nation/cbi-filed-first-charge-sheet-in-rose-valley-case/articleshow/50485705.cms>

Government and the Rose Valley Group and all detail about nature of all dealings with the Ponzi company, as a part of investigation in 2019.

During investigation, many respected and renowned personnel in different field, politicians, police officers, and celebrities from Tollywood were enquired by CBI regarding the association with the group and also about the scam that had taken place.

Sibamoy Dutta, Ashok Kumar Saha along with other persons like, Amit Banerjee, Arun Mukherjee, B K Mallick, etc. filed bail application and also Kundu filed bail petition under Section 436A of the Code of Criminal Procedure during different years throughout the span of investigation. Even though a few of the accused got bail, the learned trial Judge had turned down Kundu's prayer for release under the provision of Section 436A of Code of Criminal Procedure as Kundu was involved in a grave economic crime having serious social ramification and in the larger interest of the society.



Rose Valley allegedly cheated thousands of investors in West Bengal and Odisha;
Source – Deccan Chronicle

In the month of February 2020, the Enforcement Directorate has attached assets worth over INR 70 crore of three firms in connection with money laundering probe in the Rose Valley Ponzi scam case. As per statement by ED

"movable and immovable properties belonging to various entities and individuals who received funds from Rose Valley group and related entities having book value of INR 70.11 crore have been provisionally attached under the provisions of the Prevention of Money Laundering Act (PMLA)"⁴⁴.

ED has filed multiple charge sheet in the courts of West Bengal and Odisha related to the scam.

Recently, in May 2020, Supreme Court granted bail to Managing Director, Ramesh Gandhi, who was arrested for his alleged role in the connection with multi-crore Rose Valley chit fund scam. During the hearing of the case in the Supreme Court, the CBI opposed his bail plea claiming that he was the “kingpin” of the money transaction in the alleged scam. The bench of Justices R F Nariman and Indira Banerjee gave the relief to Gandhi after directing him to cooperate with the agency in the ongoing investigation in every possible way and not to leave the country without permission of trial court.

⁴⁴ <https://www.news18.com/news/india/ed-attaches-rs-70-cr-assets-of-3-firms-in-rose-valley-scam-including-one-linked-to-srk-2484791.html>

3.13 Speak Asia Scam

In the year 2011, a new mode of financial deception prominently came to light in India. Speak Asia, came into limelight for swindling about 24 lakh people across the country. The master mind of Speak Asia scam, Ram Sumiran Pal, was arrested by the Delhi Police in November, 2013. Speak Asia was accused of duping about INR 2200 crore⁴⁵ from the investors by promising high return on their investment. Speaking at a seminar in Mumbai, representative of EOW (Economic Offence Wing), Mumbai had stated in 2011, "Till now, Speak Asia is the biggest multi-level marketing fraud which is being investigated by EOW.". It was further stated, "Total money collected by Speak Asia in a span of 18 months (February 2010-July 2011) is about INR 2,300 crore and the total payouts assured by the company to investors is more than INR 30,000 crore."⁴⁶



Speak Asia Logo; Source - Google

With increasing internet penetration, many Multi-level Marketing companies flourished across the country and lured people with lucrative offers to induce more people under the net of the MLM Company. Speak Asia was one of such high profiled companies.

⁴⁵ <https://www.deccanherald.com/content/371301/rs-2276-crore-speak-asia.html>

⁴⁶ <https://www.livemint.com/Politics/tb55efFaUWGioaxzqQJ1EN/Speak-Asia-biggest-multilevel-marketing-fraud-says-EOW.html>

Speak Asia was an online survey company based in Singapore. In Delhi High Court case of **Ram Sumiran Pal vs State**⁴⁷, following aspects of the case were brought out:

- 1) Mrs. Harender Kaur established two companies in Singapore
- 2) M/S SPEAK ASIA ONLINE PVT. LTD. was established at Singapore in the name and style of M/S. HAREN TECHNOLOGIES PVT. LTD in 2006. In the year 2010, the company was renamed as M/S SPEAK ASIA ONLINE PVT. LTD., which was incorporated with the ACRA (Accounting and Registration Authorities) of Singapore. The company was in the business of conducting surveys through its web portal www.speakasiaonline.com. The company recruited new panelists (who were to carry out survey) using marketing tools of various modes like print and electronic media, seminars, etc. Main supervision and leadership of the marketing campaign of the company was handled by Manoj Sharma, CEO, India and Tarak Bajpai, COO, India.
- 3) The other company that was established at Singapore in the year 2006 was M/s Haren Auto Parts Pvt. Ltd. In the year 2010, the company was renamed as M/s Haren Venture Pvt., Ltd. This was set up to provide E- magazines to the panellists of M/s. Speak Asia Online Pvt. Ltd.
- 4) Mrs. Harender Kaur, the Chairperson and Director of both the companies in Singapore was maintaining company bank's account in Singapore.
- 5) Both the companies were operated in India by its Channel Partners/Master Distributors/Collection Agents like M/s. Kritanz, M/s. Seamless, M/s. Tulsiyat Tek, etc. These Channel Partners/Master Distributors/Collection Agents companies were established by Manoj Sharma and others in India.

⁴⁷ <https://indiankanoon.org/doc/127867542/>

- 6) The Indian Master Distributors/Collection Agents had further appointed about 150 franchisees like A and A Associates, Delhi, **Growrich, Mumbai**, etc. across the country on behalf of the parent companies.
- 7) These franchisees were like shops of Master Distributors from where subscription code was purchased by the people in order to be panellist.
- 8) Franchisee had no direct connection either with Speak Asia or Haren Venture.
- 9) Once a person became panellist, they started to directly deal with the company. Franchisees used to get 3% discounting of the total sale made from their Master Distributor.

Testing the waters of its operation in Mumbai, Speak Asia was able to attract numerous investors within a short span of time and the number of members jumped dramatically. Speak Asia had tried to use the loopholes in Indian regulatory and legal framework to plan and execute its operation in India. *Investigators and regulators found it difficult to proceed initially, as the company had placed itself in a regulatory blindspot. It said the money it collected was for subscription of an e-zine (electronic magazine). Speak Asia was not registered with any regulatory authority in India. It had been smartly structured to exploit the gaps in the various financial-sector regulations in the country. None of the regulators appeared to have any jurisdiction over subscriptions received by an online media company that offered survey as additional benefit.*⁴⁸

Ram Sumiran Pal, a thirty-seven years old guy and a resident of Shahjahanpur district of Uttar Pradesh, was the main brain behind the whole scam/operation. Smartly, while working behind the scene, he was technically neither the owner nor a shareholder in Speak Asia company, rather he was only the owner of the franchisee named Growrich.⁴⁹ Ram Sumiran Pal was a Marketing Management

⁴⁸ https://www.business-standard.com/article/current-affairs/speak-asia-mastermind-held-113112600666_1.html

⁴⁹ <https://indiankanoon.org/doc/127867542/>

guy, who had obtained his master degree from Mumbai. His brother, Ram Niwas Pal, was working in a multinational company in the same city. In 2008, Sumiran formed companies in India with his brother Niwas and other directors and started buying overseas companies as well. Gradually, they became part of the top management of Speak Asia, registered in Singapore, which had its operations only in India.



Ram Sumiran Pal, The master mind of Speak Asia scam; Source - Google

Speak Asia designed its operation to attract middle class members mainly. Speak Asia asked people that anyone could be its panellist/members who had minimum knowledge of English and who had access to internet, as entire operation was to be conducted through internet only. Once the person became a panellist of the company, Speak Asia provided e-mail for online survey. Initial eight weeks were considered as training period of the panellist and the company provided feedback on incorrectly filled up survey form. After eight weeks, the panellists was to get

payment for completed survey conducted by him/her. Each survey took around 40 minutes to complete.

Speak Asia had floated two different types of subscription plans. The first plan was of “Standard” panellist plan. In this plan, members had to enrol himself/herself as “Standard” panellist by paying one-time fee of approximately INR 5500. In lieu of this fee, the panellist got subscription of 26 weekly issues of its Online Surveys Today E-bulletin. After the training period, panellists were entitled to complete two survey in each week for six months. In return the panellist were to get INR 450 for each week for the tenure of six months. This sounded good to members because it seemed that by carrying out survey, the initial investment of ‘one-time fee’ (of Rs 5500) could more than double within six months⁵⁰ (Rs 11,700 = 26 weeks x Rs 450/week).

Speakasia income summarized

The following table will give you a summarized idea of all the minimum and maximum incentives earned by you and your sponsor on one panel center. More panel center will give you additional incentives in the same ratio.

Type of Panel center	No. of panels	No. of sub-panels	Total training amount paid	Weekly incentives	Weekly benefit to sponsor
Standard	01	Nil	\$120	\$7	\$1
Premium	01	Nil	\$220	\$20	\$3
Standard	01	09	\$1020	\$70	\$10
Premium	01	09	\$2020	\$200	\$30

⁵⁰ https://www.business-standard.com/article/companies/speak-asia-a-primer-111052000146_1.html

Different plans of Speak Asia; Source – Google

The second plan was designed to get membership for one year. In this plan individual had to pay approximately INR 10000 to get membership for one year. Like the other plan, member had to submit two survey each week and in return member would get INR 900 per week for one year. This plan seemed very lucrative to people because people could get back initial invested capital amount (Rs. 10,000) within less than three months (INR 11,700 = 13 weeks x INR 900/week) and rest of the amount seemed as profit of the scheme. The company named these incomes as **‘active’ income**. In both the plans, members also had the opportunity to earn **‘passive’ income**. Panellists/Members were entitled to get incentives from the survey made by nine new members (the MLM part) introduced by them. There was scope to earn team bonus as well for premium members. Premium members had scope to earn nearly three times of standard members⁵¹. People desirous of becoming Speak Asia member, had to make online payment or through cheques to any of its franchisees. In return the company made payment to panellists in local currency through direct bank transfers after survey was filled by the panellists for a period of one month. The panellist had to pay three percent of bank charges for direct bank transfer. Mostly, the money collected from panellists was remitted out of India. *On 12 November, 2011, Mint had reported that the ED was expected to file a show-cause notice to Speak Asia for raising Rs 2,400 in India and remitting Rs 900 crore to Singapore.*⁵²

Speak Asia, used to have seminars and functions at different places for promotion of their schemes. Sumiran used to travel all over the country to take overview of the promotion and operation of the programmes. He used to address meeting and seminars with agents and premium investors in luxury hotels across the country. They used to show off themselves through lavish lifestyles to encourage agents

⁵¹ https://www.business-standard.com/article/companies/speak-asia-a-primer-111052000146_1.html

⁵² <https://www.livemint.com/Politics/tb55efFaUWGioaxzqQJ1EN/Speak-Asia-biggest-multilevel-marketing-fraud-says-EOW.html>

to attract more innocent people under the net of fraud. One of such instances of luxurious promotion event was held at Goa. “On one such occasion, the promoters held a meeting of investors in Goa. They hired a special train to Goa for the investors and an exclusive portion of beach of a resort was booked”⁵³. And to entertain investors in Goa meeting, leading stars of Bollywood performed in the program. According to Additional Commissioner of Police (Crime)

“There is no doubt that booking a special train and performances by film stars for a big bash at a beach resort in Goa was done to attract more eyeballs and therefore, hook more gullible people, who might choose to join the MLM scheme”⁵⁴.

The company had also published advertisements in leading dailies as well as run ad films on TV channels during IPL matches. According to different reports, the company had spent around US\$ 9 million⁵⁵ on advertisements, training, PR activities and brand building.

Like, all other Ponzi schemes, Speak Asia used to pay initial investors out of new investment into the scheme. The whole system of payment to panellists collapsed, once new addition of panellists, who brought revenue to Speak Asia through subscription, dwindled. From mid-2011, senior officials went in hiding after paying a few initial investors. As a result, a number of cases were registered in Mumbai, Andhra Pradesh, Haryana and Madhya Pradesh by the affected panellists.

Investors Grievances Forum had accused the company for looting and defrauding small, unsuspecting investors. Other allegation against the company was that the company was not registered in India and it did not provide legal documents to panellists/members as a proof of their authenticity.

⁵³ <https://www.financialexpress.com/archive/mastermind-of-speak-asia-fraud-arrested/1199899/>

⁵⁴ <https://www.financialexpress.com/archive/mastermind-of-speak-asia-fraud-arrested/1199899/>

⁵⁵ https://www.business-standard.com/article/companies/speak-asia-a-primer-111052000146_1.html

In the year 2013, Delhi Police Crime Branch started investigation of the case and finally succeeded in arresting Sumiran Pal from Connaught Place, Delhi by the team led by Deputy Commissioner of Police. He had apparently come to Delhi to dispose-off one of his properties.

The Enforcement Directorate received the green signal from the PMLA (Prevention of Money Laundering Act), Mumbai court in the year 2019 to seize properties worth INR 89.56 Crore of Speak Asia Online Pvt Ltd. This case had been registered by Mumbai police in 2011 and on the basis of that case, Enforcement Directorate had initiated an investigation against Speak Asia Online Pvt. Ltd, Singapore and its directors and others as per money laundering act (PMLA).

As stated above, the investigation revealed that the amount collected from panellists by the distributors/franchisees were transferred to the bank accounts of certain entities which were called Master Collecting Agents (MCA). These MCA in turn used to transfer the amounts to the bank accounts of Haren Ventures Pte Ltd (HVPL)/SpeakAsia Online Pte Ltd, Singapore. Seamless Outsourcing LLP, M/s Tulsiyat Tek Pvt Ltd and M/s Kratanj Management and Allied Services acted as MCA of Haren Ventures and Speakasia Online in India. Manoj Kumar, Rajiv Mehrotra, Rajan Jain and Renu Sharma were the directors of M/s Tulsiyat Tek Pvt Ltd. Manzoor Nizam Patel was the proprietor of M/s Kratanj Management.⁵⁶ It was learnt that the money was sent from India to the banks in Singapore in the first leg. From Singapore, the money was sent to accounts/banks in UAE (mainly Dubai), Italy, UK, etc. Money collected in accounts other than those based in UAE, was routed to UAE (Dubai), from where it mostly returned to India.

The investigation conducted by ED revealed that

⁵⁶ <https://www.indiatoday.in/india/west/story/speakasia-fraud-case-eow-team-speakasia-online-enforcement-directorate-indian-investors-218358-2013-11-22>

“Money collected from gullible investors in the guise of subscription fee for online survey was sent out to Singapore in the bank account of M/s. HPVL, Singapore. During the investigation in this case of money laundering, the Enforcement Directorate identified the proceeds of crime and attached Rs 89.56 crores in Current account of M/s. Seamless Outsourcing LLP, Mumbai in March 2015”⁵⁷.

After the investigation, ED had filed the charge sheet against the said company and seven others for the commission of offence under the PMLA, 2002 before the Mumbai Court. ED also filed an application in the PMLA Court for seizing of bank deposit INR 89.56 crore which the court allowed to attach.

The Ministry of Corporate Affairs, SEBI and Reserve Bank of India also have started to look into the various aspects of operations of Speak Asia, especially with an aim of working on addressing the loopholes in legal provision to control MLM schemes in Indian market.

⁵⁷ <https://www.businesstoday.in/top-story/ed-to-confiscate-properties-of-speak-asia-worth-rs-89-crore/story/314178.html>

3.14 GainBitcoin Scam

In 2018, when Amit Bhardwaj was arrested by Pune Police, a new system of fraud based on cryptocurrency came to the light. The main charge against Bhardwaj was of duping innocent people through cryptocurrency based Ponzi scheme. He was the mastermind of India's scandalous cryptocurrency based Ponzi schemes run under names GainBitcoin, GBMiners and GB21.

So, what is Bitcoin?

Cryptocurrency, as per FATF⁵⁸, *refers to a math-based, decentralised convertible virtual currency that is protected by cryptography i.e., it incorporates principles of cryptography to implement a distributed, decentralised, secure information economy. Cryptocurrency relies on public and private keys to transfer value from one person (individual or entity) to another, and must be cryptographically signed each time it is transferred. The safety, integrity and balance of cryptocurrency ledgers is ensured by a network of mutually distrustful parties (in Bitcoin, referred to as miners) who protect the network in exchange for the opportunity to obtain a randomly distributed fee (in Bitcoin, a small number of newly created bitcoins, called the “block reward” and in some cases, also transaction fees paid by users as a incentive for miners to include their transactions in the next block).*

Bitcoin is “a bubble wrapped in techno-mysticism inside a cocoon libertarian ideology”⁵⁹ by Paul Krugman.

⁵⁸ <https://www.fatf-gafi.org/media/fatf/documents/reports/Virtual-currency-key-definitions-and-potential-aml-cft-risks.pdf>

⁵⁹ Bubble, Bubble, Fraud and Trouble by Paul Krugman, The New York Times, <https://web.archive.org/web/20180604124251/https://www.nytimes.com/2018/01/29/opinion/bitcoin-bubble-fraud.html>

Bitcoin is the “*mother of all bubbles*”⁶⁰ by Nouriel Roubini, New York University.

Bitcoin, as a cryptocurrency, was invented in 2008 by Satoshi Nakamoto, a presumed pseudonymous agency/person/group of persons. In 2009, implementation of this concept was initiated through release of Bitcoin, as open-source software. Bitcoin is a decentralised digital currency without a central bank and it is based on peer-to-peer Bitcoin network without the intermediaries. Bitcoin, the cryptocurrency, is an asset which has no physical existence, consisting of nothing but a digital record stored on computers. All transactions are verified by network nodes through cryptography and those are recorded in a public distributed ledger. The transactions are recorded in a public distributed ledger called a Blockchain. Bitcoins are created as a reward for a process known as mining. All information necessary to transact Bitcoins are stored in a wallet. A wallet is correctly defined as something that “stores the digital credentials for your Bitcoin holdings”⁶¹ and that allows one to access and to spend them. So wallet is a “software that holds all your Bitcoin addresses and secret keys”⁶². It is used to send, receive and store Bitcoins. Precisely, the Bitcoin is defined by Andreas M. Antonopoulos in the book ‘Mastering Bitcoin’

“Bitcoin is a collection of concepts and technologies that form the basis of a digital money ecosystem. Units of currency called Bitcoins are used to store and transmit value among participant in the Bitcoin network. Bitcoin users communicate with each other using the Bitcoin protocol primarily via the Internet, although other transport networks can also be used. The Bitcoin protocol stack, available as open source software, can be run on a wide range of

⁶⁰<https://web.archive.org/web/20180612141424/https://www.theguardian.com/technology/2018/feb/02/bitcoin-biggest-bubble-in-history-says-economist-who-predicted-2008-crash>

⁶¹ <https://unglueit-files.s3.amazonaws.com/ebf/05db7df4f31840f0a873d6ea14dcc28d.pdf>

⁶² <https://unglueit-files.s3.amazonaws.com/ebf/05db7df4f31840f0a873d6ea14dcc28d.pdf>

computing devices, including laptops and smartphones, making the technology easily accessible”.

Before his arrest in 2018, Amit Bhardwaj had gone underground in Dubai and Bangkok. After international chasing, Indian law enforcement agencies caught hold of him and he was brought to New Delhi for further investigation. After arrest of Bhardwaj, DCP Cyber Crime, Pune Police flew to Delhi with his team to take custody of the mastermind. On April 5, 2018, Bhardwaj was handed over to Pune Police. Several cases had been registered against Bhardwaj in Pune, Nanded and other towns in Maharashtra. Later, ‘Crypto guy’ Bhardwaj and his brother Vivek were produced in the Pune District court by Pune Cyber Crime Cell.



Amit Bhardwaj, Managing Director & CEO, GainBitcoin; Source- Google

The charges against Bhardwaj was framed under

- a) Indian Penal Code (IPC) section 406, 420, 409, 120,
- b) the Maharashtra Protection of Interest of Depositors (MPID) Sections 3 and 4
- c) Information Technology Act Section 66D and
- d) The Prize Chits and Money Circulation Schemes (Banning) Act, 1978.

To dupe individuals/investors, Bhardwaj, used promises similar to those of typical Ponzi schemes, i.e. of making double the investment in under two years through investment in his scheme. The scheme was different from other typical Ponzi scheme in the sense that it used cryptocurrencies instead of traditional money/currencies for transaction. The scheme was coinciding with the Bull Run in cryptocurrencies over two-three years. Bhardwaj launched a multi-level marketing (MLM) model and it was used to publicise the GainBitcoin Ponzi scheme. Under the scheme, agents were offered significant amount of commission in terms of Bitcoin for every investment made. Bhardwaj, first launched the Bitcoin mining company “GBMiners” and in 2015, he launched Bitcoin based investment option called “GainBitcoin”. The GainBitcoin investment scheme offered 10% monthly return for 18 months. In the scheme, investors were required to invest in Bitcoin and their returns were also paid in Bitcoin. As per report, in GainBitcoin scheme, over 1 lakh investors were cheated by the promoter. Bharadwaj, a graduate Engineer, used sophisticated technical whiz to promote GainBitcoin in mainstream media. Even Bollywood stars helped in promotion of GainBitcoin.

Before duping investors, Bhardwaj had scrupulously built his background to showcase his expertise in technical field. He had started his career at one of India’s leading IT companies – Infosys. He left Infosys and started his Bitcoin venture. He also wrote and published several books on cryptocurrencies namely “Cryptocurrency for Beginners”, “Cryptocurrency Trading” and “Cryptocurrency Mining”. These books were launched at extravagant launching program, often hosted by celebrities, which were extensively publicised in social media. He was also invited as guest speaker on conferences organised by ASSOCHAM. In 2014, he launched “HighKart”, India’s first Bitcoin-based e-commerce platform. Thus, his strong and sound technical knowledge influenced gullible investors to invest in the scheme.

In 2017, Bhardwaj started facing problem in returning the promised sum (Bitcoins) to investors because fewer new investors were coming into the scheme. Then Bhardwaj and his team, to service their promise of high return, shifted payouts in the form of Bitcoins to an in-house crypto token called MCAP (acronym for Mining Capital) to overcome lack in availability of Bitcoins. As a result, most of investors of GainBitcoin left the program. MCAP was promised to grow 20-fold. The scheme had promised future value of \$5.78 versus; not surprisingly, the present value of MCAP is \$0.16. In 2017, GainBitcoin was shut down and as per company, final settlement with all investors were done in MCAP tokens. Soon a new scheme was launched in new packaging of GB21. Unlike other scheme, in GB21, the entry investment was asked to be made in terms of MCAPs. The idea behind the scheme was to boost demand for MCAPs. Many of the old investors were credited MCAPs in newly launched scheme, GB21 platform, in a way forcefully switching them into the new scheme. Return on GB21 platform was promised to be higher, especially for duration beyond 4 months, as compared to the return on GainBitcoin platform.

RETURN ON INVESTMENT

 GAINBITCOIN	
10% per Month for 18 Months	0-4 Months 10%
	5-8 Months 15%
	9-12 Months 25%
Total - 180% returns in MCAP	Total - 200% returns in MCAP

Return offered by GainBitcoin; Source - Google

The investigation report revealed that Bhardwaj along with his relatives, father Mahendra Kumar and second brother Ajay, was in director position of seven

companies- Nexgen Facility Management Pvt Ltd., Miners India Technology Pvt Ltd., **Norton Sales Pvt Ltd.**, Radox Infotech Pvt Ltd., Hans Clouding IT LLP, Sabtechs Services India Pvt Ltd. and Grand Wedding Solutions Ltd.

Norton Sales was registered with the Department of Consumer Affairs, Government of India and its registration documents showed that the company was registered as a 'direct selling' business. The documents also stated that the company would be offering 'services' under the identity of 'GBMiners'.

After 2017, Bhardwaj swiftly moved his base to Dubai and continued operation in India from there through top-tier promoters he had enlisted in India for his MLM operations. Investigation of Pune Police, revealed that out of the proceeds (money) that he had collected through GBMiners scheme, he bought multiple office properties at prime locations in Dubai. It was also uncovered by Pune Police that Bhardwaj had registered a string of companies across globe including in Singapore, Hong Kong, British Virgin Islands, Estonia, Duabi and USA.

Detail investigation in Bhardwaj's dealings resulted finding of two wallets linked to GBMiner account. The first wallet had transaction history of 601 Bitcoins but had zero balance at time of investigation by Pune Police. The second wallet had history of transaction of 4771 Bitcoins and current balance at the time of investigation was 3.31 Bitcoins. Thus investigation of transaction detail stated that Bhardwaj had received total 5372 Bitcoins, approximately value was INR 284 crore, related to these two accounts. However, investors/complainants and police felt that what came to limelight might be only the tip of the iceberg. There might have been many others transactions and wallets which were not still revealed.

Pune Police had also received information that Bhardwaj had received 600 Bitcoins from Pankaj Adlakha, a top-level GainBitcoin promoter. Pune Police

was trying to seize his office at Dubai, which was worth INR 27.62 crore and his bank accounts.

The investigation report stated that initially 55 victims had registered complaint against Bhardwaj. Yuvraj (Dadasaheb) Pawar, a victim of GBMiners scheme stated that “With the volume of complaints coming forward, the police has begun some sort of a token system to register complaints against Bhardwaj as they are only physically able to take in a certain number of complaints in a day.”⁶³

Besides the arrests and filing of case against Bhardwaj, a number of cases were registered in Pune against Akash Sancheti, Kajal Shingavi and Vyas Narhari Sapa who were top-level MLM promoters of GainBitcoins. Among them, Sancheti and Vyas were allegedly involved in direct marketing of Bhardwaj’s scheme. The duo apparently ran a company called Cloud Miners Pvt Ltd, which was purportedly an associate company of GainBitcoin. To market Bhardwaj’s scheme, Sancheti, used to conduct seminars in city along with making prospective matrimony matches. After the initial interest in matrimonial alliance, Sancheti used to meet people in their community over marriage proposal. In that setting he tried to convince the public to invest in his cryptocurrency scheme. Twenty-three complaints were registered against Sancheti. One of the victim of Sancheti, Nisha Raisonni stated that she met Sancheti, as a perspective groom, for her sister’s marriage. After the negotiation, Sanchati explained to her about the concept of Bitcoin and convinced her to invest in the scheme described by Sancheti.

Trial advocate Dange said that “They held conferences in five-star hotels and told people that the cars and flats they bought came from Bitcoin money.”⁶⁴ After trial, Sancheti was ordered to be put in judicial custody in Yerwada Central Prison.

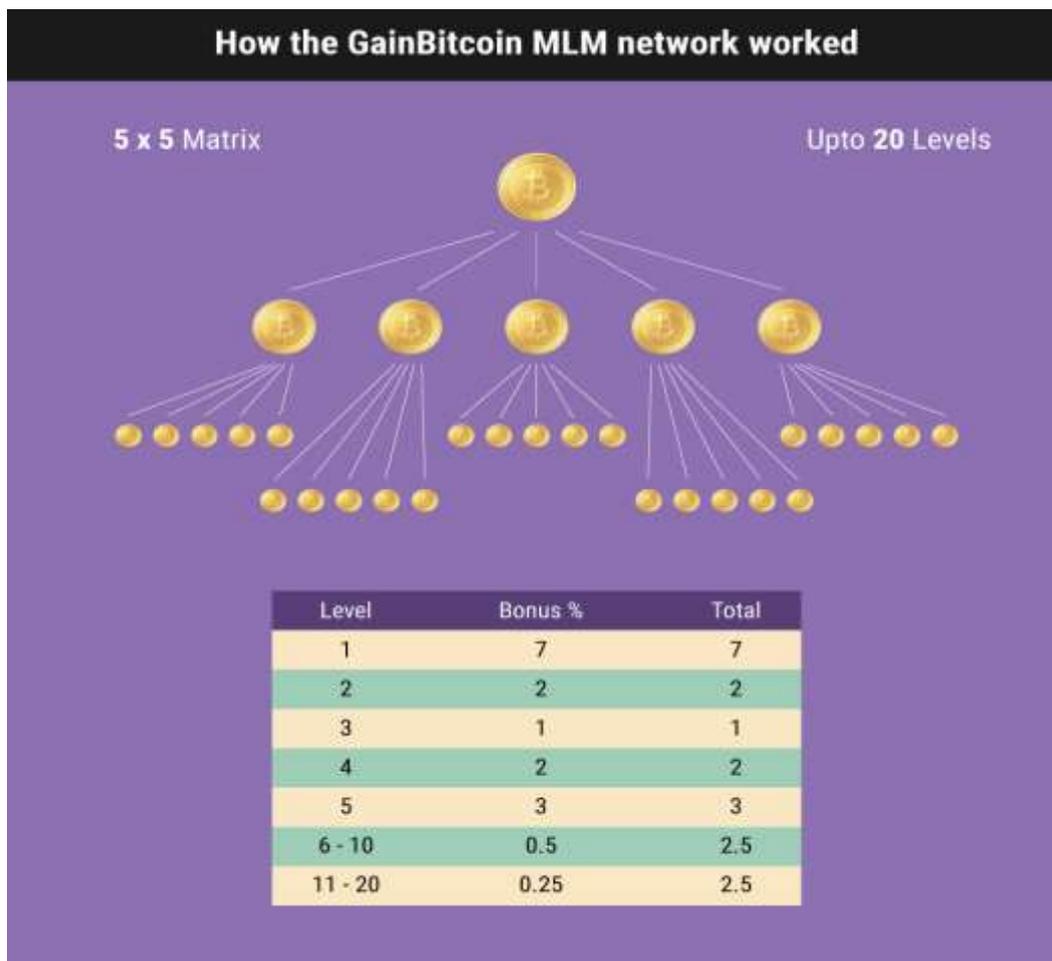
During the court hearing, Pune Cyber Cell Head said that Bhardwaj was not very cooperative during the investigation. For the purpose of investigation, Police had

⁶³ <https://factordaily.com/amit-bhardwaj-gbminers-gainbitcoin-gb21-Ponzi-cryptocurrency-scam-arrested/>

⁶⁴ <https://factordaily.com/amit-bhardwaj-gbminers-gainbitcoin-gb21-Ponzi-cryptocurrency-scam-arrested/>

seized all his devices including iPhone and MacBook but police did not get access to all his bank accounts.

During the court trial, Bharwaj’s lawyer, Gaurav Jachak argued that Bhardwaj’s company were making simple trading like shares and that did not require detail technical understanding of detail technology behind Bitcoin. As per his statement, people were complaining against it because they had received only 5% return instead of 30% return as per promise made to them.



How the GainBitcoin MIM network worked; Source - Google

Jachak’s main line of defence was that despite multiple notification by Reserve Bank of India in 2013 and 2017, people, who had invested in the scheme, were aware of devaluation of currency. However, it may be noted that RBI had issued

a notification on cryptocurrencies on April 6, 2018 on the prohibition of dealing with virtual currencies by regulated entities.

Jachak also argued that Bhardwaj's client's business was based in Singapore where trading of Bitcoin was allowed. To this defence, it may be pointed that any MLM scheme, based in or outside India, which affected people in India then Indian law would be applicable and that could be enforced extraterritorially.

On the above grounds, Jachak, as defence lawyer, was to file bail application on behalf of Bhardwaj.

In the month of March 2018, Bhardwaj was arrested by Pune Police after investigation of the case. In June of the same year, Pune Police filed two separate chargesheets against Bharwaj and eight other accused. Considering health condition of Bhardwaj, Supreme Court granted interim bail to Bhardwaj in April 2019. Bhardwaj's two brothers and his father were also granted bail by Indian courts on various ground. Though the main accused are out on bail, the investigation is still on.

Annexure:

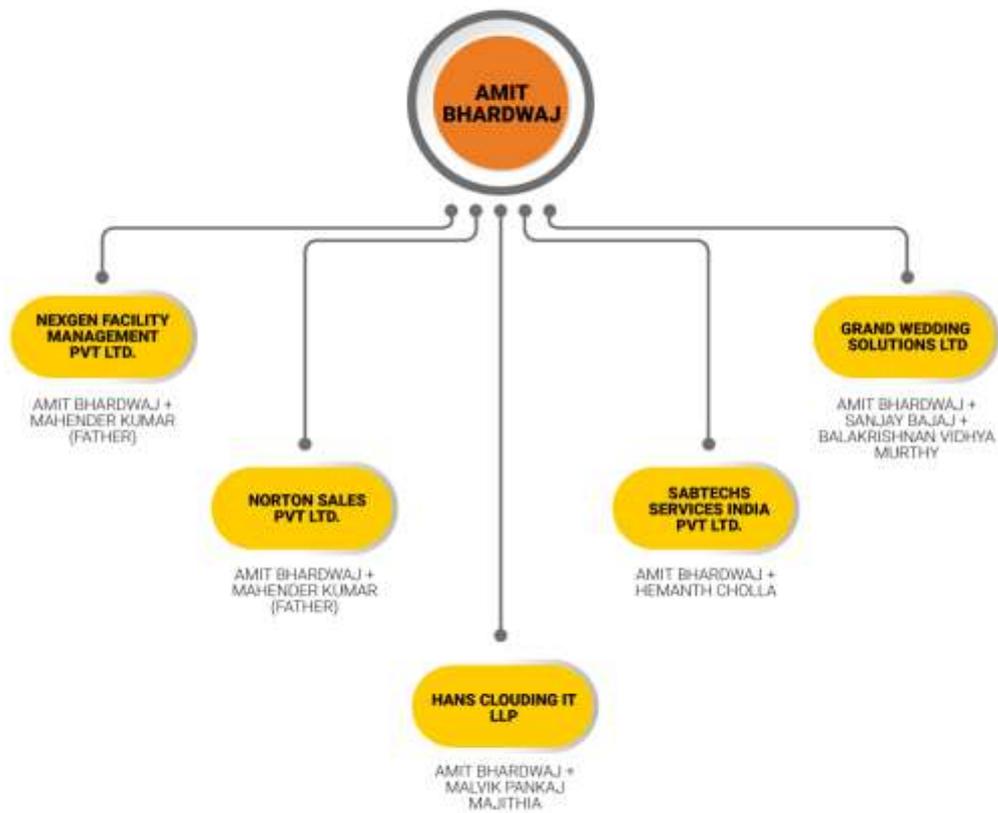
Legal Proceeding Timeline of Amit Bhardwaj, who is the main accused in the \$300 million Bitcoin scam

- 2017
 - Investor Zakhil Suresh started a petition on change.org. 1267 people supported the same
- 2018
 - ✚ January 13 – based on the complaint of an investor Nisha Raisoni – an FIR lodged at Dattawadi Police Station
 - ✚ January 24 – Pune Police filed FIR against Amit Bhardwaj and three others – Amol Vijau Kumar, Raju Ramrav, and Balaji
 - ✚ March – Tarun Kumar lodged a criminal complaint against Amit Bhardwaj, Pankaj Adlakha, Vivek Adlakha, Kamal Gupta, Aman Bhatia, Manjeet Singh and Variable Tech Pvt Ltd. at Janakpuri Police Station
 - ✚ March – FIR registered at Nigdi Police Station against Amit Bhardwaj, Ajoy Bhardwaj and others based on complaint Bhimsen Agarwal
 - ✚ March 31 – Amit Bhardwaj was arrested in Bangkok
 - ✚ April 5 – Pune Police Cyber Cell brought Amit Bhardwaj to Pune and arrested 8 accused
 - ✚ April – ED registered first enforcement case investigation report against GainBitcoin and few others under Prevention of Money Laundering Act in Mumbai
 - ✚ May – Cyber Cell of Chandigarh police books Amit Bhardwaj and five others
 - ✚ June – Dattawadi police station and Nigdi police station investigation team, Pune filed two separate chargesheets
 - ✚ July – Chandigarh police filed chargesheet

- ✚ August – Chandigarh District Court rejected Amit Bhardwaj’s bail appeal
- ✚ September – Directorate of Enforcement attached immovable properties and bank balance worth INR 42.88 crore by Amit Bhardwaj and his accomplices
- ✚ November – Amit Bhardwaj and Vivek Bhardwaj filed bail plea at Supreme Court on health grounds
- 2019
 - ✚ March 27 – Supreme Court asked for Bhardwaj’s medical report and set next hearing on April 3
 - ✚ April 3 – Amit Bhardwaj and his brother received interim bail

Source – INC42 <https://inc42.com/features/gainBitcoin-scam-amit-bhardwaj-and-the-massive-case-investigation-timeline/>

COMPANY TREE WITH BHARDWAJ AS DIRECTOR



<https://inc42.com/features/gainBitcoin-scam-amit-bhardwaj-and-the-massive-case-investigation-timeline/>

3.15 Bitconnect – Gujrat Crypto scam

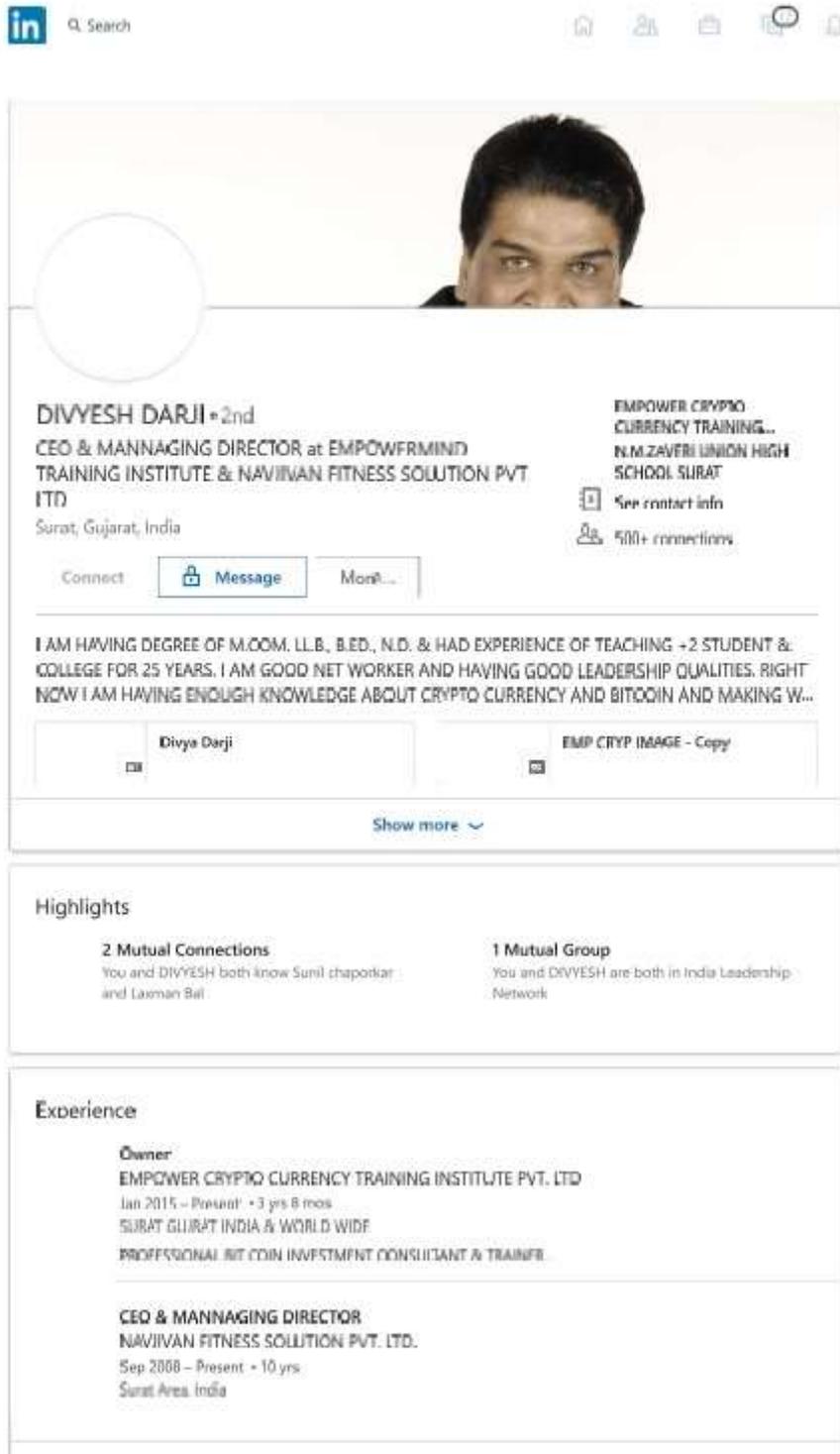
Bitconnect is a case study of duping public, when the investing public itself has undeclared fund/money, and when they are so greedy for return on their investment that they are not able to distinguish between genuine and scamming investment and when they are in search of alternative investment for the apparent lack of trust in bonafide system of investment.

Bitconnect, another cryptocurrency scam, made its proposition just in the situation that had emerged in the post demonetization era as it got launched in November-December 2016. Divyesh Darji was the main accused in the case. Divyesh Darji was head of UK-based crypto company Bitconnect, who had been accused of duping of \$12.7 Bn through the Bitconnect.in, the Indian division of UK-based Bitconnect. Darji had done his post-graduation in commerce. He had also done degree in Law. As per his profile in a social media, Darji ran a Surat based cryptocorrenncy training institute and Navivan, a fitness solution company. In this profile, he had not declared his connection with Bitconnect. He declared himself as a teacher with experience of 25 years and a knowledgeable person, who had expert knowledge about cryptocurrency.



Divyesh Darji, the mastermind of Bitconnect-Gujrat Crypto scam; Source - Google

The archived webpage, Bitconnect.in, portrayed itself as a platform of Bitcoin or other electronic currencies users where anyone could buy, sell, exchange Bitcoins directly with other members to make profit. Bitconnect promised to create more financial resources for its users and to make the world financially more open to all users.



DIVYESH DARJI • 2nd
CEO & MANNAGING DIRECTOR at EMPOWERMIND TRAINING INSTITUTE & NAVIIVAN FITNESS SOLUTION PVT LTD
Surat, Gujarat, India

EMPOWER CRYPTO CURRENCY TRAINING...
N.M.ZAVERI UNION HIGH SCHOOL SURAT
See contact info
500+ connections

Connect Message More...

I AM HAVING DEGREE OF M.COM, LL.B., B.ED., N.D. & HAD EXPERIENCE OF TEACHING +2 STUDENT & COLLEGE FOR 25 YEARS. I AM GOOD NET WORKER AND HAVING GOOD LEADERSHIP QUALITIES. RIGHT NOW I AM HAVING ENOUGH KNOWLEDGE ABOUT CRYPTO CURRENCY AND BITCOIN AND MAKING W...

Divya Darji EMP CRYPT IMAGE - Copy

Show more

Highlights

2 Mutual Connections
You and DIVYESH both know Sunil chaporkar and Lakman Bhal

1 Mutual Group
You and DIVYESH are both in India Leadership Network

Experience

Owner
EMPOWER CRYPTO CURRENCY TRAINING INSTITUTE PVT. LTD
Jan 2015 - Present • 3 yrs 8 mos
SURAT GUJARAT INDIA & WORLD WIDE
PROFESSIONAL BIT COIN INVESTMENT CONSULTANT & TRAINER

CEO & MANNAGING DIRECTOR
NAVIIVAN FITNESS SOLUTION PVT. LTD.
Sep 2008 - Present • 10 yrs
Surat Area, India

LinkedIn profile of Divyesh Darji; Source - Google

Other main accused in the case were Satish Kumbhani, Dhaval Mavani, and Suresh Gorasiya.

Just like Bhardwaj’s multi-level marketing (MLM) scheme of GainBitcoin, Bitconnect also assured huge return to users. Like introduction of MCAP by GainBitcoin, Bitconnect also initiated its own cryptocurrency, Bitconnect Coin (BCC). BCC was listed on the cryptocurrency platform, Satoshi. Bitconnect platform offered a very attractive deal to lure investors. Bitconnect deal was “earn 1% daily interest and double your money in 100days”⁶⁵ and that engrossed rich investors in Gujarat, especially those who had surplus and undeclared money. For many of investors, doubling money appealed most just after demonetization.

Bitconnect promised to pay high return on investment and also offered incentives in the form of ‘referral interest’. The interest on investment that could be earned was:

Duration	Interest
1st 6 months Jan 2017 to June 2017	60% (10%per month)
2nd 6 months July 2017 to Dec 2017	50% (8%per month)
3rd 6 months Jan 2018 to June 2018	40% (7%per month)
4th 6 months July 2018 to Dec 2018	30% (5%per month)
5th 6 months Jan 2019 to June 2019	20% (3%per month)
6th 6 months July 2019 to Dec 2019	10% (1.4%per month)

Rate of return of the scheme; Source - Google

⁶⁵ <https://timesofindia.indiatimes.com/business/india-business/bitcoin-fraud-how-investors-lost-rs-22000-crore/articleshow/65393687.cms>

It seemed that everything about Bitconnect was big: big promises of returns and gains, big campaign and conferences, but alas, it also had a very big fall.

What was more, it also tried to play on the crisis created after demonetization by telling investors that your money, even if it was issued by government (Rs 500 and Rs 1000 note) is not safe as government can declare these illegal to hold any day, when it wished, as it had done for Rs 500 and Rs 1000 note. They told the investors that compared to government issued notes, cryptocurrencies like Bitconnect were safe, could be transacted anywhere and no one would know about the owner. People looked at it as a safe way to launder their black money after demonetization of November 2016. Bloomberg reported that Google searches for laundering money in that period were made from Gujarat. In Gujarat, Surat became trade hub of numerous 'equity broker' who also made operation of cryptocurrencies. Sunny Vaghela, CTO of an Ahmedabad based IT firm specified that "The transactions were anonymous, it did not require any proof and, best of all, it could be operated from anywhere in the world. A cryptocurrency boom started overnight".⁶⁶

In 2017, throughout the year Bitcoin had gained its value remarkably. Price of one Bitcoin shot up from \$900 to \$20,000. Rising price of Bitcoin made it more lucrative investment in terms of return as compared to any other asset. Those factors instigated people to opt for the investment scheme. Bitconnect, similar sounding name to Bitcoin, was unrelated to cryptocurrency platform. It offered 1% daily interest to the Bitcoin owners and more for introducing other on the board. As a result of promise of such huge returns, investors started to loan Bitcoin to Bitconnect (BCC). BCC was issued by the company. It was its own token currency. According to CID crime officials, Bitconnect India issued some

⁶⁶ <https://timesofindia.indiatimes.com/business/india-business/bitcoin-fraud-how-investors-lost-rs-22000-crore/articleshow/65393687.cms>

28 million BCC⁶⁷. Payment of principal and interest both were done through BCC. Price of Bitcoin kept on rising till January 2018 until the securities boards of Texas and North Carolina ordered it to stop dealing of Bitcoin. Before that investors were very happy with their notional gain out of their investment. Price of BCC saw sharp rise from \$50-100 to \$362 during the last year. But the bubble burst in the month of January, 2018 when the price of BCC went down below half a dollar. Surprisingly, the number of complaints against Bitconnect was not significant because many of the investors, who had invested in the scheme, had done so to launder their black money. Ashish Bhatia, DGP, CID (crime) said “so far, we have received complaints for cheating worth INR 1.14 crore”⁶⁸. However, given the murky involvement of black money and illegal dealers, criminal activities also got entwined. It was alleged that extortion money generated from kidnapping was channelled as investment in Bitconnect.

As per CID crime Official added that “This is the same company in which Shailesh Bhatt had invested \$260K (INR 1.80 Cr). To recover the money, he had allegedly kidnapped Dhaval Mavani and Piyush Savaliya of Bitconnect. Shailesh Bhatt, was himself an extortionist, who had extorted 2,019 Bitcoins, 11,000 Litecoins, and \$2 Mn (INR 14.50 Cr) cash. A case was then registered with the Surat zone CID crime. We recovered 169 Bitcoins and 8 kg of gold from the accused”.⁶⁹

Bitconnect crypto fraud was not limited to India only. It had implemented MLM scheme throughout the world. In the year of 2018, in the hearing of the case related to Bitconnect crypto fraud, a US court ordered to freeze all its assets in US.

⁶⁷ <https://inc42.com/buzz/gujarat-cryptocurrency-scam-divyesh-darji-of-bitconnect-is-the-new-amit-bhardwaj/>

⁶⁸ <https://timesofindia.indiatimes.com/business/india-business/bitcoin-fraud-how-investors-lost-rs-22000-crore/articleshow/65393687.cms>

⁶⁹ <https://inc42.com/buzz/gujarat-cryptocurrency-scam-divyesh-darji-of-bitconnect-is-the-new-amit-bhardwaj/>

Darji is also linked to a number of other cryptocurrency scams⁷⁰. One such cryptocurrency was “regal coin” (REC), where Darji was promising short term return of 5000% (invest in regal coin worth \$2 and get about \$100 as return on each Coin after a short period) and “Dekado coin” where huge return was promised. A number of cases were filed by affected persons in the case as Darji and his partner Rajit Saxena registered Dekado abroad and set up office at Piplod city in Gujarat to issue cryptocurrencies and cryptocurrencies and carried out related scam in India. The scam was suspected to be worth of INR 1000. A CID officer said that “This scam could be over INR 1000 crore in world, including INR 100crore in the country alone. We would approach the court and seek Darji’s remand once our paperwork gets over”⁷¹.

Rajashkhar. V V residing in Bangalore, filed an FIR in Sadashivanagar Police Station under sections 406, 420, r/w 149 of IPC against Darji and his family. Family of Darji appealed to High Court at Bangaluru in the month of September, 2018 for seeking quashing of the FIR against Bitconnect Business Office, Khrisalis Global Technologies Pvt.Ltd. The complaint was that Rajashkhar and his associates had invested about INR 4.5 crores in Dekado and Bitconnect Business Office Khrisalis Global Technologies Pvt.Ltd., an online currency company and didn’t get promised return. Honourable Justice P S Dinesh Kumar ordered that the allegations were serious in nature and that required thorough investigation. Accordingly, he refused the petition of Darji and it was accordingly dismissed.

In 2019, a fresh complaint was filed by Girish Sheladiya, who had lost INR 48 lakh after he had invested in cryptocurrencies issued by Dekado. CID crime registered another case against bitcoin accused Darji and Saxena. In connection to this, CID crime officials registered a case against the owners, promoters, and administrators

⁷⁰ <https://thenextweb.com/hardfork/2019/06/04/india-bitconnect-cryptocurrency-scam/>

⁷¹ <https://timesofindia.indiatimes.com/city/surat/fresh-cryptocurrency-case-registered-against-darji-partner/articleshow/67495190.cms>

of Bitconnect under IPC section for cheating and sections of Gujarat Protection of Investors Deposit Act and the Prize Chit Money Circulation Scheme Banning Act. Bitconnect was also accused for running a number of other websites to promote their Ponzi schemes such as zewang.help.com.

In the month of May, 2019 Darji was released on bail, which was issued by Gujarat High Court. He had been arrested in the month of August 2018 for involvement in BitConnect Ponzi scheme. Currently, he is out on bail. However, on account of his involvement in other cryptocurrency scam, police is looking for him, and he is apparently on the run after his bail.

DOUBLE WHAMMY

First demonetisation shaved their black money stash, then cryptocurrency scam swallowed it

<p>2016</p> <ul style="list-style-type: none"> > ₹ 500- and ₹ 1,000-notes demonetised in November > ₹ 4,500 crore of black money flows to Surat for 'investment' > Cryptocurrencies like Bitcoin used for money-laundering 	<p>2018</p> <ul style="list-style-type: none"> > Investors (NRIs & Indians) pour Bitcoin worth ₹ 22,000 crore into BitConnect > Texas and North Carolina securities boards order BitConnect to stop dealings > BitConnect dumps 1.8 crore of its 'BCC' currency tokens on January 16 and winds up business. Pockets investors' Bitcoin > BCC value crashes from \$362 to \$2 overnight, investors lose money
<p>2017</p> <ul style="list-style-type: none"> > Bitcoin's value increases more than 20-fold > BitConnect platform offers 1% daily interest to Bitcoin investors 	

Bitconnect scam summary; Source- Google

4. Role of IEPFA

IEPF **Authority (IEPFA)** has been set up under the Ministry of Corporate Affairs, Government of India as a **statutory body** under the provisions of section 125 of the Companies Act 2013. IEPFA was established on 7th September, 2016 primarily for administration of Investor Education and Protection Fund.

The Authority is entrusted with the responsibility of administration of the Investor Education Protection Fund (IEPF), making refunds of shares, unclaimed dividends, matured deposits/debentures etc. to investors and promoting awareness among investors.

Apart from other agencies, with whom one can file complaints (such as with the local police office/Economic Offence Wing Office) or report regarding Ponzi schemes/unregulated deposits/illegal collective investment schemes, IEPFA also has a system for reporting such schemes/activities. Affected parties or aware investors and public in general can report such suspicious activities online at <https://www.iepfportal.in/suspicious-scheme.html>

Any information that one can provide about any fraud or scam could help in taking proactive steps and such schemes can be stopped before others fall victim to them.

The website has details guidelines about the process of filing report. It also ensures complete confidentiality about the submitter of information.

Information on filing Guidance and Confidentiality related to submitted information is as under:

a. What Information Should be Provided in the Form on the website?

The submission shall be addressed based on the accuracy and completeness of the information received.

The critical information that is required to take further action includes:

- A description of the scheme, contact information of the company/agency, details of the people involved in the collection of money, or making publicity of any such scheme.
- Any other relevant information, documentation or proof that one may have.

Any information that one provides must be truthful to the best of one's knowledge or belief.

b. What Happens After the Information is sent to the IEPFA?

Information received by the Authority would be scrutinized on the basis of details provided, proofs attached, and authenticity of the information would be ascertained. The matter may be referred to appropriate law enforcement organisation/ regulatory authority for further necessary action, if required. The confidentiality about the details of the person reporting shall be maintained.

IEPFA has also come out with an indicative guideline (<https://www.iepfportal.in/suspicious-scheme-detail.html>) on how to protect oneself from Ponzi schemes. Indicated hereunder are the caution points:

- Beware of promise of higher returns:

Any scheme promising abnormally high returns should be considered with caution. At the very basic level, abnormally high returns promised by the

fraudsters should serve as a red flag for investors. Beware of promises of unrealistic returns.

- **Unknown Company:**

You might have heard about a scheme promising higher returns, but are you also aware about the company and its credibility? If not, how can you put your hard-earned money into a company or organisation which is unknown to you?

Don't rely on reputation or word of mouth alone. One of the best ways to know about a company is doing your own research on internet or social media. If you do not find any reliable information on the net, it is better to steer clear.

- **Track Record of Promoters:**

They should have clean image in terms of delivering promises. If you are unable to find any information, then do a search on the internet.

- **Registration Requirements:**

If a person is planning to invest in a non-banking finance company (NBFC), then he/she should be well aware that every NBFC is required to

be registered with the Reserve Bank of India (RBI). NBFCs are not allowed to use the name of the RBI in any manner.

- Ratings Assigned:

NBFCs which accept deposits should have minimum investment grade credit rating granted by an approved credit rating agency for deposit collection.

- Terms & Conditions:

The charges should be considered well before taking the final call. Understand your investments; keep copies of all the investment and communications.

- Take Informed Decision:

One should check for the past record of the schemes, management team, corresponding regulations & financial information. Your decision should never be guided by greed. Check registration and background of individuals selling the investment. Do not trust anyone blindly in financial matters.

Remember that even if the promoters of an NBFC are of impeccable repute

and the credit rating is good, there is risk on these deposits as they are unsecured and the risk of insolvency is there.

- Union Government model guidelines for states to curb Ponzi schemes:

The Union Government has issued model guidelines titled as "Direct Selling Guidelines 2016" framework for states to regulate direct selling and multi-level marketing businesses to protect consumers from Ponzi frauds.

5. Conclusion

Analysis of the fifteen scams related to unregulated and illegal investment/deposit schemes, which took place in India in different period, throws some light on our understanding about popularity of those schemes. It has been tried to include wide variety of cases in this book to give an insight into various mechanism applied by the operators of these scams to dupe the investors and help newer investors to be wary of such fraudulent schemes.

The analysis shows how the schemes, by offering unrealistic return on investment to people, attracted mostly the gullible investors. As the basic business model itself was flawed and not intended to yield the promised return, investors lost their hard earned money. In all the cases, the scheme operators were providing door step services to investors through agents appointed by them and agents used their social network to effectively influence the investment behaviour of individuals. Social network effect of friends, family members and some influential person in their locality as well as in community significantly influence the investors to invest in the unregulated schemes. Out of these fifteen cases, in most of the cases, endorsement by celebrities and influential persons from the field of politics, sports, entertainment world, etc. proved the magical effect in promoting and popularising such fraudulent schemes of investment.

Generally, researchers, academicians and policy makers argue that Ponzi schemes lure the investors by offering astonishing rate of return on investment and letting investors make easy money over short period. However, in case of Anubhav plantation scam, investors were offered asset as return of investment (teak plant/wood) after a long time. Many a times, it was not only the return of money at the investment period but also some other fixed assets. In case of Saradha and Rose valley plots of land were offered. This shows how the hope of getting valuable asset induced people to invest in such unregulated schemes.

It is also seen how most of these schemes used the legal loopholes to collect fund from investors. Exploitation of gap between existing regulation and stricter required regulation led to long time span in getting refund of the investment after the collapse of the investment schemes. It was to fill the legal loophole, exploited by these schemes, that the Banning of Unregulated Deposit Schemes Act, 2019 was enacted. This Act is hoped to not only control the supply of unregulated investment schemes to common people, but also reduce impact of unregulated investment schemes on financial system of the economy.

In all the cases, getting unusually high return induced people to invest in such schemes without any rational thinking about the return. Greed and low self-control of the investors enabled promoters to find their target. To save people from such scam, we need to look into demand side as well as supply side aspects. Change in regulation, making the existing regulation more stringent, ensuring strict and timely punishment of offenders, etc. could address the supply-side factor. However, to address the demand-side factors, to get control on greed and improve the level of self-control, awareness and educational programme become very essential. Promotional activity related to financial education, financial literacy, awareness program, etc. need to be designed more purposefully to make timely and full information available to individuals so that they could think twice before getting entrapped in unregulated investment schemes.

To design such promotional activity, we need intensive research on this matter based on secondary and primary data also. In India, data about victims of such fraudulent schemes, like demographic aspects, regional distribution, detail of agents, etc. are not publicly available. To make effective awareness programmes and financial literacy programmes, we need to anticipate and determine the actual need of investors for such programmes. It's only after determining and prioritizing the need of investors that we can design the programmes and implement for obtaining the best result and impact. We would also need

continuous monitoring and evaluation of such programmes to make the programmes successful and have desired impact.

5. References

Literature Review

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