

Sustainability of Ponzi Scheme Scam from an Islamic Ethics Perspective

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Abstract

Ponzi scheme culture is a form of islamic business ethical violation. This study explains how business using Pyramid Schemes management and fraudulent practices that are not inline with the Al-Quran and As-Sunnah guidance, which in turn lacks sustainability and have pro-longed, destructive impact for the society at a severe scale. The aim of this study is to offer analytical study of a Ponzi Investment Scheme from an Islamic Ethical Perspective. The paper also attempts to offer Islamic principles which occur in implementing ethical business, namely At-Tauhid, Al-Amanah, As-Sidq, Al-Adalah, At-Ta'awun, Al-Maslahah, At-Taradi, and Al-Akhlaq Al-Karimah. It proves that business practice that aim and orientation solely for worldly aspects historically collapse in time. The pursuits of solely by self-interest or the interests of worldly welfare is the doom of society as a result in massive loss from unnecessary human-made crisis. On the opposite, doing business for the welfare of the ukhrawi in the pleasure of Allah SWT, relying on the benchmarks of al-Qur'an and al-Hadith paradigm of ethical values brings great social welfare and is a moral step forward for humanity. This is done by the implementation of the basic Islamic principles that comprehensively govern ethics.

Keywords — Islam, Ponzi / Pyramid Scheme, Investment, Society Welfare, Ethics

1. INTRODUCTION

In a pyramid or MLM scheme, members earn income primarily from recruiting others to join the scheme. Similarly, in foreign exchange and cryptocurrency trading, some individuals may offer commissions or other incentives for recruiting new traders to join a particular platform or program. In the age of social media, V Rantala (2019) observed that the structure has greatly accentuates connectivity in which considerably aids in the dissemination of the investing idea of the business and helps the socially widespread Ponzi scam to expand and endure.

Pyramid and MLM schemes often rely on high-pressure sales tactics to encourage new members to join (Jain et al., 2015). Similarly, some individuals involved in foreign exchange or cryptocurrency trading may use aggressive or misleading sales tactics to convince others to invest in a particular program or platform.

Baker and Puttonen (2017) found that Pyramid and MLM schemes often make unrealistic promises of quick and easy profits, without any real effort or risk. Similarly, some individuals involved in foreign exchange or cryptocurrency trading may promise high returns with little effort or risk, which is often a red flag for fraudulent activity.

Foreign exchange and cryptocurrency trading activities itself is legal in nature. A cryptocurrency legal regulation research in 2018 was conducted, noting that the blockchain technology has gained worldwide popularity in which it is wise to accept cryptocurrency as a fundamental new object for legal regulation in which governments corresponds by creating the legislation (Irina, 2018). Such is the example that not all foreign exchange

and cryptocurrency trading programs or platforms that involve recruitment or commission-based income are fraudulent or illegal. However, the society should be wary of any promises of quick and easy profits and to thoroughly research any program or platform before investing one's resources in the form of time or money.

Cryptocurrency scams have become a significant problem in Indonesia in recent years. Cryptocurrency adoption has been on the rise in Indonesia, with many Indonesians turning to cryptocurrencies as a means of investment and payment. However, this increase in adoption has also led to an increase in cryptocurrency scams. Namely cryptojacking, which involves using a victim's computer to mine cryptocurrencies without their knowledge or consent. This type of scam often involves malicious software that is downloaded onto the victim's computer.

Other fraudulent schemes involving cryptocurrencies have also caused substantial financial losses for individuals and companies alike. Some of the common types of cryptocurrency scams include the following :

- i. Ponzi schemes: In a Ponzi scheme, investors are promised high returns on their investment but the payouts are funded by the investments of new investors. These schemes are often unsustainable and eventually collapse, resulting in significant losses for investors. Several high-profile cryptocurrency Ponzi schemes have been uncovered in Indonesia in recent years.
- ii. Phishing scams: Phishing scams involve tricking individuals into divulging their sensitive information, such as passwords or private

keys, by impersonating a legitimate organization. In the context of cryptocurrencies, these scams often involve fraudulent websites or emails that appear to be from a legitimate exchange or wallet provider.

- iii. Fake ICOs: An initial coin offering (ICO) is a fundraising method used by startups to raise funds for a new cryptocurrency. Fake ICOs involve fraudulent startups that issue a new cryptocurrency, collect funds from investors, and then disappear without delivering any product or service.

The Indonesian government has taken steps to address the issue of cryptocurrency scams, including the creation of a task force to investigate and prevent fraud, for example Investment Alert Task Force (Pratiwi, 2022). However, these scams remain a significant problem, and individuals should take steps to protect themselves from potential fraud. These steps include using reputable exchanges and wallets, not divulging sensitive information to unverified sources, and being cautious of investment opportunities that promise high returns with little risk.

Analyzed case of Cryptocurrency and Forex Trading based Ponzi Schemes has been found in Indonesia. In Bali, is the local government priority to limit the impact of marketing and careless social media influencers (Jacques, H., 2022) as the island had become a base for crypto entrepreneurs.

One of the most common types of cryptocurrency scams in Indonesia is in the form of Ponzi schemes. These schemes promise high returns with little

or no risk and rely on paying returns to earlier investors using the funds of newer investors, rather than generating profits through legitimate business activities. Ponzi schemes can often collapse quickly, leaving investors with significant losses. While Sharia, the Islamic code of law, upholds justice and equality for all members of society. The 'golden mean' which Ibn Sina envisaged should be the general rule governing the conduct of citizens in the personal as well as public affairs (Khadduri, 1984). Mutual consent is also the Islamic ethics foundations as the Quran states (4:29-32):

Oh you believers! Devour not each other's property among yourselves unlawfully save that by trading by mutual consent; and kill not your (own) selves; Verily, God is Merciful unto you. And whoever shall do this in aggression and injustice, soon shall We cast him into the (Hell) fire; for this is (very) easy for God. If ye avoid the great sins which ye are forbidden, we will expiate from your (smaller) misdeeds, and we will admit you (to Paradise) an honorable (place of) entry. And covet not that by which God has raised some of you above others; for men shall have of what they earn; and for women shall have of what they earn; and ask God of His Grace; Verily, God is in the Know of all things.

The Indonesian government has taken steps to address the issue of these scams, including the creation of a task force to investigate and prevent fraud (Jacques, H., 2022). However, these scams remain a significant problem, and individuals should take steps to protect themselves from potential fraud.

The Greek word "ethos" is the source of the English word "ethics." It is mainly described as a moral philosophy that separates right from wrong and encompasses the customs and standards that the society accepts. Also on the basis of Islamic ethics, self-defense and maintaining one's honor are a well-established fundamental of Islamic principles. Work in Islam is a virtue (Aldulaimi, SH., 2016) while ethics include social fairness and other manners or values upheld by the community.

Yasin (2018) argued that there never was much concern on attempts to teach Islamic economic precepts at the lowest levels of society, hence these efforts have not yet been successful. There needs to be awareness to safeguard oneself against probable fraud. Some of these steps include using reputable exchanges and wallets, not divulging sensitive information to unverified sources, and being cautious of investment opportunities that promise high returns with little risk. Moreover, to internalize values of fair economic distribution to implement the basic values of Islam.

In Indonesia, not many put themselves on record as victims. Apart from that many only have access to news that are being displayed by scammers and information is gained solely from an official channel, mainly in the form of a website, an official telegram channel, and Instagram. Information about the underlying investments may include false financial health of the investment company through false report. As a result, investors are unable to make informed decisions about the risks and potential returns of the investment.

Asymmetric information thus plays a key role in the success of a Ponzi scheme in Indonesia. In a Ponzi scheme, the scheme operator uses this

asymmetric information to create a false sense of security and trust among investors (Nash et al., 2018). For example, the operator may provide false or misleading information about the investments or returns, making it difficult for investors to detect the fraud.

Asymmetric information can also contribute to the longevity of a Ponzi scheme. Investors may be unaware of the true financial health of the scheme and believe that it is a legitimate investment opportunity. Furthermore Deason et al. (2021) believed that falsified reports and statements of Ponzi scheme operators reduce by around 40% the likelihood of regulatory detection while increasing 30% of individual investors contributions. This can lead to a false sense of security and encourage them to continue investing and recruiting others to the scheme. Not only that but now with technology and ease of information scammers are coming up with devious ways to take money.

In order to avoid falling victim to a Ponzi scheme, it is important to exercise caution and thoroughly research any investment opportunity before investing any money.). Furthermore, investors should only invest in reputable and regulated financial institutions and avoid unregulated or unverified investment opportunities.

The goal of self-conscious in an Islamic awareness sense is to follow the Holy Quran's interpretation of Islamic law (Mir Haghjoo Langroudi, S. S., & Alinezhad Chamazakti, F., 2019) In a ponzi scheme example, investors should also be wary of high returns with little or no risk, as this is often a hallmark of a Ponzi scheme. It should be noted that, a financial system is more vulnerable the more speculative and Ponzi finance it contains (Mills

& Presley, 2015). Thus rises the questions, whether a ponzi scheme exposure in business dealings implements islamic ethics.

2. RESEARCH METHOD

The study conducted in this paper applies a qualitative method through content analysis of Islamic principles such from literature review of previous studies and Islamic rules based on Al Qur'an and Hadith. This content analysis is conducted with an in-depth discussion of the Ponzi Scheme linked to principles consisting of social fairness. In addition, content analysis is also done by discussing the verses of the Qur'an that regulate the provisions of business practices and investments in Islam. Discussing the verses of the Qur'an is aimed to dig up information about parts of Islamic law that are violated by Ponzi Scheme-based business practices.

This study is a library research using a qualitative technique, which is research that aims to describe the symptom and condition of a Ponzi scheme in an Islamic perspective. Additionally, the authors employ the documentation study research method, which entails gathering data, facts, and information in the form of voic notes and interviews with the aid of various resources found in forums, such as lowyat forum, international consumer protection agencies around the world including econsumergov from International Consumer Protection and Enforcement Network (ICPEN), the internet, and other sources that are pertinent to the study conducted. This method facilitates the collection of data, facts, and information that reveal and explain the problems in this research.

This study was conducted at a library using a qualitative technique. The authors employ the documentation study research method, which entails gathering information in the form of writings with the aid of various resources found in the library room, online journals, and other sources that are pertinent to the study conducted. This method facilitates the collection of information reveal and explain whether there is a sustainable aspect of a Ponzi scheme business dealings from an Islamic Ethics Perspective.

3. RESULT AND DISCUSSION

amic perspective on business ethics is that Islamic ethics place a strong emphasis on honesty, fairness, transparency, and mutual benefit. Kamri, et al. (2014) concludes that Every Muslim is advised by Qur'anic work ethics to carry out their duties in an ethical manner in accordance with the Qur'an.

Elements of pyramid and multi-level marketing schemes had been found to exist in the type of foreign exchange, cryptocurrency trading investments and up until recently also prevails in ICO as proofed by Fu, Z. et al. (2022) These schemes often involve recruiting new members to pay into the system, with the promise of earning commissions from the recruitment of others. Thus creating victims rather than customers (W W. Keep, P J. Vander Nat, 2014) They should only invest in reputable and regulated financial institutions and avoid unregulated or unverified investment opportunities.

While foreign exchange and cryptocurrency trading are legitimate activities, elements of pyramid schemes are found to be present in these

business activities. Some criminal portray it as a big opportunity to improve people's lives and increase their opportunities (Chiluwa, 2019). There a few examples of how scammers may involve Ponzi scheme in their business activites including and not limited to the following activities
1) Recruitment-based income 2) High-pressure sales tactics and 3) Promises of quick and easy profits.

While a Ponzi scheme, is inherently fraudulent and dishonest. This is due to no real profit made but rather the returns are paid by new financiers to its earlier funders. It operates by paying returns to early investors using the funds of later investors, rather than generating profits through legitimate business activities. As the scheme grows, it eventually collapses when there are not enough new investors to pay the promised returns.

In the study by Mohammad Azim and MD Saiful Azam (2016) a combination of the scammers ambition to retain their notoriety and opulent lifestyle, his self-deceiving belief in seizing of the opportunity, is the primary cause of the scam scandal. Furthermore, the structure of the accumulation process reward system according to Zollman, Kevin J.S. (2019) incentivizes the act of fraud.

This type of activity is considered haram (forbidden) in Islam, as it involves deception, injustice, and exploitation. The study by Azim and

Azam (2016) Islamic finance emphasizes risk-sharing and prohibits interest-based transactions, which are key components of Ponzi schemes.

Therefore, it is not permissible in Islam to participate in or promote a Ponzi scheme, as it violates the principles of honesty, fairness, and mutual benefit that are central to Islamic ethics. A Ponzi scheme is an illegal fraudulent investment scheme that promises high returns with little or no risk. It relies on paying returns to earlier investors using the funds of newer investors, rather than generating profits through legitimate business activities. An awareness of this to the larger Islamic society will help to prevent a recurrence of the fraud.

Should a member of the society already invested in an investment opportunity and suspect that it may be a Ponzi scheme, they should be given the choice to report it to the relevant authorities immediately. This will help to prevent others from falling victim to the scheme and increase the chances of recovering any lost funds through legal actions.

4. CONCLUSION

A Ponzi – based business does not rely on basic Islamic Principles. Earned income solely affects the specific individual. While its losses cause harm to society as a whole as well as to oneself. This concept is a violation of moral foundation of Islamic teachings. Mutual consent governs the Islamic ethics foundations in a islamic perspective of lawful trade.

The culture of Ponzi schemes in business dealings is an example of a breach of Islamic business ethics. Employing Pyramid Schemes for the management of its business is in fact contrary to the teachings of the Quran and the Sunnah as it engages in dishonest and fraudulent business practice.

The adoption of fundamental Islamic business principles should be applied to attain the ethical perspectives attained in business activities. These principles help establish, carry out, and, most importantly, sustain the business while violations ensure otherwise. Proven practices in violation of these ethics historically fail over time.

Conducting trade and/or business without implementing Islamic principles that comprehensively govern ethics, leads to enormous loss at a societal level caused by individual human greed. A Ponzi scheme type of business dealings is illegal, immoral and unethical at best. This is a needless crisis. As one should not solely focus on one self or a gain for a particular interest group rather consider the society at large and increase interest in the common good of society.

On the other hand, engaging in business for the benefit of the Ukhrawi in Allah SWT's pleasure while depending on the paradigm of ethical norms established by the Qur'an and the Hadith leads to significant societal welfare and advances humanity's moral cause.

5. SUGGESTION AND RECOMMENDATION

The author has researched features of Ponzi Scheme Scams featured in Forex Trading, Cryptocurrency and Fake ICO's. The paper also highlights features of how this investment scam functions and

incorporated elements of a typical Pyramid Scheme. It had explained harmful practices of a Ponzi / Pyramid Scheme violates the ethics norms and standards in a governing Islamic perspective. The scheme greatly results to individual and collective harm. Not only economic loss but also mental and emotional suffering.

Suggestions for further research to cover the shortcomings of the current research and development is to find ways for the Government and/or policymakers to hunt and clamp down on investments offer in the disguise of Ponzi schemes even further like never before and conduct socialization to the larger Islamic society in ways to detect fraudulent Ponzi Scheme businesses.

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