



Unlicensed Digital Investment Schemes: The orphan financial crime?

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UDIS is Lucrative & Criminals commit with Impunity

What are they & how do they operate? **Consumer & Macro Consequences?**

Why are they thriving? An example of an UDIS **How to Combat?**

WHAT? [FIGI Security Infrastructure and Trust \(SIT\) WG](#) led by ITU did Research in 4 Countries (India, Nigeria, Kenya & Bangladesh)

Digitally enabled financial fraud whereby consumers are promised unnaturally high returns to place their funds with a proffered investment ‘opportunity.’

Anticipated returns on one’s investment actually derive (if any) from future investors’ capital inputs into the scheme. There is no underlying productive asset, nor company from which profits can be generated.

Promoters of these schemes use new incoming funds to pay existing investors, until there are no more incoming funds and the scheme collapses.

Key Findings of the FIGI SIT WG Research

- In the focus countries, multiple regulators which actually have the legal authority to take preventative action v. UDIS, including seizure of accounts but there is no 1 taking the lead and seemingly no coordination to do market surveillance for these.
- Very few prosecutions occur v. UDIS, and no incidences were noted where consumers/victims were compensated for lost funds.
- Prevention via consumer outreach and awareness raising is limited, inconsistent and the efficacy of efforts are not measured. Nor is data aggregated on the prevalence nor impact on financial inclusion.
- Though not a main focus of the research, UDIS flourish on the dark web.

Consequences of the Crimes including ML & Tax Evasion are Dire

Victims experience adverse mental and physical health consequences

- Stress related illnesses (hypertension, heart attacks and diabetes)
- Breakdown of family/relationships: divorce is frequent result
 - Children are removed from school
 - Suicides
- Over indebtedness: **VICTIMS HAVE BORROWED TO INVEST IN UDIS**
- **Financial Exclusion which can be inter generational**
- At the national level, one UDIS, MMM stole at least \$70m USD from Nigerians in 6 mos. which is more than national education budget of Nigeria.

Social Networks Provide Free Promotion of UDIS

- Schemes are promoted on **Facebook**, **YouTube**, **Instagram**, and even Twitter and in closed **Whatsapp** groups. Despite Facebook/Insta/Whatsapp Terms & Conditions banning misleading financial ads, nothing is done to take these pages down.

https://www.facebook.com/communitystandards/fraud_deception

- **6. Fraud and Deception**

- Policy Rationale:

In an effort to prevent and disrupt harmful or fraudulent activity, **we remove content aimed at deliberately deceiving people** to gain an unfair advantage or deprive another of money, property, or legal right ...

- Given that social network use is high among youth, prediction is that if victim surveys are done, we will see spike in younger victims. Also bc CGAP research done in Kenya/Tanzania illustrated that digital borrowers are predominantly male/youth & sig. percentage are using their loans to gamble. Digital credit may be conditioning users to take risks and make bad choices vs. financially including.

Response from regulators is reactive & not working as a counter narrative

- 'Buyer beware' type messaging on the Central Bank's site or circulars from the SEC is a waste of public funds. It is too late in the game/crime and govt. messaging needs to be POSTED ON SOCIAL NETWORKS *exactly where the crimes are advertised.*
- Message for Govt.: if you do not have an Instagram or Snapchat or TikTok etc. account, hire some of the 50% of unemployed youth to troll the sites for you.
- Example of reactive messaging from SEC Nigeria: *Members of the public are to note that by virtue of section 39(1) of the Investment and Securities Act of 2017, only persons registered with the commission can engage in capital markets activities, thus making the above entities listed above unlawful.*
- Also counter narratives need to come from persons that the public trusts – similar to how fraudsters promote their schemes -- Preachers, Imams, cricket/football stars, Youtubers, Bollywood actors all can be used to inform the public NOT to invest. Language is important: do not use Latin or legalese when speaking to your constituents.

FIGI SIT WG Report on UDIS

- The report can be downloaded here: https://www.itu.int/en/ITU-T/extcoop/figisymposium/Documents/ITU_SIT_WG_Unlicensed%20Digital%20Investment%20Schemes_f.pdf
- There are 13 recommendations for better protection of digital financial consumers from UDIS in the report.
- The report includes recommendations for regulators and also for national and international collaboration on UDIS.

Recommendations for Collaboration at National Level

- Key recommendations for implementation at the national level:
 - Countries should *designate one government body* with the primary responsibility for UDIS; including developing a proactive market monitoring, prevention strategies, investigation/prosecution and consumer education and outreach campaigns.
 - Financial sector regulators should consider *classifying UDIS as a predicate offense to money laundering*, thus enabling national anti-money laundering authorities to address the issue and to collaborate fully with other institutions to investigate and prosecute UDIS.
 - *Increased monitoring of the internet and social media* is needed to identify and prevent UDIS, but reliance on regulatory monitoring alone is insufficient. Appropriate carrots and sticks should be devised by regulators, such the establishment of *whistleblower compensation policies*, including offering monetary rewards to whistleblowers and incentives to financial services employees and DFS agents who spot suspicious transactions, which turn out to be UDIS.

Recommendations for Collaboration at National Level

- *Regulators should consider the establishment of a victims' compensation scheme to provide redress for the most vulnerable victims of UDIS. (*Enact whistleblower provisions in laws if needed which give compensation)*
- *Regulators should establish penalties for individuals and corporations which knowingly facilitate UDIS with the availability of punitive damages that can be allocated to victims' compensation funds.*
- *Regulators should use new technologies such as AI should be used to pro actively monitor social networks, instant messaging and communication services and the dark web for existence of UDIS.*

Recommendations for Collaboration at International Level

- *The establishment of a global entity or forum should be considered to address the growing UDIS problem. This entity can aggregate and share data on the problem of UDIS globally, conduct research on prevention; and advise national regulators and governments on how to improve monitoring of markets for UDIS and successfully closure and prosecution, and techniques to track and salvage as much of the related assets as possible.*
- *This entity would also have the mandate to bring together the financial services and telecom regulators together to share information about such schemes and create a platform for knowledge sharing on using technology to shut down such activities.*
- *This entity could also engage in public interest advocacy to better protect consumers, and obtain redress for victims of UDIS. Such work could be done in concert with national consumer protection bodies as well as with civil society.*

Ending on a high note

