

**STUDENT ESSAY**

**Traditional and Online Ponzi Schemes**

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## ABSTRACT

*Economic crimes, particularly Ponzi Schemes, remain a persistent threat to both government and society due to their deceptive nature and their ability to exploit financial vulnerabilities. This essay examines the origins, evolution, and modern manifestation of Ponzi schemes, from Charles Ponzi's 1920s fraud to Bernie Madoff's \$65 billion scandal and contemporary online scams leveraging digital platforms. The essay highlights the Philippine context, citing major cases such as the Kapa Community Ministry International, and the country's legal frameworks, including Republic Act No. 11765, the Securities Regulation Code, and the Anti-Money Laundering Act. Findings reveal that Ponzi schemes cause devastating financial, emotional, and social impacts, eroding trust in financial institutions and exploiting weaknesses in financial literacy. Traditional schemes relied on personal trust and localized recruitment, whereas online schemes use cryptocurrency, social media, and cross-border operations to target a wider audience rapidly.*

*Keywords: Ponzi Schemes, Anti-Money Laundering Act, Securities Regulation Code, Traditional Schemes, Economic Crimes*

## Introduction

Economic crimes, also known as financial or white-collar crimes, pose challenges for both the government and society. Economic crimes are illegal activities that are intended to achieve monetary gain or professional benefit. Typically, the commission of these crimes involves deception, manipulation, or abuse of trust and authority. Economic crimes have a broad scope, surrounding many forms and practices. Cases such as the Bernie Madoff Ponzi scheme emphasize the massive impact of its fraudulent activities on deceiving investors of \$65 billion, the largest Ponzi scheme in history.

A Ponzi scheme is a fraudulent investment scam in which high returns are promised to earlier investors by paying them with funds collected from new investors. It was initially started in the 1920s by Charles Ponzi, promising investors 50% profit in 45 days by exploiting postal reply coupons. Modernization has led to the evolution of these schemes, influencing the use of online platforms and global networks in reaching potential victims. The application of complex strategies poses challenges for authorities in their detection and prevention.

Ponzi schemes are still widespread today, using the illusion of guaranteed high returns with minimal risk in a short period of time. There is also a gap in the regulatory measures and even the enforcement of laws. Lastly, the financial illiteracy among individuals or professionals suggests that phrases like “easy money, lack critical thinking; thus, scammers have strategies to exploit the victim's weaknesses, and even educational background is irrelevant because some professionals still fall victim to these Ponzi schemes.

Understanding how Ponzi schemes operate, both in traditional and online settings, is essential for effective prevention, taking into account the similarities in deceptive mechanisms and the differences in scale, operational tools, and potential targets. Traditional schemes generally operate in a limited area, local or regional, using paper ads, community gatherings, or even in-person or local recruitment, which targets older generations of communities built on personal trust. At the same time, the digital era has transformed how Ponzi Schemes operate, shifting much of their activities online. Online Ponzi schemes use websites, mobile apps, and social media platforms such as Facebook, YouTube, TikTok, and Telegram to attract a vast pool of victims. They often present themselves as cryptocurrency investments, online trading platforms, or e-commerce ventures. The Securities and Exchange Commission has issued numerous advisories against such scams.

Both traditional and online Ponzi schemes share the exact fundamental mechanism: paying old investors with funds from new ones. However, their modes of operation differ significantly. Traditional schemes rely on personal trust and community-based recruitment, while online schemes make use of digital tools, cryptocurrencies, and social media platforms to reach a much broader audience quickly. Online schemes also pose greater challenges to regulators, as many operate across borders, making investigation and prosecution more complex. The speed and scale of online Ponzi schemes amplify their risks. A scheme that once might have taken months to recruit hundreds of victims can now reach tens of thousands in days through viral posts or influencer endorsements. This shift underscores the need for modern digital regulatory mechanisms and international cooperation.

<sup>1</sup>Ponzi schemes are still prevalent today, with new operations emerging despite the government's numerous efforts to combat financial scams. In New York, Daryl Heller was charged by the U.S. Department of Justice with tricking people into investing money he claimed would be used to buy thousands of automated teller machines, promising the investors a 25% return based on revenue generated by ATM purchased by his Company. Court papers presented showed that many of the machines did not exist, were old and broken down, or were stored in warehouses. The authorities said Heller raised about \$770 million from approximately 2,700 investors (Stempel, 2025).

<sup>2</sup>In the Philippines, Republic Act 11765, the Financial Products and Services Consumer Protection Act, was signed into law by former President Rodrigo Duterte on May 6, 2022. The law covers investment fraud involving the promise or offer of profits or returns from investments. The law made the arrest of the masterminds behind the Kapa Community Ministry International Inc. possible in December 2023. They were sentenced to life imprisonment after being found guilty beyond a reasonable doubt of eight counts of syndicated estafa. Kapa was one of the biggest financial investment fraud scandals in Philippine history. An estimated five million people were duped by the religious company, which promised a 30 percent monthly return on investments for life (Suralta, 2024).

<sup>3</sup>In October 2024, CIDG Director Brigadier General Torre III, warned the public to be cautious of scams promising returns of 15 to 20 percent per month, following the Philippine authorities and Interpol's arrest of a suspect identified as "Pantollana" who heads a group of scammers who victimized dozens of investors, including overseas Filipino workers and well-known personalities, amassing around P4 billion (Peralta-Malonzo, 2024). As Torre III added, "They have several covers for their operations, including networking, junkets, and all the works. Basically, they were able to convince people to invest their hard-earned money in various businesses, which they claimed were high-yielding and offered high returns".

<sup>4</sup>In Baguio City, the National Bureau of Investigation-Cordillera has warned the public against a company (Team Z) that engaged in investment scams after victimizing around 80 investors. NBI- Cordillera Regional Director Janet Morecho-Francisco, through the Mountain Province Broadcasting Corporation, said the company promised the victims a 5% interest every month and an additional 2% from the total investment of the newly invited investors. An investigation by authorities revealed that Team Z owners are involved in other scams in the city, defrauding 100 investors of more than P4 billion (Calayan, 2023).

The Philippines is continuously taking significant steps to prevent and prosecute Ponzi schemes and other financial frauds. The Securities Regulation Code (Republic Act No. 8799) regulates all securities transactions within the Philippines, ensuring that all investments offered to the public are properly registered and that the necessary financial information is provided. The Anti-Money Laundering Act (AMLA) helps in early detection and prevention of financial

scams through identifying and tracking the flow of funds that may be related to Ponzi schemes.

The Ponzi scheme has a significant impact on society and the economy. The main implications are related to financial, emotional, behavioral, and health aspects. <sup>5</sup>Ibitola (2023), suggests that the immediate and most intense impact of a Ponzi scheme is felt by the individual investors who may lose their life savings, retirement funds or other significant financial resources. <sup>6</sup>According to an article in the Philippine Daily Inquirer dated October 13, 2021, investors in Davao and Bohol lost P2 billion in Repa Paluwagan, an informal lending system with no legally binding contracts. <sup>7</sup>Also, according to Bangko Sentral ng Pilipinas Governor Benjamin Diokno, losses from investment scams have exceeded P25 billion, with fraudsters victimizing one in every 100 Filipinos (Agcaoili, 2021). The consequences of the Ponzi frauds on the victims are devastating, and some victims indicate that they felt as if they had been raped (Deem, 2000). <sup>8</sup>In addition, victims reported experiencing a range of emotions after being exposed to a scam. The feeling of shame and guilt can lead to a tendency not to report the incident to the authorities. The reported cases of Ponzi fraud and mass marketing are very low, about 1% to 3%, compared to cases of identity theft, all of which were reported (Button et al., 2009).

It also undermines the credibility of the financial industry, as criminal actions cast a shadow of mistrust and doubt over the entire sector. A negative image of financial institutions arises when the public perceives that financial fraud is widespread within the industry, as evidenced by Stanford's \$7.2 billion Ponzi scheme, which damaged the reputations of several financial institutions, including Bank of America and Citigroup. Investors who lost money in the scheme sued the institutions, and they were subjected to increased regulatory scrutiny.

Several government bodies have a role in combating Ponzi schemes. The similarities are the conduct of investor education campaigns to raise awareness of the risks and possible practices to avoid Ponzi fraud. The National Bureau of Investigation (NBI) and Philippine National Police (PNP) enforce the law, making arrests and gathering evidence for the prosecution of fraudsters. The Bangko Sentral ng Pilipinas (BSP) regulates financial institutions and monitors compliance with banking laws and regulations. The Securities and Exchange Commission (SEC) also conducts investigations, files criminal charges against fraudsters, and can issue cease-and-desist orders against unauthorized investment schemes. The collaborative efforts of these government bodies aim to protect the Filipino public from financial fraud.

There are many factors to consider regarding why an individual falls victim to these schemes, as well as the perpetrator's motivation for their commission. Investors find themselves earning easy money on promised returns, so Ponzi schemes take advantage of the greed of desperate people hoping for quick fixes or "easy money," casting doubt on the legitimacy of scams. Financial illiteracy of individuals also attracts fraudsters as an easy path of deception. <sup>9</sup>According to a study by the Global Financial Literacy Excellence Center, the Philippines is among the countries with the lowest levels of financial education. They found that only 25% of the population are financially literate adults (Rey-Franc, 2024). <sup>10</sup>Fortunately, the BSP has partnered with the Department of Education (DepEd) to integrate financial education in the K-12 basic education system, as well as various government agencies, including the Civil Service Commission, Armed Forces of the Philippines, the Philippine National Police, Overseas Workers Welfare Administration, Department of Social Welfare and Development, among others (Agcaoili, 2021).

Scammers purposely abuse the trust of their victims, especially for those vulnerable victims who have built a connection through faith towards their religious leaders, as seen in the Kapa case. The victims are also less likely to question the legitimacy of the investment when they believe the people promoting the scheme are honest and trustworthy. Investors cannot make informed decisions if they do not trust the information presented to them. Trust is essential for investors to feel confident that the information they are receiving is accurate, reliable, and complete.

‘Easy money’ in investment schemes complicates financial burdens. Victims risk investing in the hope of huge returns to solve financial problems quickly. A trap in which fraudsters use techniques to create a sense of urgency and scarcity of opportunities in investment to motivate victims to act quickly. Take time to look at investments; sometimes, tactics like “Limited slots only!” or “Invest now before it is too late!” can be signs of a scam. Easy money scams have existed since the earliest use of money, through the modern age. The list of ingenious scams goes on as perpetrators and fraudsters get more creative in their dealings, driven by the advancement and advent of technology, the internet, and social media.

Awareness of individuals and due diligence are essential for identifying and safeguarding against Ponzi schemes. Always look for the red flags fraudsters use, and be aware of investments that offer high returns with minimal risk. Suspicion should be raised on an investment that provides regular and positive returns regardless of market conditions or a guaranteed 20-30% return or “double your money”. In addition, verify the registration status and allow disclosure of information about the investment. It is also possible to conduct thorough research into the investment's legitimacy and the credentials of the person or entity offering it. Lastly, observe the receipt of payments, as delays and difficulty cashing out can be indicative of the scheme.

## Conclusion

In conclusion, the foundation of both traditional and online Ponzi schemes is the same: they both depend on deceit, manipulation, exaggerated claims, and the short-term lifeline of new investments to maintain payouts. Ponzi schemes also continue to undermine the financial security in our country, evolving from traditional community-based operations to sophisticated online platforms. While both forms share the same fraudulent core, online Ponzi schemes spread faster and exploit digital tools to widen their reach. These schemes are still prevalent despite collaborative efforts by law enforcement and other government agencies to prevent and prosecute individuals and entities involved. Numerous governing bodies have been working to establish legal frameworks to combat Ponzi schemes. We can only safeguard societies against constantly changing Ponzi schemes through financial awareness programs, government strict enforcement of regulations, and international collaboration.

There is no such thing as “easy money”. Always be cautious and do not invest carelessly, as scammers use deception and hide behind sweet promises. Protect yourself, your family, and the community.

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