

*Ponzi schemes hit highest level in a decade, hinting next 'investor massacre' may be near*  
–CNBC Feb. 25, 2020



Co-Founders of Alleged \$9 Million  
Crypto Ponzi Scheme Plead Not Guilty-  
CoinTelegraph.com Mar. 5, 2020

Singapore cops seize \$27million linked to  
China Ponzi scheme – The New Paper  
Singapore, Feb. 11, 2019

# Unlicensed Digital Investment Schemes:

**Prevention Tools are There; Users are Needed**

[Millions of people fell for crypto-Ponzi schemes in 2019](#) MIT Technology  
Review, Jan. 30, 2020

PlusToken Scam Moves \$123M in  
Bitcoin Just as BTC Price Regains \$10K-  
CoinTelegraph, Feb 11, 2020

## A little about me & my interest in UDIS



- Public interest & consumer protection lawyer;
- Past 10 years working as independent consultant on financial consumer protection, financial literacy & access to redress for consumers; and I have a non profit association GALA.
- Saw first hand the horrific impact of ponzi schemes on victims in 2014

GALA tried to assist victims of a scheme called Caring for Orphans, Widows and the Elderly in Uganda. Purported to be a MFI, stole upwards of \$7m from the very poor. Victims took loans to 'invest.' Lost everything+.

<https://www.theguardian.com/global-development-professionals-network/2016/jan/13/ugandan-victims-still-fighting-for-compensation-years-late-cowe>

# FIGI SIT WG Report on UDIS

- Working group did research on the issue in 4 countries (Kenya, India, Bangladesh & Nigeria);
- Findings: many state agencies and regulators with a mandate to take action v. UDIS, but no apparent coordinated preventative action.
- Prosecutions are few and not reimbursing victims.
- There was also evidence of ongoing or recently crashed UDIS during the research period. One long running scheme, MMM was born again during the FIGI WG research; 6 months of operations resulted in >\$70m in USD stolen from Nigerians. Six months and that was one scam of hundreds going on.

# An ounce of prevention = millions of pounds of cure

- The FIGI WG report can be downloaded here:
- [https://www.itu.int/en/ITU-T/extcoop/figisymposium/Documents/ITU SIT WG Unlicensed%20Digital%20Investment%20Schemes f.pdf](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.
- Today's presentation will focus on feasible, **preventive steps & tools** which could be used to combat UDIS before they steal million\$

# Prevention should focus on the social network engagement & accountability

- Internet and social networks allow for these frauds to reach a wider audience. And, to operate simultaneously in multiple jurisdictions.
- 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, these pages are readily found online and it does not appear the community standards are enforced.

- **6. Fraud and Deception**

*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 ... [https://www.facebook.com/communitystandards/fraud\\_deception](https://www.facebook.com/communitystandards/fraud_deception)*

# Prevention also means surveillance & identifying possible UDIS

- **Identification can be done by the bytecode for scams on blockchain**
- **Study** from Uni Cagliari, Sardegna focused on **detection of ponzis on Ethereum**: searched for contracts whose **bytecode** (which is always stored on the blockchain) which is similar to that of a known Ponzi scheme: using the normalized Levenshtein distance (NLD) to measure similarity between two bytecode files.
- NLD is a measure of the difference in characters in data strings—how many characters u have to change to transform an apple into a strawberry (large). Or, a **ponzi into bonzai** = 2 character changes.

**\*\*Study used differential of less than .35 NLD from known ponzis.**

# Continual monitoring of blockchain transactions: how?

- Researchers from Berkeley, Qatar, Luxembourg & SL analyzed the scheme from Sept, '14 – June, '16 and published in November of 2019.
- **The study conducts temporal analysis of MMM operations; suggests metrics for investigating crypto ponzis & shares their data linking to bitcoin addresses to MMM**
- <https://arxiv.org/pdf/1910.12244.pdf>
- Viewed 2.5M user profiles on BitcoinTalk, a discussion forum, searching for Bitcoin addresses associated with MMM members, ending up with 15,736 addresses.
- Extracted the corresponding transactions from Bitcoin's blockchain, ending up with 422,953 transactions.

# Blockchain researchers findings on UDIS:

- 41% of participants did not receive any returns in the MMM Cooperation: researchers identified probable scammers as their addresses only received transfers.
- The top-earning scammer made \$765K dollars in profit.
- **At its peak \$150 million was transferred per day.**
- The scheme had participants from **80 different member countries on 5 cont.** but a highly-asymmetrical flow of money between them.
- While India and Indonesia have the largest flows in MMM, Indonesian members received 12x more money than they transferred.



# Another monitoring tool/strategy: consumers' chatter

- As mentioned: social networks are where the UDIS are promoting. Counter narratives to engage consumers and awareness raising/education has to happen there.
- **'Did you see my Tweet?'** research done by Rafe Mazer when @ FSDT shows how to effectively monitor consumer posts on social networks and engage with them. Rafe is now with IPA & here to talk about this research.

# Where there is a will ...

There are existing tools and more can be developed if there is interest to do so to prevent/combat UDIS.

No reason to believe the criminals will stop on their own bc in 2019, Cryptocurrency scammers stole \$4.3 billion worth of digital money. In 2019, more than triple 2018's crime volume. A large measure of this money will likely fund other crime; purchases of jets/real estate and doubtful if taxes will be paid on these funds.

Data on annual crime proceeds is from blockchain analytics firm Chainalysis, ["The 2020 State of Crypto Crime."](#)

Many thanks for your interest in UDIS prevention!



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