

INTERNATIONAL JOURNAL OF RESEARCH IN COMMERCE, IT & MANAGEMENT

I
J
R
C
M



A Monthly Double-Blind Peer Reviewed (Refereed/Juried) Open Access International e-Journal - Included in the International Serial Directories

Indexed & Listed at:

Ulrich's Periodicals Directory ©, ProQuest, U.S.A., EBSCO Publishing, U.S.A., Cabell's Directories of Publishing Opportunities, U.S.A.

Open J-Gate, India [link of the same is duly available at Inlibnet of University Grants Commission (U.G.C.)],

Index Copernicus Publishers Panel, Poland with IC Value of 5.09 & number of libraries all around the world.

Circulated all over the world & Google has verified that scholars of more than 3480 Cities in 174 countries/territories are visiting our journal on regular basis.

Ground Floor, Building No. 1041-C-1, Devi Bhawan Bazar, JAGADHRI – 135 003, Yamunanagar, Haryana, INDIA

<http://ijrcm.org.in/>

CONTENTS

Sr. No.	TITLE & NAME OF THE AUTHOR (S)	Page No.
1.	BRAND PRIDE AS A CONSTRUCT CONTRIBUTING TO RETAINING MISSION CRITICAL TALENT OF THE ORGANIZATION: A COMPARATIVE STUDY OF SELECTED ORGANIZATIONS <i>DR. GEETA BANSAL & DR. PARUL PANDEY</i>	1
2.	CONSUMER ATTITUDE AND PERCEPTION TOWARD BRANDS OF EDIBLE OIL: AN EMPIRICAL STUDY <i>AMITA SHARMA & DR. D. S. CHAUBEY</i>	8
3.	CAPITAL STRUCTURE AND ITS IMPACT ON PROFITABILITY OF AUTOMOTIVE INDUSTRY: THE INDIAN CASE <i>SANJAY HIRAN & DR. MAHENDRA SOJATIA</i>	14
4.	MERGERS AND ACQUISITIONS IN INDIAN BANKING SECTOR: AN IMPACT ANALYSIS WITH SPECIAL REFERENCE TO SELECT SURVIVING COMMERCIAL BANKS (INDIAN OVERSEAS BANK AND FEDERAL BANK LIMITED) <i>DR. WAGHAMARE.SHIVAJI & VEERESHA</i>	21
5.	EXAMINING WEAK FORM EFFICIENCIES IN STOCK MARKETS OF INDIA AND CHINA <i>PRASHANT JOSHI</i>	26
6.	THE MARKET FOR GREEN BUILDINGS IN EMERGING INDIA: A LITERATURE REVIEW AND RESEARCH AGENDA <i>SUNITHA LIZZIE PEREIRA & MUSTIARY BEGUM</i>	29
7.	COMPARATIVE STUDY ON AMWAY & AVON ON THE BASIS OF MLM <i>DR. MEGHA SHARMA & GURPREET KAUR</i>	33
8.	CREDIT RISK MANAGEMENT IN SMALL INDUSTRIES DEVELOPMENT BANK OF INDIA (SIDBI) <i>DR. P. AMIRTHA GOWRI & T. RENUHA</i>	37
9.	OBSTACLES FOR AGRICULTURAL COOPERATIVES DEVELOPMENT IN AMBO ZURIA WOREDA/DISTRICT/, OROMIYA REGION, ETHIOPIA <i>ASSEFA GEBRE HABTE WOLD</i>	41
10.	ESTIMATION OF PARAMETERS OF STRUCTURAL CHANGE UNDER SMALL SIGMA APPROXIMATION THEORY <i>R. K. GUPTA</i>	51
11.	ROLE OF NGOS FOR SOCIO-ECONOMIC DEVELOPMENT IN RURAL AREAS THROUGH ICT: AN EMPIRICAL STUDY <i>DR. A. KUMUDHA</i>	57
12.	MICRO FINANCE AND WOMEN EMPOWERMENT: AN INDIAN PERSPECTIVE <i>DR. P. AMARJOTHI & DR. S. GANAPATHY</i>	65
13.	CONSUMER DEMOGRAPHICS AND ITS INFLUENCE ON THEIR CAR PREFERENCES IN INDIAN FOUR WHEELER MARKET <i>PRASHANT PATIL, SANJAY HANJI & DR. M.M.MUNSHI</i>	68
14.	ANALYSIS OF WORKING CAPITAL MANAGEMENT IN INDIAN INDUSTRY: A COMPARATIVE STUDY OF SELECTED INDUSTRIES <i>DR. T. MADHU SUDANA</i>	76
15.	DISCIPLINARY ACTION TAKEN ON EMPLOYEES AND ITS IMPACT ON THE MORALE OF THE EMPLOYEES: A STUDY <i>AMBUJAKSHI</i>	83
16.	INFORMATION TECHNOLOGY IN BANKING SECTOR <i>SHIKHA BATRA & DR. AMBIKA BHATIA</i>	88
17.	NON-GOVERNMENTAL ORGANIZATIONS AND THEIR ACCOUNTABILITY <i>NARESH KUMAR</i>	94
18.	LEGAL FRAMEWORK OF ENVIRONMENTAL ACCOUNTING IN INDIA <i>KARAMJIT KAUR & RAJNEESH</i>	98
19.	CORPORATE SOCIAL RESPONSIBILITY: AN INDIAN PERSPECTIVE <i>GUNJAN KHANNA</i>	102
20.	PONZI SCHEMES: A FRAUDULENT BITE <i>PRIYANKA MEHTANI</i>	105
	REQUEST FOR FEEDBACK & DISCLAIMER	108

CHIEF PATRON

PROF. K. K. AGGARWAL

Chairman, Malaviya National Institute of Technology, Jaipur
(An institute of National Importance & fully funded by Ministry of Human Resource Development, Government of India)
Chancellor, K. R. Mangalam University, Gurgaon
Chancellor, Lingaya's University, Faridabad
Founder Vice-Chancellor (1998-2008), Guru Gobind Singh Indraprastha University, Delhi
Ex. Pro Vice-Chancellor, Guru Jambheshwar University, Hisar

FOUNDER PATRON

LATE SH. RAM BHAJAN AGGARWAL

Former State Minister for Home & Tourism, Government of Haryana
Former Vice-President, Dadri Education Society, Charkhi Dadri
Former President, Chinar Syntex Ltd. (Textile Mills), Bhiwani

CO-ORDINATOR

AMITA

Faculty, Government M. S., Mohali

ADVISORS

DR. PRIYA RANJAN TRIVEDI

Chancellor, The Global Open University, Nagaland

PROF. M. S. SENAM RAJU

Director A. C. D., School of Management Studies, I.G.N.O.U., New Delhi

PROF. M. N. SHARMA

Chairman, M.B.A., Haryana College of Technology & Management, Kaithal

PROF. S. L. MAHANDRU

Principal (Retd.), Maharaja Agrasen College, Jagadhri

EDITOR

PROF. R. K. SHARMA

Professor, Bharti Vidyapeeth University Institute of Management & Research, New Delhi

CO-EDITOR

DR. BHAVET

Faculty, Shree Ram Institute of Business & Management, Urjani

EDITORIAL ADVISORY BOARD

DR. RAJESH MODI

Faculty, Yanbu Industrial College, Kingdom of Saudi Arabia

PROF. SANJIV MITTAL

University School of Management Studies, Guru Gobind Singh I. P. University, Delhi

PROF. ANIL K. SAINI

Chairperson (CRC), Guru Gobind Singh I. P. University, Delhi

DR. SAMBHAVNA

Faculty, I.I.T.M., Delhi

DR. MOHENDER KUMAR GUPTA

Associate Professor, P. J. L. N. Government College, Faridabad

DR. SHIVAKUMAR DEENE

Asst. Professor, Dept. of Commerce, School of Business Studies, Central University of Karnataka, Gulbarga

ASSOCIATE EDITORS

PROF. NAWAB ALI KHAN

Department of Commerce, Aligarh Muslim University, Aligarh, U.P.

PROF. ABHAY BANSAL

Head, Department of Information Technology, Amity School of Engineering & Technology, Amity University, Noida

PROF. A. SURYANARAYANA

Department of Business Management, Osmania University, Hyderabad

DR. SAMBHAV GARG

Faculty, Shree Ram Institute of Business & Management, Urjani

PROF. V. SELVAM

SSL, VIT University, Vellore

DR. PARDEEP AHLAWAT

Associate Professor, Institute of Management Studies & Research, Maharshi Dayanand University, Rohtak

DR. S. TABASSUM SULTANA

Associate Professor, Department of Business Management, Matrusri Institute of P.G. Studies, Hyderabad

SURJEET SINGH

Asst. Professor, Department of Computer Science, G. M. N. (P.G.) College, Ambala Cantt.

TECHNICAL ADVISOR

AMITA

Faculty, Government M. S., Mohali

FINANCIAL ADVISORS

DICKIN GOYAL

Advocate & Tax Adviser, Panchkula

NEENA

Investment Consultant, Chambaghat, Solan, Himachal Pradesh

LEGAL ADVISORS

JITENDER S. CHAHAL

Advocate, Punjab & Haryana High Court, Chandigarh U.T.

CHANDER BHUSHAN SHARMA

Advocate & Consultant, District Courts, Yamunanagar at Jagadhri

SUPERINTENDENT

SURENDER KUMAR POONIA

CALL FOR MANUSCRIPTS

We invite unpublished novel, original, empirical and high quality research work pertaining to recent developments & practices in the areas of Computer Science & Applications; Commerce; Business; Finance; Marketing; Human Resource Management; General Management; Banking; Economics; Tourism Administration & Management; Education; Law; Library & Information Science; Defence & Strategic Studies; Electronic Science; Corporate Governance; Industrial Relations; and emerging paradigms in allied subjects like Accounting; Accounting Information Systems; Accounting Theory & Practice; Auditing; Behavioral Accounting; Behavioral Economics; Corporate Finance; Cost Accounting; Econometrics; Economic Development; Economic History; Financial Institutions & Markets; Financial Services; Fiscal Policy; Government & Non Profit Accounting; Industrial Organization; International Economics & Trade; International Finance; Macro Economics; Micro Economics; Rural Economics; Co-operation; Demography; Development Planning; Development Studies; Applied Economics; Development Economics; Business Economics; Monetary Policy; Public Policy Economics; Real Estate; Regional Economics; Political Science; Continuing Education; Labour Welfare; Philosophy; Psychology; Sociology; Tax Accounting; Advertising & Promotion Management; Management Information Systems (MIS); Business Law; Public Responsibility & Ethics; Communication; Direct Marketing; E-Commerce; Global Business; Health Care Administration; Labour Relations & Human Resource Management; Marketing Research; Marketing Theory & Applications; Non-Profit Organizations; Office Administration/Management; Operations Research/Statistics; Organizational Behavior & Theory; Organizational Development; Production/Operations; International Relations; Human Rights & Duties; Public Administration; Population Studies; Purchasing/Materials Management; Retailing; Sales/Selling; Services; Small Business Entrepreneurship; Strategic Management Policy; Technology/Innovation; Tourism & Hospitality; Transportation Distribution; Algorithms; Artificial Intelligence; Compilers & Translation; Computer Aided Design (CAD); Computer Aided Manufacturing; Computer Graphics; Computer Organization & Architecture; Database Structures & Systems; Discrete Structures; Internet; Management Information Systems; Modeling & Simulation; Neural Systems/Neural Networks; Numerical Analysis/Scientific Computing; Object Oriented Programming; Operating Systems; Programming Languages; Robotics; Symbolic & Formal Logic; Web Design and emerging paradigms in allied subjects.

Anybody can submit the **soft copy** of unpublished novel; original; empirical and high quality **research work/manuscript anytime** in ***M.S. Word format*** after preparing the same as per our **GUIDELINES FOR SUBMISSION**; at our email address i.e. infoijrcm@gmail.com or online by clicking the link **online submission** as given on our website ([FOR ONLINE SUBMISSION, CLICK HERE](#)).

GUIDELINES FOR SUBMISSION OF MANUSCRIPT

1. **COVERING LETTER FOR SUBMISSION:**

DATED: _____

THE EDITOR
IJRCM

Subject: SUBMISSION OF MANUSCRIPT IN THE AREA OF.

(e.g. Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)

DEAR SIR/MADAM

Please find my submission of manuscript entitled ' _____ ' for possible publication in your journals.

I hereby affirm that the contents of this manuscript are original. Furthermore, it has neither been published elsewhere in any language fully or partly, nor is it under review for publication elsewhere.

I affirm that all the author (s) have seen and agreed to the submitted version of the manuscript and their inclusion of name (s) as co-author (s).

Also, if my/our manuscript is accepted, I/We agree to comply with the formalities as given on the website of the journal & you are free to publish our contribution in any of your journals.

NAME OF CORRESPONDING AUTHOR:

Designation:
Affiliation with full address, contact numbers & Pin Code:
Residential address with Pin Code:
Mobile Number (s):
Landline Number (s):
E-mail Address:
Alternate E-mail Address:

NOTES:

- a) The whole manuscript is required to be in **ONE MS WORD FILE** only (pdf. version is liable to be rejected without any consideration), which will start from the covering letter, inside the manuscript.
- b) The sender is required to mention the following in the **SUBJECT COLUMN** of the mail:
New Manuscript for Review in the area of (Finance/Marketing/HRM/General Management/Economics/Psychology/Law/Computer/IT/Engineering/Mathematics/other, please specify)
- c) There is no need to give any text in the body of mail, except the cases where the author wishes to give any specific message w.r.t. to the manuscript.
- d) The total size of the file containing the manuscript is required to be below **500 KB**.
- e) Abstract alone will not be considered for review, and the author is required to submit the complete manuscript in the first instance.
- f) The journal gives acknowledgement w.r.t. the receipt of every email and in case of non-receipt of acknowledgment from the journal, w.r.t. the submission of manuscript, within two days of submission, the corresponding author is required to demand for the same by sending separate mail to the journal.

2. **MANUSCRIPT TITLE:** The title of the paper should be in a 12 point Calibri Font. It should be bold typed, centered and fully capitalised.

3. **AUTHOR NAME (S) & AFFILIATIONS:** The author (s) **full name, designation, affiliation (s), address, mobile/landline numbers, and email/alternate email address** should be in italic & 11-point Calibri Font. It must be centered underneath the title.

4. **ABSTRACT:** Abstract should be in fully italicized text, not exceeding 250 words. The abstract must be informative and explain the background, aims, methods, results & conclusion in a single para. Abbreviations must be mentioned in full.

5. **KEYWORDS:** Abstract must be followed by a list of keywords, subject to the maximum of five. These should be arranged in alphabetic order separated by commas and full stops at the end.
6. **MANUSCRIPT:** Manuscript must be in **BRITISH ENGLISH** prepared on a standard A4 size **PORTRAIT SETTING PAPER**. It must be prepared on a single space and single column with 1" margin set for top, bottom, left and right. It should be typed in 8 point Calibri Font with page numbers at the bottom and centre of every page. It should be free from grammatical, spelling and punctuation errors and must be thoroughly edited.
7. **HEADINGS:** All the headings should be in a 10 point Calibri Font. These must be bold-faced, aligned left and fully capitalised. Leave a blank line before each heading.
8. **SUB-HEADINGS:** All the sub-headings should be in a 8 point Calibri Font. These must be bold-faced, aligned left and fully capitalised.
9. **MAIN TEXT:** The main text should follow the following sequence:

INTRODUCTION**REVIEW OF LITERATURE****NEED/IMPORTANCE OF THE STUDY****STATEMENT OF THE PROBLEM****OBJECTIVES****HYPOTHESES****RESEARCH METHODOLOGY****RESULTS & DISCUSSION****FINDINGS****RECOMMENDATIONS/SUGGESTIONS****CONCLUSIONS****SCOPE FOR FURTHER RESEARCH****ACKNOWLEDGMENTS****REFERENCES****APPENDIX/ANNEXURE**

It should be in a 8 point Calibri Font, single spaced and justified. The manuscript should preferably not exceed **5000 WORDS**.

10. **FIGURES & TABLES:** These should be simple, crystal clear, centered, separately numbered & self explained, and **titles must be above the table/figure. Sources of data should be mentioned below the table/figure.** It should be ensured that the tables/figures are referred to from the main text.
11. **EQUATIONS:** These should be consecutively numbered in parentheses, horizontally centered with equation number placed at the right.
12. **REFERENCES:** The list of all references should be alphabetically arranged. The author (s) should mention only the actually utilised references in the preparation of manuscript and they are supposed to follow **Harvard Style of Referencing**. The author (s) are supposed to follow the references as per the following:
 - All works cited in the text (including sources for tables and figures) should be listed alphabetically.
 - Use **(ed.)** for one editor, and **(ed.s)** for multiple editors.
 - When listing two or more works by one author, use --- (20xx), such as after Kohl (1997), use --- (2001), etc, in chronologically ascending order.
 - Indicate (opening and closing) page numbers for articles in journals and for chapters in books.
 - The title of books and journals should be in italics. Double quotation marks are used for titles of journal articles, book chapters, dissertations, reports, working papers, unpublished material, etc.
 - For titles in a language other than English, provide an English translation in parentheses.
 - The location of endnotes within the text should be indicated by superscript numbers.

PLEASE USE THE FOLLOWING FOR STYLE AND PUNCTUATION IN REFERENCES:**BOOKS**

- Bowersox, Donald J., Closs, David J., (1996), "Logistical Management." Tata McGraw, Hill, New Delhi.
- Hunker, H.L. and A.J. Wright (1963), "Factors of Industrial Location in Ohio" Ohio State University, Nigeria.

CONTRIBUTIONS TO BOOKS

- Sharma T., Kwatra, G. (2008) Effectiveness of Social Advertising: A Study of Selected Campaigns, Corporate Social Responsibility, Edited by David Crowther & Nicholas Capaldi, Ashgate Research Companion to Corporate Social Responsibility, Chapter 15, pp 287-303.

JOURNAL AND OTHER ARTICLES

- Schemenner, R.W., Huber, J.C. and Cook, R.L. (1987), "Geographic Differences and the Location of New Manufacturing Facilities," Journal of Urban Economics, Vol. 21, No. 1, pp. 83-104.

CONFERENCE PAPERS

- Garg, Sambhav (2011): "Business Ethics" Paper presented at the Annual International Conference for the All India Management Association, New Delhi, India, 19-22 June.

UNPUBLISHED DISSERTATIONS AND THESES

- Kumar S. (2011): "Customer Value: A Comparative Study of Rural and Urban Customers," Thesis, Kurukshetra University, Kurukshetra.

ONLINE RESOURCES

- Always indicate the date that the source was accessed, as online resources are frequently updated or removed.

WEBSITES

- Garg, Bhavet (2011): Towards a New Natural Gas Policy, Political Weekly, Viewed on January 01, 2012 <http://epw.in/user/viewabstract.jsp>

PONZI SCHEMES: A FRAUDULENT BITE

PRIYANKA MEHTANI
95, SECTOR 10A
CHANDIGARH

ABSTRACT

The paper deals with the origin of ponzi scheme and the factors which have been largely responsible for mushrooming of these schemes in India. The financial impact of the schemes in India has been also analyzed along with the steps taken by the regulators for controlling the illegal flow of money in hands of fraudulent companies. The effect the Prime Minister's Jan Dhan Yojna may have on reducing the siphoning of money from hands of unbanked sector of Indian society has also been discussed.

KEYWORDS

fraudulent, pyramid, consumer price inflation, SEBI, RBI, Prime Minister Jan Dhan Yojna, securities (laws) amendment ordinance.

INTRODUCTION

A Ponzi scheme is a fraudulent investment operation where the operator, an individual or organization, pays returns to its investors from freshly raised new capital collected by the scheme operators from the new investors, rather than from profit earned by the operator. Operators of Ponzi schemes usually entice new investors by offering higher returns than other investments, in the form of short-term returns that are unrealistic, abnormally high or fake. The scheme is named after Charles Ponzi, who became notorious for using the technique in 1920.

TEN TOP PONZI SHOCKERS**1. THE NAMESAKE**

The King of Get Rich Quick, Charles Ponzi became a millionaire in six months by promising investors 50% return in 45 days on international postal coupon investments. He earned \$15 million, which in 1920s terms was serious money. After Ponzi was caught, investors only received \$5 million back.

2. MADMAN MADOFF

Bernard Madoff's scam is still unfolding. The facts as we know them now are that Madoff spent decades building the biggest Ponzi scheme in history, bilking nonprofits, famous people, funds, banks, and countless others out of \$50 billion.

3. THE RETIREE PLUNDERER

Mexican resort owner Michael Eugene Kelly schemed retirees and senior citizens out of \$428 million. He offered them timeshare investments in Cancun hotels that he called "Universal Leases." The timeshares came with rental agreements promising investors a nice fixed rate of return. Most of his victims used their retirement savings, thinking they would get solid, low-risk returns. The SEC says that "more than \$136 million of the funds invested (came) from IRA accounts." Kelly, meanwhile, bought himself a private jet, racetrack, and four yachts.

4. THE BOY BAND BANDIT

Beginning in the late 1980s, Lou Pearlman, Art Garfunkel's cousin and former manager of 'N Sync and the Backstreet Boys, offered attractive returns through his FDIC-insured Trans Continental Savings Program. The scheme was neither a savings and loan nor FDIC-approved, but that didn't stop Pearlman from bilking investors out of nearly \$500 million, with which he planned on funding three MTV shows and an entertainment complex.

5. THE BIBLICAL BILKER

In fraud-rich Florida, the Greater Ministries International church used Bible-speak to cheat its flock out of \$500 million. Starting in the early 1990s, the church, led by gun-toting minister Gerald Payne, offered worshippers investments in gold coins. Payne then created an investment plan that would "double the 'blessings' that people invested" by funneling money towards the church's fake precious metals investments. According to the Anti-Defamation League, *Payne said that God had modernized the multiplication of the loaves and fishes and asked him to share the secret.* \$500 million later, the Feds caught Payne, but most investors never got their money back.

6. THE COSTA RICA CROOKS

Three Costa Rican brothers, Enrique, Osvaldo and Freddy Villalobos, defrauded clients—mostly American and Canadian retirees—out of \$400 million in a 20-odd-year unregulated loan scheme that started in the late 1980s. They promised interest rates of 3% per month on a minimum investment of \$10,000. Villalobos moved money through shell companies before paying investors. Its staying power had to do with the fact that margins were low, the brothers were disciplined, and the outfit just barely skirted past laws.

7. THE LOTTERY UPRISING

When Albania was moving out from behind the Iron Curtain in the mid-1990s, a powerful government and environment of questionable ethics resulted in a financial system dominated by pyramid schemes. The government endorsed various Ponzis, which robbed the majority of the population and netted more than \$1 billion in losses. Albanians rioted and overthrew the government.

8. THE SCIENTOLOGIST SNAKE

Earthlink co-founder and Scientology minister Reed Slatkin posed as a brilliant investment advisor for A-list Hollywood residents and corporate bosses. Working out of his garage, Slatkin cheated the rich and famous out of roughly \$593 million, creating fake statements referring back to fake brokerage firms to prove his mettle. He fed the Church of Scientology with millions of his winnings. In 2000, the SEC caught wind that Slatkin wasn't licensed, and busted the scheme.

9. THE HAITI HATERS

Ponzi schemes popped up all over Haiti in the early 2000's. These schemes sold themselves as government-backed "cooperatives." They ran mainstream-sounding ads, some of which featured Haitian pop stars. As a result, people felt safe investing more than \$240 million—60% of Haitian GDP in 2001—into the schemes, which ended up being a massive swindle.

10. THE FRAUDULENT FEMINIST

In 1880, Boston Ponzian Sarah Howe promised women 8% interest on a "Ladies Deposit." She said it was only for women, selling an implicit assumption of safety. She took the money and ran.

METHODOLOGY

Ponzi schemes normally begin as legitimate businesses, until the business fails to achieve the returns promised. The operations turns a Ponzi scheme and it then continues under fraudulent terms. Whatever the initial situation, the commitment of the high returns propels the need for an ever-increasing flow of money from new investors to sustain the scheme.

A sample of urban middle class having gross annual income between Rs.300000 and Rs.750000 were contacted. Their saving pattern with reference to the options available to them viz. FDRS, Mutual Funds, Equity, Real Estate and Gold with reference to the ROI were examined. The survey and interaction with people revealed typically, extraordinary returns which were promised on the original investment and vague verbal constructions such as "hedge futures trading", "high-yield investment programs", or "offshore investment" were factors that attracted small and middle level investors towards these schemes.

It is noted that Initially the promoter will pay out high returns to attract more investors, and to lure current investors into putting in additional money. Other investors begin to participate, leading to a cascade effect. The "return" to the initial investors is paid out of the investments of new entrants, and not out of profits. The investors and the down the line joining appear like a pyramid. The original investor is also given an incentive in form of high bonus in cash and kind to lure further people to the net of PONZIS.

HOW THE PONZI PYRAMID WORKS

THE PONZI PYRAMID

Ponzi schemes, as they grow, require an unsustainably large pool of investors to uphold the scam. In this simplified example, the schemer starts by taking ₹1,000 from investors, promising to double it within a month. But instead of investing their money, he pays them with funds garnered from other investors roped in as the scheme progresses

1 In the first month, the schemer takes ₹1,000 each from the first two investors

2 Having pocketed the ₹2,000, the schemer needs to find ₹4,000 – four investors – in the second month to pay the returns promised

3 In the third month, he owes ₹8,000, and so has to find eight new investors. He'll have to get more than ₹1,000 from each if he wants to keep skimming money for himself

4 In the next month, he'll need 16 investors and so on.

5 By the 10th round, the Ponzi schemer will need to find a group of 1,024 investors. By the 18th round, he would have to come up with over a quarter of a million investors

DECODING THE PONZI MUDDLE

A PONZI scheme is a fraudulent investment operation that promises high rates at little risk to investors. The scheme generates returns for older investors from their own money or money paid by subsequent investors, rather than any actual profit earned. The perpetuation of the returns that a Ponzi scheme advertises and pays requires an ever-increasing flow of money from investors to keep the scheme going. The system is destined to collapse because the earnings, if any, are less than the payments to investors.

HOW TO SPOT ONE?
The Ponzi scheme, named after Charles Ponzi, who became notorious for using the technique in the US in 1920, usually entices new investors by offering returns other investments cannot guarantee, in the form of short-term returns either abnormally high or unusually consistent.

THE ULTIMATE UNRAVELLING OF A PONZI SCHEME

- As more investors become involved, the likelihood of the scheme coming to the attention of authorities increases
- The promoter will vanish, taking all the remaining investment money
- The scheme will collapse under its own weight as investment slows and the promoter starts having problems paying out the promised returns
- External market forces, such as sharp decline in the economy will cause many investors to withdraw part or all of their funds not due to loss of confidence in the investment, but simply due to underlying market fundamentals

ANALYSIS AND DISCUSSION

These Ponzi schemes have managed to raise thousands of crore over the years. How do these schemes collect such large sums of money? A June 2011 report in The Economic Times had estimated that PACL had managed to collect Rs 20,000 crore (\$3.30 billion) from investors at that point of time. This means that since then the company has managed to collect Rs 30,000 crore (\$4.92 billion) more from investors. An April 2013 report in Mint, quoting state officials had put the total amount of money collected by Saradha group at Rs 20,000 crore (\$3.30 billion). Sahara is returning more than Rs 20,000 crore (\$3.30 billion) that it collected from investors over the years.

These funds often target poor, rural residents without bank accounts who have nowhere else to put their money. Many investment firms employ agents who earn commissions as high as 10 percent from their employers for collecting as little as 20 rupees (33¢) every day from rural depositors, says S. Ananth, an independent researcher based in the state of Andhra Pradesh who specializes in rural financing. "It's a good thing SEBI has finally woken up," he says. "These

schemes have smartly tapped a population that saves through daily deposits of pygmy sums. The more under banked a region is, the more is the presence of such elements." While these ponzi schemes have been ballooning, household financial savings, or the money invested by individuals in fixed deposits, small savings scheme, mutual funds, shares, insurance etc., have actually been declining.

Since May, SEBI has cited 46 companies—including one named Weird Industries—compared with eight in the previous 12 months. The 54 companies it has cited since May 2013 have raised \$10.6 billion in assets. They are instructed not to collect any money from the public or start funds until they are approved by SEBI, according to documents on the regulator's website. In the orders, SEBI makes no determination about whether the companies are legitimate—only whether they collect and pool money from the public and therefore require regulatory approval. Most of these Ponzi schemes were running what Sebi calls a collective investment scheme, though they tried to portray it as something else.

A spate of Ponzi schemes has come to light in recent years. All of them typically involve legal wrangling with regulators, public assurances by company officials that they are being unfairly targeted and every investor will get her money back, and eventually, the inevitable happens – hapless millions are parted with their life's savings.

The recent bust-ups include Sahara, Saradha Chit Fund, Rose Valley Hotels and Entertainment and most recently, PACL. In an order against PACL, the Securities and Exchange Board of India estimated that the company had managed to collect close to Rs 50,000 crore (\$8.27 billion) from investors.

The latest annual report by the Reserve Bank of India points out that "the household financial saving rate remained low during 2013-14, increasing only marginally to 7.2 per cent of GDP in 2013-14 from 7.1 per cent of GDP in 2012-13 and 7.0 per cent of GDP in 2011-12...the household financial saving rate [has] dipped sharply from 12 per cent in 2009-10."

While the household financial savings have dipped, the money collected by Ponzi schemes has grown by leaps and bounds. What explains this dichotomy? Some experts have blamed the low penetration of banks as a reason behind the rapid spread of Ponzi schemes in the last few years. K C Chakrabarty, former deputy governor of the Reserve Bank of India, in September 2013 had pointed out that only 40,000 out of the 600,000 villages in India have a bank branch. Hence, investors find it easier to invest their money with Ponzi schemes, which seem to have a better geographical footprint than banks. The trouble with this reasoning is that the bank penetration in India has always been low. So, why have so many Ponzi schemes come to light only in the last few years?

Another explanation is that the rate of return promised by these Ponzi schemes is high and investor greed gets the better of them. This claim needs to be understood closely. Take the case of Rose Valley. The return on the various investment schemes run by the company varied from anywhere between 11.2% to 17.65%. PACL offered returns of 12.5-14% on investments. Saradha reportedly offered returns of 17.5-22%.

It is clear that returns promised by these Ponzi schemes have been significantly higher than the returns available on fixed income investments like fixed deposits, small savings schemes, provident funds etc., which ranged between 8-10%. The lower band of the returns offered by such schemes were not a whole lot higher than fixed income investments. Rose Valley was paying 11.2% on one of its schemes. PACL was offering 12.5%. Also, investment made in fixed income investments like public provident fund and employees provident fund qualifies for a tax deduction, thus pushing up effective return to greater than 10%.

The returns offered by the likes of Rose Valley, Saradha, Sahara and PACL are very low. But investors have still flocked to them. In fact, in its order against PACL, Sebi estimated that the company had close to 5.85 crore investors. Why, indeed, are so many people flocking to such schemes?

CONCLUSION

The answer lies in the high inflation that has prevailed in the country since 2008. For most of this period, the consumer price inflation and food inflation have been greater than 10%. In this scenario, the returns on offer on fixed income investments have been lower than the rate of inflation. Hence, people have had to look at other modes of investment, in order to protect the purchasing power of their accumulated wealth.

This explains why so much money has found its way into Ponzi schemes, despite not offering outrageous returns. They offer returns that are higher than inflation and that is, naturally, an attractive rate of return. It is through this artificial suppression of interest rates that the government of India has contributed to the success of Ponzi schemes. Recently launched Jan Dhan Yojna of the Prime Minister is going to play a major role in busting the role of these schemes. The recently enacted the securities (laws) amendment ordinance, will empower sebi to control the proliferation and propagation of such schemes. The key notes of the said ordinance are ;

1. With promulgation of this ordinance, India capital market regulator the Securities and Exchange Board of India (SEBI) got back the power to act against ponzi schemes, illegal deposit schemes and assess call data records in securities-related offences.
2. It provides powers for SEBI chairman to authorise Investigating Authority or any other officer of the regulator to conduct search and seizure under the Sebi Act and crack down on Ponzi schemes.
3. SEBI can regulate any money pooling scheme worth Rs. 100 crore or more and attach assets in cases of non-compliance and its Chairman can order "search and seizure operations
4. The ordinance also empowers the market watchdog to seek information, such as telephone call data records, from any persons or entities in respect to any securities transaction being investigated by it.

REFERENCES

1. firstbiz.firstpost.com/.../sahara-and-ponzi-schemes-what-are-the-parallels
2. Jan Dhan scheme to help tackle ponzi menace: Sebi chief Moneycontrol.com-02-Sep-2014
3. Ponzi Scheme: HC may Hear PACL Plea Tomorrow The New Indian Express-17-Sep-2014
4. Saradha was running ponzi schemes, concluded SFIO investigation India Today-15-Sep-2014
5. Tightening regulatory noose around Ponzi schemes Financial Express-11-Sep-2014
6. Too-Goat-to-Be-True in India Spurs \$11 Billion Crackdown Bloomberg-09-Sep-2014

REQUEST FOR FEEDBACK

Dear Readers

At the very outset, International Journal of Research in Commerce, IT & Management (IJRCM) acknowledges & appreciates your efforts in showing interest in our present issue under your kind perusal.

I would like to request you to supply your critical comments and suggestions about the material published in this issue as well as on the journal as a whole, on our E-mail infoijrcm@gmail.com for further improvements in the interest of research.

If you have any queries please feel free to contact us on our E-mail infoijrcm@gmail.com.

I am sure that your feedback and deliberations would make future issues better – a result of our joint effort.

Looking forward an appropriate consideration.

With sincere regards

Thanking you profoundly

Academically yours

Sd/-

Co-ordinator

DISCLAIMER

The information and opinions presented in the Journal reflect the views of the authors and not of the Journal or its Editorial Board or the Publishers/Editors. Publication does not constitute endorsement by the journal. Neither the Journal nor its publishers/Editors/Editorial Board nor anyone else involved in creating, producing or delivering the journal or the materials contained therein, assumes any liability or responsibility for the accuracy, completeness, or usefulness of any information provided in the journal, nor shall they be liable for any direct, indirect, incidental, special, consequential or punitive damages arising out of the use of information/material contained in the journal. The journal, nor its publishers/Editors/Editorial Board, nor any other party involved in the preparation of material contained in the journal represents or warrants that the information contained herein is in every respect accurate or complete, and they are not responsible for any errors or omissions or for the results obtained from the use of such material. Readers are encouraged to confirm the information contained herein with other sources. The responsibility of the contents and the opinions expressed in this journal is exclusively of the author (s) concerned.

ABOUT THE JOURNAL

In this age of Commerce, Economics, Computer, I.T. & Management and cut throat competition, a group of intellectuals felt the need to have some platform, where young and budding managers and academicians could express their views and discuss the problems among their peers. This journal was conceived with this noble intention in view. This journal has been introduced to give an opportunity for expressing refined and innovative ideas in this field. It is our humble endeavour to provide a springboard to the upcoming specialists and give a chance to know about the latest in the sphere of research and knowledge. We have taken a small step and we hope that with the active co-operation of like-minded scholars, we shall be able to serve the society with our humble efforts.

Our Other Journals

