

**FACTORS INFLUENCING PEOPLE TO INVOLVE
IN GET-RICH-QUICK-SCHEME: A CASE STUDY
IN THE WEST COAST OF SABAH**

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ABSTRACT

The main purpose of this study is to examine the factors that influence the general public to invest in get-rich-quick schemes particularly in the West Coast of Sabah area. The get-rich-quick scheme is considered a fraud investment scheme involving an illegal money deposit taking by a person who promised to give high return without any risk to its depositors. Influencing factors that previously studied are gullibility and risk tolerance. The measurement and structured model in this study were evaluated through SmartPLS 2. Approximately 248 respondents comprising of individuals who have participated in a get-rich-quick scheme ranging from government servants, private sectors' employees, and educational institutions around the West Coast of Sabah took part in the study. The findings revealed that cognition, personality, and emotion are the significant factors that influence the public to participate in the Get-rich-quick schemes. These psychological perspectives which comes both as internal (individual characteristics) and external (pressure from family and friends) factors could explain why the public continue to invest in the get-rich-quick schemes and become victims of such fraudulent investment schemes and could help the authorities to create better programmes.

ABSTRAK

(Faktor-faktor yang mempengaruhi individu terlibat dalam skim cepat kaya: Kajian di bahagian Pantai Barat Sabah)

Tujuan utama kajian ini adalah untuk meneliti faktor-faktor yang mempengaruhi individu yang melabur dalam skim cepat kaya di bahagian Pantai Barat Sabah. Skim cepat kaya adalah pelaburan penipuan yang melibatkan sejumlah wang yang menyalahi undang-undang didepositkan penganjur skim cepat kaya dengan janji dan syarat bahawa wang deposit tersebut akan dipulangkan kembali dengan faedah. Faktor-faktor yang telah dikenalpasti terdahulu adalah merangkumi sifat mudah tertipu dan toleransi risiko. Pemeriksaan dan model struktur kajian ini dinilai menggunakan SmartPLS 2. Sebanyak 248 responden yang pernah mengambil bahagian dalam skim cepat kaya terdiri daripada kakitangan kerajaan, pekerja swasta, dan juga institusi pendidikan di Pantai Barat Sabah dalam kajian ini. Hasil keputusan kajian ini adalah nyata bagi pertimbangan, personaliti, dan emosi sebagai factor yang mempengaruhi orang awam melabur dalam skim cepat kaya. Aspek psikologi yang merangkumi aspek dalaman (ciri-ciri individu) dan aspek luaran (tekanan daripada keluarga dan rakan-rakan) dapat menjelaskan mengapa orang ramai terus melabur dalam skim cepat kaya justeru dapat membantu penguatkuasa yang bertanggungjawab untuk mewujudkan program yang lebih berkesan.

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CHAPTER ONE

INTRODUCTION

1.1 Background of Study

According to Sulaiman, Moideen and Moreira (2016), Ponzi scheme or similar scams are known as get-rich-quick scheme in Malaysia. As defined by Central Bank of Malaysia, Get-rich-quick scheme is prohibited illegal deposit taking activities by an acts of receiving or accepting of deposits such as money and other valuable trades from members of public that promise repayment with return of the investment without a valid license under the Banking and Financial Institutions Act 1989 (BAFIA). Get-rich-quick schemes has been around for years which also known as Ponzi Schemes were originated from the infamous Charles Ponzi who ran a pyramid scheme in which initial investors are paid high interest rates or great returns with funds from later investors (Matulich and Currie, 2008; Pressman, 2008). Another notorious schemes in U.S. caught only after decades of operating one of the biggest and slickest Ponzi was the Madoff Ponzi schemes over \$50 billion at stakes as reported by Oppenheimer (2009).

These investment fraud has been successful in a way that they able to manipulate people to invest their money into the Get-rich-quick scheme. After the unfolded of big scheme, media, authorities, started make press release on the nature of Get-rich-quick scheme fraud. People may gained another level of state awareness especially for those who experience of being the victim. Authority figures such as U.S. Securities and Exchange Commissions, Central Bank of Malaysia, Securities Commission aware of the heighten in fraud that involves investment as in Get-rich-quick scheme as they have taken measures to educate people and investor on the red flags of Get-rich-quick scheme. These external interference from authority figure was part of their responsible to protect the investor from the unauthorised investment company. Measures taken also includes



press release on list of unauthorised investment company for example taken from Central Bank of Malaysia's websites which listed over 271 unauthorised company that investor or consumer should be avoiding.

It was also a concern, that regardless of prevention measures given, people still fall in victimization. Individual attitude towards risk taking and reaction towards high return investment fraud may be differ from one another as according to Wyk and Benson (1997) yet both risk taking and behaviour may lead to victimization. There are numbers of suggested characteristics or symptoms of fraud victims in general such as consumer literacy, their mind-set, facilitating behaviour as found by Titus towards victimization which includes making initial contact with fraudster after receiving suspicious mail, providing them confidential information, allow them to be close from business to personal matter, and allow the offender to create scenario to make one believe them according to Shadel and Pak (2007).

Also added the profile that the specific investment fraud victim identified by Shadel and Pak (2007) on how it differ demographically, psychologically and behaviourally from the general population which also supported from previous research as be more financial literate, be male, be married, be open to sales pitch, rely on own experience and knowledge, be optimistic, under-report their own victim status, and be less persuasion literate. It important to understand why certain individual behave such way and influenced to join Get-rich-quick scheme. Data shown that in U.S. the complaint shows upwards trend from 2001 until 2014, yet decline from 60% in 2014 to 40% in 2015 for fraud complaint.

According to Securities Commission Annual Report (2015), the trend in Malaysia shows approximately 349 complaint in 2015. There were gaps in understanding of people's gullibility as it still needed to be explore due to only few research had been done previously. There are some cases of Get-rich-quick schemes in Malaysia, that has been raided and some are still operated under the radar. Even the latest schemes on UFun scheme in Sabah has been detected, which originated from Thailand, and the operation was later shut down in 1Borneo Mall, but there were not much on the official details on this latest case. With the illegal schemes kept on coming back and reports taken from the Central Bank of Malaysia, which represent numbers of victim falls for these schemes, the more people to involve in Get-rich-quick schemes if people don't understand how to react to the

red flags in Get-rich-quick scheme. Thus a case study on determining the factors that influencing people to involve in Get-rich-quick scheme in West Coast Sabah shall be conducted.

1.2 Research Problem

In Malaysia, scam or to be specific in investment fraud, has been around as early as money has been introduced. An individual were potentially be victimized in financial fraud Ponzi Schemes suggested by Greenspan (2009) has the tendency to be exposed into schemes as associated with exploitation of investor gullibility. Greenspan (2009) himself was a participant and a victim of Madoff Ponzi and he was a college professor known to be intelligent yet fall into the scam himself. Tennant (2010) has provides reliable empirical evidence that allows for the creation of a profile of persons most likely to be highly exposed to Get-rich-quick schemes.

People who has interest in growing their money in a quick time can be easily influenced, allured or motivate into Get-rich-quick scheme and fall into victimization. Some of these people may aware of the high risk yet they unwisely choose to disregard the high risk in anticipation of the high returns. There has been proposed theory to studies consumers' vulnerability by Langenderfer and Shimp (2001) whereby individual variable that involves such as age, social isolation, cognitive impairment, gullibility and scepticism.

The source of problem lies within the individual or investor themselves as they are the one responsible for decision made as some still find themselves attracted into Get-rich-quick scheme despites of red flags, interference by authorities with education and programs, yet, the authorities or regulators will only able to identify the characteristics of people that were more likely to invest in Ponzi schemes, and those that have a higher probability of being exposed to greater losses to designed programmes targeting at-risk group. According to Tennant (2011), regulators can design or develop such programmes for specifically target at-risk group only when they able to identify the characteristics those who are likely to invest in such scheme. There are factors identified to explore on how people could be highly exposed into Get-rich-quick Schemes (Greenspan and Woods, 2016; Grable and Lytton, 1998; Tennant, 2011) which were gullibility that explained

by irrational exuberance, cognition, personality, and emotion and else than gullibility, risk tolerance.

In Malaysia, according to the Securities Commissions Annual Report 2015, approximately 349 complaints has been received. According to Tennant (2010), due to lack of data, with the empirical study done by previous researchers, examination on the motivation at micro-level for investing in such scheme can be conducted. People who attracted to easy money may feel as if they could actually make more money by ignoring the all the fact on schemes and actually make believe that they just got lucky as according to Wyk and Benson (1997), these people are unable to distinguish on which investment are reputable as they unwilling to give time to study more on the company and fall for the trap.

According to Applied Research and Consulting LLC (2013), there are evidence of under-reporting of financial fraud as only 4 % admitted of being the victim with estimated under-reporting rate over 60%. This is supported by Sadiraj (1998) people were ashamed to admit that they have participated or became victim of fraudulent. It indicated that the number of complaint obtained by policy maker may not reflect the actual number of investment fraud victim as some people may not want to be recognized.

Theories that relatable on action or behaviour were best suits to explore according to Bandura (1991) and Luszczynska and Schwarzer (2005) were social cognition theory which study to understand the motivational influence on cognitive behaviour and according to Gollwitzer (1996); van der Maas et al. (2003); and Flay, (1978), catastrophe theory which emphasize on the dimension in this study. In this research, people that exposed to Get-rich-quick scheme are attracted to promised high return. Therefore, this study was conducted in West Coast Sabah to find out the relationship between factors in gullibility and risk tolerance towards the exposure on people toward Get-rich-quick schemes.

1.3 Research Questions

- a.** Does the irrational exuberance in gullibility increases the exposure of people to involve in the Get-rich-quick schemes?

- b. Does the cognition in gullibility increases the exposure of people to involve in the Get-rich-quick schemes?
- c. Does personality in gullibility increases the exposure of people to involve in the Get-rich-quick schemes?
- d. Does emotion in gullibility increases the exposure of people to involve in the Get-rich-quick schemes?
- e. Does risk tolerance increases the exposure of people to involve in the Get-rich-quick schemes?

1.4 Research Objectives

The overall objective of the study is to examine the relationship between factors influencing people towards the exposure to Get-rich-quick schemes with the support of previous literature review and underlying theories related. The specific objective of the study is as follow:

- a. To examine whether irrational exuberance in gullibility can influence the public to involve in the Get-rich-quick schemes.
- b. To examine whether cognition in gullibility can influence the public to involve in the Get-rich-quick schemes.
- c. To examine whether personality in gullibility can influence the public to involve in the Get-rich-quick schemes.
- d. To examine whether emotion in gullibility can influence the public to involve in the Get-rich-quick schemes.
- e. To examine whether risk tolerance can influence the public to involve in the Get-rich-quick schemes.

As these factors will show how the factors could influenced people on the exposure toward Get-rich-quick scheme in Sabah.

1.5 Scope of Study

According to Securities Commission, there were estimated 349 complaint in 2015 in Malaysia on fraud complaint. This research study was design to examine on how the factors of gullibility and risk tolerance could influence people in Sabah exposed into Get-rich-quick scheme and the research would be restricted to Sabah area in West Coast Division. Target of study were individual who have become investment fraud victim to Get-rich-quick scheme in public sectors, private sectors, and educational institution.

1.6 Significance of Study

The contributions of this study would be of interest to researcher or scholar in behavioural finance as well as the authority figures in charged such Central Bank of Malaysia (BNM) and Securities Commission (SC), and also individual or investors that involved in investment fraud.

Previously, Tennant's (2011) research were based on the economic model that captured in econometric model in Jamaica with large number of explanatory variable. The study contribution from the measurement aspect using different method as in PLS-SEM as previously OLS method being used. According to Field (2003), OLS regression may produces unstable results, because of increasing standard error of their estimated coefficients. Hence, this research will derives PLS-SEM method toward the exposure to Get-rich-quick scheme in Sabah, Malaysia which may have different outcome on the findings based on factors identified. According to Sang et al. (2013), due to number of ethnic groups in Sabah which considered to be unique to the state, new insights to existing theories may arise. Future researcher that interested in topic related to investment fraudulent can get information on how exposure of Get-rich-quick schemes in related towards gullibility and risk tolerance factors and further develop on the topic with other additional factors in the future that may arise from this research paper as a reference.

Another contribution from this research paper would support the authorities' action toward investment fraud. According to BNM and Securities Commissions, there has been numerous alternative to reduce the complaint on fraudulent

activities. In order to give more supports on how they can improve their strategy to battle the financial fraud as to take legal action towards the irresponsible fraud investment, this research will help to identify the approximate number of categorized people affected in Sabah that lured into Ponzi scheme as according to Applied Research and Consulting LLC (2013), there may have been a potential under-reporting of policy maker unable to obtain accurate measure of financial fraud. Thus, this research would contribute toward fulfilling the gap of potential under-reporting for investment fraud in Sabah.

Since the individual or investor who prefer to invest and multiply their money are potentially to be victimized, it be can avoided by understanding their internal and external situation factor according to Greenspan and Woods (2016). This research will contribute on the findings towards understanding on investors' behaviour who were exposed to Get-rich-quick scheme. Investor could be more cautious when it comes to choose the relevant investment. They can understand more on how to react toward their internal and external factors and help others to create more awareness in the future.

1.7 Definition of Terms

In this research, there are certain terminology used to explain the nature of specific subject that frequently mentioned in this research which defined as below:

- a. **Fraud** as in general defined as a knowing misrepresentation of the truth or concealment of material fact to induce another to act to his or her detriment (Garner, 2004).
- b. **Fraud** can be defined as a theft, concealment, and conversion to personal gain of another's money, physical assets, information, or time (McNamee, 2000).
- c. **Fraudulent act** is a conduct involving bad faith, dishonesty, a lack of integrity, or moral turpitude (Kovacich, 2008).

- d. **Get-rich-quick scheme** promising such investment that is easy and risk-free with a plan that offers unrealistic rates of return for a small investment (Central Bank of Malaysia, 2007).
- e. **Ponzi Schemes** is essentially an investment fraud wherein the operator promises high financial returns of dividends that are not available through traditional investment whereby operator pays “dividends” to initial investor using new invested amount by subsequent investors (Kovacich, 2008).
- f. **Pyramid Schemes** referred to as franchise fraud, or chain referral schemes, are marketing and investment fraud in which an individual is offered a distributorship or franchise to market a particular product (Kovacich, 2008).
- g. **Catastrophe theory** were widely used in social and personality psychology which explained on shift of impulsiveness, to deliberate mode which leads to sudden shift in attitudes that explains the relationship between attitude and behaviour (Gollwitzer, 1996; van der Maas et al., 2003; and Flay, 1978).
- h. **Social cognition theory** involves self-regulation mechanism that functioning through a number of subsidiary cognitive process indicates belief about the results of an action and eventually contributing to personality psychology (Bandura, 1991; Luszczynska and Schwarzer, 2005).
- i. **Self-efficacy** refers to analyse changes attained in fearful and avoidance behaviour and which indicates relationship between perceived self-efficacy as beliefs of the ability to succeed and behavioural changes of choices made as it developed from external experience (Bandura, 1977).
- j. **Gullibility** defined as a foolish action in “induced-social” that occurs when pressured or tricked by one or more people (Greenspan, 2009).

- k. **Irrational exuberance** can be explained by the psychological basis of a speculative bubble as a situation in which occurs when exiting news on price increases could lead to investor enthusiasm (Shiller, 2000).
- l. **Cognition** considered the form of foolishness or stupidity, yet, it's the certain decision making that made were unintelligent (Greenspan, 2009).
- m. **Personality** is associated with trust and tendency toward risk-taking and impulsive decision making (Greenspan, 2009).
- n. **Emotion** is a strong interference on logical reasoning and also associated with greed which lead to gullibility (Greenspan, 2009).
- o. **Risk tolerance** which suggest that a person is willing to take financial risks at maximum amount of uncertainty (Grable, 2000).

CHAPTER TWO

LITERATURE REVIEW

2.1 Introduction

This chapter will provide comprehensive review on the related literature review on Get-rich-quick scheme which first will cover the nature of the scheme, its characteristic or identified red flags, how the history of Ponzi scheme first operated. Next, this research will explain more on how Get-rich-quick scheme in started Malaysia with examples on cases occur and types of scheme that has been created. Finally, clarification on the factors that influencing people involve in Get-rich-quick scheme in gullibility and risk tolerance aspect which included the underlying theories on theory of reasoned action, theory of planned behaviour, and behaviour theory on social cognitive theory and self-efficacy.

Get-rich-quick scheme or Ponzi schemes were named after Charles Ponzi who run a schemes as he collected money and promised returns within 90 days to investors who enrolled other investors in the schemes according to Gunestas, Mehmet, and Wijesekera (2010). Ponzi schemes or pyramid schemes or "get-rich-quick" schemes were known as an illegal investment schemes which falls under fraudulent investment schemes. There were difference on how Get-rich-quick schemes and pyramid schemes in terms of its operation. According to U.S. SEC, Get-rich-quick scheme were earning high investment returns with little or no risk by deposit the money on which the investment does not exist or only a small percentage of incoming funds are actually invested and as for pyramid scheme, it was an idea of network where investor earning high profits by making one payment and finding others to become distributors of its product which normally does not involve a genuine product or may not exist.

Another evolution of retail selling that known as multilevel marketing (MLM) according to Keep and Vander Nat (2014) gives a business opportunity of its



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