Ponzi Operandi: Affinity Fraud Risk for Sharī‘ah: Compliant Investment Funds

Abstract

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Ponzi schemes using the principles of affinity fraud are a real and current risk for Islamic investors. This paper examines the use of affinity fraud in targeting the Islamic community and analyses Sharī‘ah norms that seek to protect people from fraud and cheating. Using case studies from three countries, the paper identifies the common traits pervasive in Ponzi schemes including legal ruses aimed at circumventing the Sharī‘ah interdiction on interest and other proscriptive acts by unscrupulous and fraudulent operators. The examination shows that the nascent Islamic finance market should be vigilant of copycat schemes that have the potential to undermine the industry. Like other affinity frauds, there is the need to develop early warning systems aimed at preventing, or at least minimising, the prevalence of such schemes in the Islamic financial industry.