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ROYAL MONETARY AUTHORITY OF BHUTAN

RMA/FISD/03-2001

June 12, 2002

NOTIFICATION

Pyramid Scheme

It has come to our notice that the Bhutanese citizens are being lured to participate in “pyramid scheme” or variants of such schemes like Aim Renaissance, Amway, etc with promises of large financial returns. The essential features of such schemes is that the ‘investment ‘ made by the member is not put to productive uses but rather used for paying ‘returns’ on similar investment of his/her predecessors with a large part of the investment remitted to the parent company. Therefore, such schemes will be sustainable only so long as the number of participants keeps growing exponentially- hence the term ‘pyramid’ used as the base must keep on expanding to ensure a return to the earlier participants. However, since there is only a finite number of potential participants, the schemes will collapse when it is no longer able to attract new participants. It may be recalled that a few years ago, there was a proliferation of such schemes in a country in Europe. When the schemes eventually collapsed, an unduly high proportion of the population lost their entire savings, and this brought about much social and financial instability to the country.

Given their inherent undesirable nature and in order to protect unsuspecting citizen from suffering large-scale losses, pyramid schemes are illegal in most countries. Organizers of such schemes are hereby notified that in terms of Article 2 of the Financial Institution Act of Bhutan 1992, no person is authorized to engage in any financial services “without a license to operate in accordance with the requirement of the Act”. Furthermore, they may also be liable to prosecution for fraud under “Thrimzhung Chhenmo” by luring participants with promises which must ultimately be broken when the scheme fails.

(Sonam Wangchuk)
Managing Director