

“The Evolution of Investment Scams: Selected Comparative Case Studies on Traditional Frauds and Digital-Era Vulnerabilities”

Sumuna Lama

Department of Commerce, Gurudas College, Kolkata-700054

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Abstract: This paper explores how investment scams in India have evolved from traditional schemes to modern online frauds utilizing digital platforms and social media. It compares the operational methods of past and current investment scams and explains the reasons behind this shift, including digital expansion and easier access to online investment opportunities. Based on secondary data from academic journals, reputable news sources, and government reports, the study uses a case-based comparative approach. It emphasizes the need for stronger regulation, better financial literacy, and increased investor awareness to safeguard individuals from financial fraud in the digital age. Overall, the analysis demonstrates that although scam methods have changed, ongoing gaps in regulation and investor awareness still facilitate investment scams.

Keywords: Investment scams, India, traditional investment schemes, online fraud, digital platforms.

I. Introduction

Fraud arises when intent meets opportunity (Fisher, 2015), and detecting it increasingly requires advanced financial expertise rather than basic money management skills (Engels *et al.*, 2021). According to ISA-240, “fraud is defined as an intentional act by one or more individuals among management, those charged with governance, employees, or third parties, involving the use of deception to obtain an unjust or illegal advantage”. In simple terms, fraud means purposely deceiving someone to gain unlawful access to a victim’s personal details. In contrast, a scam is a specific type of fraud that involves tricks and manipulation to obtain a victim’s personal information. Investment scams in India have existed for decades, evolving from paper-based methods to advanced online platforms. Over this period, India has transformed from a largely closed economy into an important hub for global investors. Economic reforms, government policies, a regulated financial system, and digital technology have created many new opportunities for both domestic and foreign investors. Despite significant progress, India’s investment environment still faces many challenges that need attention. Investment scams such as Chit funds, Ponzi, and Pyramid scams have long existed in India for many years, but the rise of digital platforms, mobile apps, and social media has significantly changed the scenario. This paper highlights the connection between historical investment scams and today’s digital frauds, showing regulatory gaps and social vulnerabilities across both periods.

Objectives Of The Study

1. To examine the historical evolution of investment scams in India from traditional to online.
2. To identify and compare the mechanisms and tools used in traditional and online investment scams.
3. To examine the key factors contributing to this transition.
4. To assess the impacts of investment scams on individuals.

II. Methodology

This study relies entirely on secondary information obtained from academic journals, SEBI reports 2024-25, RBI Financial Inclusion report 2019-24, and reputable news sources. The data is analyzed through selected case studies along with comparative analysis. Since the study uses secondary data, some information may be biased or incomplete. Nevertheless, this approach provides a base for examining how investment scams have evolved and adapted with changing technology.

Conceptual Framework

Traditionally, scams depended on personal trust and social networks, where scammers used persuasion to deceive investors. With the growth of digital technology, financial inclusion, and online investment platforms, these fraudulent activities have moved online. The framework links four key elements: evolution, mechanisms, key factors, and impacts. By analyzing these interconnected elements through secondary information, the study aims to understand how digitalization has transformed fraudulent investment practices in India and what preventive measures could help reduce future risks.

Early investment scams included Ponzi schemes, Pyramid schemes, and the misuse of chit funds, leading to online fraud. Ponzi schemes, named after Charles Ponzi’s infamous 1920 fraud in the U.S., gained prominence in India during the 1990s and 2000s, with notable cases like the Saradha and Rose Valley scams. In these schemes, returns to early investors are paid using funds from new investors, rather than actual business profits. A Ponzi scheme is an economic crime involving false promises of large profits and low risk to attract investors (Madhavan *et al.*, 2024).

According to the Chit Funds Act 1982, “a chit fund is defined as a transaction where a group of people agrees to subscribe a certain amount of money in periodical installments over a period, and each subscriber is entitled to the prize amount in turn, determined by lot, auction, or tender”. While many chit funds are legal, some have been misused for fraud, as seen in the Saradha Group and Rose Valley Group scams.

Pyramid schemes are scams where participants mostly earn money by recruiting others, rather than through genuine business activities.

Online scams use social media, fake apps or websites, and hidden identities to trick people into giving away their personal information and money. The increase in online scams is driven by widespread internet use, social media promotion and investor’s growing desire for quick profits. These scams were further accelerated during the COVID–19 pandemics by the increased adoption of digital platforms.

Case-Based Comparative Analysis Of Investment Scams In India

The table below presents a few selected traditional and online investment scams in India, highlighting the interrelations among their evolution, operational mechanisms, key contributing factors, and impacts.

Table 1: Traditional Investment Scams

Scheme	Timeline	Types / Mechanisms	Key Factors	Impact
Saradha Group Chit Fund Scam (West Bengal)	2008–2013	The Ponzi scheme operated through over 200 private companies, falsely promoted as chit funds in Eastern India.	High promised returns, low financial literacy, exploitation of trust, vast agent network, violation of SEBI regulations, Companies Act	Around ₹4,000 crores involved; Million investors defrauded (mostly rural)
Rose Valley Group Chit Fund Scam (Tripura-based)	2005–2015	Chit fund / Ponzi scheme in Eastern India	Real estate investment; Promised ownership of lands or high returns with interests ranging from 11.96% - 17.65%, violation of SEBI regulations	₹17,520 crore involved; millions of small investors affected; restitution of funds
PACL Scam (Pearls Group)	1996-2014	Real estate-based Ponzi	Promise of high returns, substantial returns within 90 – 270 days, land ownership promised, regulatory oversight, vast agent network to lure investors	Around ₹ 49,100 crore lost; 5.5 crore investors defrauded; ongoing refund process

(Source: Compiled from India Today, The Indian Express, The Economic Times, Lawful Legal, ISFM & Wikipedia)

Table 3: Online/Digital Investment Scams

Scheme	Timeline	Types/ Mechanisms	Key Factors	Impact
Gain Bitcoin Scam	2015-2017	Ponzi-style cryptocurrency investment	Unrealistic guaranteed returns (10% monthly for 18 months) in the form of Bitcoins; early payouts to build credibility; poor crypto literacy; lack of regulation; promotional events conducted	Estimated ₹6,600 crore lost; innocent investors affected; erosion of investor trust in crypto
Fake crypto exchange websites scam	2022	Impersonation of legit platforms	Promised very high returns, Apps promoted via social media; phishing domains, and social networks to lure victims	Indian investors duped of more than ₹1,000 crore, according to cybersecurity firm CloudSEK
Online Trading/ Investment Scam (Assam)	2023-2024	Glam-lifestyle marketing, Fake companies	High promised returns (30% returns within 60 days), weak verification by investors and regulators	Massive loss of ₹2,200 crore, many investors duped

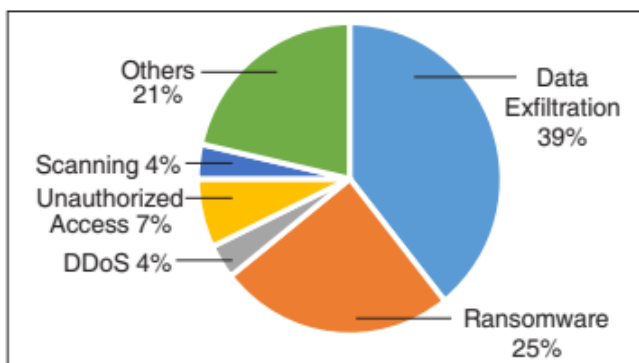
West Bengal crypto app fraud	2024	Fake cryptocurrency investment app	Victims lured via Telegram and social-media groups, Promised huge returns, Gained victims trust initially by giving returns twice	A student was duped of ₹2.3 lakh; multiple other victims duped
Zerodha Trading App Scam (Hyderabad)	2025	Fake Trading App impersonating	Victim contacted via WhatsApp, told to install a “Zerodha trading app” via shared web link; fake profits shown; victims then asked to deposit large sums	₹72.55 lakh lost by one individual
Online share trading scam (Pune)	2025	Fake trading app showing fictitious profits and withdrawals blocked	Social media investment group lure; app shows fake profits; victim invests more believing it’s real, promised quick high returns	₹3.66 crore lost by one IT professional; another man lost ₹ 2.10 crore in a similar scam

(Source: Compiled from India Today, The Indian Express, The Economic Times, The Times of India, NDTV & IICA)

Traditional investment scams such as Saradha Group, Rose Valley Group, Pearls Group were prominent during the 1990s, 2000s, and early 2010s, when India had limited digital infrastructure. These scams primarily involved physical assets. People in India often invested—and continue to invest—in small, community-based schemes for festivals, weddings, or medical emergencies, relying solely on trust. Therefore, laws are necessary to protect these vulnerable communities from scams that can wipe out their lifelong savings (Prema *et al.*, 2023). The operational methods of traditional investment scams relied on face-to-face interactions through agents who persuaded individuals and built trust among investors. Key factors included promises of high returns, often targeting small investors or those in semi-urban and rural areas with limited financial knowledge and awareness of investment risks. As a result, lakhs of people suffered severe financial losses and social distress, leading to long-term financial struggles. Schemers often exploit highly trusting individuals who are less inclined to question information or verify legitimacy, making them particularly vulnerable to fraud (Carey *et al.*, 2017). These schemes thrived due to widespread financial illiteracy, trust exploitation, weak regulatory frameworks, inadequate investor protection measures.

In contrast, digital or online investment scams emerged more recently during the 2010s, alongside the rise of cryptocurrencies, online trading platforms, and social media marketing. They gained prominence from 2015 onward. These developments allowed scammers to reach a global audience with minimal effort. While social media has made investing in the stock market more accessible, it has also created new opportunities for fraud (Subhash *et al.*, 2024). Online scammers now use fake websites, mobile apps, social media promotions, fraudulent trading platforms, and online influencers to appear trustworthy and attract victims. Modern Ponzi and pyramid schemes further exploit complex cyber infrastructures, making tracking and investigation very difficult (Madhavan *et al.*, 2024). Due to this anonymity and technological complexity, identifying scammers involved in digital investment fraud has become more challenging. Despite shifting to online platforms, the core factors remain unchanged—promises of high returns, financial illiteracy, and regulatory gaps. In mid-life, people often seek extra income to improve their lifestyle or save for retirement, leading to riskier investments (Jain *et al.*, 2018). As a result, mid-life investors are especially vulnerable to deceptive online investment offers. The impact of digital scams goes beyond financial loss, including identity theft and data privacy breaches, since victims often share personal information online during investments. These breaches, combined with financial losses, have caused long-term emotional and psychological trauma. Such scams harm society by causing financial and emotional distress and eroding public trust in digital communication channels (Kolupuri *et al.*, 2025). Existing cybersecurity vulnerabilities and weak regulatory measures give online scammers a significant advantage. Combating digital Ponzi schemes remains difficult because regulatory frameworks have not fully kept pace with rapid financial and technological advances (Dewi *et al.*, 2025). According to the chart below, incidents involving data exfiltration and ransomware account for the highest number of reported cyber threats.

Chart-1: Type of Cyber Incidents reported to SEBI, 2024-25 (Source: SEBI Report)



Findings

From various case studies, it can be observed that across both traditional and digital eras, investment scams predominantly relied on the Ponzi structure. The transition from physical to digital platforms has enabled scams to reach a wider, more tech-savvy audience, including young professionals, urban and semi-urban populations, and digitally literate individuals who actively use smartphones, online banking, and social networks. This shift has removed regional boundaries, allowing fraudsters to target victims nationwide or even globally.

Both traditional and digital scams have significant financial, psychological, and social impacts on their victims. Digital scams, in particular, are especially damaging due to their ability to exploit personal data and online trust. In both cases, strengthening financial literacy, improving regulatory frameworks, and enhancing digital security are essential to protect investors from future scams. Although fraudsters have been arrested, assets seized, and refunds processed in some cases, investors must remain highly aware when engaging with investment opportunities and be cautious about the potential use of AI and deep fakes for deception.

III. Recommendations & Conclusion

Based on the analysis of traditional and digital investment scams in India, the following evidence-based recommendations are proposed to mitigate risks and protect investors:

Enhance Financial Literacy and Awareness

As investment options and digital trading platforms grow more complex, consumers must possess strong financial knowledge to make wise and effective decisions. Case studies like Saradha Group, Rose Valley, and Pearls Group show that low financial knowledge and over-reliance on trust made rural and semi-urban populations very vulnerable. Educational programs, workshops, and awareness campaigns should focus on explaining investment risks, detecting scams, and encouraging responsible investment practices—especially in regions with a history of frequent scams. According to the 2024-25 SEBI report, SEBI conducted various programs such as SMARTs, RISA, initiatives by AMFI, AMCs, and IAs, as well as visits to SEBI to improve investor education and outreach. These programs were offered in regional languages in addition to Hindi and English. 50,789 investor awareness programs were conducted across 36 States/UTs during 2024-25. In addition to physical programs SEBI has launched a SAARTHI mobile app, maintains a dedicated website <https://investor.sebi.gov.in>, online SEBI investor awareness test and NFLQ as a digital platform to further enhance its investor education and awareness initiatives. The National Strategy for Financial Inclusion (2019–2024) by the RBI focuses on ensuring affordable access to formal financial services, expanding and deepening financial inclusion, and enhancing financial literacy and consumer protection.

Strengthen Regulatory and Enforcement Frameworks

Traditional scams thrived because of weak oversight and regulatory gaps, while digital scams take advantage of online investment loopholes. Although cryptocurrencies are still unregulated in India, the RBI's previous bans on crypto transactions have led stakeholders to push for a formal regulatory framework. To address these issues, authorities should implement stricter licensing, conduct regular audits, and require timely reporting for both offline and online financial schemes. Better coordination among regulatory agencies would also help speed up detection and action against fraud. In this evolving landscape, forensic accounting plays a vital role in identifying and investigating financial fraud, however, the field is still developing in India, and many individuals and businesses remain unaware of its full benefits (Akshaya *et al.*, 2025).

Develop Robust Cybersecurity Measures

Digital scams, such as fake trading apps and cryptocurrency frauds like the West Bengal crypto app and Zerodha impersonation scams, show how vulnerable investors are to cyber theft. To tackle these risks, investment platforms and regulators must adopt advanced cybersecurity measures, continuous monitoring, and a secure verification system to prevent identity theft, unauthorized access, and data breaches. Recognizing these challenges, SEBI has taken proactive steps to enhance the cybersecurity framework for the entities it regulates.

Promote Responsible Digital and Social Media Practices

Online scams heavily rely on social media promotions and influencer marketing to build credibility. Checking online investment ads more carefully, making people aware of the risks, and running public campaigns about online scams can help people avoid online investment scams. Social media platforms should actively monitor and remove fraudulent content.

In conclusion, the shift from traditional to digital investment scams represents a change not just in how they operate but also in their size and complexity. While technological progress has greatly improved financial inclusion, it has also brought new risks and vulnerabilities. Therefore, reducing these threats requires a comprehensive approach that includes education, regulatory updates, and technological innovation to build a safer, more transparent, and more resilient investment environment.

Abbreviations:

SEBI – Securities and Exchange Board of India

SMARTs – Securities Market Trainers

RISA – Regional Investor Seminar for Awareness

AMFI – Association of Mutual Funds in India

AMCs – Asset Management Companies

IAs – Investor Associations

NFLQ – National Financial Literacy Quiz

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