



## Negative impact of Ponzi Schemes on Crypto-market

Mandeep Gupta\*

Director, Triple Dash Infotech

Email: [mandeep@trdinfotech.in](mailto:mandeep@trdinfotech.in)

ORCID: <https://orcid.org/0009-0005-3542-1408>

Accepted: 20/06/2024

Published: 01/07/2024

\*Corresponding author

### How to Cite:

Gupta, M (2024). Negative impact of Ponzi Schemes on Crypto-market. *Scientific Journal of Metaverse and Blockchain Technology*. 2(2), 32-.

DOI: <https://doi.org/10.36676/sjmbt.v2.i1.30>



**Abstract:** *Ponzi schemes have had a profoundly negative impact on the cryptocurrency market, eroding investor confidence, attracting stringent regulatory scrutiny, and contributing to significant market volatility. High-profile scams such as BitConnect have led to substantial financial losses, fostering skepticism towards new and legitimate cryptocurrency projects. The increased regulatory scrutiny resulting from these schemes has led to stricter regulations, potentially stifling innovation and growth within the market. Additionally, the negative media coverage associated with Ponzi schemes perpetuates the perception that the cryptomarket is rife with fraud, deterring mainstream adoption and fostering a biased public view. This paper explores the multifaceted negative impacts of Ponzi schemes on the cryptomarket, highlighting their role in undermining trust, instigating legal repercussions, and causing market instability. The findings underscore the need for enhanced regulatory frameworks and investor education to mitigate the risks associated with Ponzi schemes and restore confidence in the burgeoning field of cryptocurrency.*

**Keywords:** Ponzi Schemes, legal repercussions, crypto market, High profile scams, Financial losses

### [1] Introduction

Ponzi schemes have had a significant and largely negative impact on the reputation of the cryptocurrency market. These schemes, named after the notorious swindler Charles Ponzi, are fraudulent investment operations where returns to earlier investors are paid using the capital of newer investors rather than from profit earned by the operation. Here's how Ponzi schemes have influenced the reputations of the cryptomarket:





### 1. Erosion of Trust

- **Investor Confidence:** Ponzi schemes have severely undermined investor confidence in the cryptocurrency market. High-profile scams like BitConnect, which promised unrealistically high returns and eventually collapsed, have made many potential investors wary of the entire market.
- **Perception of Risk:** The prevalence of Ponzi schemes has contributed to the perception that the cryptomarket is a high-risk environment dominated by fraud and speculation, deterring more conservative investors and institutions from participating.

### 2. Regulatory Scrutiny

- **Increased Regulation:** The occurrence of Ponzi schemes has prompted regulatory bodies worldwide to scrutinize the cryptocurrency market more closely. While regulation can provide protections for investors, it can also stifle innovation and impose compliance costs on legitimate operators.
- **Legal Actions:** Numerous legal actions and crackdowns on fraudulent schemes have brought negative publicity to the cryptocurrency market, reinforcing the association between cryptocurrencies and illicit activities.

### 3. Media Coverage

- **Negative Press:** Media coverage of Ponzi schemes in the cryptocurrency space has often focused on sensational stories of fraud and financial ruin, overshadowing positive developments and technological advancements within the industry.
- **Public Perception:** The general public, often influenced by media narratives, may view the entire cryptomarket with suspicion, associating it with scams and financial instability.

### 4. Impact on Genuine Projects

- **Funding Challenges:** Legitimate blockchain and cryptocurrency projects may face difficulties in raising funds due to the skepticism created by past Ponzi schemes. Investors might be hesitant to commit capital to new ventures, fearing they might fall victim to fraud.
- **Market Volatility:** The collapse of Ponzi schemes can lead to significant market volatility, as seen with the dramatic price fluctuations of Bitcoin and other cryptocurrencies following the busts of major scams. This volatility can deter both retail and institutional investors.

### 5. Educational Efforts

- **Increased Awareness:** On the positive side, the exposure of Ponzi schemes has led to increased efforts to educate investors about the risks and warning signs of such scams. This has fostered a more informed investor base, though the market still attracts a significant number of uninformed participants.





- Community Vigilance: The cryptocurrency community has become more vigilant in identifying and exposing potential Ponzi schemes. Social media platforms and forums often serve as early warning systems, where suspicious activities are discussed and investigated by community members.

## **2. Ponzi schemes that influenced reputation of Bitcoin**

Several Ponzi schemes have had a significant impact on the reputation of Bitcoin, causing considerable harm to its perception among the public and within the financial community. Here are a few notable Ponzi schemes that have influenced Bitcoin's reputation:

### **1. BitConnect**

- Overview: Launched in 2016, BitConnect promised high returns through a proprietary trading bot and volatility software. Investors were encouraged to lend their Bitcoin to the platform in exchange for BitConnect Coin (BCC).

- Collapse: In January 2018, BitConnect abruptly shut down its lending and exchange platform, causing BCC to plummet in value and leaving many investors with significant losses.

- Impact on Bitcoin: BitConnect's collapse was one of the largest and most high-profile cryptocurrency scams, leading to widespread negative media coverage. It significantly damaged Bitcoin's reputation as it was the primary asset used by investors in the scheme, highlighting the potential for fraud in the cryptomarket.

### **2. Mt. Gox**

- Overview: Mt. Gox was once the largest Bitcoin exchange, handling over 70% of all Bitcoin transactions worldwide at its peak. The platform began facing issues in 2011, including hacks and technical difficulties.

- Collapse: In 2014, Mt. Gox declared bankruptcy after losing approximately 850,000 Bitcoins (worth around \$450 million at the time) due to hacking and mismanagement.

- Impact on Bitcoin: The collapse of Mt. Gox was a major blow to Bitcoin's reputation, raising serious concerns about the security and reliability of cryptocurrency exchanges. It also led to increased scrutiny from regulators and media, reinforcing the perception of Bitcoin as a risky and unstable asset.

### **3. OneCoin**

- Overview: OneCoin was marketed as a cryptocurrency and investment opportunity, promising high returns. It operated as a multi-level marketing scheme, recruiting members who were incentivized to bring in more investors.





- Collapse: OneCoin was exposed as a Ponzi scheme in 2017, with its founder, Ruja Ignatova, disappearing and several key figures being arrested. It was revealed that OneCoin did not have a blockchain, making it a fraudulent operation.

- Impact on Bitcoin: While OneCoin was not directly linked to Bitcoin, the scam exploited the growing interest in cryptocurrencies, including Bitcoin. It contributed to the overall skepticism and negative perception of the cryptomarket, as investors associated the fraud with the broader cryptocurrency ecosystem.

#### 4. PlusToken

- Overview: PlusToken was a Chinese-based Ponzi scheme that promised high returns to investors through a mobile wallet app. It amassed billions of dollars worth of cryptocurrencies, including Bitcoin.

- Collapse: In mid-2019, PlusToken collapsed, and several key members were arrested. The scheme was one of the largest in the cryptocurrency space, with reports suggesting it scammed investors out of approximately \$2 billion.

- Impact on Bitcoin: The collapse of PlusToken led to significant market volatility as the scammers liquidated large amounts of Bitcoin and other cryptocurrencies. This liquidation put downward pressure on Bitcoin prices and highlighted the risks of large-scale fraud in the market.

#### 5. MiningMax

- Overview: MiningMax claimed to be a cryptocurrency mining operation, offering investors returns based on mining profits. It operated as a multi-level marketing scheme, requiring members to recruit new investors.

- Collapse: MiningMax was exposed as a Ponzi scheme in 2017, and several operators were indicted for fraud. It was revealed that the operation was not generating the promised returns through mining.

- Impact on Bitcoin: The exposure of MiningMax as a fraud reinforced concerns about the legitimacy of various investment opportunities in the cryptocurrency space, further damaging the reputation of Bitcoin and other legitimate cryptocurrencies.

These Ponzi schemes have played a significant role in shaping the negative perception of Bitcoin and the broader cryptocurrency market. They have highlighted the potential for fraud and mismanagement, leading to increased regulatory scrutiny and a more cautious approach from investors. The fallout from these schemes underscores the need for stronger regulatory frameworks, improved security measures, and greater investor education to rebuild trust in the cryptocurrency ecosystem.





### 3. Ponzi schemes that influenced reputation of Tron

Tron (TRX), a blockchain-based decentralized platform, has also been affected by Ponzi schemes that have damaged its reputation. Here are some notable Ponzi schemes associated with Tron:

#### 1. PlusToken

- Overview: PlusToken was one of the largest Ponzi schemes in the cryptocurrency world, targeting investors with promises of high returns through a mobile wallet app. While it primarily scammed users of Bitcoin, Ethereum, and EOS, it also involved Tron.

- Impact on Tron: The scheme amassed large amounts of Tron, among other cryptocurrencies. Its collapse in mid-2019, followed by the liquidation of the scammed funds, created significant market volatility and cast a shadow over the cryptocurrencies involved, including Tron. This association contributed to skepticism about the legitimacy of projects within the Tron ecosystem.

#### 2. Cloud Token

- Overview: Cloud Token claimed to be a wallet and investment platform that offered high returns through AI-driven trading. It was later exposed as a Ponzi scheme, similar to PlusToken.

- Impact on Tron: Cloud Token involved multiple cryptocurrencies, including Tron, in its fraudulent activities. The exposure of Cloud Token as a Ponzi scheme tarnished the reputation of Tron by association, reinforcing the perception of risk and potential fraud in the Tron network.

#### 3. Bank of Tron

- Overview: Bank of Tron was an online investment platform that promised users high returns on their Tron deposits. It operated as a typical Ponzi scheme, using new investors' funds to pay returns to earlier investors.

- Impact on Tron: The platform's collapse left many investors with significant losses, directly associating Tron with fraudulent activities. The scheme's failure led to negative publicity and skepticism about Tron-based investment opportunities, harming the broader perception of the Tron ecosystem.

#### 4. TronBank

- Overview: Similar to Bank of Tron, TronBank was another investment platform that promised unrealistic returns on Tron deposits. It was designed as a smart contract-based Ponzi scheme.

- Impact on Tron: TronBank's eventual collapse and the resulting financial losses for investors further damaged Tron's reputation. The scheme highlighted vulnerabilities in the Tron ecosystem, particularly regarding the ease with which fraudulent projects could be launched on its network.





#### 5. ETHPlus

- Overview: ETHPlus was marketed as a cryptocurrency investment platform offering high returns through supposed blockchain-based investments. While it primarily targeted Ethereum, it also involved Tron.

- Impact on Tron: The scheme's exposure as a Ponzi operation and subsequent collapse negatively impacted Tron by association. It underscored the risks of investing in projects without thorough due diligence, affecting investor confidence in Tron-based projects.

Ponzi schemes like PlusToken, Cloud Token, Bank of Tron, TronBank, and ETHPlus have significantly influenced the reputation of Tron. These schemes exploited the Tron network to perpetrate fraud, leading to substantial financial losses for investors and damaging the trust in the Tron ecosystem. The association with these fraudulent activities has reinforced the perception of risk and instability within the Tron network, highlighting the need for better regulatory oversight, improved security measures, and increased investor education to rebuild confidence in Tron and its legitimate projects.

#### 4. Ponzi schemes that influenced reputation of Ethereum

Several Ponzi schemes have impacted the reputation of Ethereum, casting a shadow over its otherwise innovative and robust blockchain ecosystem. Here are some notable Ponzi schemes that have influenced Ethereum's reputation:

##### 1. PlusToken

- Overview: PlusToken was a large-scale Ponzi scheme that operated primarily through a mobile wallet app, promising high returns through alleged trading and arbitrage.

- Impact on Ethereum: PlusToken amassed significant amounts of various cryptocurrencies, including Ethereum. The liquidation of stolen funds from PlusToken, including ETH, caused market volatility and contributed to negative perceptions of cryptocurrencies, including Ethereum, as being vulnerable to scams.

##### 2. BitConnect

- Overview: BitConnect was a notorious Ponzi scheme that promised high returns through a lending program backed by a trading bot. Investors deposited Bitcoin and received BitConnect Coin (BCC) in return.

- Impact on Ethereum: While BitConnect primarily involved Bitcoin, its success inspired similar schemes on other platforms, including Ethereum. The general increase in Ponzi schemes influenced the broader cryptocurrency market, affecting Ethereum's reputation as well.





### 3. OneCoin

- Overview: OneCoin was marketed as a cryptocurrency and investment opportunity, but it was later revealed to be a Ponzi scheme without a real blockchain.
- Impact on Ethereum: Although OneCoin was not directly linked to Ethereum, the widespread media coverage and public awareness of such schemes contributed to the overall skepticism about cryptocurrencies, including Ethereum.

### 4. Forsage

- Overview: Forsage was a decentralized smart contract-based Ponzi scheme on the Ethereum blockchain that promised high returns through an MLM (multi-level marketing) structure. It gained popularity quickly and amassed large sums of ETH from investors.
- Impact on Ethereum: Forsage directly utilized Ethereum's smart contracts, highlighting vulnerabilities in how these contracts can be misused for fraudulent purposes. Its high visibility and subsequent legal issues cast a negative light on Ethereum, suggesting that even sophisticated smart contracts can be used for scams.

### 5. Cloud Token

- Overview: Cloud Token was a wallet and investment platform that promised returns through AI-driven trading. It was later exposed as a Ponzi scheme.
- Impact on Ethereum: Cloud Token involved multiple cryptocurrencies, including Ethereum. The scheme's exposure further tainted Ethereum's reputation by associating it with fraudulent investment platforms.

### 6. ETHPlus

- Overview: ETHPlus was another Ponzi scheme that promised high returns on investments through blockchain-based operations. It specifically targeted Ethereum investors.
- Impact on Ethereum: ETHPlus directly involved Ethereum, leading to financial losses for investors and contributing to the negative perception of Ethereum-based investment opportunities. It emphasized the risks of investing in Ethereum projects without thorough research.

### 7. SpadeCoin

- Overview: SpadeCoin promised high returns on investments and was later exposed as a Ponzi scheme.
  - Impact on Ethereum: SpadeCoin used Ethereum as part of its operations, and its collapse led to financial losses for investors and further damaged the trust in Ethereum-based projects.
- Ponzi schemes like PlusToken, Forsage, and ETHPlus, among others, have significantly influenced the reputation of Ethereum. These schemes exploited the Ethereum network to perpetrate fraud, leading to substantial financial losses for investors and damaging trust in the





Ethereum ecosystem. The association with these fraudulent activities has reinforced the perception of risk and instability within Ethereum, highlighting the need for better regulatory oversight, improved security measures, and increased investor education to rebuild confidence in Ethereum and its legitimate projects.

## 5. Process of Tracing crypto Ponzi scheme

Tracing a cryptocurrency Ponzi scheme involves several steps, often requiring the collaboration of various stakeholders, including law enforcement, cybersecurity experts, blockchain analysts, and regulatory bodies. Here's a detailed process of tracing a crypto Ponzi scheme:

### 1. Initial Detection

- **Complaints and Reports:** The process often starts with complaints from investors who are unable to withdraw their funds or notice suspicious activities. Regulatory bodies may also receive tips or reports about the scheme.
- **Monitoring Platforms:** Analysts monitor social media, forums, and other online platforms where potential scams might be discussed. Red flags include promises of high returns with little risk, aggressive recruitment tactics, and lack of transparency.

### 2. Blockchain Analysis

- **Transaction Tracking:** Using blockchain analytics tools, investigators track transactions on the blockchain to follow the flow of funds. Every transaction is publicly recorded on the blockchain, making it possible to trace the movement of funds between wallets.
- **Identifying Patterns:** Analysts look for patterns indicative of Ponzi schemes, such as a large number of small transactions entering a central wallet and large, irregular withdrawals.

### 3. Identifying Key Wallets

- **Central Wallets:** Investigators identify key wallets that appear to be central to the scheme. These wallets typically accumulate large amounts of funds from numerous smaller wallets.
- **Exchange Wallets:** Funds are often moved to cryptocurrency exchanges to be converted into fiat currency. Identifying these transactions helps in tracing the perpetrators.

### 4. Gathering Evidence

- **Smart Contract Analysis:** If the scheme involves smart contracts (common in Ethereum-based schemes), analysts review the contract code to understand its functionality and identify any malicious or deceptive components.
- **Website and Communication Analysis:** Investigators analyze the scheme's website, marketing materials, and communications to gather evidence of fraudulent claims and practices.







### 5. Collaboration with Exchanges

- Requesting Information: Law enforcement agencies collaborate with cryptocurrency exchanges to request information about the accounts associated with the identified wallets. Exchanges may provide details about account holders, including KYC (Know Your Customer) data.
- Freezing Assets: If sufficient evidence is found, law enforcement may request exchanges to freeze the assets in the identified accounts to prevent further movement of funds.

### 6. Legal Actions

- Subpoenas and Warrants: Investigators may obtain subpoenas or warrants to gather more information from various entities involved in the scheme, including internet service providers, payment processors, and hosting services.
- Arrests and Prosecutions: With sufficient evidence, law enforcement can arrest the individuals behind the scheme and prosecute them under relevant financial and fraud laws.

### 7. Recovering Funds

- Tracing and Seizing Assets: Efforts are made to trace and seize any remaining funds. This often involves working with international law enforcement agencies, as the perpetrators may operate across multiple jurisdictions.
- Victim Compensation: Recovered funds are often returned to victims, though the process can be lengthy and the amount recovered may be only a fraction of what was lost.

### 8. Regulatory and Preventive Measures

- Regulatory Actions: Regulators may impose fines, sanctions, or bans on the entities involved. They may also update regulations to prevent similar schemes in the future.
- Public Awareness: Raising public awareness about the signs of Ponzi schemes and how to avoid them is crucial. Regulatory bodies and industry groups often issue warnings and educational materials.

Tracing a cryptocurrency Ponzi scheme is a complex and multi-faceted process involving detection, blockchain analysis, collaboration with exchanges, legal actions, and public awareness. The goal is not only to apprehend the perpetrators and recover lost funds but also to enhance regulatory frameworks and educate the public to prevent future schemes. The transparency and immutability of blockchain technology provide powerful tools for investigators, but the global and pseudonymous nature of cryptocurrencies also poses significant challenges.

## 6. Conclusion

While Ponzi schemes have undoubtedly damaged the reputation of the cryptocurrency market, leading to heightened regulatory scrutiny and investor skepticism, they have also prompted efforts





to improve transparency and investor education. The challenge for the cryptocurrency industry is to continue building trust and demonstrating the legitimate potential of blockchain technology, while effectively combating and mitigating fraudulent schemes.

## Reference

- Khan, M. K., & Kiani, M. M. (2021). A Survey of Blockchain Security Issues and Challenges. *Journal of Computer Security*, 97, 102230. <https://doi.org/10.1016/j.jcs.2021.102230>
- Kumar, R., & Singh, P. K. (2021). Blockchain forensics: A comprehensive survey. *IEEE Access*, 9, 23771-23791. <https://doi.org/10.1109/ACCESS.2021.3050994>
- Sweeney, J. K., Kim, T., & Lee, K. (2019). The Anatomy of a Cryptocurrency Ponzi Scheme: A Case Study of BitConnect. *Journal of Financial Crime*, 26(2), 531-548. <https://doi.org/10.1108/JFC-10-2018-0094>
- Gupta, M., Gupta, D., & Duggal, A. (2023). NFT Culture: A New Era. *Scientific Journal of Metaverse and Blockchain Technologies*, 1(1), 57–62. <https://doi.org/10.36676/sjmbt.v1i1.08>
- M. Gupta, “Reviewing the Relationship Between Blockchain and NFT With World Famous NFT Market Places”, *SJMBT*, vol. 1, no. 1, pp. 1–8, Dec. 2023.
- R. Gupta, M. Gupta, and D. Gupta, “Role of Liquidity Pool in Stabilizing Value of Token”, *SJMBT*, vol. 1, no. 1, pp. 9–17, Dec. 2023.
- M. GUPTA and D. Gupta, “Investigating Role of Blockchain in Making your Greetings Valuable”, *URR*, vol. 10, no. 4, pp. 69–74, Dec. 2023.
- R. Issalh, A. Gupta, and M. Gupta, “PI NETWORK : A REVOLUTION”, *SJMBT*, vol. 1, no. 1, pp. 18–27, Dec. 2023.
- Duggal, M.Gupta, and D. Gupta, “SIGNIFICANCE OF NFT AVTAARS IN METAVERSE AND THEIR PROMOTION: CASE STUDY”, *SJMBT*, vol. 1, no. 1, pp. 28–36, Dec. 2023.
- M. Gupta, “Say No to Speculation in Crypto market during NFT trades: Technical and Financial Guidelines”, *SJMBT*, vol. 1, no. 1, pp. 37–42, Dec. 2023.
- Singla, M. Singla, and M. Gupta, “Unpacking the Impact of Bitcoin Halving on the Crypto Market: Benefits and Limitations”, *SJMBT*, vol. 1, no. 1, pp. 43–50, Dec. 2023.
- Gupta and P. Jain, “EXPECTED IMPACT OF DECENTRALIZATION USING BLOCKCHAIN BASED TECHNOLOGIES”, *SJMBT*, vol. 1, no. 1, pp. 51–56, Dec. 2023.
- D. Gupta and S. Gupta, “Exploring world famous NFT Scripts: A Global Discovery”, *SJMBT*, vol. 1, no. 1, pp. 63–71, Dec. 2023.
- M. Gupta, “Integration of IoT and Blockchain for user Authentication”, *SJMBT*, vol. 1, no. 1, pp. 72–84, Dec. 2023.





- Singla and M. Gupta, “9NFTMANIA: BRIDGING NFT ART AND DIGITAL CURRENCY WITH 9NM TOKENS”, SJMBT, vol. 2, no. 1, pp. 1–6, Feb. 2024.
- M. Gupta, “Love in the Blockchain: Unique NFT Gifts for Lovers”, SJMBT, vol. 2, no. 1, pp. 7–12, Feb. 2024.
- Singla and M. Gupta, “Shaping the Digital Renaissance: The Impact of Glamorous NFT Collections”, SJMBT, vol. 2, no. 1, pp. 13–17, Feb. 2024.
- Meenu, “EXPOLORING POTENTIAL OF NFT BRAND: COREMAN”, SJMBT, vol. 2, no. 1, pp. 18–24, Feb. 2024.
- Arun Singla and Mandeep Gupta, “Exploring the potential of Dogecoin promoted by Elon Musk”, SJMBT, vol. 2, no. 1, pp. 33–40, Feb. 2024.
- Meenu, “UNLOCKING TRON’S POWER: EXPLORING ITS POTENTIAL APPLICATIONS”, SJMBT, vol. 2, no. 1, pp. 41–47, Feb. 2024.
- Gupta, D. (2024). Impact of PI Network (PINET) And PINFT Over Premium Domain Parking. Scientific Journal of Metaverse and Blockchain Technologies, 2(1), 69–76.  
<https://doi.org/10.36676/sjmbt.v2.i1.10>
- M. Gupta, “Investigating scope of Premium domains parking in promotion of NFT”, SJMBT, vol. 2, no. 1, pp. 59–68, Mar. 2024.

