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PSYCHOLOGICAL AND SOCIAL DETERMINANTS OF REPEATED INVESTMENT IN PYRAMID SCHEMES AMONG GEN Z AND MILLENNIALS IN SOUTHERN PROVINCE OF SRI LANKA

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ABSTRACT

Pyramid schemes have been an emerging issue among Sri Lankan youth, particularly Generation Z and Millennials, who are most frequently lured by the high financial returns. Despite being illegal, pyramid schemes continue to thrive, and they lead to considerable financial losses and worsen the financial situations of the participants. This study aims to discover the psychological, social, and economic factors that influence Gen Z and Millennials to continue to invest in these extremely high-risk schemes and why some participants continue to fall victim to them repeatedly despite having lost money in the past. The study follows an interpretivism philosophy and qualitative study design with a specific focus on semi-structured in-depth interviews of Millennials and Generation Z who have fallen victim to pyramid schemes more than once. The sampling was achieved through snowball sampling, and the sample size includes 10 individuals who have fallen victim of pyramid schemes in Southern Province. Data is analyzed through a thematic analysis, with close attention to developing patterns and themes of investment behavior, emotional and social processes, and financial decision-making. This paper finds that both Gen Z and Millennial investors in Sri Lanka are motivated by a thirst for fast wealth, social factors, and cognitive biases, including overconfidence and the sunk cost fallacy, which result in repeated investment in pyramid schemes even after they incurred losses. Social networks, both offline and online, are important in supporting these behaviors. It is proven that the use of conventional regulatory warnings is now ineffective, with the focus on the use of behavioral science-supported strategies, including digital friction and loss-framed messages, that reverse the effect of the lure of these schemes.

Keywords: Behavioral Biases, Gen Z and Millennials, Investment Behavior, Pyramid Schemes, Reinvestment

1. Introduction

The dynamic money market has numerous investment opportunities, such as shares, real estate, mutual funds, etc., which are commonly thought to be wealth-generating opportunities. Among these formal investment methods, types such as fixed deposits (FDs), bonds, and gold are the safest ones as they are fixed in nature and institutionally managed by money market institutions such as banks and stock exchanges (Picardo, 2025). These institutional investments are well-structured, governed by law, and strictly controlled to create a mix of risks distributed from low risk to high-risk investments, depending on the type of investment (McFie,b 2024). Banks and institutions are tasked with regulating and overseeing these investments so that all is carried out openly and safely for everyone. Despite the identified channels for investment, there has been a significant uptick in informal investment avenues that have become popular because of the possibility of high returns. Specifically, pyramid schemes have become a common form of informal investment all around the world. Such schemes work by putting in place a continuous arrangement for the enrollment of new investors, where the payouts to the older investors are funded by the contributions of the new entrants. Unlike formal avenues of investment, pyramid schemes function without regulatory authority and often rely on private connections and social trust, thus posing significant financial risks to the participants (Isya & Tohari, 2024). The unregulated nature of such investment structures, as well as their enticing high-stake, high-reward nature, makes them especially appealing in developing countries where financial services formalization is limited, thus consequently leading to a greater presence of the informal kind (Abdelzaher, 2019).

Specifically in the Sri Lankan context, there is a considerable lack of financial literacy compared to international standards, which has increased vulnerability to the temptation of informal financial schemes. Investment behavior among Sri Lankans is often characterized by a lack of knowledge concerning the diversity in investment choices available, leading to a tendency to engage in investments that assure high returns but also involve high risk, such as in pyramid schemes (CBSL, 2024). This plight has been compounded by the prevailing economic situation, with low interest rates and high living expenses, thus making such fraudulent financial activities easier to emerge. Despite the prevailing vulnerabilities, informal investment channels remain popular among many people due to their perceived ability to acquire wealth rapidly and effortlessly. In addition, such schemes often use psychological manipulation and social trust as tools to make them more appealing, in particular among young, technologically savvy demographic groups, namely Millennials and Generation Z, who are usually the targets of cybercrimes (Bosley & Knorr, 2018).

Pyramid schemes have been a headache for Sri Lanka since the beginning of the 2000s, beginning with the Gold Quest scam in 2005. Pyramid schemes have been prohibited through Section 83 of the Banking Act, No. 30 of 1988, but they continue to multiply. All such schemes these days operate under the guise of legitimate multi-level marketing (MLM) businesses, making it even harder to eradicate them (Fonseka, 2021). The big scams, such as OnMax DT, in which nearly 30 billion rupees have been lost, and the Sports Chain scheme, in which the investors have met their untimely end, remind us vividly of the disastrous consequences of such scams(SriLankaMirror, 2023a). As much as there are growing public awareness campaigns, legal interventions, and attempts by CBSL to popularize, people continue to invest in these schemes, unknowingly reproducing the cycle of financial loss.(Wijesiri, 2011)

These pyramid schemes have not only caused significant financial losses to many members but have also caused severe psychological and emotional trauma, including suicide attempts and other disastrous events (SriLankaMirror, 2023). The continued prevalence of pyramid schemes, including different legal pronouncements that make such pyramid schemes illegal, and the range of regulatory measures taken by the Central Bank of Sri Lanka (CBSL), highlights the persistence of the problem. Therefore, the main objective of this research is to investigate why individuals continue to invest in pyramid schemes despite the risks, their awareness of such risks, and their past experiences with financial loss. This study aims to examine the psychological, social, and behavioral factors that influence repeated pyramid scheme investment.
The remaining part of the paper organized is organized as follows: first, it shows the literature review, which is followed by the methodology of the research. Finally moving on to the findings and discussion and concluding with a conclusion and implications.

2. Literature Review

2.1. Financial Behavior of Gen Z and Millennials

Gen Z (1997–2012) and Millennials (1981–1996) are both digital natives but differ in investment mindset. Millennials are less risky investors with diversified portfolios and saving alternatives such as mutual funds and retirement savings (Rosdiana, 2020). Gen Z, though, is more likely to take on high-risk, high-reward investments, particularly in cryptocurrency, DeFi, and NFTs (Gen Z and Investing, 2023). Their financial behaviors have been heavily influenced by their differently experienced interactions with technology and financial crises across the generations. Both generations are similarly impacted by social media and the internet when investing.

Millennials seek advice from financial advisors and relatives, while Gen Z seeks advice from online media, social media influencers, and money-management software when it comes to finances (Pokharel et al., 2024). This over-reliance on the internet as convenient as it may be makes Gen Z vulnerable to internet fraud like pyramid schemes because they do not quite scrutinize what they are being given (Ravani.et al, 2024).

2.2. Introduction to Pyramid Schemes

Pyramid schemes are unlawful investment schemes where individuals earn money primarily through the recruitment of new members, and not through any actual sales of products or business strategies (M'ithiria, 2009). Pyramid schemes promise high returns but are kept afloat by continuous recruitment so that the flow of money continues. The phase when the hiring process slows down, the pyramid breaks and people at the bottom of the pyramid lose significant amounts of money (Hock & Button, 2023). While pyramid schemes have existed since 1888, their form has evolved with time, adapting based on new styles of marketing and with the help of technology. Pyramid schemes, as fraud as they are, still exploit greed for quick money by people.

Pyramid schemes have the tendency to manifest in two ways, naked pyramids, where the schemes are absolutely recruitment-based, and product-based pyramids, where the schemes involve high-priced products that are sold to conceal the recruitment-based setup. Even if the product-based schemes would appear more credible, those as well are not sustainable and fall apart when recruitment slows (CBSL,2006). These plans masquerade as authentic multi-level marketing (MLM) businesses, and it becomes challenging for people to tell real from fake opportunities.

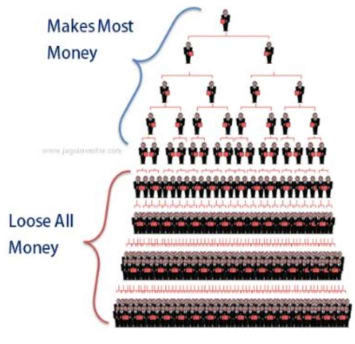

Figure 1: Pyramid Scheme Pattern
Source:(Grennspan S, 2009)

2.3. Financial Behavior in Relation to Pyramid Schemes

There are several behavioral finance biases that influence investment choices especially in pyramid schemes. Gullibility, as described in Greenspan's Gullibility Theory, plays a central role in explaining why individuals fall victim to financial frauds (Greenspan,2009). The lack of resistance to be fooled by scammers is the state of gullibility which is often augmented through the forced applications of biases including overconfidence and the availability heuristic. Pyramid schemes exploit emotional and psychological weaknesses. most built on cognitive errors causing individuals to behave irrationally. Behavioral finance removes the old-world assumption that investors are rational all the time (Fama,1970). According to Tversky & Kahneman (1981) psychological errors such as overconfidence, herding, and the availability heuristic cause individuals to make irrational investment decisions and these biases are particularly dangerous when it comes to pyramid schemes due to the fact that individuals are attracted by the promise of high returns and the belief that they can succeed where others won't. For example, overconfidence leads investors to overestimate themselves as well as their expertise, thus exposing them to frauds (Byrne & Brooks, 2008). Similarly, herding behavior forces individuals to copy what others are doing on the basis of believing that if many people are investing, then the investment is a safe or profitable channel (Park et al., 2017). These kinds of biases combined with the emotional attraction of overnight wealth make pyramid schemes highly dangerous, especially among such young generations as Millennials and Gen Z, who may be more risk-tolerant and reliant on social media for most information.

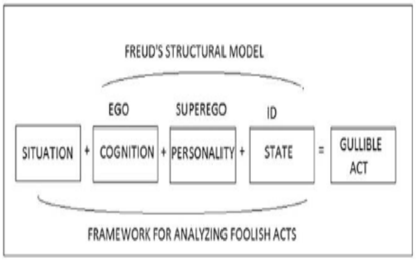

Figure 2: Gullibility Theory Model Design
Source: (Grennspan S, 2009)

2.4. Sri Lankan and Global Context of Pyramid Schemes

Pyramid schemes have been a periodic phenomenon in Sri Lanka, especially during periods of economic instability. The CBSL has made a significant effort towards sensitizing the population and implementing regulations, but the secretive nature of pyramid schemes hinders enforcement. Such schemes disguise themselves as legitimate MLM companies, and it is not easy to distinguish between genuine and bogus opportunities for the average person (CBSL, 2006). Therefore, the high-profiled schemes like GoldQuest and most recently MTFE and OnMax DT schemes have caused humongous money losses, and more regulatory interventions and awareness are necessary now (Sirimanna, 2023). Laws such as the Banking Act No. 30 of 1988 have been established by the CBSL to make pyramid schemes criminal, but their evolving tactics remain one step ahead. Despite the existence of legislation, individuals remain victims because of social coercion, emotional vulnerabilities, and the offer of high and instant returns. (CBSL, 2025b).

Pyramid schemes have caused widespread economic devastation to the world at large, and most countries have put stringent laws in place to ensure that they do not spread. The U.S. and the European Union, among other countries, prohibited pyramid schemes, which are fraud-based business models and are subject to heavy fines and prosecution (Nat & Keep, 2002). Despite these rules, the development of pyramid schemes online and cryptocurrencies provides financial regulators with a new headache because these frauds are difficult to spot and close quickly (Hock & Button, 2023). International cases such as OneCoin, a $4 billion investors' scam, and the Bernie Madoff Ponzi scheme, the largest ever with an estimated loss of $65 billion, show the extent to which massive and far-reaching such scams could become (Investopedia, 2024). These instances are indicative of the need for new legislation and increased consumer knowledge to deal with the new trends being followed by pyramid scheme scammers.

3. Methodology

This study uses qualitative research methodology to look at how Sri Lankan Generation Z and Millennials who have been victims of pyramid schemes more than once make their financial decisions and behavioral consequences leading toward this irrational behavior. The research is based on interpretivism, which allows for the study of participants' real-life experiences and perceptions, while also recognizing how social and psychological factors can keep people from repeated victimization.

3.1. Study Area

Southern provinces are considered as the study area of this research, and the selection of Southern provinces depends on several factors. Even though pyramid schemes have had happened covering most of the provinces in Sri Lanka, a huge number of news related to the outcomes of these pyramid schemes has been reported from the down south area of Sri Lanka. In a news article by (Kuruwita, 2023) the Police spokesperson at that time SSP Nihal Thalduwa mentioned that some pyramid scheme shas been started at Hambantota area which is a part of southern Province.

In an article Weerasekara, (2008) mentions that most famous pyramid schemes such as Daduwam mudalali have started in down south areas and huge number of people have been investing blindly hoping for high returns as the loss was nearly 80 million and mentions that the local police had started to educate the public of the area to not invest in these schemes. Moreover, there was a reported case of a suicide in Walasmulla area which belongs to Southern province(SriLankaMirror, 2023). This evidence proved that Southern or Down South areas can be considered as one of the most affected areas from these pyramid schemes. This evidence led to this research to select Southern province as the study area of the research.

3.2. Research Design and Sampling

Qualitative research design was employed to capture real-life experiences of the pyramid scheme victims, so that the study could not only touch upon financial consequences but also underlying cognitive and behavioral patterns. Mae et al., (2025) in their research titled, "The lived experiences of the victims of Pyramiding schemes", employed qualitative analysis to examine the data collected in their research. Using a qualitative design helps to get an in-depth view of the psychological truth behind this irrational financial behavior than a quantitative approach. Mohammad Zyoud et al., (2024) in their research discusses that qualitative research design provides output which is highly accurate and objective.

The sample was Generation Z and Millennials residing in the Southern province and have experienced being involved in pyramid schemes more than once. Snowball sampling was applied, with initial participants recruited from personal networks and then referred to subsequent victims. This approach was used due to the sensitive nature of this issue and the belief that victims would be more cooperative if approached via their trusted contacts. Subsequently, only those who provided informed consent were recruited in the study and were interviewed or engaged in informal conversations regarding the socio-economic and financial impact of their participation in pyramid schemes.

As per Weerasinghe, (2025) the age between 18 – 35 are the major victims of pyramid systems and others financial frauds in Sri Lanka. As a result, we focus on generation z and millennials as the sample.

Although the initial intention was to interview 30 participants, data saturation was reached after conducting 10 in-depth interviews. This sample size was in line with similar qualitative studies, such as Mae et al., (2025), who conducted in-depth interviews on 7 Philippine victims of pyramid schemes. The composition of the participants was varied with regard to age, gender, occupation, and education level, although gender balance was challenging to maintain due to the greater representation of males in the sample, a trend consistent with previous research on fraud victimization patterns in Sri Lanka.

3.3. Data Collection

The data were collected using semi-structured in-depth interviews facilitated by a flexible interview guide to enable both consistency and flexibility in exploring exceptional participant experiences. Interview questions were devised in accordance with the seven themes that we have chosen to analyze the data, as this would facilitate the thematic analysis process. The selected themes were prior investment behavior, post-investment behaviour, influencers and motivation, trust and transaction method, involvement and recruitment, regulatory warnings and reinvestment behavior. These themes were developed based on the factors discussed in existing literature. The questions were confirmed by a pilot study including two academics, two pyramid scheme investors, and two investors of other legal instruments to assess the comprehensibility and reliability of the semi-structured questions.

Interviews were conducted within the first two weeks of July 2025 in the Southern province area by participants for convenience and confidentiality. The interview guide covered participants' background and frequency of taking part in pyramid schemes, drivers and reasons for initial and follow-up investments, influence of peers, families, and community on the decision, risk, reward, trust attitudes toward promoters, and impact of behavioral biases. All interviews were conducted in Sinhala, and all the interviews were audio recorded with consent, verbatim transcribed, and translated to English for analysis. Translation was aimed at semantic accuracy to preserve meaning.

3.4. Data Analysis

The data was interpreted by thematic analysis with NVivo. The approach made it possible to identify and systematize patterns in the narratives of participants. The data analysis procedure entailed becoming acquainted with the data, creating preliminary codes via line-by-line coding of the transcripts, inductively (emergent) and deductively (theory-driven) in search of general themes, reviewing and perfecting those general themes and ultimately labeling and describing the themes. Our data was analyzed using seven themes. These are Prior investment behavior, Post investment behavior, influencers and motivation, trust and transaction method, involvement and recruitment, regulatory warnings and reinvestment behavior. These themes were derived from previous literature and then had peer debriefing. With that the themes were finalized. Themes were peer-reviewed by co-authors to enhance intercoder reliability and confirmability.

4. Results and Discussion

Table 1 explains the demographic features of the participants. The thematic analysis of interviews revealed a number of higher-order patterns that provided profound information into the motivations, choices, emotional effects, and the behavioral cycles that describe investors in these risky enterprises. The results provide a compelling narrative about the psychology of recurring investment behavior, and demonstrate how all these factors, the urge to get financial reward, social pressures, personal feelings, and cognitive distortions combine to form these behaviors.

Table 1: Participant Demographic Profile

Generation	Gender	Count	Educational Level (Range)
Gen Z	Male	5	School Leaver (O/L) to Degree
Gen Z	Female	1	Degree Holder
Millennial	Male	3	Advanced Diploma to MBA
Millennial	Female	1	Degree Holder

The sample consisted 80% of the respondents were males, while the 10 respondents covered both Gen Z and Millennial generations and are from several levels of educational backgrounds with the lowest level being school leavers after O/L to MBA degree holders.

4.1. Pre-Investment Behavior

Rational investors consistently consider the risk and reward of an investment prior to allocating their capital (Mikołajek et al, 2023). However, this phenomenon was not evident in the Gen Z participants in this study. All six Gen Z participants lacked independent income and utilized their parents' funds to engage in these scams. Consequently, they exhibited little apprehension regarding the potential loss of this invested capital. One person stated, "I invested my parent's money. They gave it to me once I said that there is an easy means of getting a good return for this money". I also did not think much as it was not my money I have invested." While this was characteristic of Generation Z, millennials exhibited distinct behaviors. Initially, many were reluctant but acquiesced due to their confidence in the individuals who presented the scheme to them. A participant expressed that she had no intention of investing in the pyramid scheme, nevertheless she desired to trust her friend and go with it. Her husband was also reluctant to invest in it. Consequently, the pre-investment behaviors of Generation Z and millennials diverge, although their expectations align, since both seek to generate money swiftly and effortlessly.

A notable characteristic exhibited by all these individuals was desire or the greed for wealth. Greed is a pervasive phenomenon that individuals frequently confront in their daily lives (Seuntjens, 2016). In terms of behavioral finance, this is strongly linked to the concept of overconfidence and the ID component of Freud's structural model, where the impulse for immediate, high reward overrides rational judgment (Afiqah et al., 2021). All interviewees indicated a desire to increase their earnings, and when witnessing the success of others, felt compelled to surpass their income. A YouTube video features an individual who invested in the OnMax DT scam, stating that he aimed to earn more than his peers, a mindset prevalent in Sri Lankan culture where individuals often strive to surpass the financial success of those in their vicinity. This substantiates the view that these pyramid scheme investors were motivated by their greed for more wealth. In their research, Sai'dah Mustaffa, (2024) demonstrate that the majority of victims of pyramid schemes were motivated to invest in these schemes with the expectation of accumulating substantial wealth with minimal effort. This also serves as evidence that these investors were seduced by their desire for fortune and money.

4.2. Influence and Motivation

The need to make easy money proved to be the most influential reason why people started to participate in pyramids. All ten interviewees opined that one of the main attractions of such schemes was the prospects of high and quick returns. This view, regarding the scheme being about ways to earn money fast and easily, was expressed by one of the participants as she put it this way: "The concept of making good money with very little effort was very appealing to me," and this was the story of all 10 interviewees. In one of the interviews done by the CBSL with a pyramid scheme investor, the interviewee said "We invested money in that scheme, they said they give three for one for the money we invested plus the commission when we recruit others for this scheme" (CBSL, 2025). That means that the monetary and psychological motivation provided by those running the pyramids led them to invest in the pyramids. This aligns with the findings of Cialdini (2001), who found that financial incentives and promises of fast rewards are significant motivators for individuals to engage in risky schemes.

Social influence was also an important catalyst because it led people to achieve the first investment decisions. 6 out of all 10 interviewees cited the influence of friends, family members and acquaintances who had already been engaged in pyramid schemes as the reasons that motivated them to join. One of the participants told, "I could see around me that folks were earning money in a short period of time, and I believed it was a real deal and that I wanted it too." This can be seen as a herding behavior as well because herding behavior can be defined as people following other's decision blindly without following their independent decision(Sibarani, 2024). This behavior of these investors was also evident, as four participants explicitly stated that they adhered to social norms. These four participants are a combination of millennials and Gen Z. Generation Z was influenced by the ideas of individuals on social media, asserting that they achieved wealth through pyramid schemes, while most millennials followed their coworkers or community companions. Granovetter (1973) however, offers a contrasting perspective, suggesting that individuals with broader social networks and more diverse information are less susceptible to the type of peer pressure observed in this study, as they can access alternative viewpoints.

Furthermore, there was a fear of missing out (FOMO), which resulted in the emotive impulse to invest, as the majority of them regretted that they could have earned more had they enrolled earlier. FOMO refers to the apprehension that individuals experience when they fail to capitalize on a profitable opportunity while observing others profit from it. This fear can result in individuals making impulsive decisions that can result in catastrophic consequences.(Beyza et al, 2024). This behaviour was evident in the statements of three out of the ten participants, one of whom stated, "I wanted to think about it for a while, but I felt as though I was giving up the money by waiting longer."

4.3. Involvement and Recruitment

After being lured into the schemes, many people felt driven to bring others on board, and the domino effect would keep increasing the number of people involved. Recruiting was not just a method to make more money, but the act also strengthened the social structure of the pyramid scheme. As one of them spoke, "Once I got in on the investment, I also introduced others and thought that the more, the higher the earnings and I believed that I was giving them a hand as well." This kind of recruitment would start in the social circles where the parties involved trusted the people in their group and felt that the schemes were genuine. The social process of the pyramid schemes also plays a very important role in continuing their success. Investors had a tendency to recruit family, friends or co-workers, often through some feeling of an emotional and social duty.

This made people believe in the prospect of financial prosperity despite evident indicators of failure. One of them said that it was not all about the money, rather he wanted to help his friends earn too, “I recruited them because I believed in it and wanted them to gain benefits as I thought I would gain it.” However, guilt began to creep in among those who recruited others, especially in cases where the people recruited were losing money. One of them said that she felt guilty as she had advised her family to take part, saying, “This is not what I knew would happen”. This emotional stress summarized the personal cost of recruitment to people, particularly recruitment that was not expected as per the financial results. The interview conducted by the CBSL also found the recruitment of the participant for pyramid schemes impacted them emotionally and financially. One interviewee said, “When recruiting new members, those above us made more profits, and we received very little” (CBSL, 2025). Another statement said in that same interview is, “I recruited others because they said it would yield quick returns. They also got involved because of the trust they placed in me” (CBSL, 2025). This implies that the trust individuals have in the recruiter is a factor in their participation in these schemes. Consequently, the individual who recruited them experienced increased emotional and financial stress when they experienced a loss on the money they had invested.

4.4. Post-Investment Behavior

Once the investors of the pyramid schemes realized they were scammed, they transformed their perception of the initial optimism into disappointment, regret and shame as they did not manage to receive the promised payments or in most instances even the invested money. Numerous people who had enormous expectations of making financial gains soon turned bitter because they failed to achieve the anticipated wealth gain. All millennial participants were attributing blame for the incident. Despite the fact that the majority invested funds under the guidance of a trusted individual, they all acknowledged, “I am accountable for the outcome because I willingly deposited money into this.” Accordingly, Mae et al., (2025b), in their research mentions that people were blaming themselves for their lack of judgement. All of this demonstrates that the emotional consequences of this investment were more significant than they seem at first glance.

Four out of ten individuals had feelings of melancholy owing to their financial losses, as they were not in a favorable monetary situation, whereas the remaining six participants were less concerned about the lost funds due to their superior financial condition. A significant observation we made was that all Gen Z individuals we interviewed expressed low to no sorrow, as they did not perceive the loss of money as impactful as it was not their own, but rather their parents'. The psychological effects of these investments were far-reaching with half participants stating that they were in distress after people they had recommended to the scam to pay them a visit at home to blame and demand money. The feeling of betrayal, as they were the reason for their own downfall as well as the guilt and sadness, were based on the fact that they betrayed the people who had trusted them. A woman who had invested in a pyramid scheme and brought more than 50 into the scheme wept in a CBSL interview describing how her once comfortable life was lost. She stated how trust has been lost by people who once trusted her with some of the people even cursing her about their tragedies which led to terrible psychological pain caused by excessive stress and guilt (CBSL, 2025c).

Some people became risk-averse due to emotional suffering caused by the financial loss. One of them clarified, by saying, that "after losing money, I became more conscious about my investment choices. As a result, I am less impulsive in decision-making, and I no longer rush into things with no research done on the side." This move towards a more rational practice implies that although initially driven by the intentions to get quick profits, the adverse results compelled many participants to revise their further investment patterns. However, prudence did not necessarily result in total withdrawal from the schemes. Some still reinvested partially due to hopes that they may recover their losses despite their financial losses. One of them said, "Even after losing, I thought I could earn profits in the other one."

4.5. Regulatory Warnings

Pyramids have been a menace to Sri Lanka for a long time, and authorities have been trying to warn the public that these are not safe, and one should not invest in them. These warnings are typically presented as a newspaper article, TV advertisement, social media post or a You Tube video. To our surprise, regulatory warning effects on the conduct of participants were small. Although 5 out of all the participants remembered reading a notice that warned against involvement in pyramid schemes, they did not pay sufficient attention to it as they kept on investing. One of them confessed, "I did not find any warning signs before investing. And then I notice something in the news later, but at that point, it was too late, though." In his article, (Jayawardena, 2025) as well notes that pyramid schemes are gaining popularity in Sri Lanka, despite the authorities' repeated warnings.

When these participants became aware of such warnings, most of them felt that the financial incentives promised by such schemes were too lucrative to pass up. Another participant shared that, "I was warned by my sister, but the returns were too tempting that it did not cross my mind much." This means that although regulatory awareness existed, it did not pose much of a deterrent to further investment. An interview conducted by CBSL with a victim provides additional evidence for this assertion. In the interview, the subject reveals that she invested twice despite seeing the newspaper advertisement published by CBSL. Initially convinced, she later inquired with the company, which informed her that the authorities were merely making statements and could not intervene (CBSL, 2025c).

This indicates that authorities are not fully accountable for the reckless conduct of these investors. Despite this argument, the efficacy of the regulatory warnings is dubious, as all five investors exposed to these warnings disregarded them and proceeded to invest in the schemes. This indicates that the warnings lack sufficient impact on individuals' decisions, suggesting that financial education and community awareness initiatives must be more comprehensive and comprehending to address the psychological allure of such activities. Moreover, Cialdini, (2001)observes that the efficacy of warnings or any form of persuasion is augmented when originating from reliable sources, a factor potentially absents in the warnings experienced by participants.

4.6. Reinvestment Behavior

One thing that was common among these interviewees is that they chose to invest again, either in the same scheme or a new one, even after experiencing financial losses in the previous schemes. Most of the participants felt that the returns on the next investment would be better. One of them posted, "I invested in the first scheme and lost money, but I was sure I could earn a profit in the second scheme." The appeal of organizers of pyramids and trusted people was a great factor in getting other people to participate further. This made the portrayal of low risk by making the participants feel like this is not a pyramid and built a type of legitimacy and trust in the words of organizers, who may have said, "This is not a pyramid like the others."

It appears that after losing one, most of them thought that they could do better next scheme, as one person had said, "I did not want to quit." This irrational reinvestment decision is directly explained by the behavioral finance concepts of the Sunk Cost Fallacy and Optimism Bias. Because participants already have sunk costs, they will rationalize themselves based on the sunk cost fallacy, where the participants rationalized their participation based on the amount of money being invested as opposed to measuring chances of succeeding in future ventures (Tait & Miller, 2019). They all failed to separate themselves from past investments and assumed that future schemes would bring the success that they had hoped to achieve in their past endeavors. Such an attitude is representative of a psychological need to make back what they have lost, even at the expense of continued investments, and is the reason why they will continue to engage in risky schemes. Overall, this impulse to gain instant riches, combined with optimism bias, which can be defined as a psychological tendency to underestimate one's chances of experiencing unfortunate events and overestimate one's probability of experiencing positive events, makes people think they will beat the odds and come out on top, regardless of what everyone else has done (Shin & Jeong, 2024).

4.7. Trust and Transaction Method

The decision-making process also depends on social influence. The pyramid schemes are run by referrals through trusted social networks. Family, friends, or acquaintances were the ones who introduced many participants to the schemes; this made the practice normalized and created a false sense of legitimacy. As the participants used to feel, the scheme was secure and a profitable one, because their trust networks were in the game. As one of the people mentioned that a teacher introduced him to this scheme, stating that, “I have been introduced to this scheme by a schoolteacher that I know and trust.” Mae et al., (2025) confirm this, indicating that trust in family and acquaintances motivates individuals to invest in these schemes, suggesting that social influence is a powerful force in decision-making. Moreover, (Deb & Sengupta, 2020), mentions that pyramid scheme organizers use the benefit of this mutual trust to influence people to invest in these schemes. It was clearly observed in the findings as nearly 90% of the participants were introduced to the scheme by someone they trusted.

The legitimacy was also contributed to by the fact that books and business registrations of a legitimate company displayed by organizers, which boosted confidence in the scheme. Mentioning this, one participant said, “They registered a business and told them it was not a pyramid like others. I believed it.” The combination of social justification and perceived validity greatly reduced the level of skeptical behavior, even in cases when the participants were knowledgeable of their risks. (CBSL, 2025a) specifies that the scheme organizers have consistently employed the act of displaying fraudulent documents indicating that they are registered in order to deceive individuals into investing in these schemes.

This sense of trust was also achieved using digital platforms and digital forms of transaction. When the process of transactions occurred on official websites or apps, participants felt safer, which provoked the schemes to seem more professional. According to two of the participants, “the option of tracking investments with the help of an app made it feel professional, and thus, I felt more secure about my money.” Nonetheless, not everyone was as trusting, especially when scams required personal banking information. As one person stated, “I avoided schemes that requested my bank information. There was something that did not go well with me.” This portrays a level of selective trust in the sense that participants judged the validity of the scheme because the transaction modes were operations of questionable security.

5. Conclusion, Implications and Limitations

5.1. Conclusion

This paper confirms that the continuity of pyramid scheme activity among Sri Lankan Gen Z and Millennials cannot be explained simply as financial illiteracy but as a more fundamental consequence of psychological preferences, trust in others, and a dependence position. Participants are willing to reinvest despite their repeated financial losses because of overconfidence, sunk cost fallacy, optimism bias, and exertion of influence by friends, family, and online networks. Gen Zs are frequently impulsive and making use of parental funds and pushy digital personalities, whereas the Millennials show social conformist and follow the advice of colleagues and close people. Recruitment within the circle of the trusted people only propagates the cycle of victimization and leaves the participants not only financially exhausted but also hurt by the emotional situation. Although pyramid schemes are illegal and their validity has been legislated and repeatedly cautioned against, the measures that have been put in place have not been effective in discouraging them, with participants being motivated primarily by the perceived legitimacy of the lens of professionalism that is disguised by the digital profile of the business, and social proofing. These results indicate that behavioral and social processes are important to pyramid scheme involvement, and therefore more effective behaviorally linked interventions are urgently needed.

5.2. Practical Implication

The study offers several practical implications for regulators, educational institutions, and the general population. Governments should take the realization that only 58% of the population of Sri Lanka is financially literate as of 2024 to mean that traditional education and warnings are no longer enough to alter the behavior of the population(CBSL, 2023). The regulatory authorities need to formulate nudging systems that incorporate behavioral science in regulation and financial learning. An example is digital friction where each online or app-based financial transaction displays a warning screen that must be selectively acknowledged to be able to proceed. It is possible to use loss-framed messages by presenting examples of real victims who lose their money as opposed to emphasizing the illegality of the schemes. Reversing social proof can be done by publicizing statistics on most participants who lose money as opposed to concentrating on the few lucky winners. Influential members of society like authority members, and popular social media personalities should be enlisted to convey anti-scam messages through social media platforms as well as other modes like television. To the population, this research indicates why there is a need to improve the level of financial literacy beyond the knowledge of types of investments. Target audiences are to learn to identify the manipulation techniques, analyze the offers critically and resist the peer influence, by means of creating a discussion in the community about the norms of skepticism towards the promises of getting rich within a short period of time. Schools, universities, and workplaces should institute discussions on fraud awareness into their financial education curriculums to help inoculate them against the scams. The importance of the study to researchers is that it shows that they need to get out of the purely traditional economic models of fraud participation and integrate psychology, sociology and behavioral economics.

5.3. Limitations and Further Research

Its sample of ten participants was enough to identify the most important themes, but it may not represent the entire population affected by pyramid scams. Later research needs more varied volunteers from other areas and socioeconomic backgrounds to better generalize the findings and see the problems. Further research should evaluate how repeated pyramid scheme participation affects mental health and finances. It would be interesting to compare cyberspace and social media's role in spreading pyramid schemes, given most are online and target younger people. Comparative examinations of pyramid schemes in different countries can show their worldwide impact and stricter regulatory responses. Finally, studies on how to improve financial literacy programs, especially those on the psychological causes of scams, are needed to help people make informed financial decisions.

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