

# The unravelling of an investment fraud

When the Bengaluru-based IMA Group of Companies wound up its operations, it not only left thousands of investors in the lurch but also raised questions on political patronage to Ponzi schemes that are being run in the name of Islamic banking. **Imran Gowhar** and **K.V. Aditya Bharadwaj** report on the scam

On a hot day in June, shortly after Eid, software engineer Naveed Ahmed found himself standing next to homemaker Nazim Begum and electrician Abbas Ali in a serpentine queue. In the queue were thousands of people – homemakers, salaried white-collared workers, businessmen and hawkers – who had lined up in front of Bengaluru’s Commercial Street Police Station, all victims of an investment fraud allegedly perpetrated by the Monetary Advisory (IMA) Group of Companies and its founder and managing director, Mohammed Mansoor Khan, who is in his late forties. Investigators estimate that the fraud has already crossed ₹2,500 crore in terms of loss to investors, most of whom are Muslims.

Mansoor was involved in the real estate, jewellery, healthcare and education sectors and fashioned his company as a ‘halal trading firm’, allegedly with the blessings of local political and religious leaders. His modus operandi was similar to that of a Ponzi scam where customers were lured by high dividends. “Such a scam operates on the constant circulation of money where old investors are paid from the funds put in by new customers. Money is ploughed into various businesses, in this case gold bullion, jewellery and real estate, among others. If any chunk of investment gets stuck, or there is a lack of new investors, it will disrupt the cycle. This is what appears to have happened with IMA,” explained a senior police officer investigating the matter.

As IMA started to unravel, Mansoor disappeared. Outside the Commercial Street Police Station, the crowd that began to gather on June 10 only grew larger over the days. In a video recording released on June 23, his second clip since the scam broke, Mansoor claimed to have fled the country on June 8, but expressed willingness to return. “At last count, 51,500 complaints had been registered across Karnataka; a majority of them from Bengaluru. The number could be much higher,” said a local police officer trying to make sense of the magnitude of the scam. The case has since been handed over to a Special Investigation Team (SIT), amidst a growing clamour for the Central Bureau of Investigation to investigate the matter.

Cynicism and defeat were rife among citizens that morning as they went through the motions of lodging a police complaint. “Defaulters like Nirav Modi and Vijay Mallya have fled taking loans from public sector banks and we know what happened. I have no hope of getting my money back,” said Syed Tanzeem, who has lost around ₹5 lakh.

Outrage against IMA and the politicians who patronised Mansoor was palpable. “Religious leaders, politicians and the police all are hand in glove in such schemes. They cheated the community,” claimed another complainant, Syed Rehman.

### Patronage from leaders

As the case unravelled, it transpired that members of the Muslim community had fallen prey to what was called ‘Mudarabah’, commonly referred to as ‘halal investment’ by a section of ulema (religious heads). They were apparently taken in by the visible political patronage and the company’s promise of high returns, which it reportedly met for the last 13 years.

To adhere to ‘Mudarabah’, I Monetary Advisory Pvt Ltd, which was founded in 2006, took investors as Limited Liability Partners in the firm and invested the money in a range of businesses. “The IMA Group did not take ‘deposits’ or give out ‘interest’. Instead, it sought investments from the public and issued Limited Liability Partnerships (LLPs) to investors, thereby making them partners. It paid investors or partners ‘dividends’ every month and marketed itself as ‘halal,’” the senior police officer said. Customers got high dividends, allegedly 36% annually.

On June 10, Mansoor left his first message that went viral on WhatsApp. The managing director who ran IMA for 13 years, with no complaints from investors, said he wanted to end his life as he was in deep financial trouble. He blamed R. Koshan Baig, the Shivajinagar MLA, for his situation claiming that the Congress leader had yet to return the ₹400 crore that he had taken from him. Baig denied the allegations. That was when clients began to panic and started approaching the police. Within days, the trickle of complaints became a torrent.

Faced with scathing criticism for the alleged involvement of its leaders, the Congress-JDS coalition government in Karnataka formed a SIT to probe the case. So far, raids on Mansoor’s offices and businesses have yielded over ₹30 crore in gold, diamonds, silver jewellery and bullion. The Enforcement Directorate, which has also launched a probe, has attached 20 properties worth ₹197 crore.

In the second video, which he released soon after his passport was blocked, Mansoor blamed politicians,



“Investigators estimate that the IMA fraud has already crossed ₹2,500 crore in terms of loss to investors, most of whom are Muslims.” (Clockwise from top): Investors submit documents at the A.S. Convention Centre, which was converted into a temporary police station, in Bengaluru on June 11, 2019; IMA founder Mansoor Khan; investors wait in front of the IMA office. •V. SREENIVASA MURTHY



businessmen and builders for the losses IMA suffered. He said he would hand over the list of those who had taken money from him to agencies once he returned. He urged investigators to recover the money from them, and claimed that IMA had assets worth ₹1,350 crore, which he would liquidate.

Mansoor had also ensured that he had the blessings of Bengaluru’s top ulema. There are videos of at least six clergy endorsing IMA as ‘halal’ and denouncing allegations of cheating. This, say the police, provided a veneer of “religious justification and endorsement” within the community. One well-known religious leader, Mohammed Maqsood Imran Rashadi of the Jamia Masjid near Bengaluru’s City Market, denied allegations that he patronised or endorsed IMA, claiming he had only spoken about the donations Mansoor made.

Community members, however, don’t make this distinction. There is la-

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**BOLWAR MAHAMMAD KUNHI**  
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tent anger against a section of the ulema for misleading their flock. IMA has always enjoyed visible political patronage by leaders from the community. At least two Chief Ministers have been guests at Mansoor’s functions and iftar dinners. “Every time there were allegations or IT raids, Mansoor held a function that was attended by prominent leaders,” said Ateeq Khan, an investor who lost money.

### Use of local media

Mansoor had invested heavily in two Urdu YouTube news portals after a deal to buy a Kannada news channel fell through. IMA allegedly funded an Urdu daily as well. “Mansoor also influenced the local print media as the IMA Group was one of the bigger advertisers. These papers regularly carried articles by influential members of the ulema denouncing the banking system as haram and exhorting people to invest in halal trading, but stopped short of naming a particular company. Many companies benefited from this, including IMA,” a senior Urdu journalist said.

IMA’s stranglehold on the Urdu print media was such that when L.C. Nagaraj, assistant commissioner, Bengaluru North Taluk, issued a public notice on November 16, 2018, alerting people that the Group was possibly perpetrating a fraud and appealed to citizens to file complaints, no one stepped forward. A prominent Urdu daily allegedly refused to publish the advertisement issued in public interest. “We tried publishing the public notice in Urdu newspapers to reach out to the community, but with little success,” Nagaraj said.

Courting the media or even media ownership was a tried and tested route and Mansoor was no stranger to this. Two more companies that sank – Heera Group and Injaz International Group – that claimed to be ‘halal’ trading firms owned and operated Kannada news channels at the height of their popularity.

### A tale of lax regulation

The IMA group scam is only the latest in a series of 14 such ‘halal trading firms’ in Bengaluru that have unravelled or simply vanished over the last year and a half, leaving customers running from pillar to post trying to get their money back.

Some of the more infamous cases in the past involved Ambidant Marketing, Injaz International, Heera Group and Ajmera Group. Conservative estimates put the number of customers cheated at nearly 1.25 lakh, and losses at over ₹5,000 crore.

Such firms were able to perpetuate scams for years, drawing investors from the Muslim community in droves, with relative impunity. “The community, which is relatively insulated, seems to have turned into a sort of an echo chamber for these firms. The so-called halal firms relied primarily on word of mouth,” said Mohammed Rafiq, a social worker.

All 14 ‘halal firms’ that were exposed for alleged scams were flagged by economic enforcement agencies in the State Level Coordination Committee (SLCC) over the past two years. However, police action followed only after these companies went bankrupt, and people started clamouring for justice.

“There has been a mushrooming of halal trading firms in the city. Most of these are Ponzi schemes and as the flow of new investors ebbed, they went broke. Only IMA Group and Heera Group are older. These firms are also linked. Fareed Ahmed of Ambidant Marketing was earlier working with the IMA Group and Mansoor Khan of the IMA Group started his career with the Heera Group. They seem to have learnt the ropes there before branching out to form independent companies,” said a senior economic enforcement official.

Of the 20-plus halal investment firms that were flagged by the SLCC over the last two years, 14 have since shut shop, but the remaining are still collecting investments, sources said. After the IMA scam broke, community leaders have listed 42 such firms in the city, which include the 14 that are no longer active. “Only proactive regulation of these firms can save the community from taking further hits,” a senior official said.

If many of these companies were already under the scanner of investigative agencies, how did they get away with it? In the case of the IMA Group, despite a public notice in November 2018, not one complaint came forward as the firm was, at the time, still paying its investors monthly instalments, said a senior police officer.

The LLP model allowed IMA to be excluded from the definition of deposit under the Karnataka Protection of Interest of Depositors in Financial Institutions Act (KPID), 2004 and The Banning of Unregulated Deposit Schemes Ordinance, 2019. Though the State Revenue Department and Economic Offences Wing of the Criminal Investigation Department initiated probes between November 2018 and March 2019, these did not end in punitive action, as officials concluded that the KPID Act did not apply to IMA.

### Not without pitfalls

Some Islamic scholars argue that the non-availability of interest-free financial instruments in the banking system is one of the main reasons for the relative exclusion of the Muslim community from formal commercial banking, pushing them to Ponzi-like schemes in the unregulated private sector. A 2008 Planning Commission Report

authored by a committee chaired by former RBI governor Raghuram Rajan also arrived at a similar conclusion. The report, ‘A Hundred Small steps: Report of the Committee on Financial Sector Reforms’, said: “Certain faiths prohibit the use of financial instruments that pay interest. The non-availability of interest-free banking products results in some Indians, including those in the economically disadvantaged strata of society, not being able to access banking products and services due to reasons of faith.”

Both the 2008 Planning Commission Report and a Report of the Committee on Medium-term Path on Financial Inclusion, 2015, submitted to the RBI governor, recommended that “measures be taken to permit the delivery of interest-free finance on a larger scale, including through the banking system” and “commercial banks in India may be enabled to open specialised interest-free windows”, respectively.

However, in a reply to an RTI query by Press Trust of India in 2017, the RBI said it had decided not to pursue the proposal to introduce Islamic banking, “taking into account, the wider and equal opportunities available to all citizens to access banking and financial services.”

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**SVYED TANZEEM**  
Investor

The decision drew criticism from Islamic banking experts and intellectuals in the community, who pointed out that other countries – the U.S., the U.K., Hong Kong, Sri Lanka and most of West Asia – have implemented it successfully. “Profit sharing banking is based on sound economics and ethical principles. If nomenclature is the issue, one need not call it Islamic banking, like it is done in several countries. The RBI report has called it interest-free banking,” said Mumbai-based Islamic finance expert Shariq Nisar.

He believes that a vacuum of interest-free banking in the formal sector has allowed companies like IMA to thrive. “There is a section of consumers demanding a certain product which the market will provide, if not by the formal sector, then by fly-by-night operators. But isn’t the government as a regulator responsible for not letting consumers be cheated?”

Other experts argue that citing Islamic banking as the reason for such scams to thrive is simplistic. Kannada writer Bolwar Mohammad Kunhi, a two-time Sahitya Akademi awardee, who worked for over three decades in a nationalised bank, said that simply assuming Muslims were investing in ‘halal’ firms due to religious reasons was “stereotyping the community”.

“Thousands of those investors who lost money in such firms are also part of the financial banking system holding accounts and availing loans with interest, which have been declared ‘haram’ by the orthodox clergy within the community. Investment in these firms are



driven by greed, with only a fig leaf of religion cynically used to rationalise it, by both the investors and the company,” said Kunhi.

Naveed Ahmed Khan, 42, an engineer who lost money in both Ambidant Marketing and the IMA Group, was candid about his motives: the firms promised higher returns and their businesses were visible. “I did not invest for any religious reasons. I am part of the formal banking system as well. This was an investment that went wrong,” he said.

The ‘Social, Economic and Educational Status of the Muslim Community in India’, 2006, or the Sachar Committee Report, in its chapter, Access to Bank Credit, observed: “The Muslim community is not averse to banking and more improvements can be brought about with specific measures.”

Scholars and economists say there is a need for ulemas to denounce these firms. “It is the ulema’s voice that has resonance in the community. We need to convince people that the interest we get in banks is also fair and not *haram*. The Islamic tenet is against usury which is being interpreted in a very orthodox fashion,” said Professor Abdul Aziz, a Bengaluru-based economist. Most Ponzi schemes have led to allegations of political patronage and funding. Reports suggest that Mansoor extensively funded politicians during the 2018 Assembly and 2019 Lok Sabha elections, though parties have denied these allegations. “Lack of proactive enforcement has its roots in political corruption and weakened and politicised enforcement agencies,” said advocate and anti-corruption activist Prashant Bhushan.

The impact on the customers is not just economic, but social as well. “A large number of families of the community have lost all their savings. Women have pledged gold to invest money in some of these firms without the knowledge of their families, which has now come in the open creating family conflicts. A large section of the community has effectively socio-economically regressed by a decade,” said Muzaaffar Assadi, political scientist and special officer, Raichur University, Karnataka.

For now, investors continue to approach the police. Few believe that they will get their money back, as they watch the SIT carry away cartloads of wealth from the three-storeyed office in the city’s Shivaji Nagar area that was the nerve centre of Mansoor’s operations.