

**CFATF Research Desk
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Pig Butchering: Understanding the Crypto Investment Scam





Introduction

- This is the first article in a three-part “Emerging Trends” series. The series aims to highlight different types of financial crimes and activities as well as their associated red flags. The following article focuses on understanding the ‘Pig Butchering’ scam.



What is a Pig Butchering Scam?

- It is a confidence scam, where the goal is to gain the trust of the victim by building a relationship with them over time, before luring them into cryptocurrency investments and eventually disappearing with the funds.
- It is a methodical and targeted scheme. Its name reflects the fact that the victim is metaphorically “fattened up” by believing they have built a trusting relationship before being “led to slaughter” by having their assets stolen.
- These scams originated in China but have expanded to countries in South-East Asia such as Laos, Myanmar and Cambodia. Victims are targeted internationally, such as in North America and Europe.



Estimates of the Pig Butchering Scam

- In 2021, the FBI's Internet Crime Complaint Centre (IC3) received more than 4,325 complaints, with losses over US\$429 million from crypto-romance scams.
- In 2022, the IC3 indicated that investment fraud caused the highest losses of any scam reported by the public, totalling US\$3.31 billion.
- Frauds involving cryptocurrency, including pig butchering, represented most of these scams, increasing 183% from 2021 to US\$2.57 billion in reported losses in 2022.



How is the Scam perpetrated?

1. The scammer contacts a victim usually on dating, social media apps, phone calls and text messages that appear to be misdialed or sent to the wrong person.
2. After building trust and rapport, the scammer will convince the victim to make investments in cryptocurrency to take advantage of the potential for high yield returns.
3. To facilitate the investment and demonstrate their returns, the victim is directed to websites and/or apps that appear authentic but are actually controlled by the scammer.



How is the Scam perpetrated?

4. The victim makes cryptocurrency investments through these fake sites/apps, which show significant returns initially, encouraging the victim to make larger investments.
5. Further requests by the victim to withdraw or cash-out their investments are denied, or they are asked to pay high "fees" to unlock their accounts.
6. The scammer vanishes, ending contact with the victim, and taking the invested sums with them.



Crimes associated with Pig Butchering Scams

- Unlike other types of cyber criminals, the perpetrators of these scams are often victims themselves, lured by criminals posing as fake recruiters that target young people and other vulnerable groups seeking gainful employment.

Human Trafficking and Forced Labour¹

- The scammers can be victims of human trafficking since they are physically forced into scam compounds² in various locations such as Laos, Myanmar, and Cambodia to be forced to carry out cybercrimes.
- Organized crime groups lure individuals who are usually in debt and/or unemployed with promises of high paying jobs in fake recruitment advertisements.

¹Human trafficking refers to a crime whereby traffickers exploit and profit at the expense of adults or children by compelling them to perform labour or engage in commercial sex. Forced labour is a form of human trafficking that encompasses the range of activities involved when a person uses force, fraud, or coercion to exploit the labour or services of another person.

²A scam compound is a property housing fraud operation conducted using a variety of schemes, sometimes also housing trafficked victims who are forced to commit the frauds.



Crimes associated with Pig Butchering Scams

Human Trafficking and Forced Labour (cont'd)

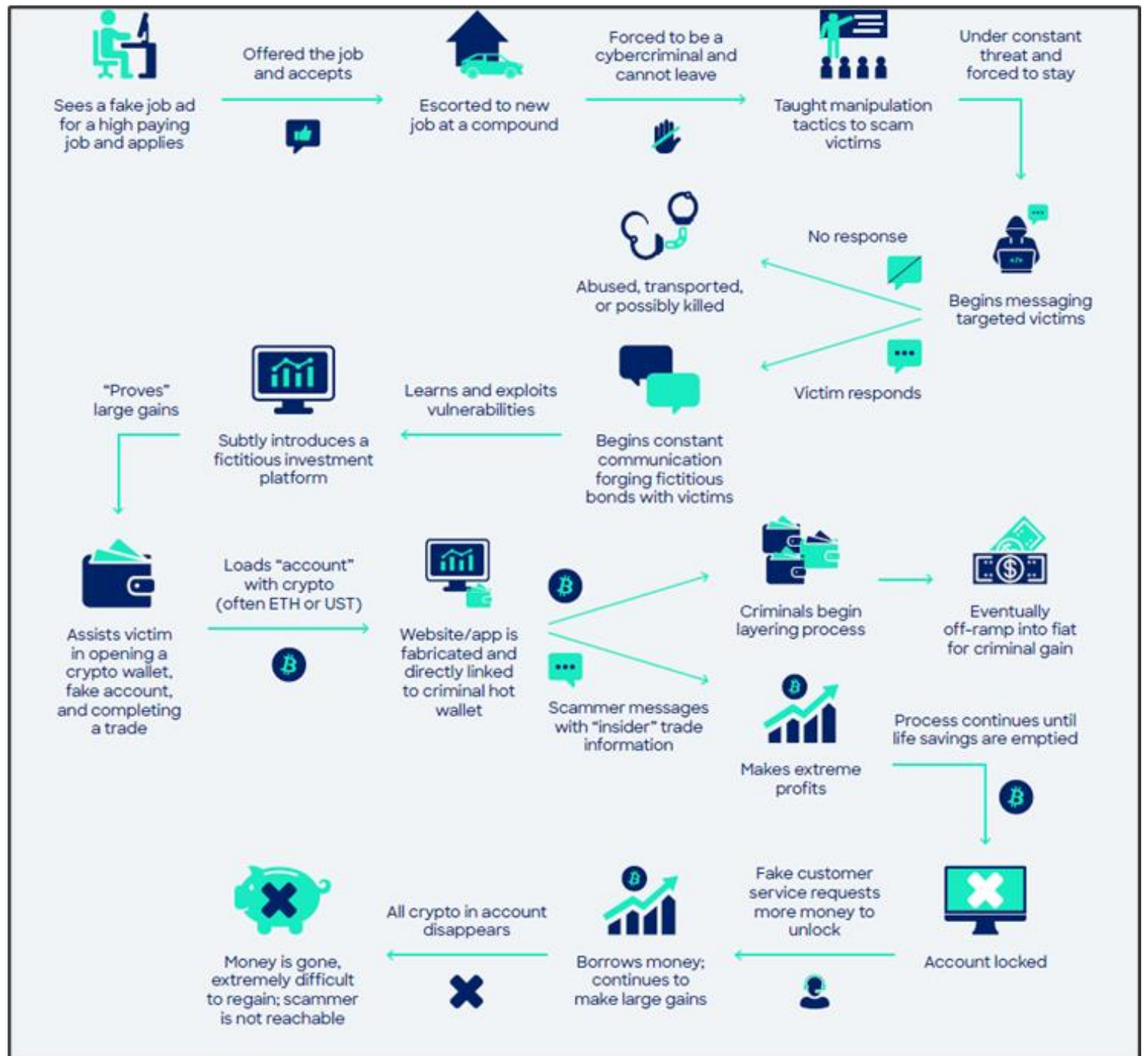
- Victims typically travel for the advertised job opportunity. However, these persons would have their travel and other documents seized by criminals upon arrival and are forcibly transported to scam centres.
- Victims in scam centres are subjected to physical and sexual violence, restriction of movement and debt bondage from travel fees, room bookings and being sold between different scam compounds.

Kidnapping

- Some criminals demand high ransoms from the victim's family to pay off "debts" incurred before their release from scam compounds.
- Traffickers may also kidnap persons from their communities and force them to work to "earn" their freedom.



The Pig Butchering Scam Process





Pig Butchering Scam Red Flags

- The following indicators for the Pig Butchering scheme in financial institutions (FIs) have been identified by FinCEN and law enforcement.
- FIs should consider the surrounding facts and circumstances, whether the transactions are in line with prevailing business practices, and whether the customer exhibits multiple red flags, before determining if a behaviour or transaction is suspicious or otherwise indicative of the scam before filing a suspicious activity report (SAR).

Behavioural Red Flags

- A customer with no history of using, exchanging, or otherwise interacting with virtual currency attempts to exchange a high amount of fiat currency from an existing or newly opened bank account for virtual currency or attempts to initiate high-value transfers to VASPs.
- A customer expresses interest in an investment opportunity using virtual currency with significant returns that they were told about from a new contact who reached out to them unsolicited online or through text message.



Pig Butchering Scam Red Flags

Behavioural Red Flags

- A customer mentions that they were instructed by an individual who recently contacted them to exchange fiat currency for virtual currency at a virtual currency kiosk and deposit the virtual currency at an address supplied by the individual.
- A customer appears distressed or anxious to access funds to meet demands or the timeline of a virtual currency investment opportunity.

Financial Red Flags

- A customer uncharacteristically liquidates savings accounts prior to maturation and then subsequently attempts to wire fiat currency to a VASP or to exchange them for virtual currency.
- A customer takes out a large loan and uses the proceeds to purchase virtual currency or wires the proceeds to a VASP for the purchase of virtual currency.



Pig Butchering Scam Red Flags

Financial Red Flags

- Accounts with large balances that are inactive or have limited activity begin to show constant, uncharacteristic, sudden, abnormally frequent, or significant withdrawals of large amounts of money being transferred to a VASP or being exchanged for virtual currency.
- A customer sends multiple electronic funds or wire transfers to a VASP or sends part of their available balance from an account or wallet they maintain with a VASP and notes that the transaction is for "taxes," "fees," or "penalties."
- A customer with a short history of conducting several small-value transfers to a VASP suddenly begins sending multiple high-value wire transfers to accounts of holding companies, limited liability corporations, and individuals with which the customer has no prior transaction history. This is indicative of a victim sending trial transactions to a scammer before committing to and sending larger amounts.



Pig Butchering Scam Red Flags

Technical Red Flags

- A customer mentions that they are going to invest in virtual currency using a service's website or application with poor spelling or grammatical structure, dubious customer testimonials, or a generally unprofessional site design.
- A customer mentions that they downloaded an application on their phone directly from a third-party website, rather than from a well-known third-party application store or an application store installed by the manufacturer of the device.
- A customer mentions visiting a website or application that is purported to be associated with a legitimate VASP or virtual currency investment business. However, the website shows warning signs like misspelt web address or domain name, no physical street address and international contact information.



References

1. ACAMS, August 9, 2023. "Webinar - Pig Butchering: An Emerging Crypto Investment Scam Swindling Billions of Dollars."
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3. FBI, April 5th, 2022. "Building a Digital Defense Against a New Cryptocurrency Scam: Pig Butchering." Accessed October 16th, 2023. Internet Crime Report - 2021
4. FBI Internet Crime Complaint Centre. 2021. "". FBI. Accessed October 13th, 2023.
5. FBI Public Service Announcement, May 22, 2023. "The FBI Warns of False Job Advertisements Linked to Labor Trafficking at Scam Compounds." Accessed October 10th, 2023.
6. FinEN, September 8, 2023. FinCEN Alert on "Prevalent Virtual Currency Investment Scam Commonly Known as "Pig Butchering"". Accessed October 16th, 2023.
7. U.S. Department of State, April 26, 2022. Understanding Human Trafficking. Accessed November 2nd, 2023.



Thank you for reading our article. In next month's article, the focus will be on money mules.



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