Pace of cryptocurrency fraud losses accelerates in Q1 – FTC

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Market Intelligence

Consumers lost about $329 million from cryptocurrency fraud in the first quarter of this year, nearly half as much as during the whole of last year, according to data released this month by the Federal Trade Commission.

Losses totaled $680 million in 2021, up from $130 million in 2020 and $33 million in 2019.

This year, the overwhelming majority of losses so far have been from investment-related fraud, $575 million. The remainder was associated with romance scams, business imposters or government imposters.

Part of the allure for scammers is that crypto transfers are irreversible, the FTC wrote. In addition, there is no bank or other centralized authority flagging transactions that seem suspicious and trying to prevent fraud, the agency noted.

The irreversible aspect is similar to wire transfers and gift cards, which have also been used by scammers, said Christopher Leach, partner in the litigation and dispute resolution practice at Mayer Brown LLP. Previously he worked in the FTC's Division of Financial Practices and focused on fintech and fair lending.

"The different regulators are using all of their enforcement muscles," Leach said. Given the levels of fraud, enforcement is likely to come from multiple directions, he added.

President Joe Biden issued an executive order related to digital assets in March.

"The regulatory community is very focused on digital assets and cryptocurrency," Leach said. "The government seems to be taking what they call a 'whole of government' approach to that and making sure that each agency knows what its function may or may not be."

Scammers might take advantage of the draw that some consumers feel to investing in cryptocurrency, said James Angel, associate professor at Georgetown University's McDonough School of Business, whose specialties include financial market regulation.

"With the high prices and huge ferment in the crypto market, the fraudsters are eager to cash in on FOMO," Angel wrote in an email, referring to the concept of the fear of missing out. "Fraudsters are happy to create bogus coins and too-good-to-be true staking schemes to take advantage of the gullibility of the FOMO crowd. Plus, the increase in access to crypto makes it easier for scammers to scare people into paying them in bitcoin."