

MEMORANDUM

To: Members, Committee on Financial Services

From: National Security, Illicit Finance, and International Financial Institutions Staff

Date: September 13, 2024

Subject: Subcommittee on National Security, Illicit Finance, and International Financial Institutions Hearing: “Protecting Americans’ Savings: Examining the Economics of the Multi-Billion Dollar Romance Confidence Scam Industry”

On Wednesday, September 18, 2024, at 2:00 p.m. the Subcommittee on National Security, Illicit Finance, and International Financial Institutions will hold a hearing titled: “Protecting American’s Savings: Examining the Economics of the Multi-Billion Dollar Romance Confidence Scam Industry.” The following witnesses will testify:

- **Ms. Dara Daniels:** Associate Director, Research & Analysis Division, Financial Crimes Enforcement Network (FinCEN)
- **Mr. Matthew Noyes:** Cyber Policy & Strategy Director, United States Secret Service
- **Mr. Scott Rembrandt:** Deputy Assistant Secretary for Strategic Policy, Office of Terrorist Finance & Financial Crimes, Department of the Treasury
- **Ms. Erin West:** Deputy District Attorney, Santa Clara County District Attorney’s Office

Background: Romance Confidence Scams

Romance Confidence Scams (RCS), otherwise known as Confidence Scams, Investment Scams, or Pig Butchering, (derived from "Sha Zhu Pan," or Killing Pig Plate) is a type of scam where victims unwittingly transfer considerable wealth to criminal organizations thinking they are making legitimate investments. Scammers purchase leaked personal information off the dark web, and use this information to send seemingly random messages in the form of a text, WhatsApp message, or messages on social media platforms. This initial outreach is staged as a message to the “wrong person” culminating in months of messaging between the victim and scammer to build trust and a personal connection. Ultimately, the scammer introduces a cryptocurrency investment opportunity, resulting in the victim investing thousands of dollars in fraudulent cryptocurrencies.¹

Romance scams, including Pig Butchering, can target people of any age but routinely target individuals who are lonely, going through difficult life events, or the elderly. This scam is known as a “slow burn” or a “long con” where victims are groomed with friendly conversation and the illusion of companionship and/or romantic potential for weeks, even months, before the topic of investments is discussed. Once investment is discussed, the scammer will claim s/he has the ability to make large profits very quickly via cryptocurrency trading. The victims are then

¹ Griffin, John M. and Mei, Kevin, *How Do Crypto Flows Finance Slavery? The Economics of Pig Butchering* (Feb. 29, 2024), <https://ssrn.com/abstract=4742235>, <http://dx.doi.org/10.2139/ssrn.4742235>.

taken to a fictitious crypto trading platform with a fake investment portfolio with inflated investment returns. The scammer hastily works to push the victim to invest as much as possible in as little time as possible. This includes encouraging victims to pull from their 401k accounts, take out loans, refinance their homes, liquidate stock positions, or even borrow considerable sums from family and friends.

These types of schemes began in China roughly seven years ago. Since then, the scamming industry has amassed an extensive presence with a global impact.² Most of the scam centers – where the criminal syndicates operate – are in border towns across Southeast Asia. Targets of pig butchering are primarily located in the U.S., Europe, and other Western countries, but also in China. Online gambling bans in varying degrees across China, Laos, Thailand, and Cambodia, combined with the societal and economic repercussions of the COVID-19 pandemic, have forced criminal syndicates to adapt their operations and their workforce recruitment methods.³ This includes forcing traffickers to “fraudulently recruit people into criminal operations under the pretense of offering them real jobs.”⁴ These victims oftentimes fall into human trafficking networks because of widespread business shutdowns and the lack of work opportunities for young graduates in Southeast Asia, and the region.⁵

According to the FBI’s Internet Crime Complaint Center (IC3) 2023 Internet Crime Report, over 17,000 complaints with losses of over \$652 million were reported due to romance confidence scams in the United States.⁶ This is lower than what was observed in 2021 and 2022. In 2022, there were over 19,000 reported complaints with losses totaling over \$735 million.⁷ In 2021, over 24,000 complaints were reported by victims who lost over \$956 million to these scams.⁸ Despite these numbers, experts in the field agree that embarrassment prevents many victims from reporting in an attempt to move past the scam without anyone knowing.

Human Trafficking and Forced Labor

RSCs are a unique type of fraud with “two sets of victims: the individual losing their life savings, and the trafficking victim forced to carry out the heinous act. Scammers are often also victims themselves – lured through fake job ads on social media sites or lucrative offers by recruiters, only to be trafficked and held captive [in Southeast Asia] by syndicates who operate the elaborate scam centers.”⁹

The growing emphasis placed on the “exploitation of the scammers themselves – the people on the other side of the unsolicited text messages” is a newer trend with respect to the

² Natashya Gutierrez, *For Trafficking Victims Forced to Scams Other, the Nightmare Continues Even After Escape*, TIME (Dec. 14, 2023), <https://time.com/6344077/pig-butcherer-scams-trafficking-victims-trauma/>.

³ United Nations Human Rights, [ONLINE SCAM OPERATIONS AND TRAFFICKING INTO FORCED CRIMINALITY IN SOUTHEAST ASIA](#) (2023).

⁴ *Id.*

⁵ *Id.*

⁶ Federal Bureau of Investigation, [INTERNET CRIME REPORT 2023](#) (2023).

⁷ Federal Bureau of Investigation, [INTERNET CRIME REPORT 2022](#) (2022).

⁸ Federal Bureau of Investigation, [INTERNET CRIME REPORT 2021](#) (2021).

⁹ Natashya Gutierrez, *For Trafficking Victims Forced to Scams Other, the Nightmare Continues Even After Escape*, TIME (Dec. 14, 2023), <https://time.com/6344077/pig-butcherer-scams-trafficking-victims-trauma/>.

threats associated with RSCs.¹⁰ After being recruited under false pretenses of employment or opportunity in Southeast Asian countries, scam camp operators and facilitators take the passports of the trafficked workers and move them to compounds in primary trafficking hubs like Myanmar, Laos, Cambodia, and secondary hubs such as Thailand, Malaysia, Vietnam, and the Philippines.¹¹ According to a United Nations report at the end of 2023, it was estimated that there are at least 120,000 people across Myanmar and 100,000 people in Cambodia forcibly involved in online scams.¹² Many of the scam centers are located in jurisdictions across Southeast Asia where “governance and the rule of law are weak, authority is contested,” and ongoing violence and armed conflict run rampant.¹³

The property on which these compounds are located are usually owned by one company. The company leases the space to companies that in turn carry out the scams and inhabit the compound under horrendous conditions. Eric Heintz, from the International Justice Mission,¹⁴ noted that “the conditions these people face are horrible...they're forced to work 12 or more hours per day, and if they don't meet quotas on contacting potential scam victims, the gangs beat them, torture them, and even withhold food.”¹⁵

Chinese Criminal Gangs

The epicenter of the scamming activity is located in the [Chinese] borderlands of Myanmar, Cambodia and Laos, where weak governance, vast swathes of largely unregulated territory, widespread corruption and armed conflict provide virtually free license for the criminal networks to gain a solid foothold over the past decade.¹⁶ Transnational criminal networks are predominately from China. Until recently, Beijing has done very little to disrupt these criminal groups overseas. In many cases, Chinese enterprises, government and party institutions played a role in deepening the gangs' influence across Southeast Asia to further their own goals.¹⁷

However, since 2022, the Chinese government has aggressively cracked down on Chinese scam syndicates targeting Chinese nationals. In May of 2024, the Chinese police reported that repatriated nearly 50,000 Chinese nationals out of scam syndicates in Southeast Asia. As a result, according to U.S. authorities, Americans are now targeted more than any other

¹⁰ Chainalysis Team, *The On-chain Footprint of Southeast Asia's 'Pig Butchering' Compounds: Human Trafficking, Ransoms, and Hundreds of Millions Scammed*, CHAINALYSIS (Jan. 24, 2024), <https://www.chainalysis.com/blog/pig-butchering-human-trafficking/>.

¹¹ Suneth Perera and Issariya Praithongyaem, 'My hell in Myanmar cyber slavery camp', BBC (Apr. 20, 2024), <https://www.bbc.com/news/articles/cw076g5wnr3o>.

¹² United Nations Human Rights, [ONLINE SCAM OPERATIONS AND TRAFFICKING INTO FORCED CRIMINALITY IN SOUTHEAST ASIA](#) (2023).

¹³ *Id.*

¹⁴ INTERNATIONAL JUSTICE MISSION, <https://www.ijm.org/> (last visited Sept. 2, 2024).

¹⁵ Chainalysis Team, *The On-chain Footprint of Southeast Asia's 'Pig Butchering' Compounds: Human Trafficking, Ransoms, and Hundreds of Millions Scammed*, CHAINALYSIS (Jan. 24, 2024), <https://www.chainalysis.com/blog/pig-butchering-human-trafficking/>.

¹⁶ United States Institute of Peace, [Southeast Asia Web Scams Reach U.S., Setting Off Alarms for Law Enforcement](#) | [United States Institute of Peace \(usip.org\)](#) (last visited Sept. 03, 2024).

¹⁷ *Id.*

group in the world. This trend is reflected by reports from China of a 30 percent decrease in these scams over the past 8 months, while the U.S. reports unprecedented increases.¹⁸

Legislative Proposals

1. H.R. 9480, the *Empowering Law Enforcement to Combat Financial Fraud Act* (Nunn)
 - a. This bill allows state and local law enforcement to evolve and keep up with technology to identify cybercriminals. Specifically, it will clarify the ability to use federal funds for blockchain tracing capabilities for local and state law enforcement.
2. H.R. 9278, the *Protect Small Business from Excessive Paperwork Act* (Nunn)
 - a. This bill provides small businesses with a year extension for beneficial ownership reporting requirements.
3. H.R. 8863, the *BRAVE Burma Act* (Huizenga)
 - a. This bill amends the Burma Unified through Rigorous Military Accountability Act of 2022 to extend the sunset, to require a determination with respect to the imposition of sanctions on certain persons of Burma.

¹⁸ United States Institute of Peace, [Southeast Asia Web Scams Reach U.S., Setting Off Alarms for Law Enforcement | United States Institute of Peace \(usip.org\)](#) (last visited Sept. 03, 2024).