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# When bitcoins go bad: 4 stories of fraud, hacking, and digital currencies.



By **Andrea Peterson** November 26, 2013

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(Rick Bowmer/AP, file)

With Bitcoin interest (and prices) spiking, you might be considering investing in your own little cache of digital currency. But before you set up a Bitcoin wallet, you should think long and hard about who will watch over your digital wealth. In its relatively short lifespan, Bitcoin wallets and processors have been a target for hackers -- and old-fashioned

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fraudsters. In fact, within the last week, one of the most prominent European exchanges reported it had lost over \$1 million worth of bitcoins to hackers.

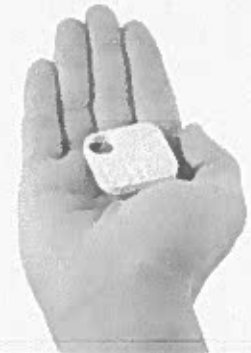
An academic study published earlier this year by Tyler Moore at Southern Methodist University and Nicolas Cristin at Carnegie Mellon about the risks associated with Bitcoin exchanges reported that 18 of 40 services they studied over three years closed "with customer account balances often wiped out." In that study, less popular services were more likely to just disappear than popular exchanges -- but popular exchanges were more likely to suffer security breaches, which have also been blamed for disappearing bitcoins.

Their research supports the anecdotal evidence about the security of various Bitcoin services -- or lack thereof. The forum Bitcoin Talk has a relatively comprehensive list of incidents, but here are a few of the most notable (and costly) stories about investing in Bitcoins going bad.

### ① **European payment processor and wallet service loses over \$1 million worth of bitcoins**

BIPS, a Denmark-based Bitcoin payment processor with a free online wallet service reportedly lost 1,295 bitcoins over the course of a few days earlier this month -- just over \$1 million worth at current exchange rates. Coindesk reports that the service was

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the subject of a series of DDoS attacks that appeared to be connected to the heist. The company's CEO said most of the missing funds were from the company's own holdings, but a statement addressing the incident noted that some users also took a hit

BIPS has been a target of a coordinated attack and subsequent security breached. Several consumer wallets have been compromised and BIPS will be contacting the affected users.

### ② **Inputs.io loses \$1.2 million worth of bitcoins to apparent hack**

Another online wallet service, Inputs.io, was compromised in late October. Hackers reportedly made off with 4,100 bitcoins, then worth \$1.2 million, during two separate attacks -- despite an extensive list of security measures. TradeFortress, an individual associated with the service, said that it was a social engineering attack that allowed the adversary to reset the passwords for the system's cloud-hosting provider. Users are eligible for a partial refund of their losses out of its remaining funds on a sliding scale that decreases based on how much was stored, likely cold comfort for anyone storing significant sums with the service.

### ③ **Chinese Bitcoin trading platform disappears - with \$4.1 million worth of bitcoins**

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A prominent Chinese Bitcoin exchange that claimed to be based in Hong Kong, GBL, disappeared in late October -- along with \$4.1 million worth of bitcoins. The platform had only launched in May, and there were a few other red flags, including that it did not obtain a license to operate financial services, according to the Want China Times.

## 4 Alleged Bitcoin Ponzi scheme faces SEC suit

In 2011, an individual started advertising returns on Bitcoin investments that sounded too good to be true -- 1 percent interest daily via an investment scheme eventually called Bitcoin Savings and Trust. The whole thing looked like a bit of a pyramid scheme and shut down without returning some 500,000 bitcoins (then worth more than \$5.6 million) to investors in 2012. And an SEC suit alleges that it *was* too good to be true, saying the proprietor of the service "falsely promised investors up to 7% interest weekly," but the actual offering "was a sham and a Ponzi scheme" where he used new investments to pay off outstanding returns and pocketed the rest.

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Andrea Peterson covers technology policy for The Washington Post, with an emphasis on cybersecurity, consumer privacy, transparency, surveillance and open government.

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