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Big banks in the UK want Big Tech to chip in on fraud repayment

Article

The news: UK banks are demanding that Big Tech chips in on fraud victim reimbursement, per The Telegraph.

What are banks saying? Major UK banks including **Lloyds**, **Barclays**, **TSB**, and **Santander** are specifically calling out **Facebook**, **Google,** and other tech and telecom giants for their role in online fraud. The banks believe that **the "polluter pays" principle** should require these companies to pay into a communal account that reimburses online fraud victims.

- Currently, banks in the UK that have signed and agreed to abide by a code issued by the **Lending Standards Board** voluntarily reimburse victims.
- The "polluter pays" principle would require firms in other sectors that contribute to the facilitation of the fraud to chip in toward reimbursement. For example, a telecom company that allowed fraudulent web links to circulate via text, or a social media company that ran a fraudulent investment ad, would be required to pay into the pot.

Can fraud be stopped? According to Barclays, more than three-quarters of online scams occur on social media, auction sites, and dating sites. Executives at Barclays and at other banks say tech companies involved in the facilitation of the scams should be required to report data on the scams that they identify on their platforms. But the banks also say that the primary goal should be to prevent fraud from happening in the first place.

- Banks argue that the lack of a requirement for companies in other sectors to contribute toward the reimbursement gives those companies no incentive to stop the scams from circulating.

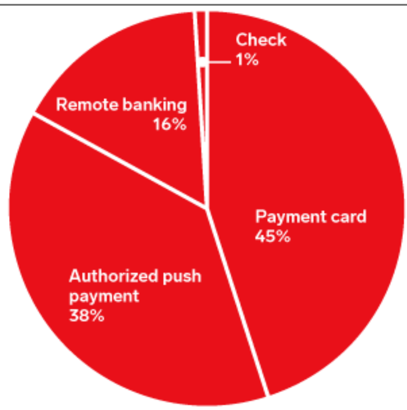
In the UK, Google and Facebook parent company **Meta** say they don't run financial advertisements on their platforms unless they're approved by the **Financial Conduct Authority** (FCA).

The bigger picture: For quite some time, banks have been sounding off on the need for companies in other sectors to pitch in on fraud reimbursement. But now they're taking a more pointed approach and naming specific companies that should be required to chip in.

- Earlier this month, UK trade group UK Finance reported that £1.3 billion ($1.8 billion) was stolen through fraud and scams during 2021, **up an alarming 39%** from the previous year.
- In May, the UK introduced the **Financial Services and Markets Bill**, which, if enacted, would allow regulators to require banks to reimburse victims of authorized push payment (APP) fraud.

UK Fraud Loss, by Type, 2020

% of total



Source: UK Finance, "Fraud - the Facts 2021" sponsored by LexisNexis, March 25, 2021

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Meanwhile, in the US, many banks are coming under fire for denying repayment to fraud victims. Many of these incidents result from scams run on peer-to-peer (P2P) payment apps like **PayPal** and **Zelle**. Big banks like **Wells Fargo**, **Bank of America**, and **Capital One** face a slew of class-action lawsuits for their unwillingness to reimburse the victims.

Potential Barriers to Digital Payment Adoption According to US Adults, by Age, May 2022

% of respondents in each group

	18-34	35-54	55+	Total
Concern about fraud	44%	45%	51%	49%
Don't want to register with more apps	44%	45%	47%	46%
Don't want to share account info	30%	34%	41%	38%
Don't know enough about it	26%	27%	37%	33%
FI does not provide the ability to use faster/instant payments	26%	20%	20%	21%
No rewards/loyalty points	29%	21%	18%	20%
Friends/family cannot accept or receive faster/instant payments	21%	19%	12%	15%
Too long to transfer money at different FIs	15%	9%	6%	8%
Other	7%	10%	16%	13%
None of the above	8%	9%	7%	8%

Note: among those with limited/no interest in using digital payment methods
Source: Federal Reserve Banks, "Federal Reserve Market Readiness Brief: Today's On-Demand Lifestyle Is Spurring Greater Demand for Faster Payments" conducted by Phoenix Marketing International, May 16, 2022

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The big takeaway: The troublesome 2021 fraud statistics in the UK are likely to prompt regulators to step in. The current voluntary repayment program hasn't been enough—**less than half (47%) of fraud victims have actually been reimbursed** through it for their 2021 losses. We expect mandatory reimbursement proposals to pop up soon—and banks are making a strong case for the inclusion of non-banking sectors.

The US will likely follow suit as the **Consumer Financial Protection Bureau** (CFPB) steps up its vigilance on P2P apps and reshapes its image as a primary advocate for consumers. With online fraud a primary concern in both countries, regulation around how to combat it provides yet another opportunity for the FCA to work hand-in-hand with the CFPB.