

Democratic lawmakers call on banking regulators to help tackle P2P payments fraud

Article

The news: Five Democratic senators asked US banking regulators to strengthen consumer protections around peer-to-peer (P2P) payment fraud on Zelle in a [letter](#) sent last week.

- They want the **Federal Reserve**, the **Federal Deposit Insurance Corporation**, the **National Credit Union Administration**, and the **Office of the Comptroller of the Currency (OCC)** to review the customer reimbursement and anti-money laundering (AML) practices of banks that use Zelle's network.
- They also asked the Federal Reserve and OCC to examine Zelle-operator **Early Warning Services (EWS)** “on an ongoing basis.”

The senators said supervision should evaluate safety risks and compliance with consumer protection and AML laws. If and when they find EWS in violation of these protocols, the agencies should “act promptly.”

Digging deeper: Some lawmakers have accused banks of “abdicating responsibility” when it comes to refunding Zelle fraud victims despite **growing fraud and scam** issues on the platform.

But EWS has pushed back. It classifies illicit activity in two buckets: fraud and scams.

- Fraud is when someone gains unauthorized access to a user's account to send money to themselves.
- Scams are when account owners are tricked into sending money to a bad actor—also known as authorized push payments (APP) fraud.

Zelle has a “zero liability policy” for fraud and will reimburse customers. But Zelle doesn't have an APP fraud policy. And it uses regulatory gray areas to avoid refunding customers in such cases.

- That's why senators like Elizabeth Warren (D-MA) have sought the **Consumer Financial Protection Bureau's** help in strengthening Regulation E, the Federal Reserve's implementation of the Electronic Fund Transfers Act.
- But banks generally oppose broadening Regulation E to include APP fraud. Some execs argue that customers could take advantage of the policy by filing false fraud claims.

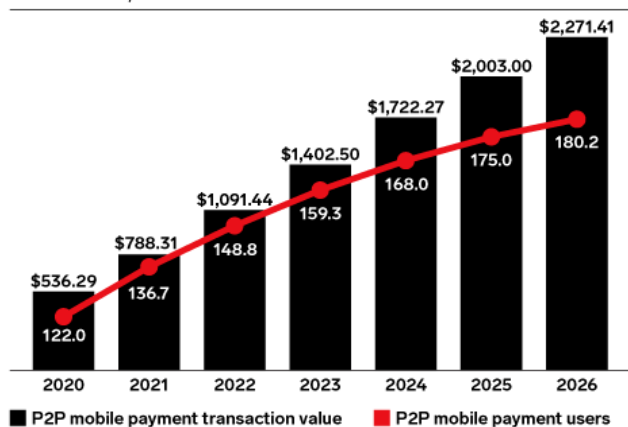
EWS also told Insider Intelligence that it's already “supervised and regularly examined” by the OCC and the CFPB.

Why it's worth watching: P2P payments are growing rapidly, and lawmakers fear that without proper guards, P2P fraud will also proliferate.

- **US P2P payments value** is expected to hit **\$1.042 trillion in 2023**, increasing 28.5% year over year (YoY), per Insider Intelligence forecasts.
- While fraud is an issue across the entire P2P payments sector, lawmakers have honed in on Zelle because it handles the largest share of P2P payments volume—we expect it will account for **50.5% of total P2P volume this year**.

Even though Zelle has **reportedly developed a plan** that will require the recipient’s bank to reimburse the payer for fraudulent transactions, lawmakers are hoping that banking agencies will increase accountability for Zelle and its partner banks.

US Peer-to-Peer (P2P) Mobile Payment Transaction Value and Users, 2020-2026
billions of \$ and millions of users



Note: ages 14+; mobile phone users who have made at least one P2P transaction via a mobile phone in the past month
Source: Insider Intelligence, March 2022

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