

Block's defense against allegations eases investor concerns but fails to answer key claims

Article

The news: Block is trying to ease investor concerns by publishing details of how it handles fraud and fake accounts in response to allegations that it takes a “Wild West approach to

compliance.”

The background: Activist short seller **Hindenburg Research** conducted a [two-year investigation](#) into Block’s Cash App. Among other allegations, [Hindenburg claimed that the company](#):

- **“Wildly overstated” its users** by reporting fake accounts.
- **Made it easy for criminals to create accounts** for fraud, then extract stolen funds.
- **Boosted profits by routing payments through a small bank** to avoid interchange fee cap regulations and gouging merchants with elevated fees.

[Block denied all allegations](#) and said it would work with the Securities and Exchange Commission (SEC) to explore legal action.

Breaking down Block’s defense: The paytech released a statement saying it was responding to “recent investor questions” after Hindenburg’s allegations. Block said:

1. **Users with multiple accounts are not a problem.** Block tried to shut down allegations of duplicate accounts by saying that Cash App is built to support customers with multiple accounts—for instance, separate business and personal accounts. It added that its response to measuring user numbers was “conservative.”
2. **“Many accounts” are verified.** Block said of the more than 51 million monthly active accounts, about 44 million (86.3%) were connected to an identity the company had verified. These 44 million verified accounts made up around 97% of Cash App inflows in December. However, that still potentially leaves more than 7 million unverified accounts making up 3% of inflows.
3. **Its compliance is solid.** Block said its approach to compliance was “consistent with other financial services platforms.” This includes systems, policies, and controls designed to prevent criminals from using the platform, it added. Block stressed its anti-money laundering program is independently assessed by state and federal regulators.
4. **It’s “challenging” to accurately measure fraud levels.** Block stated it measured the number of accounts on a “denylist,” meaning they are effectively blocked from sending and receiving funds. About 2.4% of Cash App active accounts were denylisted during 2022. But that doesn’t factor in unseen fraudulent accounts which haven’t made it to the blocked list—meaning undetected fraud could still be rampant.

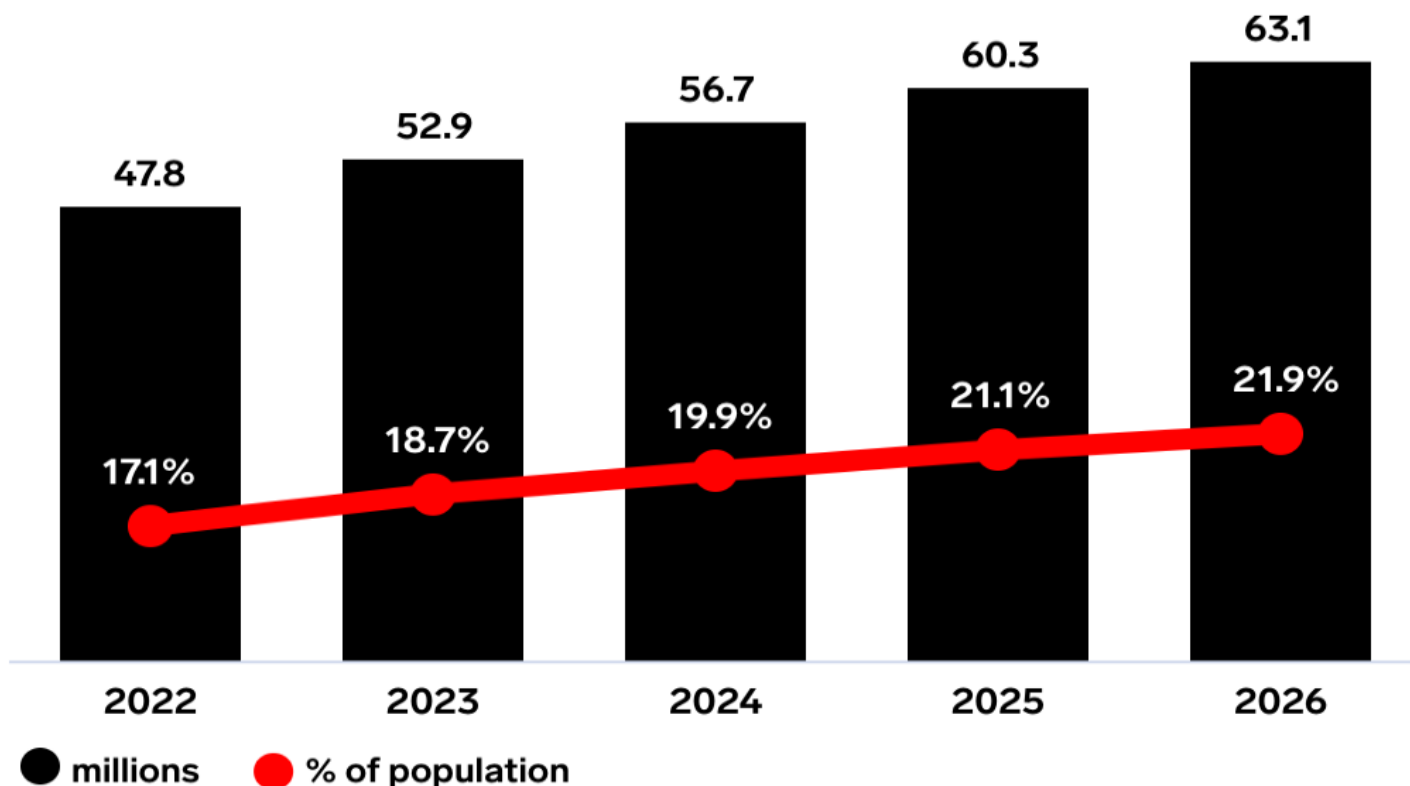
Block's response should subdue worries, for now: Shares rose after the announcement, showing that investor concerns have softened in the short term. But Block's statement was telling in what it did not say and what allegations it chose to ignore.

Specifically, it didn't address the key Hindenburg allegations of fraud linked to government pandemic-relief payments or avoiding interchange fee cap regulations. And its pushback on specific claims like fake accounts and noncompliance was light on data. The statement also didn't mention taking legal action, perhaps indicating that Block won't pursue this.

If Block wants to kill claims, it needs to disprove all allegations—especially those concerning the pandemic-relief fraud, which Congress is [keen to litigate](#).

Cash App Users and Penetration

US, 2022-2026



Note: ages 18+; mobile phone users who have made at least one peer-to-peer (P2P) transaction through Cash App using a mobile phone in the past month

Source: eMarketer, March 2022

eMarketer | InsiderIntelligence.com

This article originally appeared in Insider Intelligence's Payments Innovation Briefing—a daily recap of top stories reshaping the payments industry. Subscribe to have more hard-hitting takeaways delivered to your inbox daily.

- Are you a client? [Click here to subscribe.](#)
- Want to learn more about how you can benefit from our expert analysis? [Click here.](#)