

Lawmakers grill banks on Zelle fraud, but solution remains up in the air

Article

The news: JPMorgan's Jamie Dimon, Bank of America's Brian Moynihan, and other CEOs from the banks that run the peer-to-peer (P2P) payments system **Zelle** took fire from the congressional finance committees last week as they were called to answer questions on topics like P2P payments fraud.

Sen. Elizabeth Warren (D-MA) grilled the execs, at one point calling Zelle unsafe. Six of the seven banks present at the Senate hearing own **Early Warning Services**, which operates Zelle. Warren claimed that the companies built and profit from the system and tell consumers it's safe but fail to compensate users when they've been defrauded.

Key context: Warren and Sen. Bob Menendez asked Early Warning Services earlier this summer to clarify how it handles fraud and whether existing regulations—namely **Regulation E**, the Federal Reserve's implementation of the Electronic Fund Transfers Act that covers money transfers—apply to Zelle fraud.

Warren, Menendez, and other senators sent a separate letter to **Consumer Financial Protection Bureau (CFPB)** Director Rohit Chopra asking for the bureau's help in filling the regulatory gap that they claim has allowed banks to avoid liability in certain cases of P2P payments fraud.

- Regulation E requires banks to refund fraud victims in cases where the fraudster hacks into their account to send money.
- But it doesn't cover authorized push payments (APP) fraud—when the victim is tricked into transferring money to the fraudster—which has grown more prevalent in the last year.

The other side: As Zelle's payments volume grows, the proportion of fraud and scams has decreased, Early Warning Services told Bloomberg. Zelle has also launched solutions to help mitigate fraud.

- **Zelle's US transaction volume is expected to hit \$531.01 billion in 2022**, up from \$366.28 billion last year, according to Insider Intelligence forecasts.
- **More than 99.9% of Zelle payments are sent without any reports of fraud**, the company said earlier this month.

US banking execs generally oppose extending Regulation E to include APP fraud; Dimon implied users would file fake fraud claims, which could hurt banks' revenues.

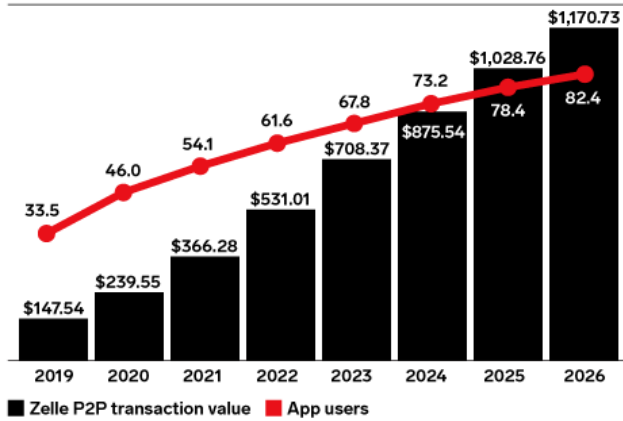
The big takeaway: Lawmakers and banking execs agree that P2P payments fraud is an industry-wide issue. But there's little consensus on how to mitigate it or which party should be liable in APP fraud cases.

As P2P payments grow more popular, however, they'll need to find common ground on tackling fraud and protecting consumers. Across the pond, lawmakers introduced a bill that

would require banks to reimburse victims of APP fraud, which could serve as a model for the US.

US Zelle Peer-to-Peer (P2P) Transaction Value and Users, 2019-2026

billions and millions of users



Note: a mobile P2P payment is a transfer of funds from one individual to another individual using a mobile phone; includes transactions made on the Zelle app and mobile browser; excludes transfers on tablets; excludes P2P cross-border transactions, P2B transactions, B2B transactions, and B2C transactions
Source: Insider Intelligence, March 2022

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