

US senators take a closer look at Zelle's fraud procedures, potentially shaping future P2P payment regulation

Article

The news: US Sens. **Elizabeth Warren** (D-MA) and **Robert Menendez** (D-NJ) sent a [letter](#) to Zelle operator **Early Warning Services** for clarity on how the peer-to-peer (P2P) payments app handles fraud.

What's in the letter? Warren and Menendez noted [reports](#) of Zelle fraud cases and asked whether Zelle and the banks that own the service are doing enough to mitigate the problem. Early Warning Services is owned by seven major banks, including **Bank of America** and **JPMorgan**.

Warren and Menedez gave Zelle a May 9 deadline to answer questions related to the following:

- Zelle's fraud prevention, mitigation, and refund procedures
- The firm's relationship with banks regarding fraud reimbursements
- Whether [Regulation E](#) of the Electronic Fund Transfers Act—which outlines the regulatory framework for money transfer firms—applies to fraud cases on Zelle
- The number and dollar value of fraud cases and refunds in the last five years and whether Zelle notified the appropriate authorities in such cases

Why it matters: Zelle has surged in popularity thanks to its fast transaction speeds (it typically delivers payments [in minutes](#)) and its direct integration with bank apps—and because it's free for consumers. Zelle had 27.9 million US users in 2018, **and that figure is expected to hit 61.6 million this year**, [per](#) Insider Intelligence forecasts. The P2P provider is **on track to process \$531.01 billion** in US transaction volume in 2022, [according to](#) our forecasts.

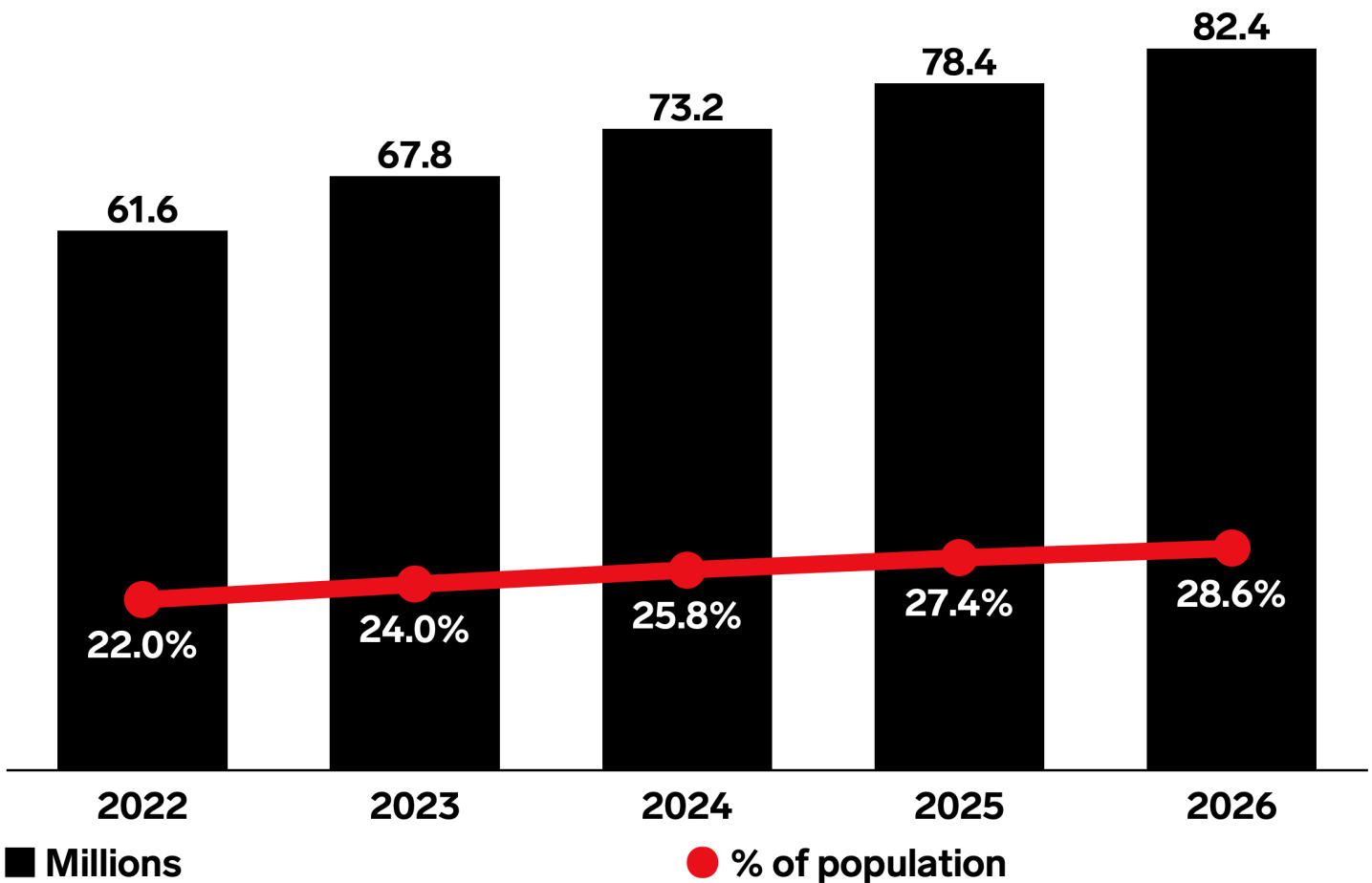
- But fraud has become a major issue for Zelle and other P2P payment apps like **Venmo** and **Cash App**. A common Zelle scam involves fraudsters posing as bank fraud investigators and then tricking users into funneling cash to them, [per](#) the New York Times.
- Regulatory gray areas make it hard to determine whether Zelle or the victim's bank is responsible for compensating defrauded customers, which has created challenges in refunding fraud victims.
- Zelle has taken steps to mitigate its fraud issue: Earlier this month, it [launched](#) **Authenticate**, an identity verification service. But Warren and Menedez may be looking to get to the heart of the issue and potentially implement a more robust fraud detection and mitigation procedure for Zelle and its partner banks. They could also introduce heavier regulation in the broader P2P payments space.

The big takeaway: While Zelle's popularity is undeniable, the fraud occurring on its platform may potentially threaten future growth prospects.

Warren and Menedez's information request could shape future US guidelines and regulations for P2P apps—like recent UK regulation that **stipulates** stronger payment authentication. New rules could minimize the risk of fraud on these platforms and help strengthen customer trust in P2P apps, boosting adoption and use.

Zelle Users and Penetration

US, 2022-2026



Note: Ages 14+; mobile phone users who have made at least one peer-to-peer (P2P) transaction through Zelle using a mobile phone in the past month. A mobile P2P payment is a transfer of funds from one individual to another individual using a mobile phone. Includes transactions made via mobile browser or applications developed by non-bank providers like Venmo, Cash App, Google Pay and Facebook Messenger and transactions made via mobile banking websites and applications developed by banks like Zelle; excludes P2P

cross-border transactions, P2B transactions, B2B transactions and B2C transactions. P2B payments are from people to businesses, e.g., customers paying a small business using Venmo; also known as peer-to-merchant payments. B2B payments are from businesses to other businesses, e.g., business or operational expenses. B2C payments are from businesses to consumers, e.g., payroll or supplemental benefits; also known as business-to-person payments.

Source: eMarketer, March 2022

Methodology: Estimates are based on the analysis of the market presence of major mobile payment players; estimates from other research firms; and consumer smartphone, mobile payment adoption and retail spending trends.

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