

# Smaller banks will have to balance Zelle reimbursements with customer demand

Article

**The news:** Community banks and credit unions are concerned that the Zelle fraud reimbursement policy could hinder their ability to offer the service, per The Wall Street

Journal.

Representatives from two trade groups—**ICBA Bancard** and the **National Association of Federally Insured Credit Unions**—said smaller banks can't always customize their Zelle offerings with things like fraud warnings or alerts and might not be able to shoulder repayment expenses.

**Key context:** Concerns about fraud on peer-to-peer (P2P) payment apps like **Zelle**, **Venmo**, and **Cash App** have taken off this year. Both [Congress](#) and the [Consumer Financial Protection Bureau \(CFPB\)](#) have pressured the industry to improve its response to fraud—which, while a small share of overall transactions, is estimated to cost customers **\$3 billion by 2026**.

- In response, the seven major banks that own Zelle operator **Early Warning Services** are reportedly [devising](#) a plan to reimburse victims.
- Under the plan, which would go into effect next year, the recipient bank would bear responsibility for returning funds to a fraud victim's account.
- Users seeking refunds or who made typos and other errant payments would not be covered under the new plan.

**Why it matters:** Zelle's demand could create a conundrum for smaller banks.

- Nearly **two-thirds of US smartphone** users make [mobile P2P payments](#). [Overall spending is set to exceed \\$1 trillion](#) for the first time this year and will **reach \$2.271 trillion by 2026**, per our forecasts. Zelle has benefited from this growth: The app is responsible for **nearly half of all US mobile P2P payment value** and will attract **more than 80 million users by 2026**.
- Community banks make up **90% of Zelle's 2,400 partners**. Many joined because customers requested the service, per the WSJ.

Zelle's popularity makes offering the service critical for banks (though if they drop out, customers might still be able to access it through their debit cards), and reimbursements could help generate trust. Removing or restricting it could lead to [attrition or reduced engagement](#). P2P thrives on the network effect, so widely available platforms that let customers transact with anyone in their networks are key to their success.

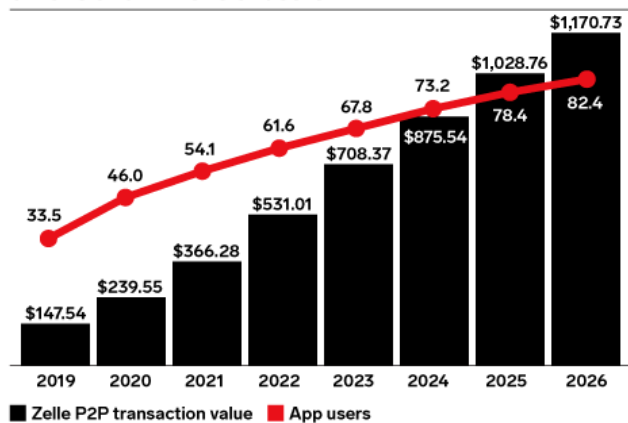
**Down the line:** We think it's unlikely that many—if any—smaller FIs will cut ties with Zelle because of its popularity. But friction with its banks could open doors for two classes of players:

- **Third-party P2P apps.** Venmo, Cash App, and PayPal could benefit from any shift in posturing toward Zelle from smaller banks because of their wide reach.
- **Chuck.** Alloy Labs Alliance’s [open network](#) for community banks that enables P2P payments at a lower fee structure—and a lower transaction ceiling—could grow its uptake.

It’s also plausible that pushback from smaller FIs could shift the Zelle reimbursement plan—which is still being finalized—or influence future regulation governing P2P fraud responses.

### 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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