

***CFPB Eyeing Steps to Shrink Scams on Zelle, Sources Say - - WSJ**

Tuesday, July 19, 2022 9:00 AM ET

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***CFPB Might Push Banks to Repay More Customers Harmed on Money-Transfer Services -- WSJ**

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***New CFPB Guidance Expected in the Coming Weeks, Sources Say -- WSJ**

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Consumer Bureau to Push Banks to Refund More Victims of Scams on Zelle, Other Services -- WSJ

Tuesday, July 19, 2022 9:00 AM ET

By Andrew Ackerman

WASHINGTON -- The Consumer Financial Protection Bureau is preparing to prod banks to pay back more customers who are the victims of scams on Zelle and other money-transfer services, according to people familiar with the coming regulatory effort.

Under new guidance the bureau is preparing to release in the coming weeks, banks could face heightened requirements around certain scams that have become more prevalent on these platforms, these people said, such as when a customer is tricked into sending money to a scammer pretending to be a representative of his or her bank.

The coming guidance hasn't been completed and could change. It appears aimed primarily at a spate of complaints related to Zelle but would likely apply to any other payments service that connects directly to a consumer's bank account, such as Venmo.

Money-transfer services boomed during the pandemic, when people avoided ATMs and replaced cash and checks with digital money transfers. Zelle recorded some 1.8 billion transactions in 2021 totaling \$490 billion, double their prepandemic levels.

That growth has fueled an increase in reported scams, leading consumer advocates and Democratic lawmakers to complain that banks aren't doing enough to help customers duped into making fraudulent payments.

At the heart of the issue is how much banks should be liable for repaying customers who authorize the platforms to move around their money, only to later learn they were defrauded. Seven large banks own Early Warning Services LLC, the company that operates Zelle, and around 1,700 financial institutions offer Zelle to their customers.

Early Warning Systems said protecting consumers is a priority for Zelle and the firms that offer it.

"As a network, we are constantly adapting consumer protection measures to address the dynamic and evolving threat of fraud," it said in a statement. "In addition to our efforts, we encourage measures that reduce the ability of fraudsters to perpetrate these scams and arm consumers with educational resources that will help them protect themselves from fraudsters."

At present, banks generally are only required to repay consumers for payments they didn't authorize. The coming regulatory guidance could change that threshold by maintaining that fraudulently induced transactions, even those approved by the consumer, are considered unauthorized. That could require a bank to conduct more investigations of such transactions -- and to compensate more customers for their losses.

"Reports and consumer complaints of payments scams have risen sharply, and financial fraud can be devastating for victims," said Sam Gilford, a spokesman for the consumer bureau. "The CFPB is working to prevent further harm, including by ensuring that financial institutions are living up to their investigation and error-resolution obligations."

Banks and industry groups are also expected to fight an expanded interpretation of their legal obligations. Firms may be forced to cut services or impose new fees to cover added costs for platforms like Zelle, industry officials say. Others warn steps to rein in scams could backfire by opening the door for more fraud.

"You run the risk of increasing what's called friendly fraud, where consumers could abuse the new liability rules," said Scott Talbott, senior vice president of government affairs at the Electronic Transactions Association. "There's potential for abuse."

Banks say the new guidance could have far-reaching consequences and make it unduly risky to offer money-transfer services like Zelle.

"Any actions taken by policy makers to dramatically alter the peer-to-peer payment system will have a ripple effect throughout the American economy, harming the millions of consumers, small-business owners and independent

contractors who rely on faster electronic payments to pay their bills and earn their livelihood," said Lindsey Johnson, president and chief executive of the Consumer Bankers Association.

Congressional Democrats such as New Jersey Sen. Bob Menendez have pressed CFPB Director Rohit Chopra to address what they described as a recent wave of Zelle fraud. A key concern: so-called "me-to-me" fraud, or when a scammer tells the consumer that his or her bank account was compromised, and persuades the person to send money to what appears to be himself or herself using Zelle. In reality, the scammer has linked the consumer's cellphone to a fraudulent account.

"Scams have become widespread on Zelle, a money-transfer platform owned by the largest banks in the nation," Mr. Menendez said at an April 26 hearing with Mr. Rohit, citing media reports. "The banks are well aware of these scams but have done little to enhance Zelle's security or reimburse defrauded consumers."

Banks have generally determined that such payments were authorized by the customer and so the lender doesn't have a legal responsibility to make its customer whole.

Consumer advocates say that should change and that payment systems like Zelle need to both do more to prevent errors on the front end and to correct them after they occur.

"If a bank mistakenly links your cellphone number to a scammer's account, that's an error that should be corrected and you should be able to get your money back," said Lauren Saunders, associate director at the National Consumer Law Center.

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Correction to Consumer Bureau to Push Banks Article -- WSJ

Tuesday, July 19, 2022 10:41 AM ET

Early Warning Services LLC is the company that operates Zelle. "Consumer Bureau to Push Banks to Refund More Victims of Scams on Zelle, Other Services" at 9 a.m. ET incorrectly said the company's name is Early Warning Systems.

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