



Navigating Zelle's New Refund Policy

payments risk management fraud protection P2P

Summary: Zelle is reworking its refund policy regarding fraud, a change that could potentially prove costly for CFIs. Before jumping ship from Zelle, however, organizations need to be aware of both the benefits and drawbacks of the service and how customers would react to losing the payment service.

Many things in life aren't as straightforward as they first appear. Take, for instance, rats. While the long-tailed rodents have long been feared by humans, it turns out that their intelligence, incredible sense of smell, and ability to navigate tiny underground cracks and crevices can actually turn them into rescue workers. Belgian nonprofit APOPO has been training Gambian pouched rats to use their sense of smell to seek out landmines, detect individuals infected with tuberculosis, and identify survivors of natural disasters, such as earthquakes.

As many community financial institutions (CFIs) consider dropping Zelle over impending changes to its refund policy regarding fraud, organizations need to be aware of both the digital payment network's drawbacks and benefits. Like rats, while it can be easy to focus solely on the negative aspects of Zelle, CFIs should make sure they are taking a look at the big picture before determining whether or not their organization will continue to offer its services.

The Zelle Controversy

As Zelle has become more popular among consumers, it has become equally popular among fraudsters seeking to use the payment service's immediate transfer of funds to dupe people out of their money. Zelle is currently accessible via roughly [80% of US bank accounts](#), and is responsible for more than \$1.6B worth of payment transfers per day, with activity nearly double Venmo's transaction volume. This makes Zelle an incredibly attractive target for fraud and has resulted in a significant number of complaints to the Consumer Financial Protection Bureau (CFPB) from consumers who have been tricked into transferring money to fraudsters.

Several banks offering Zelle have also been hit with [class action lawsuits](#) tied to their involvement with the platform, a group including Capital One Financial, Bank of America, TD Bank, and Navy Federal Credit Union, among others. All of this has caught the attention of regulators, particularly the CFPB.

Financial institutions are only required to reimburse individuals for unauthorized Zelle transactions. To get out in front of regulatory intervention, Early Warning Services — which owns and operates the platform — is [actively working to standardize its approach](#) to reimbursing consumers who have been tricked into sending money through Zelle. Under the new policy, the financial institution receiving the money would need to return the funds to the sending financial institution, which would then need to refund the victim of fraud. Money lost through transactions where consumers mistype account numbers or who seek refunds for goods not received would remain ineligible for refunds.

Weighing the Benefits & Drawbacks

Though Early Warning Services has yet to reveal the specifics of its new policy, expected to be implemented in the near future, many smaller banks and credit unions are considering pulling out of Zelle because of the

potential losses associated with such refunds. Unlike credit card payments, where financial institutions can pull refunds from transaction fees generated by card usage, Zelle transactions are free. There are also concerns that getting financial institutions whose customers become embroiled in Zelle scams to cooperate with refunds could prove difficult.

For its part, Early Warning Services says that fraud claims represent [less than 0.1% of payments made](#), but the amounts involved can still be quite substantial, particularly for small institutions.

CFIs need to remember that there is an upside to Zelle as well, however. Consumers value the ability to make instant money transfers and have become accustomed to being able to do so for free through their banks. Eliminating Zelle could open CFIs to the risk of losing customers who rely on the service, particularly younger generations who tend to be more active digital payment users. Zelle customers also tend to be more profitable for financial institutions than individuals who don't use the service. It's important to note, though, that once the FedNowSM Service launches, CFIs will have another option outside of Zelle to send payments between institutions. Depending on the rollout timeline of the new digital payment service, CFIs could have more to consider before they make a choice to stay with or abandon Zelle.

As Zelle works out its new refund policy, CFIs need to be aware of the potential losses it could mean for their organizations. Before jumping ship from Zelle, however, CFIs should take a good look at their customer base and consider how consumers would react to losing the service. Another thing to examine is whether there are other ways to offset potential losses through Zelle-related fraud. One area CFIs should actively focus on is educating customers about the prevalence of Zelle fraud and the signs to look out for that could indicate fraud.

QUESTIONS ABOUT FEDNOW? ASK PCBB!

FedNow Service is launching soon. As part of the pilot program, and a liquidity and settlement provider for the service, PCBB [can answer your questions](#) about how to implement and manage the service for your institution. Contact [PCBB](#) to find out more.

ECONOMY & RATES

Rates As Of: 03/20/2023 10:45AM (GMT-0700)

Treasury	Yields	MTD Chg	YTD Chg
3M	4.52	-0.36	0.10
6M	4.71	-0.46	-0.05
1Y	4.33	-0.67	-0.37
2Y	3.97	-0.85	-0.45
5Y	3.61	-0.58	-0.40
10Y	3.49	-0.43	-0.39
30Y	3.66	-0.26	-0.31
FF Market	FF Disc	JOB	
4.58	4.75	4.65	
SOFR	Prime	OBER	
4.55	7.75	4.57	

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