



FedFin Client Report

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Banks Catch a Break on Payment Fraud

Client Report: PAYMENT28

Executive Summary

Today's Senate Banking Committee hearing on scams and fraud in the banking system focused on the rise of P2P payment app scams, the growing popularity of traditional methods of fraud executed via wire transfer and check fraud, and emerging crypto and AI risks. Democrats focused on legislative remedies; the handful of Republicans who attended the hearing pushed for consumer education. Chairman Brown (D-OH) generally lambasted banks as too lax when it comes both to fraud and consumer redress but he nonetheless praised the American Bankers Association for its new anti-fraud system. Indeed, attacks on Zelle – a feature of prior hearings ([see Client Report REFORM213](#)) – were muted. The chair and other Democrats also endorsed the CFPB's pending proposal on tech payment companies ([see FSM Report PAYMENT27](#)), recently attacked in a comment letter from House [Republicans](#).

Analysis

Opening Statements

Chairman Brown criticized banks and payment apps for failing to protect consumers from scams and asked Zelle to clarify its reimbursement policy for victims of imposter scams. The Chairman also warned of cryptocurrency and AI as areas requiring more attention. Ranking Member Scott (R-SC) discussed the growing popularity of traditional forms of fraud, emphasized financial literacy as the key solution, and criticized the CFPB's most recent junk fee proposal ([see FSM Report CONSUMER55](#)) as "legal gymnastics."

Testimony

In addition to arguing that the EFTA should be updated to reflect the digital nature of most modern payments, Carla Sanchez-Adams of the National Consumer Law Center argued that receiving institutions should bear more responsibility for fraudulent transactions, stressed the need for more information sharing, and said consumers should be protected when their accounts are frozen or closed due to what she called overly-aggressive fraud monitoring. Paul Benda of the ABA argued that greater cooperation between regulators, banks, and law enforcement is needed to prevent fraud and scams. John Breyault of the National Consumers

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League argued that payment platforms need greater incentives to stop scams. He also emphasized that scammers favor crypto and praised Sen. Warren's (D-MA) crypto-AML [bill](#) as a solution.

Q&A

- **CFPB:** While Democrats praised the CFPB for its digital payments NPR, Sens. Tillis (R-NC) and Britt (R-AL) took issue with another CFPB proposal that proposed changes related to the FCRA, saying it could make credit header data more difficult to obtain and thus hinder scammer identification.
- **Housing Market Scams:** Sen. Smith (D-MN) asked about scams and predatory contracts targeting prospective homebuyers, noting that a new bill she plans to introduce would protect borrowers from these predatory homebuying practices; Ms. Sanchez-Adams said that these scams are common.
- **AI:** Sens. Tester (D-MT), Warner (D-VA), and Brown raised concerns that AI may be used to make scams more complex and effective, with Sens. Smith and Vance (R-OH) focusing on AI voice spoofing as an emerging threat; Mr. Breyault agreed, stating this is an issue that needs to be addressed.
- **Crypto:** Sens. Brown, Fetterman (D-PA), and Warren discussed the growing prevalence of cryptocurrency in financial scams, with Sen. Warren promoting her Digital Asset AML bill.
- **EFTA:** In response to reports of growing wire fraud, Sens. Reed (D-RI) and Fetterman asked if wire transfers are protected under the EFTA; Ms. Sanchez-Adams stated that wire transfers are not protected due to the different role they played in the economy at the time of EFTA's passage and argued that the law should be updated.
- **Check Fraud:** Both Chairman Brown and Ranking Member Scott highlighted the growing prevalence of check fraud; Mr. Benda noted the rise in check fraud and stated that the ABA in response launched a check fraud claim directory to assist banks in the process which Mr. Benda notes has been helpful to many banks.
- **SARs:** Ranking Member Scott questioned the effectiveness of current SAR reports, stating that banks often never receive responses to their SARs; Mr. Benda said that banks and law enforcement can improve their communication.