

The complaint

Miss J complains Monzo Bank Ltd (“Monzo”), didn’t reimburse the money she lost when she was the victim of an ‘authorised push payment’ (“APP”) purchase scam.

What happened

Both parties are aware of the circumstances of the complaint, so I won’t repeat them all here. But briefly, both parties accept that Miss J was the victim of a purchase scam.

Miss J was looking to purchase a mobile phone and came across one that was listed for sale on a well-known social media website.

Miss J engaged with the seller of the advert and opted to purchase the mobile phone for £500 plus a delivery fee of £7.

Miss J tried to pay through an online payment service provider whom I’ll call “X”, but the seller didn’t have an account with X. The seller then set up an account and Miss J sent the funds across. But the seller then sent Miss J a screenshot showing that he had sent the money back as they would have to wait seven days for the money and that X had taken a £15 fee. Miss J then opted to send the money via bank transfer instead and did so on 15 January 2022. The seller advised they had posted the mobile and that it would be with Miss J the next day by 1pm. The seller then stopped engaging with Miss J and the mobile phone never arrived.

Miss J, having realised she’d been the victim of a scam contacted Monzo. Ultimately, after some initial confusion – caused by Miss J, Monzo logged the scam and reached out to the beneficiary bank (the bank where Miss J had sent her funds to) to see if any funds remained that could be recovered. Unfortunately no funds remained that could be recovered.

Monzo also considered whether Miss J should be reimbursed for her loss under the ‘Lending Standards Board Contingent Reimbursement Model Code’ (the “CRM Code”). Monzo isn’t a signatory of the CRM Code but has explained that it is committed to applying the principles set out in it.

The CRM Code requires firms to reimburse customers who have been the victims of APP scams in all but a limited number of circumstances. Monzo said one or more of those exceptions applies in this case. Monzo said Miss J ought to have done more checks to make sure she was making a legitimate purchase from a legitimate seller.

Unhappy, Miss J referred her complaint to our service. One of our Investigators looked into Miss J’s complaint and thought it ought to be upheld. The Investigator didn’t believe Monzo had fairly assessed Miss J’s claim under the CRM Code. They didn’t consider Monzo had been able to establish Miss J made the payment without a reasonable basis for believing she was making a legitimate purchase from a legitimate seller.

The Investigator recommended Monzo reimburse Miss J the funds she lost to the scam and pay additional compensation at 8% simple interest per year on that amount from the date it declined Miss J's claim under the CRM Code.

Monzo disagreed with the Investigator's opinion. So, as the matter hasn't been resolved, I have been asked to make a final decision on the outcome of Miss J's complaint.

What I've decided – and why

I've considered all the available evidence and arguments to decide what's fair and reasonable in the circumstances of this complaint.

Having done so, I am satisfied that:

- Under the terms of the CRM Code, Monzo should have refunded the money Miss J lost. I am not persuaded any of the permitted exceptions to reimbursement apply in the circumstances of this case.
- In the circumstances Monzo should fairly and reasonably refund the money Miss J lost.
- The money was taken from the Miss J's current account. Miss J has therefore been deprived of the use of those funds. So Monzo should also pay interest on the amount not yet refunded at a rate of 8% simple per year. This interest should apply from the date Monzo first declined to refund Miss J under the CRM Code, to the date of settlement.

As I've said above, the CRM Code requires payment service providers to reimburse customers who have been the victims of authorised push payment (APP) scams, in all but limited circumstances. If Monzo declines to reimburse its customer in full, it is for Monzo to establish that one, or more, of the listed exceptions set out in the CRM Code itself. Those exceptions are:

- where in all the circumstances, the customer made the payment without a reasonable basis for believing that: the payee was the person the customer was expecting to pay, the payment was for genuine goods or services, and/or that the person or business with whom they transacted with was legitimate; or
- the customer ignored an 'effective warning' by failing to take appropriate steps in response to that warning.

There are further exceptions within the CRM Code, but none of these are applicable here.

When assessing whether it can establish these things, a Firm must consider whether they would have had a 'material effect on preventing the APP scam'.

After having carefully considered all of Monzo's submissions, I'm satisfied that it has not shown that Miss J made the payment without a reasonable basis for believing that she was paying a legitimate seller or ignored an effective scam warning. I will go on to explain why I have reached this finding.

Did Miss J have a reasonable basis for belief when making the payment?

When considering this aspect, I am mindful that the test here is whether Miss J had a *reasonable basis for belief* when making the payment.

It is important to note at this point, that Miss J didn't expect or want to be scammed. She thought she was purchasing a mobile phone which she had found for sale on a well-known social media website. It isn't uncommon for people to purchase items this way, and in this case I don't find there was anything about unusual about the item for sale, such as the price or the seller, that should have given Miss J cause for concern.

Monzo has commented that the price of the mobile phone was 'too good to be true'. I disagree, while it was a good offer, I don't think the price was so unrealistic that it should have been a flag to Miss J that all may not be as they seemed. And I am mindful, as our investigator pointed out, that the model of the mobile phone Miss J was purchasing had been available for around 18 months and the newer model was already on the market and had been for some time. Mobile phones typically tend to go down in value when the later model becomes available. Monzo has provided this service with a link to website which shows the average retail price at the time Miss J made payment. I have taken that into consideration in reaching my findings, and in reviewing that information, I can also see that the price also dropped shortly after Miss J attempted to purchase the phone and went back up again slightly. But here, I am also mindful that as Miss J was buying from a private seller it wasn't implausible that she thought she was simply getting a good deal for an older model mobile phone. So, on the whole, I don't think the price Miss J was paying at the time was so unreasonable or would have been such a red flag or deemed too good to be true that it should have given Miss J cause for concern.

Monzo has also raised a concern that Miss J made the payment through bank transfer which goes against the social media platforms advice when buying goods. But it isn't uncommon for people to make payment by bank transfer. And here, having also reviewed the messages Miss J had with the seller and I can see why Miss J thought everything was ok and so proceeded to pay via bank transfer. The supposed seller did accept Miss J's initial payment through X, but advised, and sent a screen shot to Miss J showing that the funds would be held for seven days and there was a £15 fee and then sent her the funds back. I think this act would have simply reinforced to Miss J that the seller didn't have any bad intentions and seemed to be a genuine seller and wouldn't have reasonably thought beyond this.

The account beneficiary name that Miss J made the payment to matched the name of the seller, which also matched the name when she initially made the payment through X. Again I think this would have reassured Miss J that she was dealing with whom she thought was a legitimate person selling a legitimate item.

All things considered, I can see why Miss J thought she was dealing with a legitimate seller when making the payment. So I'm not persuaded Monzo has shown that Miss J lacked a reasonable basis for belief when making the payment for it to choose not to reimburse Miss J under the terms of the CRM Code.

Did Miss J ignore an effective warning?

I've thought about whether Monzo did enough to protect Miss J from becoming a victim of a scam. The CRM Code says that where firms identify APP scam risks in a payment journey, they should provide effective warnings to their customers. The CRM Code also says that the assessment of whether a firm has met a standard or not should involve consideration of whether compliance with that standard would have had a material effect on preventing the scam.

I am also mindful that when Miss J made this payment, Monzo should fairly and reasonably have had systems in place to look out for unusual transactions or other signs that might indicate that its customers were at risk of fraud (among other things).

In this case, Miss J was making a relatively modest payment. I don't think the amount of this payment would have made it stand out enough for Monzo to have been concerned that Miss J might have been at risk of financial harm from fraud at the time that she made it. The payment was relatively low in value. So, I don't think Monzo should have identified an APP scam risk in the payment journey or that it needed to provide Miss J with an effective warning.

That said, in its submissions to this service, Monzo has said a 'medium friction warning' was shown. It hasn't explicitly said what warning Miss J would have been shown but has provided all of its warnings for various payment purposes. I have reviewed what I consider the most relevant warning to be, or likely selected by Miss J – which was Monzo's warning in relation to 'Goods and Services'

In this case, I'm satisfied that the requirements of the effective warning exception were not met. I say this because the warning attempts to prevent purchase scams, but I don't think the warning makes the risk of falling victim to this particular type of purchase scam obvious. The warning is bright red and says "Stop, don't pay. It's very likely this is a scam." But then it simply advises that bank transfers arranged online or over social media are at a "higher risk of fraud" and that bank transfers "aren't protected in the same way as card payments", It recommends to "Pay by card if you can." But it doesn't cover the common features of this type of scam or really bring to life what the type of scam Miss J fell victim to looks like. And it doesn't explain in sufficient detail what Mr B could have done to protect himself against this type of scam other than "find a legitimate seller who lets you pay by card". And I am mindful as explained above that Miss J was making a payment to a private seller who wouldn't have facilities to take payment by card and whom she had already made a payment to through PayPal – so was satisfied she was paying the right person and didn't have any concerns about at the time.

So, I'm not satisfied Monzo can choose to decline reimbursement under this exception either.

Did Monzo do enough to recover Miss J's funds?

In light of my conclusions above, it is not necessary in this case to consider whether Monzo took reasonable steps to recover Miss J's funds once it was made aware she was the victim of a scam. But for completeness, I can see that Monzo did act promptly once notified of the scam but unfortunately no funds remained that could be recovered.

Summary

Overall, I am satisfied that under the CRM Code, Monzo hasn't established any of the permitted exceptions to reimbursement apply.

My final decision

For the reasons explained, I've decided it is fair and reasonable to uphold Miss J's complaint about Monzo Bank Ltd.

I therefore require Monzo Bank Ltd to pay Miss J:

- the money lost through this scam, that being the sum of £507; and,
- 8% simple interest per year on that amount calculated from the date Monzo Bank Ltd originally declined Miss J's claim under the CRM Code until the date of settlement.

I direct Monzo Bank Ltd to pay compensation, as set out above, within 28 days of receiving notification of Miss J's acceptance of my final decision.

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss J to accept or reject my decision before 10 February 2023.

Matthew Horner
Ombudsman