DRN-2691751

The complaint

Miss P complains that Monzo Bank Ltd won't refund the money she lost when she was the victim of a scam.

What happened

Miss P received a phone call from someone claiming to be from Monzo, but who we now know to be a scammer. She was told there had been fraudulent activity on her card and that someone had taken out a loan on her account. In order to undo it, she was told she'd need to go through a reverse loan procedure. The caller then talked her through the procedure, which involved her taking out a loan and then transferring the money out via both card payments and bank transfers. I've set out the relevant transactions below:

Amount	Details
£15,000	Loan funds into account
£2,800	Card payment out of account
£4,500	Bank transfer out of account
£2,800	Card payment out of account
£2,800	Card payment out of account
£2,050	Bank transfer out of account

Miss P was told she'd receive documents for her to complete and sign within the next 48 hours. But when she checked her account the following day she saw further fraudulent activity and so called Monzo. Monzo explained it hadn't called her the previous day or asked her to go through a reverse loan procedure, and so the scam was uncovered.

Monzo investigated and agreed to refund the money sent out by bank transfer but said it couldn't refund the card payments. It also ultimately agreed to refund the interest Miss P had been charged on the loan and pay her £50 as compensation for delays in its response to her complaint. Miss P wasn't satisfied with Monzo's response, so referred her complaint to our service.

One of our investigators looked at the complaint and felt Monzo ought to have carried out further checks before processing the payments Miss P made out of her account. They said these checks would have made it clear Miss P was the victim of a scam and she then wouldn't have sent the payments. So they thought Monzo should refund the remaining card transactions and the money Miss P paid to pay off the loan, plus interest, and remove the loan from her credit file. Monzo didn't agree, so the complaint has been passed to me for a decision.

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.

It's not in dispute that Miss P authorised the payments out of her account. She says she made them herself, as directed by the caller. So while I recognise that she didn't intend the money to go to scammers, the starting position in law is that Monzo was obliged to follow her instructions and process the payments. So Miss P isn't automatically entitled to a refund.

However, taking into account the law, regulators rules and guidance, relevant codes of practice and what I consider to have been good industry practice at the time, I think Monzo should fairly and reasonably:

- Have been monitoring accounts and any payments made or received to counter various risks, including anti-money laundering, countering the financing of terrorism, and preventing fraud and scams.

- 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). This is particularly so given the increase in sophisticated fraud and scams in recent years, which banks are generally more familiar with than the average customer.

- In some circumstances, irrespective of the payment channel used, have taken additional steps, or made additional checks, before processing a payment, or in some cases declined to make a payment altogether, to help protect customers from the possibility of financial harm from fraud.

From looking at the statements for Miss P's account, I think the first card payment of £2,800 out of her account was unusual and out of character for her. It was for a relatively large amount of money and a significantly larger amount than any other payments going out of her account in the previous twelve months. And it was to a new payee that Miss P hadn't send money to before. So I think Monzo should have identified that Miss P was potentially at risk of fraud as a result of this payment and carried out additional checks before processing it.

I accept it's not for this service to dictate the checks Monzo should do or the questions it should ask. But, given the size of the payment and how unusual it was, I think in these circumstances it would be reasonable to expect these additional checks to at least include questions about the purpose of the payment.

I've not seen any suggestion that Miss P had been given a cover story or told what to say if Monzo asked about the payments. So if Monzo had carried out these additional checks, I think she would have told it that she thought she was speaking to Monzo already, that she'd been told a fraudulent loan application had been made on her account and that she needed to do the reverse loan procedure and make these payments to undo the fraudulent application. And on finding this out, I think it would have been clear to Monzo that Miss P was the victim of a scam. It could then have explained to her that it hadn't asked her to go through the reverse loan procedure, the scam would've been uncovered and Miss P wouldn't have made any of the payments or transfers.

So if Monzo had carried out additional checks before processing the card payment of £2,800, as I think it should have done, I don't think Miss P would have lost any of the money she did.

I also think the loan application Miss P made while on the phone with the scammer would have been identified as part of the scam and unwound at the same time. And so Miss P also wouldn't have made any of the payments towards the loan, been charged any interest on it or had it recorded on her credit file.

I've thought about whether Miss P should bear some responsibility for her loss. But I don't think it would be fair for her to do so. This was a sophisticated scam where the scammers spoke to Miss P on the phone more than once, knew certain details about her and had spoofed Monzo's legitimate phone number. So I don't think it would be fair to say Miss P was grossly negligent or acted unreasonably and I think Monzo should refund the full amount she lost.

As the initial card payments and bank transfers out of Miss P's account were made from the loan funds, she didn't suffer a financial loss at this point. But Miss P made one monthly payment towards the loan of £336.54 and then used £8,483.61 of savings to pay it off. So I think Monzo should refund these payments, if it has not done so already, so that Miss P has not suffered a financial loss as a result of the loan. Miss P has also lost out on the interest she would have earned on those savings, so I also think Monzo should pay her the account interest rate of 0.01% on this payment from the date she paid off the loan until the date the £8,483.61 is refunded to her.

Monzo has also offered to pay Miss P £50 as compensation for the delays in its response to her complaint. And I think this amount is fair and reasonable in all the circumstances.

My final decision

For the reasons set out above, I uphold Miss P's complaint and require Monzo Bank Ltd to:

- Refund any payments Miss P made towards the loan it has not already refunded, as explained above, so that Miss P hasn't suffered a financial loss as a result of the loan
- Unwind the loan and remove any record of it from Miss P's credit file
- Pay Miss P £50 compensation

Under the rules of the Financial Ombudsman Service, I'm required to ask Miss P to accept or reject my decision before 1 October 2021.
Alan Millward
Ombudsman