

The complaint

Mr and Mrs S are unhappy that Monzo has decided not to refund them their remaining losses after they were the victims of an investment scam. The funds were sent to two separate accounts held with Monzo.

What happened

Mr and Mrs S say they were persuaded to invest funds after coming across someone on a social media website. They sent £1,000 and were told that after a few hours their investment had performed well and in order to release the funds, the trader would need a payment of £4,000 and so they transferred this amount to the scammers as well.

They say they realised after a few hours, that they had been scammed and contacted their two banks to report the matter.

In summary:

- Mr and Mrs S were scammed and on 28 December 2020 and sent payments totalling £5,000 to scammers. Mrs S sent £4,000 from her account with Bank A. And Mr S sent £1,000 from his account with Bank B.
- Monzo received a report of fraud from Bank A on 29 December 2020 and the Monzo account was blocked on the same day whilst it investigated. Monzo provided an update to Bank A on 12 January 2021 to say it was still investigating. On 21 January 2021, Monzo contacted Bank A to say £1.46 remained in the account. Bank A initiated a request for the remaining funds to be returned.
- Monzo received a report of fraud from Bank B on 11 January 2021 and responded the following day to confirm no funds remained. Monzo confirmed the account in question had already been blocked on 30 December 2020.

Mr and Mrs S complained to Monzo (in addition to their own banks) on 26 January 2021 to say they been scammed totalling £5,000 and the money had been received into two Monzo bank accounts.

Mr S has let us know that he received a full refund from Bank B. And Mrs S has accepted an offer from Bank A for a 50% refund of the funds she sent as part of this scam. So Mr and Mrs S's losses are limited to half of the payment made from Bank A which is £2,000.

Mr and Mrs S's banks are signed up to the Lending Standards Board's voluntary Contingent Reimbursement Model (the CRM Code). And Monzo, while not a signatory, has also agreed to abide by the principles of the CRM Code.

The CRM Code was implemented to reduce the occurrence of APP scams. It sets out what is expected of the 'Sending Firm' when payments are made which includes a consideration of whether a customer met their requisite level of care when making the payment. And it also sets out the obligations for the 'Receiving Firm' to prevent, detect and respond to the receipt of funds from APP scams in order to prevent accounts from being opened, or used, to launder the proceeds of APP scams. Where there is a failing by either the Sending Firm or Receiving Firm, they may be required to reimburse the customer. And the customer may also be required to share some responsibility for the loss if it is determined that they also failed to meet their requisite level of care under the CRM Code.

Ultimately Mr and Mrs S were unhappy with Monzo's lack of response to their own banks' reports of fraud, that Monzo didn't recover their funds and didn't prevent the accounts being opened for fraudulent purposes in the first instance.

Monzo didn't uphold Mr and Mrs S's complaint. It said it acted appropriately when actioning the requests from Mr and Mrs S's banks. It didn't have any concerns with the account holders when the accounts were first opened and took appropriate on the accounts, following the fraud reports.

Monzo added that the customers successfully applied for their accounts with genuine ID documents and passed all relevant checks.

Unhappy with the response from Monzo Mr and Mrs S brought their complaint to our service. One of our investigators looked into things, in summary he said:

- He'd considered the complaint and Monzo's actions in light of the Contingent Reimbursement Model (CRM). Whilst not a signatory to the code Monzo has agreed to its provisions, which say as the receiving bank, to a payment sent as part of an APP scam, it should:
 - o Take reasonable steps to prevent accounts from being used to launder the proceeds of APP scams.
 - o Have procedures to prevent, detect and respond to the receipt of funds from APP scam; and
 - o Where the receiving Firm identifies funds where there are concerns that they may be the proceeds of an APP scam, it should freeze the funds and respond in a timely manner.
- Having considered the above he was satisfied that the correct account opening procedures were followed, and at that stage, there wasn't anything to suggest the accounts would later be used for fraudulent purposes.
- There wasn't anything in relation to the account activity prior to the payments being made by Mr and Mrs S, that ought to have caused concern for Monzo so that it needed to have intervened.
- By the time Monzo was made aware of the fraud, the majority of the funds had left the accounts. So Monzo couldn't have done anything to prevent Mr and Mrs S's losses. And it did take action as soon as it was notified of the scam. It also updated both Bank A and Bank B with its progress and the status of any remaining funds which is expected of them.

The investigator didn't uphold the complaint against Monzo. Mr and Mrs S said they would like the case looked at by an ombudsman. And so, the complaint has been passed to me to consider.

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've come to the same conclusions as the investigator for largely the same reasons.

To clarify, this decision focuses solely on the actions of Monzo – as the Receiving Firm of the accounts where Mr and Mrs S made payments to.

Among other things, regulated firms receiving payments like Monzo, are required to conduct their 'business with due skill, care and diligence' (FCA Principle for Businesses 2) and to comply with legal and regulatory anti-money laundering and countering the financing of terrorism requirements.

Those requirements include maintaining proportionate and risk-sensitive policies and procedures to identify, assess and manage money laundering risk – for example through customer due diligence measures and the ongoing monitoring of the business relationship (including through the scrutiny of transactions undertaken throughout the course of the relationship).

And, more generally given the increase in sophisticated fraud and scams in recent years, as a matter of good industry practice at the time, I think firms should reasonably have had measures in place to detect suspicious transactions or activities that might indicate fraud or financial abuse (something also recognised by the Banking Standards Institute's October 2017 'Protecting Customers from Financial harm as a result of fraud or financial abuse – Code of Practice').

And I'm satisfied that this good practice requirement meant not just looking out for situations where a customer might be the victim of fraud, but also situations where the customer might be the perpetrator of fraud or a money mule.

Also relevant in this case, as mentioned earlier, is the CRM Code that Monzo have agreed to abide by the principles of.

The relevant considerations for Receiving Firms under the CRM Code sets out the following:

"CRM Code: Payment Journey – Receiving Firm

SF2 Receiving Firms should take reasonable steps to prevent accounts from being used to launder the proceeds of APP scams. This should include procedures to prevent, detect and respond to the receipt of funds from APP scams. Where the receiving Firm identifies funds where there are concerns that they may be the proceeds of an APP scam, it should freeze the funds and respond in a timely manner.

Prevention

SF2(1) Firms must take reasonable steps to prevent accounts being opened for criminal purposes.

Detection

SF2(3) Firms must take reasonable steps to detect accounts which may be, or are being, used to receive APP scam funds.

Response

SF2(4) Following notification of concerns about an account or funds at a receiving Firm, the receiving Firm should respond in accordance with the procedures set out in the Best Practice Standards."

In considering all of the above, and to determine if Monzo met the standards required of it under the CRM Code, I have looked at whether Monzo opened the receiving accounts correctly, whether there was anything in the way the accounts were being used that should have given Monzo any cause for concern and finally; once notified of fraud did it act appropriately and in a timely manner. And if I consider there were failings in relation to any of the above, I have to consider whether Monzo's acts or omissions fairly resulted in Mr and Mrs S's losses.

I would like to point out to Mr and Mrs S at this point, that while Monzo has provided our service with information about the receiving bank accounts – it has done so in confidence. This is to allow us to discharge our investigatory functions and Monzo has provided that which is necessary for the determination of this complaint. Due to data protection laws our service can't share any information about the beneficiaries, the receiving bank accounts or any investigation and action Monzo subsequently took. However, I would like to assure Mr and Mrs S I have thoroughly reviewed and considered all the information provided before reaching my decision.

Prevention – the account opening process

To help decide whether or not a bank failed to prevent the loss of an APP victim when opening the beneficiary account, we would generally ask to see evidence that; it correctly followed its account opening procedures; carried out checks to verify the identity of the named account holders; and did its due diligence when opening the accounts.

I'm satisfied that Monzo didn't make any errors when opening the accounts, it completed the correct ID checks and due diligence and I'm satisfied it had no reason to be concerned that the accounts weren't genuine at the time.

So I'm satisfied Monzo has taken reasonable steps to prevent the accounts being opened for criminal purposes and it didn't miss an opportunity to prevent Mr and Mrs S's losses when opening the accounts.

Detection – account activity

The primary duty of a bank is to follow their customer's instructions and make payments as directed in line with the mandate – which is usually set out in the terms and conditions of the account. The CRM Code sets out that Firms must take reasonable steps to detect accounts which may be, or are being, used to receive APP scam funds. This ties in with long standing regulatory and legal obligations Banks and Building Societies have to monitor their business relationships and to be alert to other risks - such as fraud, which would include giving consideration to unusual and out of character transactions.

Prior to the payments from Mr and Mrs S, I can't see that there was any suspicious activity on the accounts that means Monzo failed to prevent or detect the receipt of fraudulent funds. I'm also satisfied there was no notification of fraud on the accounts prior to the payments Mr and Mrs S made into the accounts and no other red flags where it could reasonably be argued that Monzo might have had sufficient grounds to suspect fraud and refuse execution of their customer's payment instructions.

So, from what I've seen, I'm satisfied Monzo has demonstrated that it has taken reasonable steps to detect accounts which may be, or are being, used to receive APP scam funds. I also don't think Monzo ought reasonably to have had concerns where I would have expected it to have intervened, so I can't fairly say that it could have prevented Mr and Mrs S's losses in this way either.

Response to the notification of fraud

The Best Practice Standards set out that a Receiving Firm must take appropriate action, in a speedy manner, upon notification of APP fraud and notify the Sending Firm if any funds remain for recovery.

As I've set out from the timeline of events, Monzo acted quickly in response to the reports of fraud. Unfortunately, Mr and Mrs S's funds had already been moved on by the time it was notified. So, I'm satisfied Monzo couldn't have done anything to prevent Mr and Mrs S's losses. And I'm satisfied it notified the sending banks with regular updates.

So, taking the above into consideration I'm satisfied, following notification of APP fraud, Monzo responded in accordance with the procedures set out in the Best Practice Standards. And I don't think I can fairly say Monzo didn't do enough to respond to the alleged APP fraud.

Summary

Overall, while Mr and Mrs S were the unfortunate victims of a scam, I'm satisfied that Monzo met the standards required of it under the CRM Code. I also don't think Monzo could've done anything more as the Receiving Firm to have prevented the loss of Mr and Mrs S's money. And it responded appropriately once notified of the fraud.

I appreciate this will come as a disappointment to Mr and Mrs S, but I'm satisfied that Monzo doesn't need to refund them for their remaining losses.

My final decision

For the reasons given above, my final decision is that I don't uphold Mr and Mrs S's complaint against Monzo.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr S and Mrs S to accept or reject my decision before 27 April 2022.

Sophia Smith
Ombudsman