DRN-5081687

The complaint

Mr M is unhappy that Monzo Bank Ltd won't reimburse him money he lost to an investment fraud.

What happened

As the circumstances of this complaint are well-known to both parties, I've summarised them briefly below.

Mr M discovered an investment opportunity through a third-party on social media that appeared to be a mutual acquaintance. Mr M attended a class, run by the third-party, and was eventually persuaded to invest. Unfortunately, unbeknown to Mr M at the time, he was in fact corresponding with a person intent on defrauding him.

On 26 May 2021, Mr M transferred £2,500 from his Monzo account to the account details provided by the fraudster.

Investors—including Mr M—were updated regularly on a messaging platform as to the status of their investment. Mr M was reassured that the investment was doing well through screenshots provided by the fraudster.

Mr M was promised his returns, but would continually be given differing excuses by the fraudster as to why they were unable to pay them. Eventually Mr M discovered through a mutual investor that they'd likely been defrauded, and so Mr M reported the matter to Monzo.

Monzo looked into Mr M's claim but didn't think it was liable to reimburse the funds lost. It considered the complaint against the Contingent Reimbursement Model Code (the CRM Code) but was satisfied an exception to reimbursement could be argued in this case.

In summary, it concluded Mr M made the payment without a reasonable basis for believing the investment was legitimate. It also found that it provided proportionate and effective warnings as part of the payment process.

Mr M was unhappy with the response he had received to his claim, so he referred his complaint to our service for an independent review. An Investigator considered the evidence and testimony provided by both parties but concluded Monzo had made no error in its assessment.

Mr M remained unhappy with the Investigator's conclusions, so the complaint has now been passed to me for a decision to be made.

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.

In deciding what's fair and reasonable in all the circumstances of a complaint, I'm required to take into account relevant: law and regulations; regulators' rules, guidance and standards;

codes of practice; and, where appropriate, what I consider to have been good industry practice at the time.

When thinking about what is fair and reasonable in this case, I've considered whether Monzo ought to have reimbursed Mr M under the provisions of the CRM Code, and whether it ought to have done more to protect Mr M from the possibility of financial harm from fraud. Monzo isn't a signatory to the CRM Code, but it has agreed to consider complaints such as this under its principles.

I'm persuaded that Mr M has fallen victim to a fraud. But this isn't enough for him to receive a reimbursement of the money lost under the CRM Code.

Under the CRM Code, a bank may choose not to reimburse a customer if it can establish that:

- The customer made payments without having 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 the person or business with whom they transacted was legitimate.

Taking into account all the circumstances of this case, I don't find Mr M had a reasonable basis for believing the payment was for a legitimate investment. I'll explain why.

Mr M was introduced to the investment through his partner. However, Mr M has told our service that he held an equal level of knowledge regarding it at the time of making the payment.

While Mr M has admitted to our service that he and his partner had no investment experience, I find that it's reasonable this ought to have caused them to approach the opportunity with a degree of caution considering this lack of experience.

The fraudster wasn't personally known to Mr M. He has indicated a tenuous link to a mutual acquaintance, but this wasn't a well-known or trusted individual. Mr M has also told our service that the purported trader advertised their services and successes via a well-known social media platform. This platform isn't typically associated with trading, investments, or financial advice – it is merely a social networking and media platform.

Mr M and his partner communicated with the fraudster via online messaging platforms. I have carefully considered those messages and have identified several red flags Mr M ought to have reasonably picked up on in these conversations.

The fraudster made several unsubstantiated claims of large, unrealistic profits, in a relatively short space of time. They also guaranteed the returns on Mr M's investments despite claiming the markets in which they were investing were volatile. Basic research on any investments—especially those involving cryptocurrency—would have revealed that investments are risk based and returns cannot be guaranteed.

Furthermore, there were outlets Mr M could have used to confirm some of the claims being made by the fraudster: such as being registered with the Financial Conduct Authority (FCA). But Mr M didn't confirm these claims through basic online checks via the FCA website.

I do understand that Mr M was persuaded by online reviews and feedback left on the fraudster's social media channels. But relying on this alone isn't, in my view, sufficient to support the assertion that Mr M held a reasonable basis of belief that the investment was legitimate.

I've also noted that Mr M's representative has argued that Mr M held a reasonable basis of belief as he'd been informed by an acquaintance that they'd invested and had seen returns. They argue that this gave Mr M the confidence to proceed with the investment. But this doesn't correlate with some of the information Mr M's representative has provided.

In prior submissions, Mr M's representative told our service that no returns were received by investors until the fraudster was threatened with police action. Mr M's representative informed our service that at this stage the fraudster began using stolen funds, under the guise of returns, to pay other victims. This seemingly occurred after Mr M had made his payment toward the investment.

Any claim of returns prior to this point, from reviews or persons not affiliated with Mr M ought to have not reasonably have carried much weight. These were claims from unverifiable third parties not known to Mr M.

Mr M's representative has also argued that Mr M, as an inexperienced investor, wouldn't have known that the returns promised were unrealistic. But as I've already touched upon above, Mr M's lack of experience in this field ought to have caused him to proceed with caution. Basic research of investments likely would have revealed the unrealistic nature of the claims made. I also find that any reasonable person would generally be able to identify circumstances where a too-good-to-be-true opportunity has been presented. In plain terms, it's unrealistic to expect such exorbitant profits, in a short space of time, from a situation that requires no input other than sending a sum of money.

For these reasons, I'm satisfied that Monzo has sufficiently demonstrated this exception to reimbursement applies, in that Mr M made the payment without a reasonable basis for believing it was legitimate.

Could Monzo have done more to prevent the fraud?

The CRM Code requires Monzo to take reasonable steps to protect its customers from Authorised Push Payment (APP) scams. This includes being on the lookout for, and helping to prevent, payments that could involve fraud. Where they identify potential fraud risks, Monzo are required to provide effective warnings.

So, I've considered whether the payment Mr M made was so unusual or out of character that I think Monzo should've been concerned that he may have been the victim of fraud and intervened.

Firms, like Monzo, have a difficult balance to strike in detecting unusual activity, such as payments that carry a higher than usual risk of fraud, against its obligation to make payments in line with its customer's instruction promptly. This is particularly so where a firm is processing millions of payments each day; it therefore wouldn't be reasonable to expect a payment provider to check each one.

Mr M's account was newly opened, one month prior to the payment made to the fraudster. Therefore, little to no information regarding the account's normal operation was present. Mr M made a one-off payment to a new payee to the value of £2,500. I don't find this to have been concerning enough to prompt Monzo to intervene in the payment in any way, whether that be by intervention or by low friction warnings. I don't say this to diminish the clearly significant loss Mr M has suffered, but to highlight that Monzo wouldn't have been able to compare this to prior account activity and identify it as unusual.

I therefore find that Monzo wasn't required to deliver an effective warning in the circumstances.

Did Monzo do all it ought to have done once it was told about the fraud?

Our service has contacted the bank that received the funds Mr M sent. And it has confirmed the funds left the account the day after they were sent. As Mr M reported the matter well after this time, Monzo would have had no realistic prospect of recovering the funds lost.

My final decision

For the reasons I've given above, I don't uphold this complaint.

Under the rules of the Financial Ombudsman Service, I'm required to ask Mr M to accept or reject my decision before 3 January 2025.

Stephen Westlake
Ombudsman