

UK Payment Accounts: access and closures

September 2023

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Chapter 1

Summary

Why we have carried out this initial review

- 1.1** Bank and other payment accounts are a necessary part of daily life for individuals and businesses, allowing them to make and receive payments. The UK is one of several countries where there are concerns about the scale of account closures and access to financial services. Most recently, this has centred on whether account providers have closed customers' accounts because of their lawfully expressed political views or beliefs.
- 1.2** For the purposes of this report, we have referred to:
- Banks and building societies as 'credit institutions'
 - Payment institutions and electronic money institutions as 'payments firms'
 - 'Firms' – encompasses both credit institutions and payments firms
- 1.3** To better understand the scale and reasons for any account closures, we gathered data from 34 firms on the:
- number of accounts terminated
 - number of accounts suspended
 - number and type of consumers declined accounts
 - reasons for these decisions and
 - complaints received on this issue
- 1.4** This report sets out what the data has told us so far and what follow up action we plan.

Protections for consumers

- 1.5** The law does not include a universal right to a bank account for either persons or businesses. As long as they comply with the relevant rules and legislation, firms can decide whether to provide a payment account based on commercial and risk factors.
- 1.6** However, the 9 largest credit institutions must provide a basic bank account (BBA) to eligible UK personal customers who would not otherwise be able to get an account. This comes without fees, charges or an overdraft. There is no equivalent requirement for businesses, including charities or campaign groups.
- 1.7** When providing any service, credit institutions and payments firms are required by equalities legislation not to discriminate on the basis of race, sex, religion and other protected characteristics.

- 1.8** The Payment Accounts Regulations 2015 require credit institutions, but not payments firms, not to deny a UK consumer access to a personal payment account on the basis of a range of protected characteristics, including lawful political views.
- 1.9** From 31 July 2023, financial services firms must also meet the requirements of the Consumer Duty ('the Duty') by putting retail customers' (including smaller businesses and charities) needs first and delivering good outcomes for them.
- 1.10** Under financial crime requirements, providers will decline or close an account in some circumstances, and under immigration laws they must do so in certain circumstances. But where, for example, a firm has suspicions of financial crime, they should investigate this in a reasonable timeframe and not unnecessarily deny people access to their accounts.
- 1.11** Customers have the right to complain to their provider if they feel they have been treated unfairly. If they are unhappy with the response to their complaint, individual consumers, small businesses, and small charities can then refer their complaint to the Financial Ombudsman Service (the Ombudsman Service). The Ombudsman Service has a dedicated team to deal with account closures, which can assess sensitive issues like financial crime concerns. It has a range of remedies for those treated unfairly, including requiring providers to keep an account open or re-open it.
- 1.12** We have also published separately today a [research note on international perspectives on de-risking](#) of how other jurisdictions have approached the issue of de-risking in the financial system. This shows concern about account closures or the difficulty some customer groups have in opening accounts is far from unique to the UK.
- 1.13** Our research note highlights the different approaches taken by different jurisdictions. France, for example, provides a resident's right to an account and quick appeals available to those whose accounts face closure. In Belgium, this right extends to businesses.

Summary of our findings

- 1.14** All 34 firms responded to our data request. However, the results were supplied quickly and there are some limitations. For example, some firms were only able to provide data at an account level rather than for individual customers.
- 1.15** To reflect the fact that the data was collected at speed and to recognise gaps and inconsistencies within it, we do not believe we can currently accurately use aggregate figures or averages. Instead, to best present the data, we have set out the ranges of those firms in the central two quartiles, ie the central 50% of firms, while also being clear where there are outliers.
- 1.16** The work undertaken to date has however allowed us to develop some initial conclusions, which have informed the next steps set out below.

Political views

- 1.17** Across personal and business accounts, there were 4 cases and an additional 4 complaints reported to us by firms with 'expression of political or any other opinions' as the reason for the account closure or complaint. We followed up directly with firms on these cases and further information showed that the primary reason for action was not the 'expression of political or any other opinions'. For the majority of cases it was, in fact, customer behaviour (eg racist language directed at staff).
- 1.18** Consequently, the information we have received so far does not suggest that accounts have been closed because of the political beliefs or views lawfully expressed by account holders. In addition to providing data, 8 firms told us they do not do this. However, we will be doing further analysis and supervisory work to be sure of this.
- 1.19** We will also look at accounts closed because of reputational risk, where the information provided by firms is, so far, inconsistent (and the significant majority of the cases cited with this reason for closure are from payments firms). While reputational risk may be legitimately considered, for example in decisions about relationships with sanctioned individuals or their close associates, we want to better understand how firms are using this criterion.

Overall data

- 1.20** For personal accounts, in the period from July 2022-June 2023 firms in the centre of the range reported:
- Declining between 0.1% and 6.7% of applications
 - Suspending between 0.1% and 2.3% of accounts
 - Terminating between 0.2% and 3.4% of accounts
- 1.21** For business accounts, in the same period, firms in the central range reported:
- Declining between 0.2% and 11.4% of applications
 - Suspending between 0.05% and 1.8% of accounts
 - Terminating between 1% and 6.9% of accounts
- 1.22** For BBAs, the figures were:
- Declining between 1% and 35.7% of applications
 - Suspending between 0.03% and 1.8% of accounts
 - Terminating between 0.4% and 1.8% of accounts

Reasons for declining, suspending or terminating an account

- 1.23** By far the most common reasons providers gave for declining, suspending or terminating an account were because it was inactive/dormant or because there were concerns about financial crime.

- 1.24** Given the limitations of the data, we have not been able to draw detailed conclusions on the types of customers affected. Some customer groups, eg PEPs and UK ex-pats, were well reported and categorised by firms but other groups much less so. These areas with better reporting are either subject to regulatory requirements or have clear identifiers, for example ex-pats with overseas addresses.

Next steps

- 1.25** This report has drawn out a number of areas that require follow up to confirm our understanding, as well as to address the causes and impact of the concerns raised. In the following section we draw out the actions for firms, our response, and matters we recommend taking forward with Government and industry.

Actions we expect firms to take

- 1.26** We expect credit institutions and payments firms to draw on the findings set out in this report and reflect on actions they should take. In particular:
- To consider whether their management information is sufficiently detailed to meet expectations under the Duty to measure consumer outcomes and whether distinct groups of customers, such as those with characteristics of vulnerability or those who share protected characteristics, are receiving worse outcomes.
 - Payments firms should review again [our letter](#) (21 February 2023) concerning their implementation of the Duty to confirm that they are meeting expectations. That letter highlighted the importance of action to strengthen customer onboarding controls – appropriate onboarding controls can reduce the frequency of account suspensions and the impact that this can have on customers.
 - Credit Institutions should review again [our letter](#) (3 February 2023) concerning the implementation of the Duty in Retail Banks and Buildings Societies to confirm that they are meeting expectations. That letter highlighted that firms are required to act to deliver good outcomes for retail customers. Credit institutions which are not retail banks or building societies should review again the equivalent letters sent to them (see 7.14 last bullet).

Regulatory action we intend to take

- 1.27** As we set out above, despite the limitations of the data and associated findings, this work has highlighted a number of areas which we intend to follow up. We intend to prioritise the following actions:
- We will undertake follow-up work to understand the accuracy of the data reported to us, concentrating in particular on the outliers.
 - We will follow up to understand the apparent high range of declines (1.0% -35.7%) for personal BBAs.

- Given the limitations of the data exercise, we will do further analysis and supervisory work to be sure of the conclusions reached on accounts closed for political beliefs or views lawfully expressed. We will also look at accounts closed because of reputational risk, where there has been inconsistency in firms' responses.
- We will consider how to improve data collection to help us monitor firm conduct in relation to account access.

1.28 We will take prompt regulatory action should we identify significant deficiencies in the arrangements of any firm assessed, including under the Duty.

1.29 We will also take action to further understand the impact on consumers to help inform any Government, regulatory and industry response. We will take the following actions:

- We will expand and refine the questions in our Financial Lives Survey (FLS) about those consumers without payment accounts.
- We will commission further work to understand some of the underlying and interrelated issues about unbanked consumers identified in our FLS data. This is likely to include work to:
 - examine the reasons for the expressed distrust of banks among the unbanked and whether these raise questions about the level of understanding of current accounts and their purpose
 - explore whether there are significant differences between groups in the proportion of those wanting a bank account, or who have tried but failed to get one
 - clarify the real or perceived barriers to accessing accounts for those who want them

1.30 We will engage with a range of consumer groups and organisations to understand their experiences and the impact of account declines, terminations and suspensions where these are within our regulatory remit.

1.31 We will be holding a financial inclusion sprint in Q1 2024 focussed on improving consumer access to financial services.

Working with the Government and industry

1.32 We intend to support and work with Government and industry to address the causes and impacts of account declines, suspensions and terminations. In particular:

- We are supporting the Government and the industry as they implement an increased minimum (from 60-90 days) notice period before accounts are terminated and to increase the transparency provided to consumers on why their account has been terminated.
- We will work with trade bodies and their members to further understand the reasons behind their decisions for account declines, suspensions and terminations and their relative prevalence. This may lead to further guidance and opportunities to set firmer expectations on how banks can effectively manage the risks in particular groups of customers most impacted by de-risking.

- We will continue our work with the Government and other partners to deliver measures set out in the Economic Crime Plan 2023-2026 and the National Fraud Strategy which aim to reduce economic crime through ongoing delivery of day-to-day detection, prevention and pursuit of economic crime.
- The way in which firms detect financial crime or fraudulent activity is becoming increasingly sophisticated, including through the use of Artificial Intelligence (AI). We will continue our work to understand how firms use AI to inform their decision making on payment account provision within our broader approach to AI, working with regulatory partners to support safe and responsible adoption alongside innovation to support growth and international competitiveness.

1.33 The findings of this report, as well as the observations drawn from the research note on international perspectives on de-risking, highlight a number of areas for further consideration by Government. In particular:

- The banking industry has called for greater checks by Companies House to support the fight against fraud and financial crime – we believe the suggestions made by industry bodies in this regard should be seriously considered as strengthening the ability to verify customer identity at onboarding has the potential to reduce the risk of subsequent account termination and may assist firms to operate ongoing financial crime monitoring.
- We encourage the Department of Culture, Media and Sport (DCMS) and Department for Science, Innovation and Technology (DISIT) to develop a strategic approach to identity verification, including digital identity, and explore further the barriers to mass adoption of these approaches and how Government might be able to improve their adoption. Again, such measures may assist firms in their decision making when accepting new customers, and help to calibrate ongoing financial crime monitoring controls.
- The Government and Parliament may wish to consider, as part of the passage of the Online Safety Bill, whether the cost of compensating for consumer losses due to fraud is being appropriately distributed.
- We note that Government may wish to consider whether to mandate through legislation the creation of a 'universal service obligation' (USO) on account providers, for retail or business customers, like in some other countries' banking systems (eg France, Belgium) or some UK utilities (eg broadband, energy).
- The Government may wish to consider a systemwide de-risking strategy as published recently by the US Treasury with respect to the US financial system.

Chapter 2

The wider context of account access and closures

Purpose and structure of this report

- 2.1** A payment account (such as a bank current account or e-money current account) is the most fundamental of financial services for consumers, businesses, and charities.
- 2.2** Where firms restrict or deny account access this affects consumers' ability to receive wages or make everyday payments. It can disrupt businesses' trade or stop charities giving aid. Those who lose access will often have to seek alternatives such as accounts with basic features, or payment services accounts (which do not have Financial Services Compensation Scheme (FSCS) coverage). There is even a risk it may push consumers towards informal financial services, subject to no regulatory oversight and potentially illegal.
- 2.3** Recognising the increased public concern about payment accounts being closed without fair justification, in August 2023 we commenced an initial review of these matters. We have collected data from 34 firms including credit institutions and payments firms, to help us assess the scale, nature and drivers of account denials, suspensions, and terminations (this is terminology we take from the Payments Services Regulation 2017 (PSRs), which along with the Payments Account Regulations 2015 (PARs) are key requirements in this area).
- 2.4** Our initial findings from this data collection exercise are set out in Chapter 4. We place these in the context of:
- the existing regulatory framework around account access and closures (Chapter 3)
 - our supervision of personal account access, including some issues arising (Chapter 5)
 - business accounts and access (Chapter 6)
- 2.5** Our conclusions, set in the context of the questions raised by the Chancellor in his exchange of letters with the FCA Chief Executive of 3 August 2023 (see Annex 1), and the actions we plan to take, are set out in Chapter 7. This also includes how we expect to work with others, and suggestions for the Government to consider.
- 2.6** This Chapter gives the wider context for this review and of issues around account access, including our role and powers, the current account market and an overview of relevant rules and legislation that firms must comply with. We also set out the scope and main features of the data collection exercise.
- 2.7** We have published a [Research Note: International perspectives on de-risking](#), which presents a concise factual analysis of how other countries have tackled similar issues.

The FCA's role in access to financial services

- 2.8** The FCA was created in 2013 with the strategic objective of: ensuring that financial markets and the markets for financial services function well.
- 2.9** The FCA also has a new secondary objective (which came into force in June 2023) requiring us to: appropriately and consistently consider growth and international competitiveness when exercising our general functions under the Financial Services and Markets Act (FSMA).
- 2.10** Our strategic objective and secondary objective are supplemented by our 3 operational objectives:
- To secure an appropriate degree of protection for consumers.
 - To promote effective competition in the interests of consumers.
 - To protect and enhance the integrity of the UK financial system.
- 2.11** Among other things, we:
- build financial inclusion into our regulatory work, for example through our evidenced-informed Equality Impact Assessments for all major policy initiatives
 - have 'Access' as one of 4 'top line outcomes' we measure each year ([Our Strategy 2022-25](#)): 'Diverse consumer needs are met through low exclusion and high operational resilience'; and
 - we measure our progress on Access through metrics including:
 - Reduction in the proportion of consumers who do not hold certain key products (Metric CAC2-M02 in [FCA outcomes and metrics](#)).
 - Reduction in the proportion of consumers who were declined a product or service in the last 2 years and, in their view, this was due to non-financial factors such as their age, health or ethnicity (Metric CAC2-M01).
- 2.12** However, the issues of access and inclusion are inherently complex. For example, access to bank accounts in the UK touches on financial literacy, poverty, and immigration status. Much of that lies beyond our remit and powers. In particular, we do not have express powers to mandate universal provision of specific products or services for all consumer groups. This would require Parliament to legislate, which is something some countries have done.
- 2.13** Therefore, as we consider the need for further action on access to payment accounts, it is important to recognise that:
- UK account providers can make commercial decisions regarding who they provide accounts to or not, subject to the relevant legislation (see Chapter 3).
 - There is no 'universal service obligation' (USO) on account providers, unlike in some countries' banking systems (eg France, Belgium) or some UK utilities (eg [broadband](#), [energy](#)).

- Firms are required, under our rules and legislation, to have effective risk management frameworks and systems and controls. This includes effective controls to manage financial crime and fraud risk, which may lead to customers being legitimately declined accounts or having their accounts suspended or terminated.
- We intervene where we see the potential for harm and poor consumer outcomes. For example, we introduced our [guidance on the treatment of customers in vulnerable circumstances](#) (2021) in response to concerns over access to services, including banking. We set our expectations on diversity and inclusive behaviour to increase the ability of firms to understand the needs of all their different kinds of customers ([Understanding approaches to Diversity and Inclusion in Financial Services](#)).
- Some access issues can't be addressed without Government intervention and legislation. For example, its past introduction of accounts with basic features, referred to in this report as Basic Bank Accounts (BBAs; see 3.12-3.18).
- There is no equivalent to BBAs in the UK legislative framework with respect to business accounts and the accounts of not-for-profit organisations such as political party or campaign group accounts. So, firms have a particular commercial discretion about whether to provide accounts to those.

Who has current accounts?

- 2.14** Our 2022 [Financial Lives Survey](#) (FLS) reports on the use of over a hundred different financial products among the 53 million adults in the UK. For retail banking products, this includes (as of May 2022):
- 50.8 million with a current account (payment account) from a bank, building society or credit union.
 - 4.1 million using a BBA as their main day to day account. This is around 8% of all adults with current accounts.
 - 3.5 million with an account from an e-money account institution (payments firm).
- 2.15** While there is an improving trend, according to our FLS results there are 2.1% of UK adults (1.1 million) who do not have a current account: we call these consumers 'unbanked'. This is down from 2020 (2.5%, 1.2m).
- 2.16** There are, however, two opposing caveats to make about this estimate of unbanked consumers:
- i. Two-fifths (40%) of the unbanked had other accounts that could be used for day-to-day payments, such as certain savings accounts, a credit union savings account, or a Post Office card account. And a quarter (25%) of the unbanked said they had used a digital wallet to pay for goods or services in the last 12 months, while 5% had used a loadable pre-paid card. So, in May 2022 only 1.3% of adults (0.7million people) had no day-to-day account of any kind. We call these consumers 'unbanked plus'.

- ii. But FLS may underestimate the number of unbanked. It is likely, given some of the demographic features more associated with being unbanked (2.18-19), that unbanked adults are harder to reach for consumer surveys (eg because they are living in sheltered accommodation) and less likely to respond to surveys (eg they may have English language difficulties).

2.17 Focusing nonetheless on the 2.1% unbanked, a particular concern is those consumers who want or need an account but can't get one. FLS found that:

- nearly a quarter (22%) of the unbanked said they would have liked an account
- over a quarter (27%) were unsure whether they wanted one or not
- over half (53%) said they did not want a current account, with some at least saying this was because they do not trust the banking system

In addition:

- 16% had tried previously to open a current account but been unable to (up from 9% in 2020)
- 20% said they did not know whether they had ever tried to open a current account
- 11% said they didn't have the required documentation to open an account

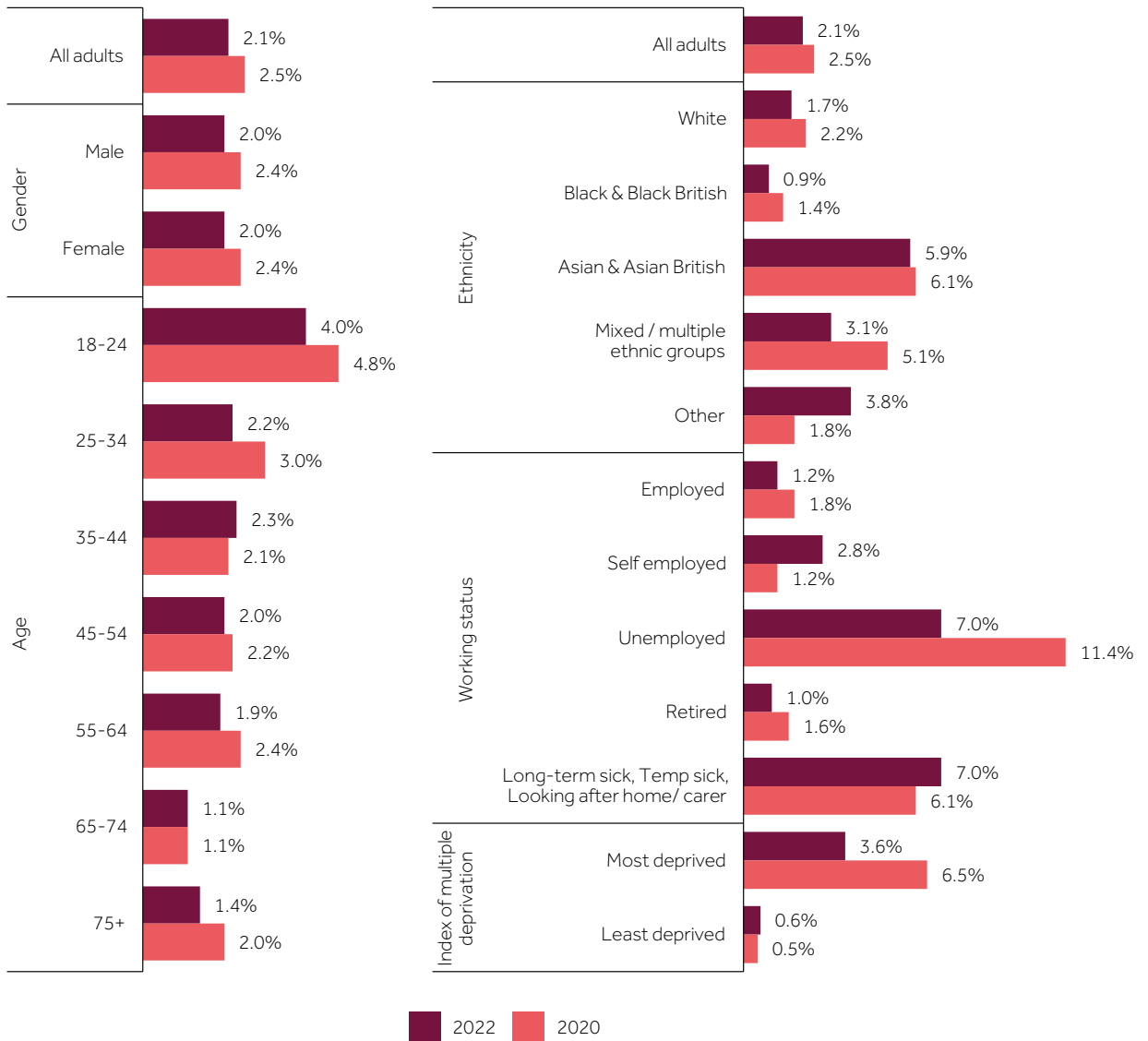
2.18 FLS also provides helpful further detail about who is unbanked:

- Figure 1 overleaf shows there is no difference in the proportion of unbanked adults by gender. But 18-24 year olds are twice as likely to be unbanked (4% compared to 1.9% for those over 25 years old) and account for 1 in 5 (21%) of all unbanked. Of these unbanked 18-24 year olds, two thirds (64%) are aged 18-21, and nearly half (44%) are economically inactive (eg students, unemployed and not looking for work, long-term sick or temporarily sick with no job to go to).
- There is also a strong link to deprivation, with adults in the most deprived areas (3.6% unbanked) being 6 times as likely to be unbanked as those in the least deprived areas (0.6% unbanked).

2.19 We also know from FLS that the proportion of unbanked is:

- higher among some groups, including Muslims (10%), those who are long-term sick, temporarily sick, looking after the home, or carers (7%), those with no educational qualifications (7%), those for whom English or Welsh is not their first language (7%) and Asian and Asian British (6%)
- higher among some groups whose members may be in vulnerable circumstances, including the unemployed (7%) or those with learning difficulties (6%)
- higher among those with poor financial numeracy (6%), digitally excluded (6%), or in financial difficulty (6%)
- higher in some regions: Southern Scotland (6%), Outer London West and North West (5%), Greater Manchester (4%) and West Midlands (4%)

Figure 1: Proportion of UK adults who are unbanked (no current account) (2020/2022)



FCA Financial Lives Survey
 Base: All UK adults (2020: 16,190/ 2022: 19,145)
 Question: POSum1. Summary of product holding

2.20 Given the availability of BBAs (see Chapter 3), the number of people currently without an account is, on the face of it, higher than we would expect. BBAs were introduced in 2016 under the Payments Accounts Directive as a 'safety net' for individuals who might not otherwise be served by standard current accounts because, for example, they have poor credit history or low incomes. The Government said at the time that to solve this serious societal issue it had to mandate the response.

2.21 Our focus on financial inclusion also applies to payment firms. Among the range of products and services they offer, some payment firms provide services designed for specific groups of customers such as students, refugees and migrant workers, who may be more likely to exhibit characteristics of vulnerability and/or less likely to access traditional bank accounts and services.

- 2.22** Although we can point to some successes in increasing access to the banking and payments system, the picture on unbanked consumers is mixed and we are not complacent. We remain focused on those consumers who still do not have access to an account, not least because many of them are in vulnerable circumstances too. This requires action by a range of partners beyond the FCA as regulator.
- 2.23** So, we will commission further work to try to understand some of these underlying and interrelated issues about unbanked consumers, including credit institutions' provision of BBAs (see Chapter 7).

Our powers and supervisory approach

- 2.24** Our powers and role are limited to ensuring that firms comply with the relevant legislation and rules when denying, terminating or suspending accounts, such as the non-discrimination provision in the PARs (Regulation 18; see 3.23-26), the requirements in the PSRs about giving customers appropriate notice (see 3.61-66), and the Duty.
- 2.25** As part of our supervisory approach (see Chapter 5), we will continue to engage with firms if we are seeing themes or widespread issues on account denials, suspensions or terminations, in order to understand and assess:
- Their approach to fair treatment of customers and those in vulnerable circumstances. We do that from the perspective of the relevant legislation, the Duty, and our other rules and guidance. (See Chapter 3.)
 - Their approach to account suspensions and terminations, and to denials of account applications, and the communication of these to customers.
 - The scope of potential rule breaches and any customer harms.
 - We may also consider the use of skilled person reviews (under s.166 FSMA) to understand the scale of any relevant systems and control weaknesses in firms, and potential enforcement investigation in the case of the most serious misconduct.

Risk management and commercial discretion

- 2.26** We expect firms to have effective risk management frameworks and systems and controls. Using their commercial discretion, firms typically seek to balance:
- the risks associated with a customer (eg credit risk or financial crime risk)
 - the costs involved in controlling those risks, and in serving the customer
 - the revenue opportunities they see in the potential customer (fees, interest etc)
- 2.27** Firms typically assess these aspects at the start of a potential customer relationship, and during the relationship. This may lead to:
- a re-assessment that the customer is now posing more risks than before; or
 - a conclusion that because, for example, the firm has reduced its risk appetite since it took on the customer, it should now no longer serve the customer

- 2.28** The firm may then choose to end its relationship with the customer, and it can usually use its discretion to do so, provided it can rely on a valid and enforceable provision in its terms and conditions.

Financial crime risks and controls

- 2.29** Fighting financial crime has been a focus for international cooperation and is a key priority for the UK and the FCA. In 2014, the Financial Action Task Force (FATF) made recommendations to ensure a co-ordinated global response. Firms are required by these recommendations (as implemented in each country) to have effective risk management frameworks and preventative measures against their services being used for the purpose of money laundering, proliferation financing or terrorist financing.
- 2.30** In the UK, these rules have been introduced through legislation in the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs). They include identifying customers, undertaking ongoing monitoring of any relationship and reporting suspicions of money laundering to law enforcement agencies.
- 2.31** If a firm cannot complete the checks required by the MLRs known as customer due diligence (CDD, sometimes referred to as 'know your customer' or KYC), then the firm must not open or continue a business relationship.
- 2.32** If a firm suspects its customer is using an account for the purposes of financial crime, it will close that account, although it may also continue to operate an account having complied with its obligations under the Proceeds of Crime Act 2002 (POCA) to report suspicious activity and, where appropriate, seek a 'defence against money laundering' (DAML; see 3.71-74).
- 2.33** Relevant authorities, including the FCA, may use powers to impose business restrictions where there are significant anti money laundering (AML) system and control weaknesses, or take enforcement action. For example, in 2012 HSBC paid \$1.9bn to US Authorities for failings in its AML controls. In 2021, after the FCA pursued criminal charges, National Westminster Bank was fined £264.7m following convictions for three offences of failing to comply with money laundering regulations.
- 2.34** We have been clear in our expectations that firms need to continue to develop and improve their AML systems and controls. For example, in our [Dear CEO letter to retail banks \(2021\)](#) and [letter to the CEOs of payments and e-money firms \(2023\)](#) about our supervisory strategy.
- 2.35** Addressing financial crime has been a key part of the FCA's strategy. For several years, we have collected data on the number of customer relationships exited for financial crime reasons. This helps us to understand how firms are addressing financial crime risks proportionately, for both high risk and low risk activity, and together with the Duty has increased focus on delivering good outcomes for retail customers.

2.36 As the results from our recent data collection exercise show (see Chapter 4), financial crime due diligence, and suspicions of financial crime, are the key drivers for account declines, terminations and suspensions (along with the termination of dormant or inactive accounts, for example to prevent their misuse by others).

Fraud risk

2.37 Credit institutions and payment firms also play a key role in protecting the public and UK economy from growing levels of fraud activity. Overall, there were around 3.7m incidents of fraud in England and Wales in the year ending December 2022, comprising 40% of all crimes in those nations (according to figures from the Office for National Statistics).

2.38 UK Finance figures report losses due to authorised push payment fraud (APP fraud) as £485.2m in 2022 (down 17% on 2021, but with cases (207,372) up 6% on 2021). The losses were split 84% personal to 16% business (the cases 97% to 3%).

2.39 CIFAS is a not-for-profit fraud prevention membership organisation that helps combat financial fraud. One of CIFAS' tools is the National Fraud Database (NFD), which allows member organisations to share and access data on fraudulent conduct.

2.40 In its latest annual intelligence report (2023), CIFAS says the threat continues to evolve, with threat actors innovating to fraudulently open and abuse accounts, steal identities and take over customer accounts.

2.41 The report sets out the 2022 statistics from the NFD, including that there were 409,000 cases of fraudulent conduct, an increase of 14% on 2021 and of 12% on the pre-pandemic level. Of those cases:

- 277,000 (68%) were identity fraud, up 23% on 2021 and the highest ever.
- 70,000 (17%) were Misuse of facility (down 11% on 2021): of these, a large proportion relate to bank accounts and two thirds (39,578 cases) had intelligence indicative of money mule activity (down 21% from 2021). The key age range continues to be 21-25 years, with social media a key enabler in recruitment.
- 37,000 (9%) were facility takeover (similar to 2021). The online retail and telecom sectors are primarily targeted for facility takeover, as threat actors look to take over existing accounts to order goods to sell on.
- 24,000 (6%) were false application, up 40% and back to pre-pandemic levels.

2.42 More positively, the report says CIFAS members prevented more than £1.3bn of fraud losses in 2022 through use of the NFD, but also that prevention and detection can be further improved by developing a better understanding of key threats and enablers.

2.43 Given these figures and trends, it is understandable that credit institutions' financial crime alerts and reports of suspicious activity are increasing in volume (see eg 5.9).

2.44 The FCA is not the primary body in the UK responsible for tackling fraud. However, as part of our 3-year strategy, we are contributing to broader national efforts and are increasing our work to tackle fraud and scams, for example undertaking assessments of firms' antifraud systems and controls.

The continuing fight against financial and economic crime

- 2.45** In March 2023, the Government published its second joint public/private Economic Crime plan for 2023 to 2026. We are supporting the delivery of a number of the actions in the plan, as well as having worked in support of the first plan from 2019-2022. This includes working with the National Economic Crime Centre (NECC) to clarify economic crime priorities, to help ensure that those subject to AML rules are clear on priorities and to support the redirection of resources from lower risk activities to higher risk in order to better address the threat.
- 2.46** Significant work is occurring across a range of government agencies and regulatory bodies in the UK to address rising levels of financial crime and fraud. Powers were introduced within the Economic Crime and Corporate Transparency Bill to facilitate information sharing between credit and other financial institutions, and among all AML supervisors including professional body supervisors. Information sharing among AML supervisors is also facilitated by recent changes to the MLRs to create a permissive gateway. The National Crime Agency (NCA) continues its work with credit institutions to share information on potential serious and organised crime. Information sharing on how threats are evolving is key, as it helps credit institutions to fine tune their approaches to detecting and preventing economic crime.
- 2.47** In June 2023, the Payment Systems Regulator (PSR) confirmed new requirements for banks and payment companies concerning APP fraud that will ensure more customers get their money back if they are a victim. The PSR expects this significant new level of protection to prompt more action to prevent these frauds happening in the first place.

Balancing access and risk management – the issue of de-risking

- 2.48** In some instances, the way firms have responded to money laundering and other financial crime risks has led to problems for legitimate customers accessing accounts or other banking services. This is often called 'de-risking' (or sometimes 'de-banking').
- 2.49** In 2014, FATF defined de-risking as 'the phenomenon of financial institutions terminating or restricting business relationships with clients or categories of clients to avoid, rather than manage, [money laundering] risk in line with FATF's risk-based approach'.
- 2.50** In 2016 we published research into de-risking and in our response said:
- 'Money transmitters, charities and fintech companies are among the sectors particularly affected by banks' de-risking and we understand that some banks are also withdrawing from providing correspondent banking services.
 - Banks have told us that this helps them comply with their legal and regulatory obligations in the UK and abroad. However, we are clear that effective money-laundering risk management need not result in wholesale de-risking.

- 2.51** Many other jurisdictions have wrestled with this same tension in financial systems between risk management and access. For example, a recent [US Treasury report on de-risking](#) summarised the issue well, explaining there is:
- a complex relationship between firms' attitudes to risk, including financial crime risk and reputational risk, and their pursuit of profitability, including the cost of systems and controls that are adequate to the risks customers pose
 - a challenge for governments and regulators in striking a balance between ensuring a financial system that is accessible and transparent, but which also provides robust protection against bad actors
- 2.52** Our Research Note looks at publicly available information about the nature, scale and impact of de-risking internationally, and the differing policy approaches to this issue that have been adopted abroad. It sets out several important findings including that:
- There are categories of customers globally that are particularly affected by de-risking.
 - AML/Counter Terrorism Financing (CTF) might be a key driver as to why some classes of customers might be subject to review and de-risking programmes, but the decision to exit is not always limited to unacceptable AML/CTF risks.
 - Exit decisions are also based on factors such as increased compliance costs, rising regulatory fines, enhanced corporate individual accountability, reputational risk, and client profitability.
- 2.53** Our Research Note concludes that there is no 'silver bullet' which will effectively solve all the challenges faced by those having their accounts closed (or unable to open new accounts) due to firms de-risking: a coordinated response across several bodies including industry, regulators and government is needed.
- 2.54** This is a similar judgement to that in our statement on de-risking in 2016 and to those in many of the other reports written on it in the last decade. However, access to accounts remains a critical issue for our society, and it is important for us to consider the potential need for additional actions in this area, by us or others (see Chapter 7).

Working with the Government

- 2.55** As explained (2.12-13), there are no legislative provisions that compel firms, or enable us to compel them, to offer a payment account to consumers in general. But legislation requires some firms to provide BBAs to individual consumers in some circumstances. We then supervise those firms' compliance with the BBA requirements.
- 2.56** The effectiveness of this dual approach between the FCA and the Government can be seen not only with BBAs but also in our work with Government (and others) on:
- financial inclusion generally – see the government's [Financial Inclusion Report 2021/22](#)

- ensuring comprehensive access to the banking system specifically – where the Government recently enacted legislation giving us new powers to protect access to cash (covering cash deposits and withdrawals from current accounts operated by firms designated by the Treasury for this purpose)

2.57 In recent months, there has been public and political focus on a particular kind of de-risking, where firms potentially seek to exit relationships with account holders on grounds involving those customers exercising their right to lawful freedom of expression and political beliefs.

2.58 In early 2023, the Government gathered evidence on the balance of rights and obligations between users and providers of payment services, alongside its statutory review of the PSRs, noting this was partly in response to the recent treatment of some accounts.

2.59 Having analysed feedback, the Government has published its Policy Statement on Payment account termination and freedom of expression. We support the Government's:

- view that providers should not be terminating contracts of payment account facilities on grounds that involve users exercising their right to lawful freedom of expression and political beliefs
- recognition of the importance of payment account providers being able to make their own commercial decisions about the provision of their services, their established rights in general contract law and their obligations under financial crime legislation
- intention to strengthen existing regulations by requiring providers to give customers at least 90 days' notice when choosing to terminate a payment account contract (unless for a serious uncorrected breach, for example non-payment)

Our data collection exercise

2.60 In August 2023, we undertook a data collection exercise concerning the provision of banking and payment services ('payment accounts') to personal customers and businesses (including not-for-profit bodies etc).

2.61 We requested data from 34 firms (credit institutions and payment firms). These firms represent over 90% of the market for current accounts provided by credit institutions and a sample of the largest payments firms. Our request covered personal and business current accounts, easy access deposit accounts (including passbook accounts), electronic money issuance and payment services.

2.62 Full details are in Chapter 4 but in summary we asked firms to provide data on:

- the total number of accounts on 1 July 2023

- the three 6-month periods: January-June 2022, July-December 2022, and January-June 2023, including the number of accounts terminated ('exited') or suspended ('frozen') in each period, and the number of account applications declined ('refused')
- the volume of customer complaints relating to terminations, suspensions or declines
- the specific customer types impacted by terminations, suspensions or declines, which for consistency we specified for the firms to select from, including trustees, refugees, previously bankrupt, ex-offenders, and Politically Exposed Persons (PEPs)
- the main reasons for the terminations, suspensions or declines; again, for consistency we specified categories for the firms to select from

- 2.63** One of those categories, importantly, was consumer 'expression of political or any other opinions'. For this category only, we asked firms to provide data not only on cases where that had been the firm's main reason, but also cases where that was a factor in its decision.
- 2.64** The wording of that category is aligned with the relevant legislation, which is Regulation 18 of the PARs. This applies to credit institutions only, but given payment firms are used by a large and growing number of UK consumers, and given the importance of the issues around freedom of expression and inclusion, we considered it appropriate to ask payment firms for the same data about this.
- 2.65** We note that UK nationals living overseas ('ex-pats') do not have a right to a BBA, and are not protected under PARs, when accessing a payment account, from discrimination on the basis of protected characteristics (which includes protection from discrimination on the basis of political opinion). However, we have included ex-pats in our data request because we are aware that some banks' willingness to continue providing services to some ex-pats has changed in recent years, including after the UK's exit from the European Union (see 5.47).
- 2.66** Businesses, including charities and other not-for-profit bodies, also do not have a right to a BBA, and also are not protected under PARs, when accessing a payment account, from discrimination on the basis of protected characteristics. (They do, however, have certain protections regarding access to accounts under the Equality Act; see 3.32-35.)
- 2.67** Moreover, in the context of payment, e money and deposit accounts, only businesses which are 'micro-enterprises', and charities with annual income of less than £1m, benefit from the protections of the Duty and our Banking Conduct of Business sourcebook.
- 2.68** Only businesses which are payment firms have certain specific protections around access to accounts from credit institutions, under the PSRs (regulation 105; see 6.3-24 below).
- 2.69** Notwithstanding these significant limits to our regulatory remit over businesses' access to payment accounts, we have included business accounts in our data request. This is to better understand the scale and nature of any access issues impacting them. Our request specified customer types including political parties, not-for-profit and non-profit (charities, clubs, administrations, trade unions, etc), pawnbrokers, and digital asset businesses (including cryptoasset businesses).

- 2.70** This inclusion of business accounts has provided us with some initial data which may inform the Government's ongoing policy considerations around whether to extend protections to businesses concerning the provision of payment accounts or other banking services (see Chapter 7).
- 2.71** Also, our Research Note outlines how some other countries have tackled access issues, including in relation to businesses, and these too may assist with the Government's policy thinking. Such issues have also been considered by the UK Government from time to time over recent years.
- 2.72** Lastly, given the importance of BBAs to personal account access and financial inclusion, we also requested specific data from the relevant credit institutions on their declines, suspensions, and terminations of BBAs.

Responses to the data collection exercise

- 2.73** We thank firms for responding to the data collection exercise at pace. Given the limitations of the data, as described in Chapter 4, we will undertake follow up work to understand the accuracy of the data reported to us, concentrating in particular on the outlier firms.
- 2.74** We received 54 data responses from the 34 firms, some firms providing separate responses for their main brands, as we had asked. There were also separate data responses about BBAs from relevant credit institutions.
- 2.75** Since the announcement of our initial review and data gathering exercise, we have also received submissions from other stakeholders about account access issues and/or requests to discuss such issues with us. These have come from consumer groups (including faith and community groups), businesses (including various trades), and from the charities and voluntary organisations sector.
- 2.76** We have read their submissions and allude briefly to some in Chapter 6. We are considering how to engage further on these matters, while recognising that for a number of businesses and associations, the policy matters involved rest with the Government.

Chapter 3

The regulatory framework around account access and closure

This Chapter gives detailed descriptions of the relevant regulatory and legal provisions. This level of detail is important to properly understand the current position and any perceived issues arising from it. We start with a summary.

Summary

- 3.1** UK legislation does not establish a universal right to the provision of a bank account or other payment account. This means that, with some exceptions and safeguards set out below, the decision to offer banking or other payment account services to a customer is largely driven by a firm's commercial considerations.
- 3.2** Under the PARs, designated credit institutions must provide BBAs to consumers (natural persons acting for personal purposes) resident in the UK, who meet the required eligibility criteria.
- 3.3** Under the PARs, credit institutions must not discriminate against consumers based on a range of characteristics when they apply for or access a payment account. This includes a credit institution declining, suspending, or terminating a payment account. Business accounts are not within scope of this provision.
- 3.4** Firms must also comply with their legal obligations under the Equality Act 2010. This prohibits them from discriminating against people or companies based on certain protected characteristics.
- 3.5** Firms must fulfil their obligations under the Duty by putting the needs of retail customers first and acting to deliver good outcomes for them.
- 3.6** Subject to complying with the relevant legal and regulatory requirements, firms make their own commercial decisions on whether to provide non-basic accounts.
- 3.7** There are various reasons involving firms' obligations under financial crime and immigration legislation which would require firms to refuse or terminate a payment account. However, providing they comply with applicable rules and regulations (which are set out in more detail below), firms are generally free to terminate contracts for legitimate commercial reasons.
- 3.8** If a firm relies on a contractual power to terminate an account, they must ensure that they are acting in line with that power.

- 3.9** Customers (including consumers, micro-enterprises, small businesses, and charities) have the right to complain to their account provider if they think their account was terminated unfairly. The firm will then be required to assess the complaint in line with our dispute resolution rules.
- 3.10** If a customer is not satisfied by a firm's response, they can refer their complaint to the Ombudsman Service, who will consider the complaint independently and reach a decision based on what is fair and reasonable in all the circumstances of the case. The Ombudsman Service has a dedicated team that resolves account closure complaints and have published [guidance](#) for firms on how they should handle such complaints.

Relevance of rules

- 3.11** The following table sets out which rules (which are set out in more detail below) apply to different types of users:

Table 1: Application of rules and legislation

	Consumer Duty	Non-discrimination in payment account provision	Right to basic bank account	Conduct requirements on termination
Consumer	Yes	Yes (when legally resident in UK)	Yes (when legally resident in UK and meets the eligibility criteria)	Yes
Micro-enterprise/charity	Yes	No	No	Yes
Business customer	No	No	No	Yes (but the firm and business customer can agree this does not apply)

User type	Definition
Consumer	A natural person who is acting for purposes which are outside that person's trade, business, craft (for the purposes of the PARs), or profession.
Micro-enterprise/charity	A micro-enterprise, or a charity which has an annual income of less than £1m.
Business customer	A natural or legal person acting for the purposes of their trade, business, craft (for the purposes of the PARs) or profession, that is not a micro-enterprise/charity.

The right to a basic bank account (BBA)

3.12 Firms are free to offer different types of accounts with varying features, but not all consumers will meet firms' risk appetites or commercial thresholds. Therefore, a basic bank accounts regime is in place to improve financial inclusion and enable access to core banking services for consumers who may otherwise be unable to get an account. BBAs (referred to in the PARs as payment accounts with basic features) have limited facilities, are generally fee free and do not require customers to pass a credit check.

Eligibility criteria

3.13 Under the PARs, credit institutions who are designated by the Treasury must provide BBAs to eligible consumers who apply for one. Consumers are defined here as natural persons acting for personal purposes, that is, purposes which are outside of that person's trade, business, craft, or profession.

3.14 To be eligible for a BBA, a consumer must be legally resident in the UK. This includes asylum seekers under the Immigration Act 1999. It also includes prisoners and those who have been in prison, provided they are otherwise lawfully resident in the UK.

3.15 BBAs are aimed at consumers that cannot access essential banking services. This means, broadly, consumers must also either not have another account with at least basic features at a UK credit institution or be ineligible for all accounts other than a BBA with the firm they are applying to.

Refusal of a BBA

3.16 There are circumstances in which credit institutions must or may refuse to open a BBA. They:

- a.** Must refuse to open a BBA for a consumer where it would be unlawful to open one, including where it would:
 - Be contrary to the Fraud Act 2006, the MLRs, or section 40 of the Immigration Act 2014, or
 - Breach a requirement or limitation imposed on the credit institution under Part 4A of FSMA that prevents it from accepting new customers (ie where the FCA or PRA prevents the firm from taking on new customers).
- b.** May refuse to open a BBA for a consumer where they consider that the consumer's poor behaviour towards their staff is an offence under the legislation outlined in regulation 25(2) of the PARs.

3.17 Where a credit institution refuses an application for a BBA, it must tell the customer the reason for this in writing and without delay, where it can lawfully do so. In some cases, such as in cases of suspected financial crimes, the credit institution will have a legal obligation to limit the amount of information it can give the consumer about the reason for the refusal, to avoid jeopardising any investigation into unlawful conduct by the consumer.

- 3.18** Where a credit institution can lawfully notify the consumer of the reason for refusal, it must also advise them of how to submit a complaint to it about the refusal and of their right to make a complaint to the Ombudsman Service.

Identity verification

- 3.19** All firms must comply with rules in the MLRs. This means they must take steps to verify the identity of their customers. All firms will compile their own list of acceptable identity documents, and these may vary between firms. As part of the financial crime rules in our [handbook](#), we expect their systems and controls not to unreasonably deny access to their services to potential customers who cannot reasonably be expected to produce detailed evidence of identity.
- 3.20** The Joint Money Laundering Steering Group (JMLSG) provides interpretative guidance for complying with AML obligations. This states that firms will need to take a proportionate and risk-based approach to determine whether the evidence available gives reasonable confidence about the customer's identity. JMLSG also gives a list of special cases including refugees, prisoners, and international students, and lists acceptable documentation for each customer type.

Prohibitions against discrimination

- 3.21** The Equality Act 2010 contains provisions that apply to all FCA regulated firms about discrimination in providing banking services. Regulation 18 of the PARs and regulation 105 of the PSRs also have provisions that apply to credit institutions.
- 3.22** Whether a firm has breached the Equality Act, regulation 18 of the PARs, or regulation 105 of the PSRs during its refusal or termination of an account, will heavily depend on the facts of a particular case.

Regulation 18 of the Payment Accounts Regulations 2015

- 3.23** Regulation 18 of the PARs prohibits discrimination by credit institutions against consumers legally resident in the UK in the provision of payment accounts. This applies to individual customers, not business customers.
- 3.24** This means that a credit institution must not discriminate based on the characteristics listed in regulation 18 when it decides to refuse, suspend, or terminate a payment account.
- 3.25** 'Payment accounts' have a specific definition in the PARs. When deciding if an account is a [payment account](#) under the PARs, we need to look at how the account functions. Broadly speaking, an account will be covered if it allows the consumer to place funds, withdraw cash, and make and receive payment transactions to and from third parties, including credit transfers. However, there are some exceptions to this. Providing they are not used for day-to-day payments, the following accounts are not included: savings

accounts, credit card accounts where funds are usually paid in for the sole purpose of repaying a credit card debt, current account mortgages and e-money accounts.

- 3.26** Regulation 18 of the PARs does not impose an absolute obligation for credit institutions to provide payment accounts (or prevent them from suspending or terminating an account), it is a prohibition on doing so on a discriminatory basis.

Regulation 105 of the Payment Services Regulations 2017

- 3.27** Regulation 105 of the PSRs requires credit institutions to give payments firms access to payment account services on a proportionate, objective, and non-discriminatory basis. The definition of a 'payment account' under the PSRs is different to the definition of a 'payment account' under the PARs. Guidance on the definition of a 'payment account' under the PSRs is available in Q16 of [PERG 15.3](#) of our handbook. See the section above for the definition of a 'payment account' under the PARs.
- 3.28** The payments firms that are protected under regulation 105 are e-money institutions (EMIs), authorised payment institutions (authorised PIs), small payment institutions (small PIs), and registered account information service providers (RAISPs).
- 3.29** In our view, regulation 105 does not impose an absolute obligation for credit institutions to grant access to an account. The decision to work with a given payment firm is still a commercial one, with credit institutions able to consider cost and risk. This reflects the view of the Treasury in its consultation on the implementation of the [Payment Services Directive II \(2015/36/EU\)](#).
- 3.30** Credit institutions must notify us of their reasons for refusing or withdrawing access to payment accounts for payments firms. We share these notifications with the PSR, who, with us, is jointly responsible for monitoring compliance against Regulation 105.
- 3.31** We set out our guidance on how we apply the provisions of regulation 105 of the PSRs 2017 in our [Payment Services and Electronic Money Approach Document](#), particularly Chapter 16. In this, we underline that credit institutions should not have policies that restrict access to services for certain categories or types of payments firms, without considering the specific risks posed by the business, and the ways in which an individual payment firm might mitigate the risks.

Equality Act 2010

- 3.32** We do not have enforcement powers under the Equality Act 2010; this is the role of the Equality and Human Rights Commission (EHRC). However, we have been clear publicly that it is likely that a breach of the Equality Act will also be a breach of our rules including our Principles for Businesses (Principles). We have stated we will use our expertise of financial services markets to help the EHRC in its enforcement work.
- 3.33** It is against the law for a firm, when providing banking services, to discriminate against a person because of a '[protected characteristic](#)'. This includes discriminating against business customers, charities, and micro-enterprises, for example based on the businesses' employees, purpose, or the specific groups of customers that they serve.

- 3.34** Discrimination in this context may come in several forms, including:
- Direct discrimination – treating someone with a protected characteristic less favourably than others. For example, a firm refusing to accept disability benefit letters as proof of address while accepting letters from employers.
 - Indirect discrimination – putting rules or arrangements in place that apply to everyone, but that put someone with a protected characteristic at an unfair disadvantage. For example, firms refusing to provide accounts to consumers with a characteristic not explicitly mentioned in the permissible reasons for refusal, such as consumers being over a certain age limit.
- 3.35** In some cases, there is an exception to the prohibition on discrimination under the Equality Act, where a firm can show good reason for the different treatment, known as objective justification.

Reasons an account may lawfully be refused or terminated

- 3.36** Subject to complying with applicable rules and regulations (including those described above), a firm is generally free to terminate a payment account for legitimate commercial reasons. There are also several areas where a firm may be required to terminate an account. Below we set out some of the most common reasons for termination.

Anti-Money Laundering (AML) and Financial Crime requirements

- 3.37** Firms must comply with several financial crime obligations. These obligations may, alongside other considerations, affect their decisions to open or close an account. The MLRs require firms to verify the identity of their customers and conduct checks on the nature and purpose of a business relationship, and to monitor those relationships. Where they cannot complete the required checks under the MLRs, they must refuse or terminate an account. See the section above on identify verification for more information.
- 3.38** In addition to the MLRs, for credit institutions we have set a rule in SYSC 6.1.1 that requires them to have systems and controls in place to counter the risk that they might be misused for the purposes of financial crime.
- 3.39** All firms also have other financial crime obligations such as compliance with financial sanctions or requirements under the Bribery Act 2010, which can impact risk tolerances.
- 3.40** Under the MLRs, firms generally carry out Customer Due Diligence (CDD) before they establish a business relationship, ie when someone first opens an account.
- 3.41** But there are some limited circumstances where a firm can choose to delay the customer's identity part of the due diligence checks if it has assessed there is a lower risk of money laundering or terrorist financing.

- 3.42** Where a firm does this, the rules require it to ensure no transactions are carried out by or on behalf of the customer before it has completed verification.
- 3.43** Under our Principles for Businesses (Principle 6 in the past and now Principle 12 and PRIN 2A, under the Duty) firms must be fully transparent with their customers. This means a firm must explain to the customer before they open an account, that they will not be able to make payment transactions until the CDD is completed. Alternatively, the firm could conduct CDD before opening the customer's account.
- 3.44** As part of their overall risk management frameworks, firms will typically have specific risk tolerances of customers that they will not accept. Firms set their own risk tolerance and must demonstrate under the MLRs and our rules that their systems and controls are appropriate to manage the risks they have identified.
- 3.45** We have set out our expectations on how firms should manage money laundering risks. These stress that the risk-based approach in the MLRs and our rules do not mean that firms should deal generically with entire categories of customers. There should therefore be few cases where it is necessary for firms to decline business relationships solely because of AML requirements.
- 3.46** However, we also recognise that where a firm does not believe it can effectively manage the money-laundering risk of a business relationship, it should not enter or maintain that relationship. This can occur where a firm's systems and controls are not sufficiently robust.
- 3.47** The MLRs require firms to give additional scrutiny to those who hold prominent public functions to verify their identity, check on their source of wealth or funds and apply enhanced transaction monitoring to the accounts. These individuals are referred to as Politically Exposed Persons (PEPs) and these requirements also apply to family members or close associates of PEPs.
- 3.48** In July 2017, we published guidance [FG17/6: The treatment of politically exposed persons for anti-money laundering purposes](#) (PEP guidance) to help the firms we supervise under the MLRs apply a proportionate and risk-based approach to PEPs. On 5 September 2023, we launched a separate review of the treatment of domestic PEPs required under section 78 of the Financial Services and Markets Act 2023. [The terms of reference](#) set out more detail on our approach to this review.

Immigration Act 2014

- 3.49** The Immigration Act prohibits credit institutions from opening current accounts for individuals who are known not to have leave to remain in or to enter the UK and are therefore a 'disqualified person'.
- 3.50** Credit institutions that refuse to open a current account for someone who is disqualified must tell that person the reason for the refusal unless the firm is prohibited from doing so under other legislation (for example financial crime legislation).

- 3.51** Since 1 January 2018, credit institutions have been required to conduct a quarterly 'immigration check' for existing current accounts operated by or for a disqualified person.
- 3.52** This immigration check is conducted on certain existing current accounts. This excludes current accounts operated or held by or for an individual who is acting for the purposes of trade, business, or profession, for that account.
- 3.53** Where a credit institution identifies a current account held by a disqualified individual, it must notify the Home Office of any accounts (including accounts that are not current accounts) the individual holds.
- 3.54** The Home Office will then confirm if the person is a disqualified person. In certain circumstances, the Home Office will notify the credit institution of their duty to close the account as soon as reasonably practicable.
- 3.55** The credit institution is required to inform the Home Office of the resulting action taken through a website operated by the Home Office.
- 3.56** The Immigration Act 2014 (Bank Accounts) Regulations currently place a duty on us to monitor and enforce compliance with the existing prohibitions.

Inactive/dormant accounts

- 3.57** Firms may look to close accounts that customers are not using, such as an account with a zero balance that has not been used for a long time. A firm might do this, for example, to prevent any misuse of the account by others.
- 3.58** Firms must give inactive/dormant customers (like other customers) appropriate notice (see 3.63-64 below).
- 3.59** Where a balance remains on the account, the firm should return this to the customer. Where a firm cannot return a dormant account balance to the relevant customer (for example, where they cannot trace the customer), the firm must ensure they handle this in accordance with relevant legal requirements. For banking customers, BCOBS 5.1.9R requires firms to make appropriate arrangements to enable the customer, so far as is possible, to trace and, if appropriate, to have access to a deposit currently or formerly held in the bank's retail banking service.
- 3.60** Under BCOBS 5.1.10R, if a firm participates in the scheme under the Dormant Bank and Building Society Accounts Act 2008, it must inform the customer of this and give them appropriate information about the scheme's terms when communicating with a banking customer about a dormant asset.

Requirements when terminating or suspending a payment account

Payment Services Regulations 2017 (PSRs)

Terminating an account

- 3.61** The PSRs refer to a contract to provide payment services involving payment transactions, including a contract to provide a payment account, as a 'framework contract': this is defined as 'a contract for payment services which governs the future execution of individual and successive payment transactions, and which may contain the obligation and conditions for setting up a payment account'. Guidance on the definition of a 'payment account' under the PSRs is available in Q16 of [PERG 15.3](#) of our handbook.
- 3.62** Regulation 51 of the PSRs sets out requirements that firms must comply with when terminating a framework contract. Under regulation 51, a 'payment service user' may terminate a payments account (or other framework contract) at any time, unless the contract provides for a notice period. The required notice period for a payment service user to terminate cannot be more than 1 month. A 'payment service user' is a person (including a legal person such as a company) when making use of payment service in the capacity of a payer, payee, or both.
- 3.63** A firm may terminate a payments account (or other framework contract) concluded for an indefinite period by giving at least 2 months' notice (provided the contract sets out this termination right for the firm). The government is proposing to change this notice period to 90 days.
- 3.64** However, a firm may terminate giving less or no notice in limited circumstances where the firm is entitled, according to the general law of contract, to treat the contract as unenforceable, void or discharged.
- 3.65** The PSRs, in regulation 55, contain requirements on how a firm must communicate a termination notice to a payment service user, including that the notice must be in easily understandable language and in a clear and comprehensible form.
- 3.66** While regulation 51 applies for all payment services users, a firm may contract out of the obligations in regulation 51 where the payment service user is not a consumer, micro-enterprise, or charity.

Suspending an account

- 3.67** Under regulation 71 PSRs, where a firm has the right to do so under its contract with the customer, it may stop the use of a payment instrument on reasonable grounds relating to its security, suspected unauthorised or fraudulent use, or in the case of a payment instrument with a credit line, a significantly increased risk that the payer may be unable to fulfil its liability to pay. Payment instruments include, for example, a debit card or e-banking service, stopping the use of which would have the effect of stopping use of the payment account.

- 3.68** Before suspending an account, the firm must inform the customer of its intentions and reasons for doing so before or, if not possible, immediately after. The exception to this is if giving the customers this information would compromise reasonable security measures or would be unlawful. For example, if doing so would constitute 'tipping off' under AML legislation. The firm is required to end the suspension as soon as practicable after the reasons for suspension cease to apply.
- 3.69** If a firm considers that it is necessary to suspend an account, we expect it to carry out any investigation in a reasonable time and not deny customers access to their money unnecessarily. Firms should also, where possible, communicate with customers, acknowledging that they may need to take care to avoid alerting individuals in a way that could undermine further action to be taken under the POCA. This means there may be some circumstances where it is difficult for a firm to explain to a customer the reason for imposing restrictions on an account.
- 3.70** Where a firm has grounds to do so and complies with regulation 71 PSRs, it may suspend the customer's use of an inactive/dormant account.

Proceeds of Crime Act 2002 (POCA)

- 3.71** Where a firm knows, suspects, or has reasonable grounds to suspect or know that a customer is engaged in money laundering, they must take the following action under the POCA:
- Request a Defence Against Money Laundering (DAML) from the UK Financial Intelligence Unit (UKFIU) within the NCA. The NCA has a seven-day notice period to decide on the DAML. During that time, a firm must not make the transaction for which a DAML is being sought. If the NCA refuses consent, then there is a moratorium period of 31 days where law enforcement may seek to act and can also apply to the courts to extend this period beyond 31 days to a maximum of 186 days.
 - Make a report of their suspicions to the NCA known as a 'Suspicious Activity Report' (SAR).
- 3.72** Where a firm has submitted a DAML or a SAR, they must take steps to avoid committing the offence of 'tipping off' under section 333A of POCA. This is where the subject of a SAR or DAML is made aware of that disclosure and so that disclosure might prejudice an investigation. This limits firms' ability to communicate with customers on exit.

The Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (MLRs)

- 3.73** Under the MLRs, Regulation 31 requires firms to cease transactions where they cannot complete CDD. This includes ongoing CDD where a firm already has a business relationship with the customer and includes not conducting any transactions through an account with, or on behalf of, the customer. This may mean a firm will suspend the account until they have collected sufficient information.

- 3.74** Where a firm is closing an account, Regulation 31 also specifies that funds can be returned to that customer, but where a SAR or DAML is required, a firm must comply with those obligations.

The Consumer Duty

- 3.75** The Duty came into force for new and existing products on 31 July 2023 and comes into force for closed products on 31 July 2024. Whilst firms have been subject to the requirement to treat their customers fairly for several years, the new Duty sets a higher expectation of the standard of care firms give customers and requires firms to ensure that they act to deliver good outcomes for retail customers. Firms must ensure they comply with the Duty's requirements in providing banking services to retail customers. The Duty does not have retrospective effect, meaning that the Duty only applies to conduct on or after 31 July 2023 (for open products) and 31 July 2024 (for closed products).
- 3.76** We expect firms to consider the Duty throughout the product and service lifecycle, including when making decisions about how they treat their customers before and during the notice period for terminating a payment account. This includes giving reasons for termination (where this does not go against their obligations under financial crime legislation).
- 3.77** Under the Duty, firms must avoid causing foreseeable harm to retail customers. In line with point 5.36 of our [FG22/5 Final non-Handbook Guidance for firms on the Consumer Duty \(Consumer Duty guidance\)](#), the Duty does not prevent a firm from withdrawing a product or service. However, a firm can cause foreseeable harm or frustrate the objectives of its customers in the way it does this. For example, if a firm withdrew a product or service without considering the effect on the affected consumers, this could cause foreseeable harm.
- 3.78** Therefore, where a firm is planning to close a customer's account, it should consider whether this could lead to foreseeable harm for the customer and take steps to manage the impact of the potential harm. This could mean providing support for the customer to find a suitable alternative and ensuring that the firm communicates the support available in a timely, clear, and sensitive manner.
- 3.79** The Duty requires firms to support retail customers in pursuing their financial objectives. In line with point 5.40 of our Consumer Duty guidance, where a firm refuses to open an account for a customer, or terminates their account, it should still consider whether there is information or support it could provide to help the customer pursue their financial objectives. This could include, where appropriate, explaining why or how these decisions may have been reached, alternative options that might be available to the customer, and how the customer can access further support from the firm and other parties. For example, a firm could signpost a customer to third parties that provide reliable information, relevant to their needs.
- 3.80** Under the Duty, we want customers to be given the information they need, at the right time, and presented in a way they can understand. This is an integral part of firms creating an environment in which customers can pursue their financial

objectives. Chapter 8 of our Consumer Duty guidance sets out how firms can use their communications to support consumer understanding and good outcomes. Chapter 9 sets out the standard of consumer support we expect firms to provide.

- 3.81** The Duty also sets requirements for firms to carry out monitoring activity to understand if customers are receiving good outcomes. Firms should consider data available to them on account decisions and the subsequent support they provide to ensure their processes are supporting good customer outcomes.
- 3.82** Chapter 9 of our Finalised Guidance and our FG21/1 Guidance for firms on the fair treatment of vulnerable customers (vulnerable customer guidance) set clear expectations on how firms should consider the needs of customers with characteristics of vulnerability in their product and service design processes.
- 3.83** Under our vulnerable customer guidance, firms should consider the needs of customers in vulnerable circumstances at each stage of designing their products and services. This includes taking them into account if they are considering changing a product or service. We are clear that firms should communicate any changes, including withdrawing a product or service, in a clear and sensitive way.

Enforcement action for unlawful termination of accounts

- 3.84** There are supervisory steps we can take to address non-compliance with the rules and regulations. For example, we can impose requirements on a firm's relevant controls, including requiring changes at a management and governance level, and requiring firms to deliver staff training. Apart from in cases of serious misconduct, we generally ask our regulated firms to make those changes on a voluntary basis. However, where this does not deliver the expected outcomes, we may impose a formal requirement on a firm to take – or not take – specific action.
- 3.85** In some cases, such as those involving a current systemic issue, we may need to start a formal investigation, which may lead to enforcement action.
- 3.86** Enforcement outcomes include a fine or a public censure, suspending a firm's permissions to carry on a regulated activity or imposing limitations or other restrictions on the firm carrying on its business for an appropriate period.
- 3.87** We can also take enforcement action against a person who is guilty of misconduct.
- 3.88** In terms of individual accountability, the Senior Management and Certification Regime (SMCR) applies to all credit institutions we regulate and most of their staff. The SMCR places responsibilities on firms to ensure their senior managers have clearly allocated responsibilities, are fit and proper to perform their roles and that all staff meet good standards of behaviour. The SMCR holds senior individuals accountable for taking reasonable steps to fulfil their duties.
- 3.89** We would consider enforcement action in cases of serious systemic misconduct for customer account closures, which relate to systemic breaches of applicable legislation. Our approach to taking enforcement action under the PARs or PSRs will reflect our

general approach to taking enforcement action under FSMA, as set out in [EG 2](#) of the FCA's Handbook.

- 3.90** As noted, a firm may decide it is necessary to suspend or terminate a customer's account on financial crime grounds, and this may happen at short notice. In recent years, we have seen a significant increase in the number of accounts being closed on these grounds. This may reflect increased monitoring by firms to comply with their financial crime obligations. When this happens, we expect a firm to investigate within a reasonable timeframe and to ensure that customers are not unnecessarily declined access to their accounts. However, it would not be appropriate for us to take enforcement action where the firm has acted lawfully and in compliance with its financial crime obligations.

Customer complaints and redress

- 3.91** We supervise firms' compliance with applicable financial services legislation and rules, including the PARs and PSRs. We have various enforcement powers, including the ability to impose public censures and fines on firms, where there has been a breach of our rules. However, we do not resolve individual disputes between customers and firms; that is the role of the Ombudsman Service.
- 3.92** The Ombudsman Service is an independent organisation set up by Parliament to resolve complaints between consumers and businesses that provide financial services. It supports us in meeting our statutory objectives, which include securing an appropriate degree of protection for consumers and ensuring market integrity. The Ombudsman Service has a dedicated team who manage account closure cases. They can assess sensitive issues that often lie behind an account closure without the risk of making a disclosure that could prejudice a financial crime investigation, so information can be shared with it quickly and fully when requested. The Ombudsman Service has issued [guidance](#) to firms about complaints involving account closures.

Complaints to firms

- 3.93** Customers must first complain directly to their account provider, who is required to handle the complaint in line with the complaint handling rules and guidance in the [Dispute Resolution: Complaints \(DISP\) sourcebook](#) of our Handbook.
- 3.94** Chapter 1 of the DISP sourcebook contains rules and guidance on how FCA regulated firms should deal with complaints promptly and fairly.
- 3.95** The rules require firms to send the complainant a 'final response' letter within 8 weeks of receiving the complaint. The response must either uphold the complaint and offer redress or other appropriate remedial action or reject the complaint and give reasons for doing so. Our guidance makes clear that firms should aim to resolve complaints at the earliest possible opportunity, minimising the number of unresolved complaints which need to be referred to the Ombudsman Service, and that almost all complaints should be substantively addressed by the firm within 8 weeks.

- 3.96** Where a complaint relates to part 5 of the Electronic Money Regulations 2011, or parts 6 or 7 of the PSRs, the firm must send a final response by the end of 15 days or if this is not possible, send a holding response within 15 days and a final response within 35 days.
- 3.97** If the complainant is not happy with the firm's 'final response' or if they do not receive a response within 8 weeks, they can refer the complaint to the Ombudsman Service. They may also be able to refer a complaint to the Ombudsman Service if the time limits for dealing with a complaint have not expired, and the firm and the complainant both consent to the Ombudsman Service considering the matter.
- 3.98** Unless there are exceptional circumstances, the complainant has 6 months from the date of the final response to refer their complaint to the Ombudsman Service. Where there are exceptional circumstances, for example a complainant has been or is incapacitated, they may be able to refer a complaint after the 6 months, but this will depend on the individual circumstances of each case.

Complaints to the Financial Ombudsman Service

- 3.99** The Ombudsman Service will decide on a complaint by reference to what is fair and reasonable in all the circumstances of the case. In considering what is fair and reasonable, it will consider relevant law and regulations, regulators' rules, guidance and standards, codes of practice, and where appropriate what they consider to be good industry practice.
- 3.100** The following are eligible to refer their complaint to the Ombudsman Service:
- consumers (natural persons acting for personal purposes)
 - micro-enterprises
 - small businesses
 - charities with an annual income of under £6.5 million
 - trustees/ trusts with a net asset value of under £5 million
 - guarantors
 - CBTL consumers (for buy-to-let credit agreements)
- 3.101** As well as being from an eligible complainant, the complaint must arise from matters relevant to one or more of the relationships set out in DISP 2.7.6R. We expect complaints about the provision of banking services to be captured because the complainant:
- is (or was) a customer, payment service user or electronic money holder of the respondent, or
 - is (or was) a potential customer, payment service user or electronic money holder of the respondent
- 3.102** Individuals are also considered an eligible complainant if they have been identified by the respondent as a PEP, a family member of a PEP, or a known close associate of a PEP, and their complaint:
- challenges this identification
 - relates to an act or omission by the respondent in consequence of this identification

- 3.103** 'Respondent' in the above context refers to firms, payment service providers, electronic money issuers, CBTL firms, designated credit reference agencies, designated finance platforms, and VJ participants as set out in the [DISP sourcebook](#).
- 3.104** The Ombudsman Service can take the following action where it considers a firm was wrong to close an account:
- Compensation for financial loss – where a firm closes a customer's account without giving them sufficient notice and this causes the customer to incur direct costs or indirect losses, the Ombudsman Service can instruct the firm to compensate the customer. The amount of compensation is based on the individual circumstances of the case.
 - Compensation for non-financial loss – where the Ombudsman Service considers that a firm was wrong to close a customer's account or did not give them sufficient notice, and this caused the customer distress or inconvenience because they could not access banking facilities and had to find a new account, it can instruct the firm to compensate the customer. The amount of compensation is based on the individual circumstances of the case.
 - A direction – the Ombudsman Service can direct firms to take action other than paying a customer compensation, where it considers the firm was wrong to close an account, such as reopening the customer's account. The appropriate action will depend on the individual circumstances of the case.
- 3.105** The Ombudsman Service's final decision is legally binding on the firm, if accepted by the complainant.
- 3.106** The Ombudsman Service is operationally independent of the FCA, and we cannot intervene in the decisions that it makes on individual complaints.

Rights under the UK General Data Protection Regulation

- 3.107** The UK General Data Protection Regulation (GDPR) sets out the various request rights for a 'data subject' – someone to whom the personal data held by a firm relates. These include access requests, right to erasure (right to be forgotten) and a right to data portability. These are set out in the Information Commissioner's Office (ICO) guidance on [Individual rights](#). The GDPR sets out the parameters for these rights, for example the timeframe for responding to requests, when to extend the timeframe and when a data controller (the firm holding the information) can refuse to act on a request.
- 3.108** Data subjects have a right of access, commonly known as a subject access request. This gives individuals the right to get a copy of their personal data from a firm, as well as other supplementary information. The ICO has issued detailed [guidance](#) on this right. Finally, we note the ICO's [statement of 26 July 2023 on banks sharing and gathering personal information](#) and the letter from the ICO to UK Finance to remind it of members' responsibilities concerning the information they hold.

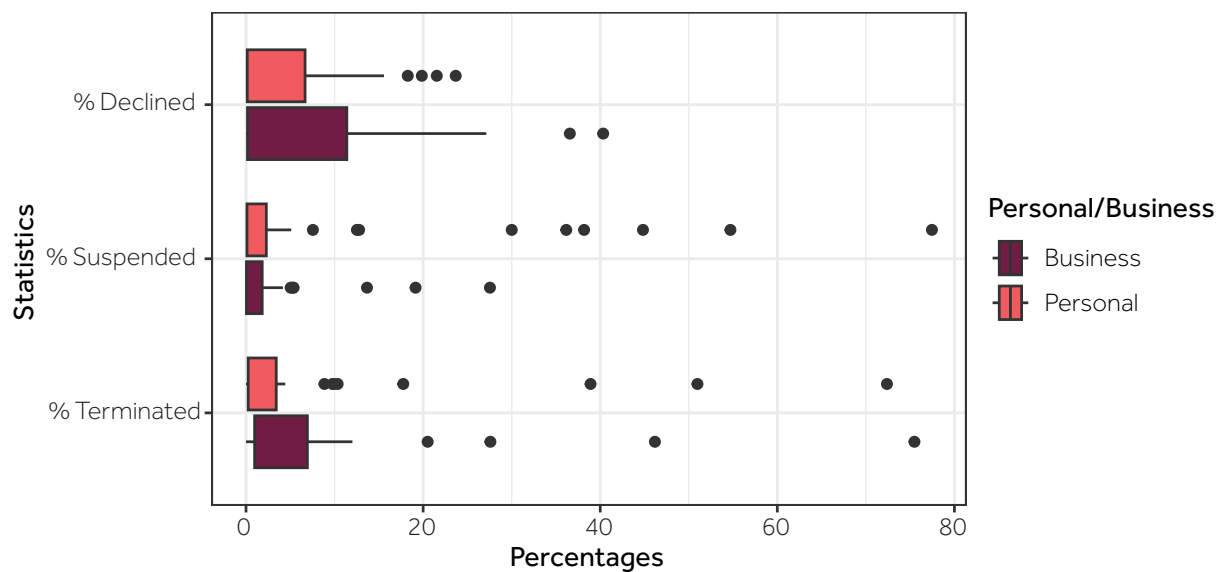
Chapter 4

Results from our data collection exercise on account access and closures

- 4.1** In August 2023, we undertook a data collection exercise concerning the provision of payment accounts to personal customers and businesses/not-for-profits. The data request was sent to credit institutions and payments firms. These firms represent over 90% of the market for current accounts provided by credit institutions and a sample of the largest payments firms. The purpose of our data collection was to provide an initial indication of the scale of declines, suspensions and terminations, as well as the impact of firm policies.
- 4.2** All of the 34 firms sent the data request provided a response. However, due to the limitations outlined in the methodology section below, the insights from the data collection presented in this section should be regarded as indicative and preliminary rather than definitive. We will be undertaking further work in the coming weeks and months to quality assure and reconcile this data before publishing the details.
- 4.3** The most significant limitation is that some firms submitted data at account level, while others submitted data at individual customer level. We requested data at a customer level, and in several cases followed up with firms to clarify what was provided, but this was not possible in all cases. This uncertainty between data provided being at customer or account level means it is not possible to aggregate figures across firms to reach market-wide conclusions. However, recognising this and other data limitations (set out below), we are still able to calculate rates of declines, suspensions and terminations for each firm and tentatively compare these rates, where appropriate. This allows us, at a minimum, to identify future areas of work and particular firms we may seek further information from.
- 4.4** Firms were asked to report this information for 3 respective half year periods: January to June 2022 (referred to as H1 2022), July to December 2022 (H2 2022) and January to June 2023 (H1 2023). However, we combined data from the last two respective half year period to report on a 12-month period as it provides the latest data (and an annual period can provide more context as it is easier for comprehension of the rates we report on).
- 4.5** The key insights from our data collection exercise, for banking and payment services for the 12-month period from July 2022-June 2023 are summarised below. As the box plot below shows, for personal accounts, firms in the centre of the range (between the 25th and 75th percentile) reported suspending between 0.1% and 2.3% of accounts. For terminations, the equivalent central range was between 0.2% and 3.4% of accounts, and for application declines it was between 0.1% and 6.7%.

4.6 For business accounts, firms in the central range reported suspending between 0.05% and 1.8% of accounts, terminating between 1.0% and 6.9% of accounts, and declining between 0.2% and 11.4%. A material difference noted in the data received is the high top end of the central range on declines and terminations for business accounts (whilst noting the different nature of business accounts and that there is no legal obligation for a firm to offer their services to businesses).

Figure 2: Firm rates of declining, suspending and terminating customers' personal and business accounts over 12-month period H2 2022 and H1 2023 – this shows the central range in a bar and the outlier firms as dots:



4.7 The graphic highlights there are several outliers (as indicated by the dots). For example, some firms reported suspending or terminating over 70% of personal accounts or declining around 40% of business account applications. The large number of 'outlier' firm responses provides an indication of where we will follow up to understand whether this data is an accurate representation and the reasons for the apparent high rates.

4.8 In addition to the data in the graphic above, with respect to BBAs, firms in the central range reported between 0.03% and 1.8% of account suspensions, 0.4% to 1.8% account terminations and between 1.0% and 35.7% applications denied. The high top-end of the range for application declines for BBAs is an area we will explore further.

4.9 The primary reasons firms gave for these outcomes were broadly similar across personal and business accounts. For personal accounts, the most common primary reasons for application declines, suspensions and terminations included inactive/dormant accounts, financial crime suspicions and due diligence concerns (for example, where the customer was unable to provide sufficient documents to satisfy checks required such as identity or address documents). For business accounts, the commercial cost of serving or complying with financial crime requirements was also mentioned. The remaining customer declines, suspensions or terminations were categorised as relating to commercial factors, failing to meet the account criteria, the customer's conduct (which includes issues such as abusive or threatening behaviour towards staff and a serious breach of the agreement with the bank), the reputational risk attaching to the customer, or 'Other' reasons. It should be noted that for some responses, the

proportion of 'Other' reasons was very high and in other instances primary reasons were not recorded – both of which mean these figures should be read with care and understanding more about these data submissions will be an important aspect of our further work.

- 4.10** Having undertaken follow-up enquiries with firms, there were no cases where the primary reason for the firms' decision to decline, suspend or terminate accounts was due to 'expression of political or any other opinions', and, in addition to providing data, 8 firms told us categorically that they do not do this. However, this may reflect incomplete records, differences in how reasons are recorded or data limitations within firms. We consider it possible that further cases will emerge from our follow up work.
- 4.11** This further work will also seek to understand how firms reached decisions for reasons of reputational risk. There has been inconsistency in firms' responses (and the significant majority of the cases cited with this reason for closure are from payments firms). While reputational risk may be legitimately considered, for example in decisions about relationships with sanctioned individuals or their close associates, we want to assure ourselves that this criterion is not being interpreted too broadly.
- 4.12** UK ex-pats living overseas are reported as the group facing the most personal account suspensions, terminations and declines, although other groups are likely to be under-reported. In this context, we should bear in mind the implications of the UK's recent exit from the European Union which affected certain banks' willingness or ability to continue providing services to UK ex-pats living in the EU or particular Member States. For business accounts, the groups facing the most suspensions, terminations and declines are reported as digital asset businesses, not-for-profit organisations and trustees.
- 4.13** Credit institutions decline a higher proportion of personal applicants than payments firms, while payments firms suspend and terminate a higher proportion of their customers' accounts than credit institutions (across both personal and business accounts).

Provision of Banking Services Data Collection exercise

- 4.14** In this Chapter we outline the key methodological choices we have made in presenting this data and its limitations. We then present, based on the responses received, the relative scale of account closures, suspensions, or declined applications across personal and business accounts. We then discuss the responses on the reasons for these outcomes and the types of customers affected. We explore the associated complaints data, and end by analysing any differences in the behaviour, as reported in the data collection exercise, of credit institutions (banks and building societies) compared to payment institutions. Where relevant, we also comment specifically on basic bank account suspensions, terminations and applications declined, and the customers affected.

Methodology and data limitations

- 4.15** There are limitations in the analysis we can conduct using the data we have collected. We used statistical analysis to test the quality of the data and we have checked the data of a subset of firms. This section sets out the limitations we have identified and how we have addressed them. Further work is required to validate the full data.
- 4.16** We have not been able to validate if all responses refer to the number of customers or the number of accounts. As a result, we cannot aggregate across firms, and we have focused our analysis on firm level data to mitigate this limitation. In the charts below, we present the firm data ranges showing within the box the values above the bottom 25% but below the top 25% (the inter-quartile range, which we have referred to here as the central range) and the line shows the median. The outliers are represented by dots.
- 4.17** We required firms to provide a complete response in all data fields, but some firms did not respond to certain questions. Further work is needed to check whether a response of zero is a missing value or a true zero and this may affect some of our results.
- 4.18** For many firms we see differences in the proportion of suspensions, terminations and declines across each of the 6-month periods and further work is required to establish whether these are accurate.
- 4.19** The data provided by some firms implies decline, suspension, and termination rates in excess of 90% and in some cases in excess of 100%. We do not think the underlying data for these figures can be reliable and have excluded them from the analysis.
- 4.20** The data provided by some firms on the reasons for declining, suspending or terminating accounts did not always sum to 100% when the reasons were added together. Where the sum of the reasons was not between 98% to 102%, we considered it necessary to exclude the underlying data for these figures from the analysis of the reasons for denial, suspension and termination on the basis that they were not sufficiently reliable.
- 4.21** Firms were instructed to exclude from their total accounts those accounts that were terminated, or suspended accounts that were subsequently terminated. We cannot be certain that firms have done this consistently. We have accordingly included these terminated accounts in our calculations for suspensions and terminations. We believe, on balance, adopting this approach to the information request is likely to have a modest effect on the results.
- 4.22** We asked firms to tell us about the reasons for declining, suspending or terminating accounts. Some firms reported a high proportion of "Other" reasons and in the available time we have not been able to work with firms to disaggregate and better understand this category. It may therefore be the case that the reported list of reasons outside of the "Other" category are a conservative estimate. To address this, where firms have reported specific reasons for declining, suspending or terminating accounts, we have identified the most common reasons. In reporting these results, we include the 'Other' category to highlight that these numbers may be an underestimate.

- 4.23** Firms were unable to provide complete data broken down by all customer groups. We have not been able to report this information and further work would be required to examine any trends by customer group.
- 4.24** We have not weighted the results by firm size.
- 4.25** We present the data for a 12-month period, combining the responses for the two half year periods July to December 2022 and January to June 2023. The following table shows how we calculated each rate.

Table 2: Methodology of calculating decline, suspension and termination rates

	Personal accounts	Business accounts
Decline rates	(No. of Denied personal account application in H2 2022 + H1 2023) / (No. of personal account opening application in H2 2022 + H1 2023)	(No. of Denied business account application in H2 2022 + H1 2023) / (No. of business account opening application in H2 2022 + H1 2023)
Suspension rates	(No. of Suspended personal accounts in H2 2022 + H1 2023) / (No. of personal Account in H1 2023 + Terminated in H2 2022 + H1 2023)*	(No. of Suspended business accounts in H2 2022 + H1 2023) / (No. of business Account in H1 2023 + Terminated in H2 2022 + H1 2023)
Termination rates	(No. of Terminated personal accounts in H2 2022 + H1 2023) / (No. of Personal account in H1 2023 + No. of Terminated personal account in H2 2022 + H1 2023)	(No. of Terminated business accounts in H2 2022 + H1 2023) / (No. of business account in H1 2023 + No. of Terminated business account in H2 2022 + H1 2023)

* See paragraph 4.21 for explanation for inclusion of terminated accounts.

The proportion of accounts and customers affected

- 4.26** Below we summarise the responses on the numbers of account holders (individuals or businesses) affected by firms declining applications, suspending or terminating accounts. This is the central range of the data shown in Figure 2 above.

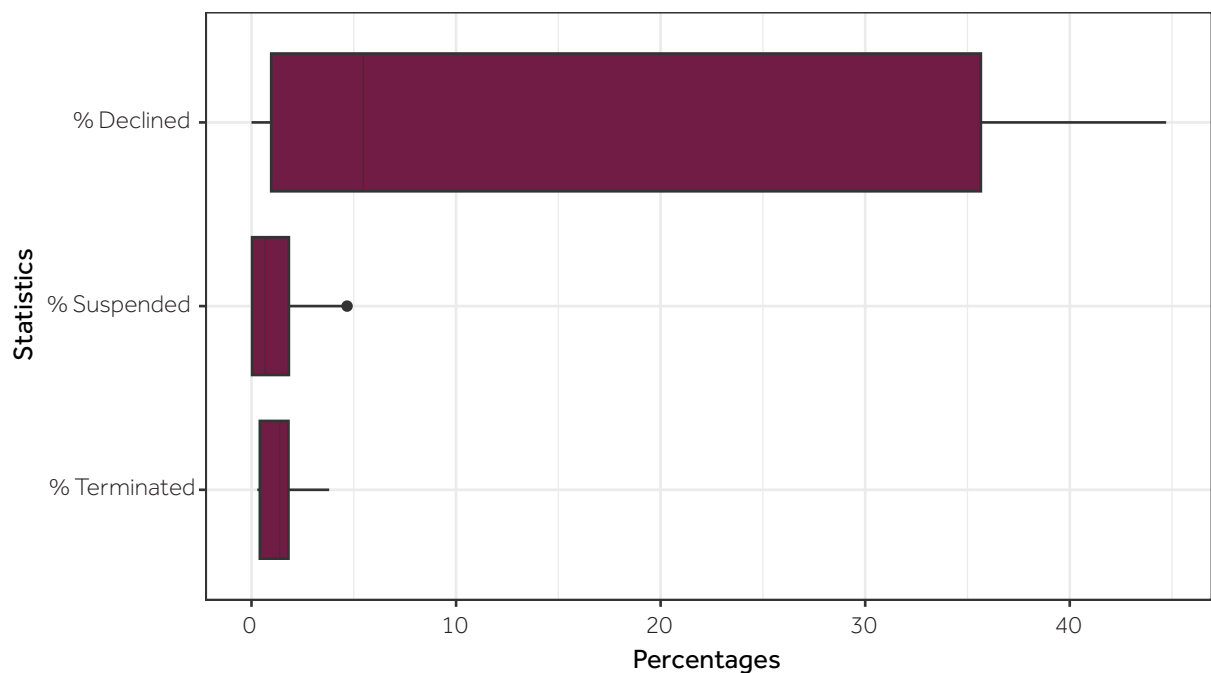
Table 3: Firm rates of declining, suspending and terminating customers' personal and business accounts over 12-month period H2 2022 and H1 2023

	Personal accounts Central range (25th to 75th percentile)	Business accounts Central range (25th to 75th percentile)
Declined	0.1% - 6.7%	0.2% - 11.4%
Suspended	0.1% - 2.3%	0.05% - 1.8%
Terminated	0.2% - 3.4%	1.0% - 6.9%

4.27 Further work to obtain a data set on which greater reliance can be placed will be important. We will also, in the interim, further investigate outliers from the data received (it was not possible to do so before publication of this interim update). A material difference noted in the data received is the high top-end of the central range on declines and terminations for business accounts (whilst noting the different nature of business accounts and that there is no legal obligation for a firm to offer their services to businesses). This corresponds to the anecdotal evidence that we have received.

4.28 The equivalent figures for basic bank accounts are shown below.

Figure 3: Firm rates of declining, suspending and terminating customers' basic bank accounts over 12-month period H2 2022 and H1 2023



4.29 The central ranges are given below.

Table 4: Firm rates of declining, suspending and terminating customers' basic bank accounts over 12-month period H2 2022 and H1 2023

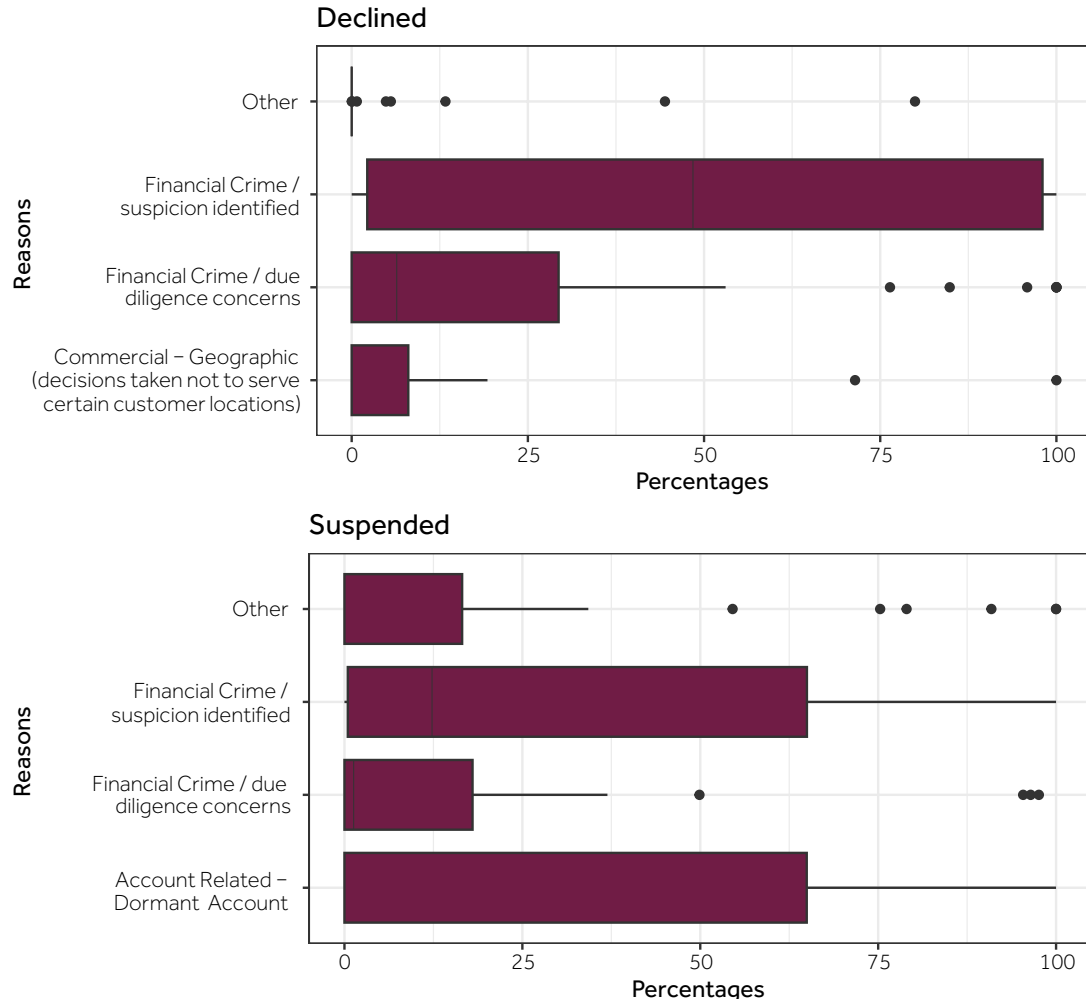
	Basic Bank Accounts Central range (25th to 75th percentile)
Declined	1.0% - 35.7%
Suspended	0.03% - 1.8%
Terminated	0.4% - 1.8%

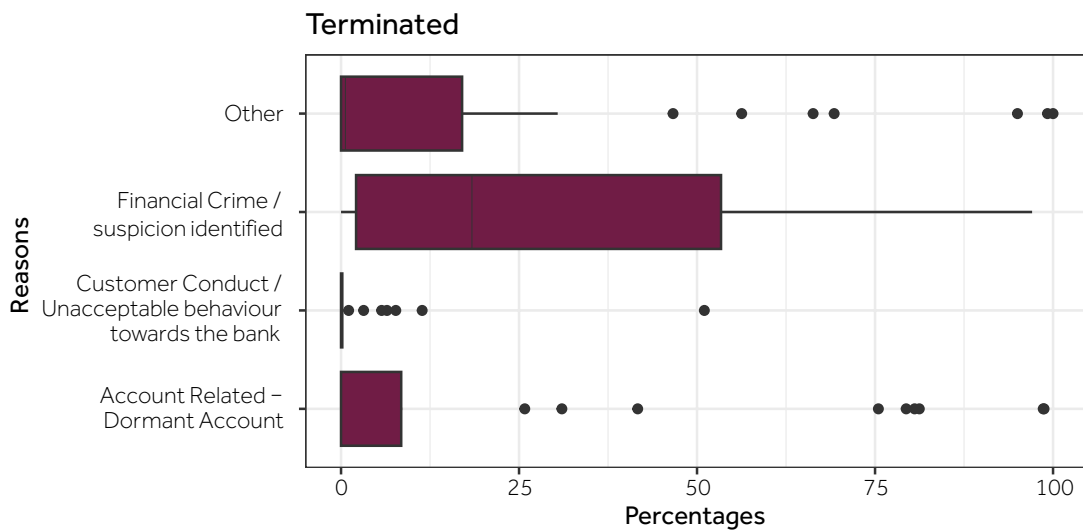
We will want to obtain more reliable data to enable a more definite view on access to basic bank accounts to be taken. However, the higher end of the range for declines on basic bank accounts does raise concerns, particularly in relation to financial inclusion. In the first instance, we will follow up with outlier firms to understand better the data provided.

Why accounts are declined, suspended, and terminated

- 4.30** We asked firms to give the primary reason for their decision to decline, suspend, and terminate accounts. Respondents could categorise under account-related reasons such as being dormant or inactive; commercial reasons such as decisions not to serve certain customer locations; customer reasons such as expression of political opinion or relating to the profile or behaviour of the customer; and financial crime reasons such as due diligence concerns.
- 4.31** Overall, the primary reasons firms most commonly gave for declined applications, suspensions and terminations were overwhelmingly financial crime issues (covering where suspicions are identified and also due diligence concerns) or an inactive/dormant account. Firms have noted a few other common reasons, but these apply in only a small minority of the cases recorded. These include a commercial decision not to serve a particular geography; the cost of serving or complying with financial crime requirements; and customer conduct/unacceptable behaviour towards the bank (terminations only).
- 4.32** The most common primary reasons in the central range for personal account application declines, suspensions and terminations are shown below.

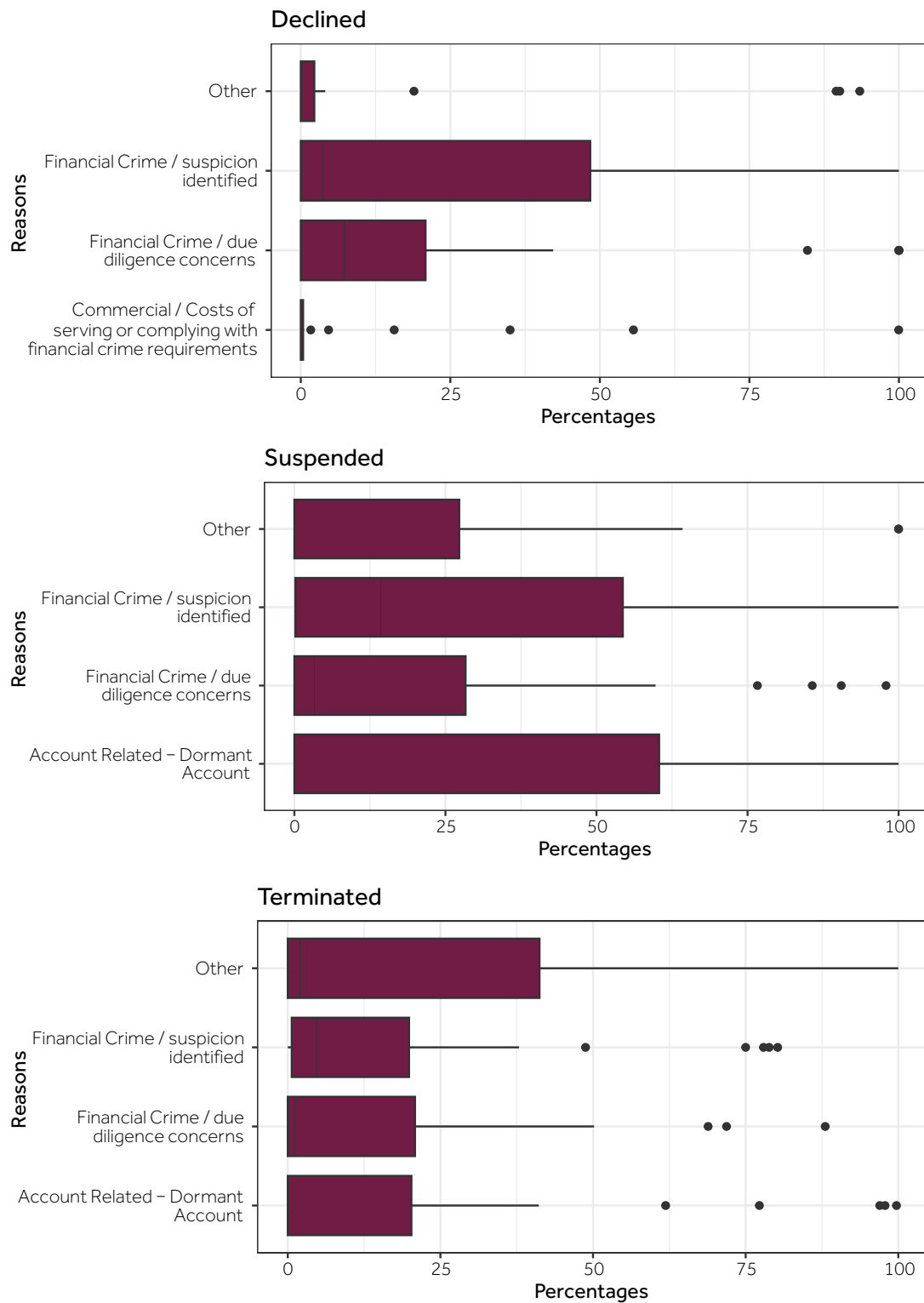
Figure 4: Most common primary reasons for personal account application declines, suspensions and terminations over 12-month period H2 2022 and H1 2023





- 4.33** It should be noted that declined account applications, suspensions, or terminations driven by due diligence concerns are materially different from a suspicion of financial crime. In the former case, the account application may have been declined because the customer, for example, was unable to provide sufficient documents to satisfy due diligence checks such as identity or address documents.
- 4.34** In addition, the customer conduct/unacceptable behaviour towards the bank category will cover a range of issues such as abusive or threatening behaviour towards staff and a serious breach of the agreement with the bank.
- 4.35** As the above figures reflect, our list of reasons did not always match the firms' reporting systems and with firms themselves not always recording the reasons for these outcomes, we received a large number of 'Other' responses. For example, when asked the reasons for personal account suspensions, several firms gave 'Other' as the primary reason for over 50% of their reasons. We will undertake follow-up work to improve the way firms record data. We also want to understand further the reasons behind these decisions and their relative prevalence.
- 4.36** Regarding BBAs, responses from firms suggest a similar pattern for declines, suspensions, and terminations. Application declines were largely explained by financial crime drivers, either where a suspicion was identified or where there were due diligence concerns. Suspensions and terminations were mostly driven by financial crime drivers or account dormancy/inactivity. However, the rate of termination for commercial reasons is an area we will follow up on.
- 4.37** The most common reasons for business account application declines, suspensions and terminations are shown below.

Figure 5: Most common reasons for business account application declines, suspensions and terminations over 12-month period H2 2022 and H1 2023



4.38 The most significant categories of primary reasons for business banking are generally similar to personal accounts. Financial crime issues (across suspicions identified and due diligence concerns) together with inactive/dormant accounts are the dominant categories. There is also a high proportion of 'Other' within the responses. One additional category that features for business banking is the 'Cost of serving or

complying with financial crime requirements'. In the event that this remains a significant category when more reliable data is received, this would be an area we would explore in more depth with the industry.

- 4.39** Across personal and business accounts, there were 4 cases reported with 'expression of political or any other opinions' as the primary factor behind account action. We followed up on these cases and further information showed that the primary reason for action was, in fact, customer behaviour (eg racist language directed at staff), not the 'expression of political or any other opinions'.
- 4.40** With the exception of these cases that would be better categorised as customer behaviour, no cases were reported where an account had been declined, suspended or terminated for the primary reason of 'expression of political or any other opinions'. This does not necessarily mean that such behaviour does not take place, as there may be incomplete record keeping and other data limitations. In addition to providing data, 8 firms told us categorically that they do not decline, suspend or terminate accounts for reasons of political opinion. We consider it possible that our follow up work will identify cases of account action due to 'expression of political or any other opinions'.
- 4.41** In addition to asking about primary reasons, outlined above, we also asked firms for the number of customers whose personal or business accounts have been declined, suspended, or terminated where an 'expression or political or any other opinion' was a factor in the decision. We received only one response where this was reported to be the case (in relation to a business account). We followed up on this case with the firm and the further information received indicates the decision is not driven by 'expression of political or any other opinions'.
- 4.42** Our further work will also seek to understand how firms reached decisions for reasons of reputational risk. There has been inconsistency in firms' responses (and the significant majority of the cases cited with this reason for closure are from payments firms). While reputational risk may be legitimately considered, for example in decisions about relationships with sanctioned individuals or their close associates, we want to assure ourselves that this criterion is not being interpreted too broadly.

Customer groups affected by declines, suspensions and terminations

- 4.43** We identified the following customer groups as ones we are particularly interested in understanding suspensions, terminations and declined applications:
- adult entertainment industry
 - digital asset businesses (including cryptoassets)
 - ex-offenders
 - not-for-profits and non-profits, charities, clubs, administrations, unions etc
 - pawnbrokers
 - political parties
 - Politically Exposed Persons (PEPs)
 - previously bankrupt

- refugees
- trustees
- UK ex-pats living overseas
- any other groups firms identify in their customer records

4.44 For these survey questions, many firms could only provide data for a few of the categories. Some customer types such as Politically Exposed Persons or UK Ex-pats living overseas were well reported by firms. But other types, such as Adult Entertainment customers and pawnbroking businesses, were reported by only a few firms. Indeed, for some customer groupings we did not receive any data and typically the “any other group you identify in your customer records” was the largest. Even for firms providing answers, the vast majority of data was not allocated to any of these customer groups, but it is not at this stage possible to assess whether that is because those individuals and businesses are not in those customer groups or because the information is not recorded as such.

4.45 In light of the data limitations, it is not possible to put forward a reliable initial set of findings on the groups who are likely to be most impacted by declines, suspensions and terminations. Further work would be required to form a clear view on this issue.

4.46 However, these data limitations notwithstanding, we are able to make some observations from the data provided.

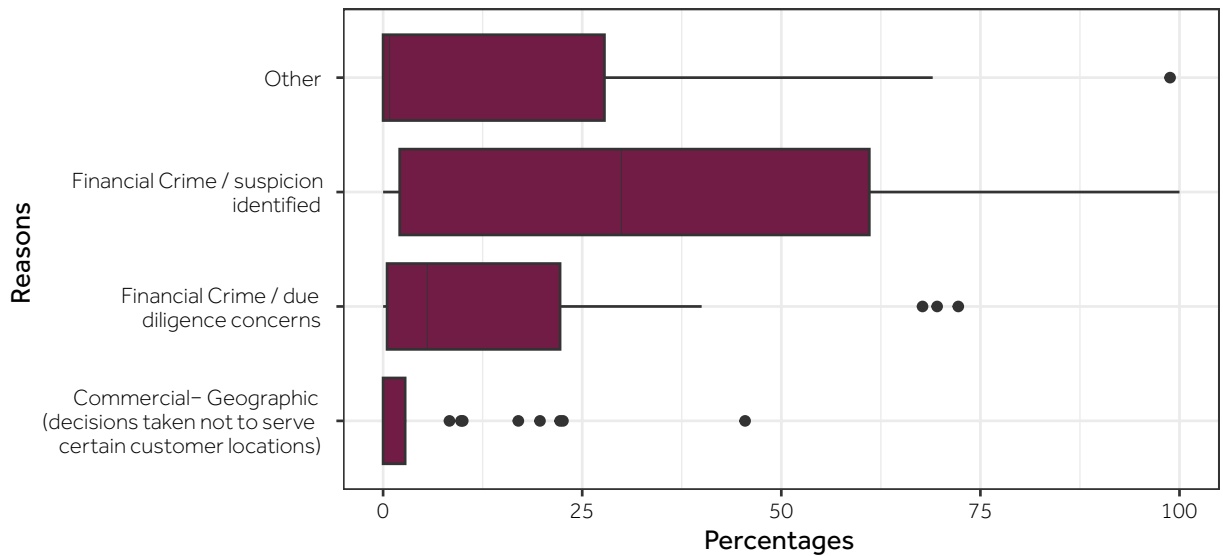
4.47 UK ex-pats living overseas are reported as the group facing the most personal account suspensions, terminations and declines, although other groups are likely to be under-reported. In this context, we should bear in mind the implications of the UK’s recent exit from the European Union which affected certain banks’ willingness or ability to continue providing services to UK ex-pats living in the EU or certain Member States. For business accounts, the groups facing the most suspensions, terminations and declines are reported as digital asset businesses, not-for-profit organisations and trustees.

Complaints

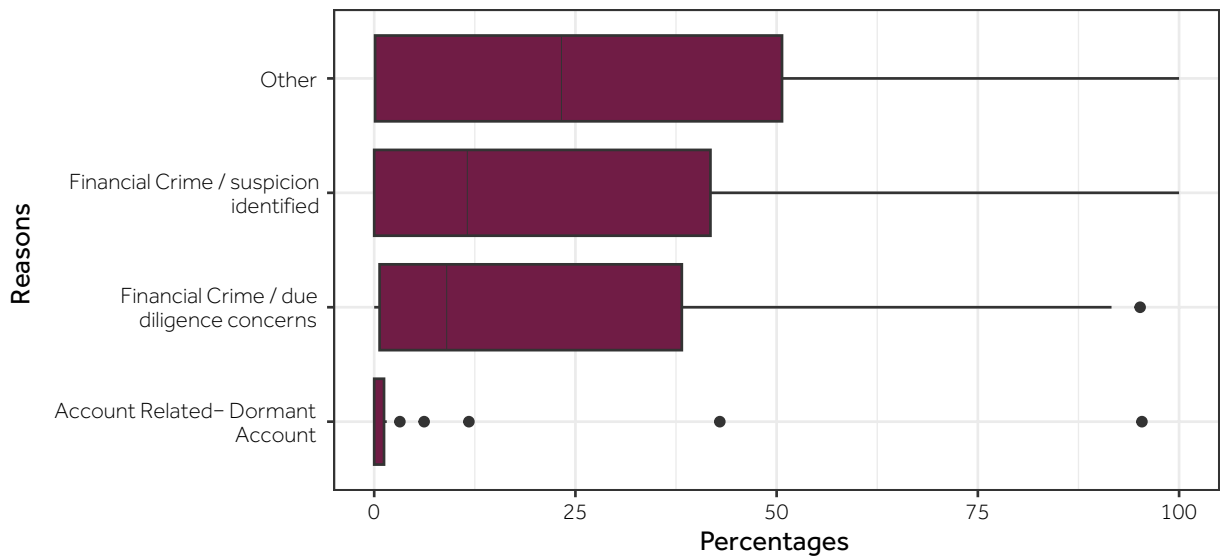
4.48 Firms were asked to provide data on complaints received due to customers’ accounts being denied, suspended or terminated along with the reasons for such actions.

4.49 Below we present a boxplot of the central range of the most common reasons for complaints regarding personal accounts in the 12-month period. These were ‘Financial Crime – suspicion identified’, ‘Financial Crime – due diligence’ and ‘Other’.

Figure 6: Most common reasons for complaints over the 12-month period H2 2022 and H1 2023



4.50 For business accounts, a high proportion of the reasons for complaints were 'Other' followed by 'Financial Crime – suspicion identified' and 'Financial Crime – due diligence'.



4.51 The largest categories reported for complaints are consistent with the drivers for declines, suspensions and terminations. However, we will want to understand more about the complaints categorised under the 'Other' category. There were 4 complaints reported relating to 'expression of political or any other opinions'. We followed up in relation to these cases with the firms and the firms have confirmed that the reasons for the terminations were not driven by 'expression of political or any other opinions'. None of the complaints were upheld. One case was referred to the Ombudsman Service and it was not upheld.

How credit institutions and payments firms differ in their approach

- 4.52** In the analysis above we have grouped all credit institutions and payments firms together but in this section, we consider some of the differences between credit institutions and payments firms. We only comment where there are material differences between the two groups of responding firm types.
- 4.53** We find there are differences in the rates of declines, suspension and termination between credit institutions and payments firms. The data suggests that credit institutions may decline a greater proportion of personal applicants than payment firms (this does not apply for business accounts) while payments firms suspend and terminate a greater proportion of accounts than credit institutions.
- 4.54** Below we summarise the responses on the numbers of account holders (individuals or businesses) affected by firms declining applications, suspending or terminating accounts broken down by credit institutions and payments firms.

Table 5: Firm rates of declining, suspending and terminating customers' personal and business accounts for credit institutions and payments firms over 12-month period H2 2022 and H1 2023

	Credit institutions		Payments firms	
	Personal accounts Central range (25th to 75th percentile)	Business accounts Central range (25th to 75th percentile)	Personal accounts Central range (25th to 75th percentile)	Business accounts Central range (25th to 75th percentile)
Declined	0.2% - 7.7%	0.4% - 11.7%	0% - 2.8%	0% - 10.1%
Suspended	0.03% - 1.5%	0.04% - 1.3%	3.1% - 25.5%	0.5% - 2.9%
Terminated	0.1% - 2.6%	0.5% - 5.3%	2.4% - 44.9%	5.4% - 20.5%

- 4.55** The regulations that apply to payments firms are different to those that apply to credit institutions. Regulation 18 of the PARs which requires that a consumer's access to a payment account should not be denied on the basis of legally held political views or a range of other characteristics only applies to credit institutions and does not apply to payments firms. Another important difference for customers is that customers funds held by payments firms are not protected by the FSCS and are instead protected by the safeguarding regulations.
- 4.56** The products and services offered by credit institutions and payments firms also differ, only a subset of the accounts provided by payments firms offer traditional current account functionality. Our experience regulating these firms suggests that the majority of personal accounts held at payments firms are used for more limited purposes, for example to facilitate an FX transaction, transfer funds abroad or pay for goods and services online and so are likely to be held in addition to a traditional current account.

- 4.57** Payments firms appear to deny a smaller proportion of personal applications than credit institutions. This supports our view, including that set out in Chapter 5, that in the aggregate, payments firms operate lighter customer onboarding processes than credit institutions, with some firms requesting documentation after an account is opened.
- 4.58** A willingness to onboard a higher proportion of customers may be improving financial inclusion for some people including the otherwise unbanked, some of whom may exhibit characteristics of vulnerability. This conclusion is supported by the FLS data in Chapter 2. We also know that some payment firms offer simpler or more tailored customer journeys to specific groups of individuals who may find it challenging to open an account with a bank or building society such as migrant workers and refugees.
- 4.59** However, lighter customer onboarding processes at payment firms may also partly explain the higher suspension and termination rates shown in the data where reasons concerning financial crime suspicions and due diligence are key drivers. This supports observations that we have made recently about the lack of robustness of many payments firms' controls. Significantly though, for some payments firms, delays in the receipt of documentation driving customer due diligence concerns may be related to their business models. Where certain payment products or services are used sporadically, customers may be less likely to provide requested documentation quickly if at all.

Chapter 5

Our supervision of personal account access

- 5.1** This Chapter reviews our work in recent years to monitor personal account access and intervene in some issues relating to suspension, termination, and denial.
- 5.2** As set out in the [FCA Mission: Approach to Supervision](#) (2019), our work follows a risk-based supervisory approach where we identify and diagnose harms, remedy them where appropriate, and later evaluate the results.

Supervising financial crime controls in banks and payment firms

- 5.3** The fight against money laundering and other financial crime is a supervisory priority for credit institutions and payment firms, which play an important role in the financial system and in defending it from criminal misuse. The main elements of our work with firms since 2018 include:
- Engagement with identified outlier firms with known higher risks or system and control weaknesses. We use interventions such as financial crime specialist supervisory visits, skilled person reviews (under s166 of FSMA), imposing restrictions on accepting types of new customers until relevant controls are improved, and enforcement investigations.
 - Use of financial crime data and analysis to identify fresh outlier firms that may have higher inherent financial crime risk and/or weaker controls.
 - Proactive specialist assessment of anti-money laundering procedures in targeted firms or groups of firms, including the use of synthetic data testing for sanctions so that we can identify the highest risk firms for supervisory follow up.
 - Sharing of common financial crime control failings with our Authorisations function, to help ensure applicants for authorisation meet required standards.
 - Engagement with foreign regulators and parent companies about the need for their firms in the UK to meet the UK's standards.
 - Work with firms, and engagement with stakeholders, in support of the FCA's enhanced anti-fraud strategy.
- 5.4** Key public outputs from that work were our:
- [letter to CEOs on our supervision strategy for the retail banking portfolio](#) (February 2021), at Priority 4 (pp8-9).
 - [letter to retail banks on common control failings identified in anti-money laundering frameworks](#) (May 2021). This was prepared during 2020 and based on our extensive work with various retail banks over the previous few years.
 - [report on financial crime controls at challenger banks](#) (2022). This was based on specialist-led virtual fieldwork we carried out during the Covid-19 lockdown.
 - enforcement notices and fines including larger banks (eg [HSBC](#) (2021) and [Santander UK](#) (2022) and smaller ones (eg [Gatehouse Bank](#) (2022), [Al Rayan Bank](#) (2023), and [Guaranty Trust Bank \(UK\)](#) (2023)).

- 5.5** This work has driven improvements, particularly in money laundering controls, in the highest risk parts of the retail banking sector.
- 5.6** We have also engaged payment firms on financial crime risks, through emerging intelligence and reactive case work, and proactive reviews. The key public output from that work is included (pp 4-6) in our letter to CEOs on our priorities for payments firms (2023).
- 5.7** Financial crime remains an FCA priority: it is one of our top commitments in our 3 year strategy 2022-25, and this year is one of our top 4 priorities under our 2023/24 business plan.

Personal account suspensions or restrictions ('frozen accounts')

- 5.8** Through 2018 we identified an emerging issue of frozen accounts. We began to see signs of a growing trend in consumer complaints to the Ombudsman Service and consumer calls to our Supervision Hub (together 'customer contacts') about prolonged unexplained freezing of payment accounts in some banks.
- 5.9** We also had input from the NCA's UKFIU. As set out in its subsequent annual report on SARS (2019), it was seeing increased reporting of DAML/SARs by challenger banks and fintech companies, and was working to develop its understanding of these sectors through targeted outreach.
- 5.10** We began seeing customer contacts about frozen accounts in payment firms, too.
- 5.11** Therefore, we decided to:
- monitor systematically the monthly volumes of consumer contacts about frozen accounts, to identify outlier firms and/or any wider issue
 - continue our engagement with some banks to understand more about their frozen accounts and related financial crime controls
 - engage with some larger payment firms to ask about their controls and approach
- 5.12** The latter discussed the challenges they saw including that:
- as fintechs, they placed reliance on automated transaction monitoring, and froze accounts if it suspected suspicious transactions
 - restricting accounts where financial crime monitoring picked up issues had been routine, but customers had become more vocal during lockdown
 - they felt they couldn't disclose the reasons for freezing to customers because of obligations, with criminal penalties, under the MLRs not to tip off potential criminals
- 5.13** Customer contacts about frozen accounts flattened in H1 2019, then grew significantly during H2 2019.

- 5.14** In February 2020, UKFIU's report noted the growth of challenger banks and fintech firms and said the volume of DAMLs they were submitting had greatly increased. But these were often for very low amounts less likely to result in law enforcement action. These high DAML volumes were slowing the whole process down, during which customers' funds remained frozen.
- 5.15** One problem seemed to be payment firms' ineligibility for the exemption where credit institutions could release transactions up to £250, even where they had suspicions, without having to submit a DAML, allowing customers continued access.
- 5.16** During H1 2020, consumer contacts continued growing rapidly.
- 5.17** In response, we engaged more closely with some payments firms about their KYC checks and onboarding, handling of alerts on accounts, and how they made decisions about freezing accounts.
- 5.18** The emerging picture was that some payment firms offered simple, quick account opening, including allowing initial payments into the account, to let customers trial their service. But when balances in the account grew larger than a minimum level they had set, or the customer wanted to pay money out, the firm had to do further KYC checks. That could take time if the customer did not respond promptly, or the firm's team was under-resourced or inexperienced. They then froze the account in the meantime.
- 5.19** Following this engagement, these payment firms accepted they needed to improve customer onboarding, alert triggers, and the speed and quality of decisions to freeze and unfreeze where appropriate.
- 5.20** In addition, we asked one firm to commission an independent review of its financial crime controls, including its transaction monitoring system. Following the results of that, it developed more risk-based customer scoring and tagging, so as to better balance effective financial crime controls with customer experience.
- 5.21** In winter 2020/2021 we conducted specialist-led fieldwork among some challenger banks. It included walk-throughs of systems and controls and their effectiveness, and sampling of their transaction monitoring alerts and alert investigations.
- 5.22** Our review found some good practice, including innovative use of technology to swiftly identify and verify customers, but also weaknesses in their approach to risk and financial crime control resources, processes and technology. It became clear these weaknesses were contributing to too much account freezing, because:
- there was a gap between their quick processing speed for onboarding customers and slower post-onboarding financial crime checks
 - this was leading to the adoption of a disproportionate and ineffective approach to identifying and acting on unusual or suspicious activity
 - this could mean in turn that restrictions were placed on accounts before such activity has been fully investigated
 - accounts were then frozen until (sometimes prolonged) investigations concluded

5.23 This resembled the picture emerging from our engagement with payment firms.

5.24 Among related detailed findings about this sample of banks were that:

- The quality of SARs some submitted to UKFIU needed to improve, for example to be clearer about why a transaction was suspicious concerning proceeds of crime, and more specific about the circumstances, and avoid including fraud, which was different.
- Some sent many reports about exiting customers who didn't fit their risk appetite. But our findings suggested these customers shouldn't have been accepted and better controls and risk assessment might have identified them sooner.
- In some, once a DAML was submitted there were occasions where the appropriate blocks were not being applied, allowing a subject to continue transacting. This was due to a disconnect between the relevant teams.

5.25 Following our common approach after identifying weaknesses in firms' systems and controls, we commissioned skilled persons to carry out more detailed reviews and make precise recommendations about the improvements needed. Those took place through the rest of 2021 and led to the design of major remediation plans. The banks then executed those plans, the last of them finishing in spring 2023.

5.26 In April 2021 the Financial Services Bill was enacted and extended the £250 DAML threshold to payment firms. One expected outcome was that it was likely to ease DAML volumes and the pressure on response times, and so would potentially help reduce the length of some freezes.

5.27 In July 2021 we published our [2021/22 Business Plan](#) which emphasised we wanted to see a decrease in instances of firms unfairly restricting customers' accounts.

5.28 In this period there was public reporting about frozen account issues facing customers of several banks and payment firms. We received a letter from the [Treasury Select Committee \(TSC\)](#) asking if these stories indicated a wider problem.

5.29 In [our response](#), we acknowledged the hardship freezing may cause, particularly for vulnerable customers or those in financial distress. But we emphasised the key importance of firms' controls against money laundering and other financial crime, including due diligence, monitoring, alerts and, where appropriate, account freezing.

5.30 However, drawing on our findings from the challenger banks, we also said that:

'If a firm considers that it is necessary to freeze an account, we expect any investigation to be carried out in a reasonable time and for customers not to be declined access to their money unnecessarily. There are sometimes delays with firms responding to suspicious activity and during this period, accounts may remain frozen. These delays may stem from ongoing issues in banks of all sizes with the meeting of obligations under the MLRs. For example, where firms need to investigate alerts which have been raised by their transaction monitoring system due to possible suspicious transactions.'

'Banks should also, where possible, communicate with customers, acknowledging that they may need to take care to avoid alerting individuals in a manner that could undermine further action taken in the future (under the POCA 2002). A consequence of this is that it may be difficult for a bank to explain to a customer the reason for imposing restrictions on an account.'

5.31 We then decided to extend our work on account freezing to include larger banks. We held meetings with several, involving senior members from their different functions, including customer services and fraud operations. For consistency we used an agreed standard set of quantitative and qualitative questions.

5.32 Some noteworthy points made by some of the banks included:

- Financial crime or dormancy were the main or only reasons they froze accounts.
- The main financial crime scenarios where accounts might be frozen (or closed) were:
 - money mules: typically, a corresponding bank engages the bank about suspected fraudulent funds received by the latter's customer, and the bank investigates whether the recipient was unwitting
 - money laundering concerns
 - fraud (victims): freeze is usually to protect the account holder, who is a victim, especially if the bank can't contact them
 - fraud (perpetrator): frozen to stop criminal money flowing round the system
- Between those 4 scenarios there were significant variations in volumes of alerts/ investigations, percentages frozen, and post-freeze account closure rates.
- Likewise, timescales for investigations and decisions (freezing/unfreezing) varied depending on the scenario/process (and extent of account holder cooperation).
- Increased fraud and mule activity during lockdown, especially online, had increased fraud warnings, stressed investigation capacity, increased turnaround times and lengthened some account freezes.
- There were almost no financial crime-related cases where they had felt able to explain the reasons for the freeze. This was due to their tipping off concerns with the associated criminal penalty.
- Some firms had reduced freezing/exit rates for some scenarios by tightening controls, for example improved technology allowing more timely screening at onboarding and better upfront detection, rather than opening accounts and then doing KYC.
- Some public criticism of freezing might potentially be driven by fraudsters too.

5.33 Overall, this engagement with some larger banks confirmed our general view that the issue of account freezing lay mainly with the Fin-tech focused challenger banks and payments firm, who were more likely to potentially lack the financial crime experience, resourcing, and behavioural analysis some larger banks seemed to have.

5.34 Through H2 2021 we:

- continued our monthly review of the customer contact data

- held follow-up engagement with the MLROs of further identified outlier payment firms and banks, stressing to them their need to investigate the root causes of their frozen accounts, improve controls and procedures and clear any backlogs
- ensured we kept close to relevant policy and legislative developments

5.35 During winter 2021/22 we held industry webinars with a wider range of payment firms. We explained our concerns about issues with financial crime controls and frozen accounts and outlined the improved customer outcomes we expected to see.

5.36 By spring 2022 our data showed clear and significant falls in customer contacts about frozen accounts.

5.37 Overall, it seemed our sustained supervisory work engaging outlier firms and resolving their specific weaknesses had successfully driven improvements. That, combined with the government's extension to payment firms of the £250 DAML exemption, seemed to have led to less freezing of accounts, shorter times for transaction freezing, and less dissatisfaction.

5.38 In February 2023, we set out how we expected firms to consider financial crime processes under the forthcoming Consumer Duty. Our [Consumer Duty letter to CEOs of retail banks \(2023\)](#) highlighted the freezing of individual accounts as a specific issue needing careful consideration by firms under the cross-cutting rules and consumer support outcome (para 13). We said firms should consider their processes relating to freezing of accounts including, for example, whether it would be appropriate to make such freezing:

- less frequent – eg through better upfront onboarding and KYC controls and more accurate and intelligent transaction monitoring
- less protracted – eg through better resourced and swifter investigation of suspicions
- better communicated – to the extent possible within the constraints of avoiding tipping off
- better supported, especially for customers put into acute financial difficulties by the freeze

5.39 We continue to monitor frozen account case levels, identify outlier firms, and engage them to ensure they make improvements to relevant systems and controls.

Personal account terminations ('closures')

5.40 Our supervisory work on personal account closures has mostly been of three types:

- considering and responding to concerns from the public, including MPs and parliamentary committees
- engaging with firms who inform us (as they should under Principle 11) that they plan to close a book of personal accounts
- assessing individual pieces of intelligence we receive on individual closures of personal accounts, often from the consumer whose account has been closed

Addressing stakeholder concerns

- 5.41** Public concerns about personal account closures are expressed from time to time, including by MPs' correspondence with us about the closure of constituents' accounts. To these we have generally replied along the following lines:
- The firms we regulate have commercial freedom, subject to some restrictions, to choose who they do business with.
 - Firms have always had to make decisions about whether or not to provide their services to a prospective customer, or to maintain a relationship with an existing customer.
 - A number of factors influence those decisions such as the credit risk and profitability of a relationship, concerns about the reputational consequences of providing services to certain customers, anti-money laundering and financial crime risks, and how a customer engages with a firm and behaves towards its staff.
 - Firms do have an obligation to treat customers fairly when making these decisions.
 - Firms are not obliged to explain the reasons why they have reached a decision to close an existing customer's account.
 - This is because the information may be commercially sensitive or could 'tip off' the customer in cases where money laundering is suspected. We appreciate this can be frustrating and the impact it can have.
- 5.42** In 2019, a Treasury Select Committee report on economic crime discussed the de-risking of bank accounts and cited FCA figures suggesting 375,000 customers had had access removed and 1.15m been denied access. The report expressed concern about the social impacts of this, and the lack of transparency with consumers de-risked without explanation or avenue to query the decision, and the potential involvement of Artificial Intelligence (AI) with the risk of built-in unconscious bias.
- 5.43** In testimony to the TSC, FCA representatives had said that:
- the numbers of those de-risked were a relatively small proportion of overall customer numbers
 - we expected firms to deal with instances of account de-risking on a case-by-case basis
 - we had come across examples brought to our attention where it was not clear why an individual had been de-banked, and we followed those up with firms
 - better data would help tackle some of the broader societal issues and, importantly, also get the banks to tackle them in the right way
- 5.44** In July 2021 the TSC asked for an update on its concerns. Our response re-emphasised that:
- the decision to accept or maintain a relationship is ultimately a commercial one
 - where a bank has decided to withdraw banking services, we encourage it to communicate any exit decision with the customer, where possible, including setting out their reasoning clearly
 - to facilitate this, we had asked the sector to develop some principles, which were published by UK Finance in 2019

- our expectation is that firms act in a manner that is proportionate, risk-based and in line with our principles
- we consider whether banks are treating customers fairly and meeting expectations through our supervisory engagement, as well as intelligence received

5.45 We concluded by outlining our engagement with stakeholders about the future of AI. (This has continued: see for example the joint supervisory authority [Discussion Paper on artificial intelligence and machine learning \(2022\)](#).)

Engaging firms on planned closures

5.46 As we told the TSC, we consider if firms are treating customers fairly and meeting expectations through supervisory engagement and by examining intelligence received.

5.47 Here are some examples of reasons firms have given us when telling us about their plans to close a book of personal accounts:

- Withdrawal from the UK retail banking market.
- Closure of accounts as part of planned solvent wind downs.
- Withdrawal of current account products, or closure/migration of a book following the termination of a distribution arrangement with a third-party brand.
- Closure of accounts provided to customers living outside of the UK. (In relation to the closure of accounts of customers living in the EU after the transition period following our departure from the Union, we received a letter from the TSC to which we responded on [9 October 2020](#). We also published information for UK firms servicing EEA customers after the transition period [here](#) and [here](#).)

5.48 To the extent these decisions are mainly matters of commercial discretion for the firm, our engagement focuses on the conduct and consumer-focused aspects of firms' closure plans. In particular, we emphasise now that from the perspective of the Duty, especially its cross-cutting rule on avoiding foreseeable harm, firms should think carefully about the withdrawal of individual accounts.

5.49 For example, if the withdrawal is abrupt or the firm does not consider the effect on the customers, this could result in foreseeable harm which the firm should take steps to mitigate. This could include giving time and support for customers (including those in vulnerable circumstances) to transition to a suitable alternative, with any changes and decisions needed communicated in a timely, clear, and sensitive manner.

5.50 Where issues or gaps are identified, firms amend and improve their plans following engagement with us. Examples include where firms have decided to extend the period of the book closure and migration, and/or phase it, or establish additional dedicated customer support for the account holders affected and transitioning.

- 5.51** Despite firms having commercial discretion in these matters, we will also engage with them on their rationale for closing the book of accounts. That is partly because this provides us with insight into their wider business model and risks. But we also consider if the rationale for the book closure is fair and reasonable, including from the perspective of the provisions on access and non-discrimination seen in Chapter 3.
- 5.52** From time-to-time we also engage firms about their wider policies and approach to closures. Examples of aspects we have covered include:
- Closure of accounts on a 'risk basis'.
 - Exiting customer relationships where those customers are domiciled and operating outside the UK in high-risk jurisdictions.
 - Investigation and possible closure of accounts in response to enquiries, requests, or directions from overseas or domestic regulators or law enforcement agencies which may pertain to customers and links to ongoing or concluded investigations.
 - Closure of accounts due to 'abuse of colleagues' (in branch or by phone), including where the customer may express views perceived by staff as discriminatory.
 - Closure of accounts due to considerations of reputational risk from the customer, and the firm's process for this and controls around it.
- 5.53** We discuss such policies and approaches with the firms and any concerns we have.

Assessing intelligence on firms' closures of individual personal accounts

- 5.54** Our supervision Hub receives contacts from customers who say their accounts have been closed or that they have been told their accounts will close. Examples are:
- accounts being closed with no reason given, or with an unclear reason
 - ex-pats whose accounts have been closed against their wishes
 - personal account closure due to identification of business-like transactions
- 5.55** As a first step, we will always advise the consumer to complain about the closure to the firm if they are unhappy, and to refer the matter to the Ombudsman Service if they remain unhappy with the firm's response to their complaint.
- 5.56** We will also assess such contacts as intelligence about the firm. We will consider if they potentially link to other things we know about the firm or can see in our data, and whether the individual's case potentially has wider significance. For example, if we suddenly received a cluster of contacts about one firm withdrawing accounts.
- 5.57** Important sources of data about individual account closures are:
- The number of Hub contacts about it, in aggregate and about individual firms.
 - Other intelligence.

- Trends in relevant Ombudsman Service complaints, their volume and outcomes (ie whether the Ombudsman Service upheld the complaint in favour of the complainant). We can also see how these complaint volumes and uphold rates vary across individual firms, to identify potential outliers.

5.58 If we think there is an issue of wider significance arising, we will engage with the firm(s) to explore further what is being done and why, and whether that causes us concern. We may also engage with the Ombudsman Service to hear more about what it is seeing and its views. This process can help clarify our understanding of whether there is a common issue to some of the individual cases we are seeing.

Channel changes that might mean customers losing access to their accounts

5.59 Many firms will continue or start to nudge customers who use branches or telephony toward making more or sole use of digital channels. We do not prescribe which channels a firm must offer, but it must be alert to the risk that some customers might lose access to their account if they are unable to use a digital channel.

5.60 This risk is clear from FLS which tells us that although almost nine in ten (88%) adults with a day-to-day account bank online or use a mobile app (up from 77% in 2017), the online or digital channel is not a practical option for all consumers, as:

- Adults least likely to bank online or use a mobile app include those who were digitally excluded (75%), heavy users of cash (57%), or aged 75+ (35%).
- 3.9 million adults (7%) were digitally excluded (down from 6.9 million (14%) in 2017).
- Digital exclusion is strongly correlated with age: 26% of those aged 75-84 were digitally excluded, rising to 72% of those aged 85+.
- It varies by household income, suggesting some are experiencing 'data poverty'.
- One in five (20%) adults in poor health or who have cancer, MS, or HIV infection were digitally excluded.

5.61 Even among internet users:

- 8% (3.8 million adults) said their home connectivity was poor (5% or 2.4 million), very poor (1% or 0.7 million), or they have no internet at home or only get it at home through using their mobile phone (1% or 0.7 million).
- 11% (5.7 million adults) did not buy online any of the financial products or services they currently hold because they are not comfortable buying financial products or services online or prefer traditional channels.

5.62 So, any bank seeking to move to mainly or solely digital provision of accounts must take care to ensure that customers, especially the digitally excluded or those in vulnerable circumstances, do not experience poor outcomes.

5.63 Relevant considerations for firms under the Duty, and under our revised guidance on branch and ATM closures or conversions (2022), are set out in our Consumer Duty letter to CEOs of retail banks (2023) at paras 8-11 on changing channels and digital support.

Personal account declines ('refusals')

- 5.64** We generally receive fewer consumer contacts, other intelligence, or MP letters about personal account declines, compared to account freezing or closures.
- 5.65** Our responses to MPs or consumers about declines are generally along the lines of our response to them about closures (5.41 above).
- 5.66** However, as before, we would assess the intelligence about individual declines in the context of what else we knew about the firm or other firms, to build a picture of any potential wider issue in the firm or more broadly in the sector.
- 5.67** For example, we have become aware of complaints and MP letters about CIFAS markers potentially causing issues with access to accounts for some consumers, including BBA refusals. For further discussion of access to BBAs see Chapter 3, and Chapter 7.
- 5.68** Some denial cases we see relate to private banks. These tend to be consumer complaints or concerns about wealth requirements or other account opening criteria, and whether these are applied transparently and consistently. Our approach to such cases is broadly the same as for others, including considering whether there are signs of any potential wider issues in the firm.

Conclusion

5.69 As shown in this Chapter, we have undertaken a significant amount of work on personal account access issues over a long period, especially on suspensions. This has not identified any major unmitigated access risks, or smaller access issues impacting specific groups. For example, Figure 7 shows, for the period discussed, relevant complaints to the Ombudsman Service (mainly but not only about account freezing), and Figure 8 relevant consumer contact with our Supervision Hub (likewise):

Figure 7: Complaints referred to the Ombudsman Service about current accounts concerning 'Account Access, Delays and Termination' or 'Account Closures'

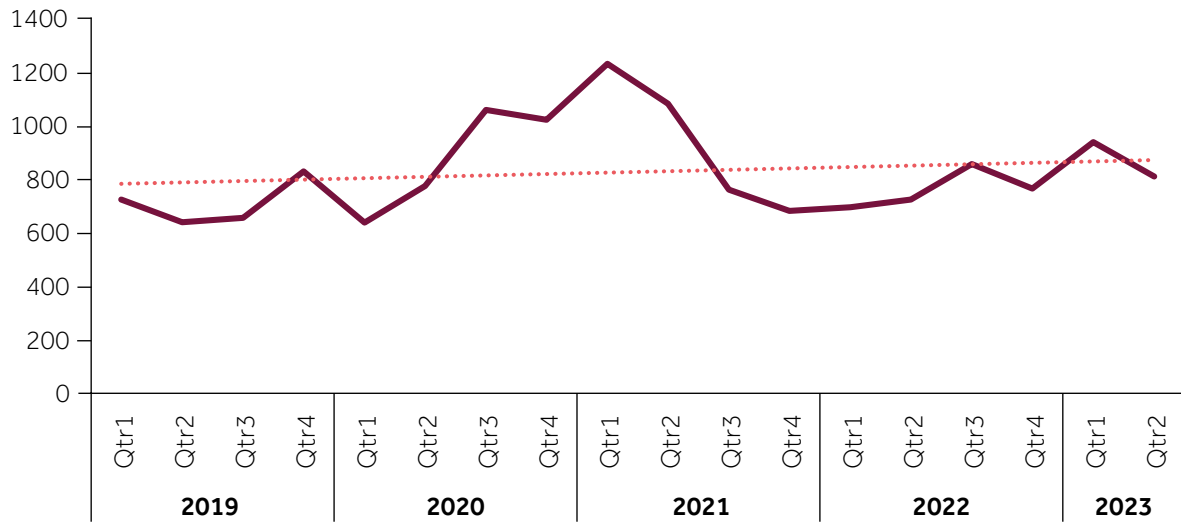
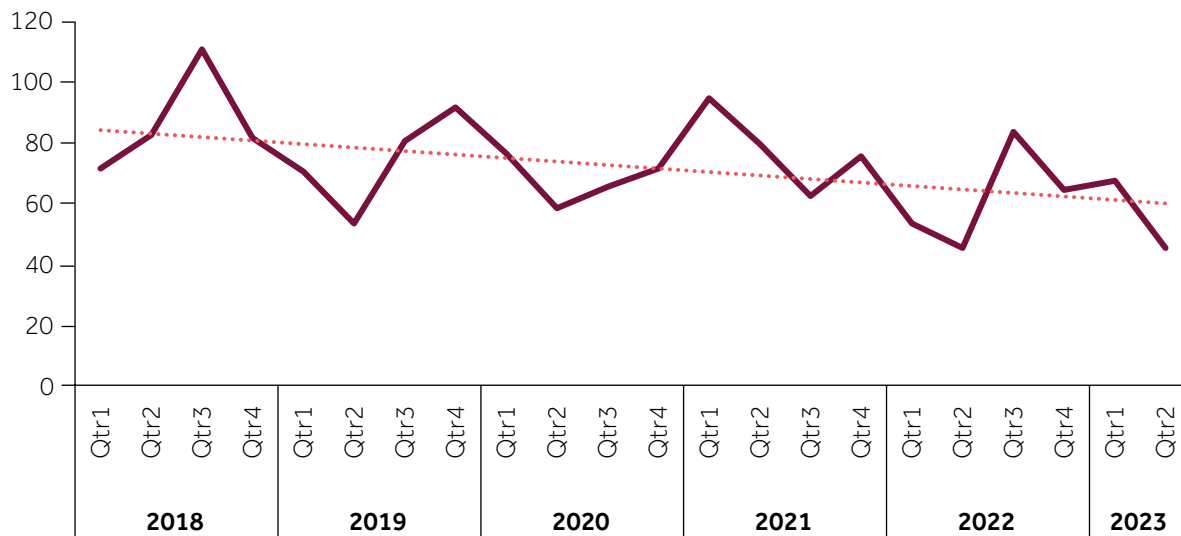


Figure 8: FCA Supervision Hub consumer contacts about 'Closed/Cancelled' bank accounts (including current, basic, packaged and business accounts)



5.70 However, as can be seen, the data available to us has been limited and usually indirect, relying mainly on consumer complaints and contacts with our Hub.

5.71 In contrast, the data obtained in our recent exercise (Chapter 4) gives us more systematic insight. As such, we will be considering how that data, and follow up work that is planned, can inform our supervision of credit institutions and payment firms going forward, in addition to any specific next steps we take (Chapter 7).

Chapter 6

Business accounts and access

- 6.1** In this Chapter we discuss some types of businesses with payment accounts. We divide these into financial services businesses, and non-financial services businesses, and briefly review the concerns about account access they have expressed to us.
- 6.2** In Chapter 3 we set out the extent and limitation of our powers in relation to business payments accounts. But Chapter 7 discusses some relevant next steps.

Financial service businesses' access to payment accounts

- 6.3** In this section we review payment access issues encountered by payment firms, cryptoasset businesses and pawnbroker firms, and our engagement in those.

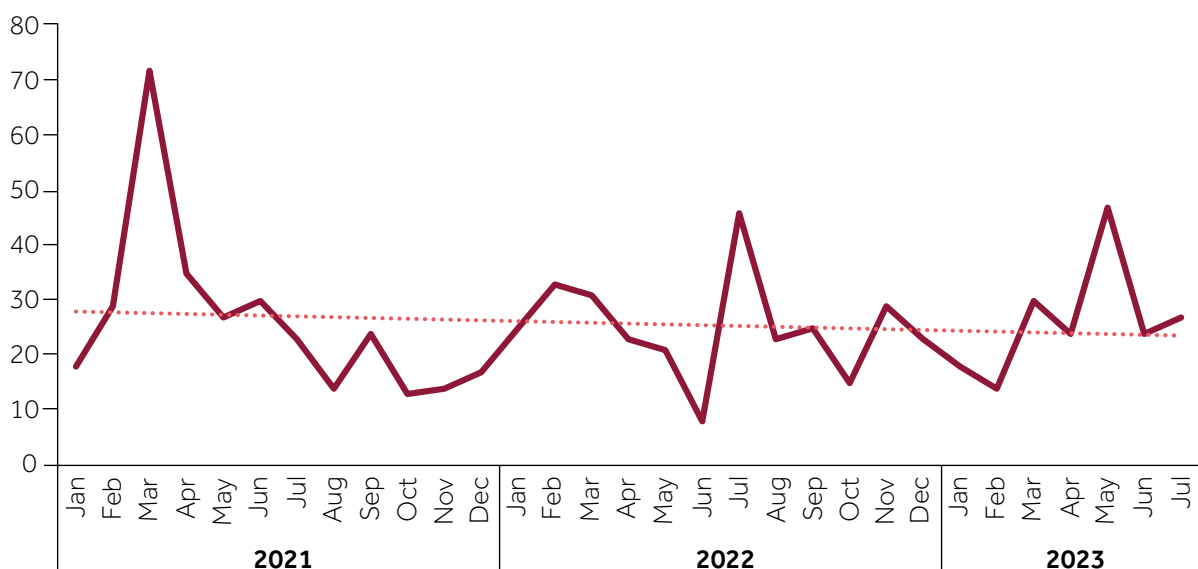
Our supervision of payment firms' access to bank accounts

The requirements concerning payment firms' access

- 6.4** Payment firms (including e-money institutions and money remitters) need to access payments accounts, from credit institutions, for the purposes of making payment transactions on behalf of clients, safeguarding accounts and operational accounts. So, if a payments firm is unbanked, this can create risks of harm for its existing customers and undermine its ability to compete with credit institutions for new customers in the payments market.
- 6.5** Following transposition of the Payment Services Directive II (2015/36/EU) into UK law in 2017, Regulation 105 of the PSRs ('Reg 105') requires credit institutions to (among other things) give payments firms access to payment account services on a proportionate, objective, and non-discriminatory ('POND') basis (see 3.27-28 above).
- 6.6** Reg 105 does not impose an absolute obligation on credit institutions to grant access to an account. The decision to work with a given payment firm is still a commercial one for them and they are entitled to consider cost and risk (see 3.29 above).
- 6.7** Credit institutions must send us notifications when they refuse payment firms access to payment accounts or withdraw such access from them. The credit institution's notification must set out its reasons for that withdrawing or refusing.
- 6.8** In our Approach Document (2021), we underline that credit institutions should not have policies that restrict access to services for certain categories or types of payments firms, without considering the specific risks posed by the business, and the ways in which an individual payment firm might mitigate the risks.

- 6.9 To support Reg 105 and enable banks to manage risks around certain types of payment firms, the JMLSG published revised guidance (2020) which sets out risk factors for banks to consider, such as whether the payments firm transacts in jurisdictions posing heightened risk for money-laundering or terrorism financing.
- 6.10 In addition, UK Finance published industry guidelines (July 2019) for banks to appropriately adhere to the POND obligations outlined in Reg 105.
- 6.11 Between 2017-20, we received around 850 notifications (around 40% of them in 2019), of which 300 related to withdrawals of services and 550 refusals. Those 850 decisions concerned 400-500 payment firms (some referred to the same firms).
- 6.12 Figure 9 shows the volume of credit institutions' notifications of withdrawals of accounts (not refusals) since 2021.

Figure 9: Credit institutions' notifications of withdrawals of accounts from payments firms



- 6.13 We share the notifications we receive from credit institutions with the Payment Systems Regulator which is jointly responsible for monitoring compliance with Reg 105.

Our supervision of the requirements concerning access

- 6.14 We review each notification to see which credit institution is closing or refusing an account for which payments firm. We assess the impact on that payments firm's business, and the potential customer harm (eg if it were to become insolvent while having no account). We consider if the firm or we need to act to mitigate that harm.
- 6.15 We also assess whether the credit institution has adhered to the POND requirements in deciding to close or refuse the account. Many closures or refusals reflect banks':
 - concerns about the extent of financial crime risks, including in the light of the considerations set out in JSMLG (6.9 above), and/or

- concerns about the costs and commercial viability of maintaining the relationship, given the required ongoing checking that the firm's financial crime controls appear sufficient and ongoing need to ensure the account is operating in the way that would be expected based on the bank's knowledge of the firm

- 6.16** Payment firms can complain to us if they feel a bank has infringed Reg 105 and we will consider complaints in the light of the information in the notifications from the credit institutions. But such complaints have been few (10-12 a year).
- 6.17** If we suspect a credit institution has breached Reg 105 in a way that results in harm, we will engage further to understand how it reached its decision and determine if further action is required. Under the PSRs we have a suite of supervisory and enforcement powers, including powers to impose a financial penalty and to require a credit institution to keep accounts open where access has been refused or withdrawn in breach of Reg 105.
- 6.18** Having satisfied ourselves on the POND aspects, we may ask the credit institution to make additional commitments, for example to provide us with regular updates on the progress of its exits and on themes, issues or complaints arising, for us to review.
- 6.19** In addition to reviewing individual notifications, we periodically review all notifications made over a period, in order to check, for example:
- if one credit institution is closing multiple payment firms' accounts
 - if several credit institutions are closing the accounts of one payments firm
 - if several credit institutions are closing the accounts of several payments firms
- 6.20** If we do see those patterns, we consider what they are telling us about the business models, risks and plans in the credit institution(s) and/or payment firm(s) involved.
- 6.21** Making judgments about POND compliance can be challenging. For example, a credit institution's decision to de-risk payments firms serving a particular country or region may appear a reasonable response to its assessment of high financial crime risks.
- 6.22** However, for the UK users who, as a result of the credit institution's decision, may now find themselves struggling to remit funds to a country or region because the payments firms they used are now closed or restricting activities, the decision may appear unfair or even driven by discriminatory profiling of the payments firms' customers. We have received anecdotal accounts to that effect, and we are always open to discussion of any such concerns stakeholders may have.
- 6.23** We note that since the UK's exit from the EU, payments firms can use a safeguarding account with a credit institution anywhere in the OECD, or with one which meets certain criteria. We will continue to engage with industry about payments firms' access to UK accounts, to understand the competition impact on them, and the drivers and future scenarios around access.
- 6.24** We will also continue to engage credit institutions on their risk appetite practices concerning payments firms and their Reg 105 decision-making.

Other financial businesses' access to bank accounts

- 6.25** Unlike for payments firms and the POND requirements concerning their access to accounts, there are no similar regulatory requirements established for other regulated financial businesses, such as cryptoasset businesses and pawnbrokers.
- 6.26** Nonetheless, we have engaged these sectors when they raise issues around access and credit institutions' de-risking of their accounts through terminations or denials.
- 6.27** For cryptoasset businesses and pawnbrokers, we have encouraged and facilitated discussions between the affected businesses and the credit institutions, and between their respective trade bodies. Such dialogue can help ensure a fair and balanced approach is taken, clarify approaches and the reasons behind decisions taken, and explore appropriate ways of mitigating concerns and potential risks.
- 6.28** For example, we were fully aware of the collective work by UK Finance and the National Pawnbrokers Association in 2022 to prepare a non-binding protocol (January 2023) which aimed to support improved understanding between credit institutions and pawnbrokers, and facilitate improved access for pawnbrokers to accounts, including through credit institutions assessing pawnbrokers individually on their own merits.
- 6.29** We welcomed the protocol, and we support its approach. We have been told there are early signs it may have helped slow account closures, but also that there seem to be continuing challenges for some pawnbrokers wishing to open new accounts.
- 6.30** In addition:
- We have worked with the JMLSG on changes proposed to its Guidance, Part II, Sector 11A (Consumer credit), to address aspects that conflicted with pawnbroking as a consumer credit service. The changes were consulted on, published in final in March 2023, and received HMT Ministerial approval in June 2023.
 - We have written to firms' CEOs (in 2018) setting out the need for them to take proportionate approaches to handling financial crime risks posed by cryptoasset businesses, and reminded them recently that this guidance remains relevant, in our notice to all FCA regulated firms with exposure to cryptoassets (2022).

Non-financial service businesses' access to payment accounts

- 6.31** Some payment account providers' responses to our data request listed specific business types or industry sectors which they do not provide accounts to, including variously (across responses):
- Cash intensive businesses
 - Military defence/weapons production
 - Cryptocurrency
 - Adult entertainment industry
 - Charities

- Crowdfunding
- CBD oil/medicinal cannabis
- P2P
- Embassies
- Shell banks
- Cheque cashing services
- Gambling

6.32 The rationales given for not providing accounts to these included:

- financial crime risk
- reputational risk
- high risk business sectors
- customer-led ethical policy

6.33 Our understanding of what is meant by 'customer-led ethical policy' is that we are aware that some payment account providers make policy decisions not to deal with certain types of businesses where they feel this may conflict with their purpose or values. Applicable legislation does not prohibit payment account providers from making such commercially based decisions in relation to businesses (see Chapter 2).

6.34 For firms that do take such an approach, it is unclear how far they apply these broad sector-based exclusions to personal accounts as well as business accounts. For example, in respect of the CEOs of relevant businesses or other senior staff.

6.35 We know that some business sectors feel unfairly affected by account providers' decisions not to provide accounts to some business types or sectors, as they have raised concerns with us about issues with their own access to accounts.

6.36 For example, since the announcement of our initial review, we have received submissions from representatives of the gun trade and sports shooting, and adult entertainment (including sex work). These highlight the challenges, for the members/affiliates of business types or sectors that may divide wider opinion, of obtaining or maintaining a payment account.

6.37 Likewise, we have recently received submissions from the charity and voluntary sector.

6.38 The TSC noted in 2019 that charities and faith-based institutions were often victims of de-risking. We have previously suggested this may in part reflect the fact most charities have trustees who are subject to verification obligations, which can add time and cost to the account providers' opening and maintenance of the facilities and accounts. Also, some charities work abroad and might be deemed higher risk by some account providers because of these links to a higher risk jurisdiction or sanctions nexus and limitations of their internal financial controls.

6.39 We are aware that some banks do not offer charities and voluntary organisations (CVO) accounts. But many banks, including some newer ones, do.

- 6.40** We have also been told that some account providers' decisions in recent years to introduce monthly fees to maintain CVO accounts prompted many smaller account holders to look for alternative providers. But they often found that banks with free account offerings were not accepting new CVO customers, at least at that time.
- 6.41** We have also been told about other issues around the provision of CVO accounts, including lack of ease of use, poor customer service, lack of fit with Charity Commission requirements, and a lack of flexibility in account operation.
- 6.42** Lastly, we note access challenges facing potential investors into the UK. For the past 6 years, the Department of Business and Trade's Inward Investment Client Insight Survey has highlighted opening a UK bank account as the biggest obstacle facing investors entering the UK market. The 2021/22 Survey found 56% of new investors reporting this as their biggest challenge.

Conclusion

- 6.43** As we have explained elsewhere in this report, with the exception of payments firms accessing payment accounts with credit institutions, we have a very limited remit concerning businesses' (or not-for-profits') access to payment accounts, whether those businesses are from the financial services sector or otherwise.
- 6.44** Most access issues for businesses, including those we have reviewed here, reflect the many individual decisions of multiple provider firms. For the most part, those firms are free to exercise their commercial discretion in this way.
- 6.45** However, we have in the past engaged and taken steps to influence where we can and where we think it necessary to support the good functioning of the relevant financial services market and pursue our operational objectives of consumer protection, competition, and market integrity. This has led to limited mitigation of the concerns of some businesses, despite our very limited remit over the provision of services to businesses.

Chapter 7

Our conclusions and next steps

Summary of conclusions

- 7.1** Our data collection exercise, despite the limitations described in Chapter 4, has provided indicative and preliminary insights about the rate at which accounts are being declined, suspended, and terminated. We have calculated the central range of rate of declines, suspensions and terminations across personal accounts (and BBAs) and business accounts, and also identified the outlier firms that are outside that central range. This allows us to identify future areas of work and particular outlier firms we may seek further information from.
- 7.2** The data indicates the most common reported reasons for personal and business account applications being declined, suspended or terminated were financial crime suspicions identified, due diligence concerns, and inactive/dormant accounts. This is what we would expect to see.
- 7.3** Legislation requires firms to have effective systems and controls to prevent their services being used for the purpose of money laundering, proliferation financing or terrorist financing. If a firm cannot complete appropriate KYC checks when accepting a new customer, and when reviewing their customer base, or if a firm suspects its customer is using an account for the purposes of financial crime, it can legitimately decline, suspend or terminate accounts. We understand that firms also suspend or terminate inactive/dormant accounts to manage the risk of these accounts being used for financial crime in future, as well as for commercial reasons (ie because dormant accounts are not profitable).
- 7.4** For business accounts, the commercial cost of serving or complying with financial crime requirements is also a relevant factor for firms among a range of 'Other' reasons for declines, suspensions and terminations. This is consistent with international perspectives on de-risking, as set out in our research note.
- 7.5** Across personal and business accounts, there were 4 cases and an additional 4 complaints reported to us by the firms with 'expression of political or any other opinions' as the reason for the account closure or complaint. We followed up directly with firms on these cases and further information showed that the primary reason for action was not the 'expression of political or any other opinions'. For the majority of cases it was, in fact, customer behaviour (eg racist language directed at staff).
- 7.6** The data also showed one further case where an 'expression of political or any other opinion' was a factor in the decision to terminate a business customer account. Again, we followed up on this case with the firm and the further information received indicates the decision was not driven by 'expression of political or any other opinions'.

- 7.7** The high top-end of the range of application declines for personal BBAs is a particular area of concern for us, given the purpose of these accounts is to widen access.
- 7.8** Given the limitations of the data, we have not been able to draw detailed conclusions on the types of personal or business customers affected by suspensions, terminations and declines. Some customer groups, eg PEPs and UK ex-pats, were well reported and categorised by firms but other groups much less so. The better reported groups are either subject to existing regulatory requirements or can be more clearly identified (eg ex-pats with overseas addresses).
- 7.9** The data suggests that payments firms decline a lower proportion of personal applications than credit institutions but are more likely to suspend and terminate accounts later (across both personal and business customers). Although the data sets are not directly comparable due to the differing sample sizes and varying nature of the accounts provided, a high-level assessment of the differences between payments firms and credit institutions supports certain of our recent observations about payments firms. Some payments firms play an important role in financial inclusion, including by providing customer journeys tailored to specific groups who may find it difficult to access an account at a credit institution. However, we have also observed weaknesses in some payments firms' financial crime systems and controls.
- 7.10** We know 1.1 million UK consumers remain unbanked, although over half of these consumers (53%, 583k) said they did not want a current account. There are limits to what we know about the characteristics of the unbanked and about the drivers of and reasons for their being unbanked. For example, the various factors associated with being more likely to be unbanked overlap to a degree, so it is hard to identify the main causes without a bigger sample allowing for more powerful mathematical modelling. The issues around access and inclusion are complex, stretch beyond the FCA's powers as a regulator and cannot be addressed by the FCA alone. For example, they touch on financial literacy, poverty, and immigration status. Many governments and regulators in other jurisdictions are also grappling with these issues, together with the lack of robust and informative data on de-risking.
- 7.11** As we take further action, we recognise that others will need to act too. Our research shows there are a number of policy levers suggested by multiple jurisdictions that could, taken together, facilitate a greater understanding of the problem and potentially contribute towards mitigating some of the impacts of de-risking. Many of these are outside the FCA's remit, as set by Parliament, and so are for the Government and others to consider. They also involve political and societal choices, which are obviously matters for the Government and Parliament to determine (for example, in relation to any potential universal service obligations and the distribution of any costs associated with such obligations).
- 7.12** We recognise that, learning from other jurisdictions, there may be a need for a greater strategic and cross-system response to addressing de-risking in the UK led by the Government, and potential for legislative change to enhance provisions on rights to access banking services for both individuals and businesses, for example, widening access to bank accounts. We recommend that the Government considers a UK-wide

approach to de-risking. The report shows that de-risking requires a 'system wide' coherent strategy with clear commitments across both the public and private sector to work to address the different aspects of de-risking.

Next Steps

- 7.13** This report has drawn out a number of areas that require follow up to confirm our understanding, as well as to address the causes and impact of the concerns the conclusion raise. In the following section we draw out the actions for firms, for our regulatory response, and matters we recommend taking forward with Government and industry.

Actions we expect firms to take

- 7.14** We expect credit institutions and payments firms to draw on the findings set out in this report and reflect on actions they should take. In particular:

- **Management Information** – The level of granular data available to and provided by firms on account declines, suspensions and terminations varied greatly. We expect firms to have adequate systems and controls, including Management Information (MI), to monitor the nature, scale and impact of account declines, suspensions and terminations.

The Duty also requires firms to define, monitor, evidence and stand behind the outcomes their customers are getting. This monitoring must enable firms to identify where customers are getting poor outcomes, and where this is the case firms must take appropriate action to rectify the situation. The absence of adequate MI on account declines, suspensions and terminations limits firms' ability to meet our expectations under the Duty to measure customer outcomes and whether distinct groups of customers, such as those with characteristics of vulnerability or those who share protected characteristics, are getting worse outcomes.

- **Payments Firms** – Our letter (21 February 2023) about the implementation of the Duty in payments firms highlighted the importance of action to strengthen customer onboarding controls, to reduce the frequency of account suspensions and the impact this can have on customers. Our subsequent letter (16 March 2023), setting out our expectations for the payments portfolio, also highlighted issues that we have observed with some payments firms' broader financial crime frameworks and the action we expect firms to take to address them. Improving financial crime controls (including at onboarding) at payments firms has been an important focus of our work to reduce and prevent financial crime. Ensuring firms address remaining issues and adequately implement the Duty will continue to be a priority in the coming years.
- **Credit Institutions** – Our letter (3 February 2023) about the implementation of the Duty in Retail Banks and Buildings Societies highlighted that firms are required to: act to deliver good outcomes for retail customers; act in good faith towards them, avoid causing them foreseeable harm; and enable and support them to

pursue their financial objectives. Firms should also consider the diverse needs of their customers – including those with characteristics of vulnerability. As for payments firms, ensuring that Retail Banks and Building Societies adequately implement the Duty will continue to be a priority in the coming years.

- Similar expectations apply to other credit institutions. For example, Private Banks received [our letter](#) (30 January 2023) and Wholesale Banks received [our letter](#) (8 September 2023).

Regulatory action we intend to take

7.15 As we set out above, despite the limitations of the data and associated findings, this work has highlighted areas in which we intend to follow up. In particular, we intend to prioritise the following:

- **Data accuracy** – We will be undertaking follow-up work to understand the accuracy of the data reported to us, concentrating particularly on outlier firms and the reasons for their apparent higher or lower rates.
- **Declines in BBAs** – We will follow up to understand the apparent high range of account declines (1.0% -35.7%) for personal BBAs, which will involve gaining more reliable data, and to understand whether there are areas of concern about conduct. We will investigate the number of accounts that appear to have been terminated for commercial reasons.
- **Political beliefs or opinions** – Given the limitations of the data exercise, we will do further analysis and supervisory work to be sure of the conclusions reached on accounts closed for political beliefs or views lawfully expressed. We will also look at accounts closed because of reputational risk, where there was inconsistency in firms' responses, and the significant majority of the cases cited with this reason were from payments firms. While firms can legitimately consider reputational risk, for example in decisions about relationships with sanctioned individuals or their close associates, we want to understand how the criterion of reputational risk is being used and assure ourselves that it is not being interpreted too broadly.
- **Ongoing supervisory monitoring of firms** – We will also consider how to improve data collection to help us monitor firms' conduct in relation to account access. We expect to have a better view on any necessary steps following the conclusion of the [PEP review](#) and we will report our findings on data more broadly by mid-2024.

7.16 As we conduct the above work, we will take prompt regulatory action should we identify significant deficiencies in the arrangements of any firm assessed, including under the Duty.

7.17 We will also take action to further understand the impact of account declines, suspensions and terminations on consumers to help inform Government, regulatory and industry response. We will take the following actions:

- In preparing for the next FLS survey in 2024, we will expand and refine the questions about the unbanked, to get better insights about these consumers. We will also add questions about terminations and suspensions of bank accounts.

- We will commission further work to understand some of the underlying and interrelated issues about unbanked consumers identified in our FLS data. This is likely to include work to:
 - examine the reasons for the expressed distrust of banks among the unbanked and whether these raise questions about the level of understanding of current accounts and their purpose
 - explore whether there are significant differences between groups in the proportion of those wanting a bank account, or who have tried but failed to get one
 - clarify the real or perceived barriers to accessing accounts for those who want them

7.18 Consumer groups and organisations give us information, sharing their members' concerns on these issues. Putting these together with the insights from our data collection exercise, we will engage with a range of consumer groups and organisations to understand their experiences and the impact of account declines, terminations and suspensions where these are within our regulatory remit.

Working with the Government and industry

7.19 We intend to support and work with Government and industry to address the causes and impacts of account declines, suspensions and terminations. In particular:

- **Strengthening payment account termination protections** – We are currently supporting the Government's planned legislation to strengthen the requirements on payment account terminations by increasing the minimum notice periods provided to customers from 60 to 90 days and increasing the transparency provided to consumers on why their account has been terminated. We will engage with the industry on its implementation of the new requirements and (once enacted) monitor firms' compliance with them through our supervisory work (see Chapter 5). That involves us assessing intelligence and risks to prioritise engagement and interventions with firms where this is needed to address non-compliance and potential customer harm.
- **Mitigating the drivers for account declines, suspensions and terminations** – We will take the opportunity in the coming period to work with trade bodies and their members to further understand the reasons behind their decisions to decline, suspend and terminate, and the relative prevalence of these. This may lead to opportunities to consider setting firmer expectations, for example through guidance, on how banks can effectively manage the risks in particular groups of customers most impacted by de-risking.
- **Addressing financial crime drivers** – The data highlights that underlying action to tackle the root causes of financial crime risk remains essential. The Government, all the national economic crime partners, and industry, are working to deliver a series of ambitious goals to reduce economic crime through the Economic Crime Plan 2023-2026 and the National Fraud Strategy, and through ongoing delivery of day-to-day detection, prevention and pursuit of economic crime. We are playing our part, both directly and in supporting other partners, and we will continue to do this with a clear focus on driving a reduction in economic crime.

- **The use of AI** – The way in which firms detect financial crime or fraudulent activity is becoming increasingly sophisticated, including through the use of AI. We will continue our work to understand how firms use AI to inform their decision making on payment account provision within our broader approach to AI, working with regulatory partners to support safe and responsible adoption alongside innovation to support growth and international competitiveness.
- **Innovation** – We strongly encourage innovation which benefits consumers, and we will continue to work with industry to help ensure our regulatory regime provides for this, as well as responds to the risk of harm. We will be holding a financial inclusion sprint in Q1 2024 focused on improving consumer access to financial services.
- **Focus on the unbanked** – Our work also highlights the 2.1% of adults who are unbanked. While over half of those who don't have a current account say that they do not want one, the unbanked include many young people and also those who have challenges with numeracy. The Prime Minister has set out a national plan to support numeracy, particularly in schools, and we suggest that money management and learning about bank accounts could be considered as part of this work.

7.20 We believe the findings of this report, as well as the observations drawn from the research note on international perspectives on de-risking, highlight a number of areas for further consideration by Government. In particular:

- Matters we have referred to in our report can support the focus of many existing actions under the Economic Crime Plan and the National Fraud strategy and with respect to business accounts the significant work underway to reform Companies House. The banking industry has called for greater checks by Companies House to support the fight against fraud and financial crime. We believe the suggestions made by industry bodies in this regard should be seriously considered as strengthening the ability to verify customer identity at onboarding has the potential to reduce the risk of subsequent account termination and may assist firms to operate ongoing financial crime monitoring.
- The use of digital identity is under active consideration by Government. A number of reports recommend innovative approaches to AML compliance. They focus on the use of KYC Utilities or Digital Identity to reduce onboarding costs and create more efficient use of transaction monitoring and new technologies to enhance information sharing. We encourage the Department of Culture, Media and Sport (DCMS) and Department for Science, Innovation and Technology (DISIT) to lead work on developing a strategic approach to identity verification including digital identity and explore further the barriers to mass adoption of these approaches and how we might be able to improve their adoption. The FCA through our supervisory approaches can then make sure firms deploying new technologies are ensuring they are adopted appropriately alongside ongoing testing of solutions in our regulatory sandbox and other innovation paths. Again, such measures may assist firms in their decision making when accepting new customers, and help to calibrate ongoing financial crime monitoring controls.
- The Online Safety Bill is progressing through Parliament and will provide important new measures and powers to tackle online fraud, which has been the fastest growing channel for fraud. A number of big tech firms have taken steps to regulate

the promotions and advertising on their platforms. Far more needs to be done. The banking industry has called for a more balanced distribution of costs associated with compensation of fraud to customers, including an appropriate contribution from tech and social media platforms. We believe these suggestions would benefit from further urgent consideration by the Government and Parliament as the Online Safety Bill is finalised. We do recognise the argument that if the costs of compensation in relation to fraud falls primarily on the banking industry, that will contribute to their approach to managing risk and their commercial appetite.

- We note that Government may wish to consider whether to mandate through legislation the creation of a 'universal service obligation' on account providers, for retail or business customers, like in some other countries' banking systems (eg France, Belgium) or some UK utilities (eg broadband, energy).
- The Government may wish to consider a systemwide de-risking strategy as published recently by the US Treasury with respect to the US financial system.

Annex 1

Exchange of Letters between the Chancellor and FCA CEO



HM Treasury, 1 Horse Guards Road, London, SW1A 2HQ

Nikhil Rathi
12 Endeavour Square
London
E20 1JN

3 August 2023

Dear Nikhil,

FREEDOM OF EXPRESSION AND THE PROVISION OF BANKING SERVICES

As you are aware, the Government has taken seriously the ongoing public concern regarding cases of payment account providers terminating the facilities of customers due to their lawful freedom of expression and political beliefs.

On 21 July, the Government announced its plans to strengthen requirements on payment account contract terminations set out in the Payment Services Regulations 2017, to increase the minimum notice periods provided to customers to at least 90 days (subject to limited exceptions) and require that providers spell out to an affected customer why they are terminating their payment account (unless doing so would be unlawful). These changes are intended to reassure the public, increase transparency in cases of account closure, and provide affected customers with more time to challenge a decision with their provider and, if necessary, seek recourse through the Financial Ombudsman Service, or to find a replacement facility.

Following this, the Economic Secretary has made clear in engagements and correspondence with sector leaders the Government's expectation that these new rules be implemented without delay, and has received their agreement to work with the Government, law enforcement and the FCA to enable their effective implementation over the coming months, prior to legislative changes being made.

The Government has been unequivocal in its view that providers should not withdraw payment accounts on grounds relating to customers' exercising of their right to lawful freedom of expression or political beliefs. You made similar comments to Parliament's Treasury Committee on 19 July, and I note that regulation 18 of the Payment Accounts Regulations 2015 already expressly prohibits credit institutions from discriminating against UK consumers by reason of their political beliefs as they access payment accounts.

Today, I have publicly reiterated the Government's position on this matter: that providers should abide by this legal requirement in relation to payment accounts, while making clear that the Government expects the FCA to use its powers to ensure compliance with this

requirement, and act as appropriate against any provider that is found to have been 'de-banking' customers for their lawfully held political beliefs.

There remain, however, open questions as to how many personal and business customers have been affected by this issue. I know that you recognise that these questions need answers and that you have already commissioned your team to collate and analyse the related data. I write to you today to request that you progress this work urgently, and that this review considers:

1. The scale and characteristics of personal and business customers that have been affected by payment account denials, terminations, or suspensions
2. The drivers of these decisions, including those due to the expression of political beliefs, financial crime obligations or other commercial reasons
3. What ongoing monitoring and enforcement action the FCA has taken, and if there are any barriers to regulatory action being effective in this area, and
4. The speed and the type of recourse available to customers, noting the existing role of the FOS in dealing with individual complaints

Using the breadth of your powers as appropriate to collect evidence from providers to assess and quantify the scale of this issue, I request that this evidence and any findings are shared with the Treasury without delay. Based on these findings and in light of any steps the FCA determines it appropriate to take within its existing powers, the Government will determine whether further action is necessary to ensure nobody is being unfairly denied banking facilities.

I also welcome the FCA's separate review into the application of anti-money laundering requirements relating to Politically Exposed Persons (PEPs) by financial institutions, as commissioned by Parliament as part of the Financial Services and Markets Act 2023. I appreciate that this is a separate issue to those I am asking you to look at today, and reiterate the Treasury's expectation that the treatment of PEPs and their family members should be examined in-depth as part of the FCA's ongoing targeted work in this area.

I look forward to engaging on these matters in greater detail in the coming months.

Best wishes,



RT HON JEREMY HUNT MP
Chancellor of the Exchequer



12 Endeavour Square
London
E20 1JN

Tel: +44 (0)20 7066 1000
Fax: +44 (0)20 7066 1099
www.fca.org.uk

Rt Hon Jeremy Hunt MP
HM Treasury
1 Horse Guards Road
London
SW1A 2HQ

3 August 2023

Dear Chancellor,

FREEDOM OF EXPRESSION AND THE PROVISION OF BANKING SERVICES

Thank you for your letter regarding the provision of banking services. We recognise the increased public concern about payment accounts being closed without fair justification.

As you set out, banks are subject to the Payment Accounts Regulations which require that a consumer's access to a payment account is not denied on the basis of a range of characteristics, including legally-held political views. We support the Government's plan to further increase the required notice period for closure of accounts from 60 days to 90 days and will work with the banks and building societies to ensure effective implementation and, once the amended legislation comes into force, take action where this is not happening.

We do not adjudicate individual cases and there are protections in place for individual consumers who can complain to their bank and, if they remain dissatisfied, can ask the Financial Ombudsman Service (FOS) to review their case. The FOS has a dedicated team who deal with account closure cases and who can assess sensitive issues that often lie behind an account closure without risking making a disclosure that could prejudice a financial crime investigation, so information should be shared with them quickly and fully when they request it. The FOS also has a range of remedies that it can require of banks, including keeping an account open or directing an account to be reopened.

As you know, banks and building societies are also subject to rules to counter money laundering and terrorist financing, a key objective in the Economic Crime Plan 2, published earlier this year by the Government. This can mean that a firm may deem it necessary to withdraw services or freeze an account on financial crime grounds, including at short notice. When this happens, we expect a firm to investigate in a reasonable time and that customers should not be unnecessarily denied access to their accounts. In recent years, we have seen a significant increase in the number of bank accounts being closed. This may reflect increased monitoring by firms to comply with their financial crime obligations.

It is less clear the extent to which banks may be terminating accounts for other reasons, which may be unjustified and which, in some instances, may contravene the law. As the regulator, it is important that we understand the scale of the issue and the drivers behind a reported increase in account terminations.

We had therefore been preparing a data exercise to focus on banks and building societies providing payment accounts to consumers and accounts to businesses. In the coming month, we will ask the largest banks and building societies to provide us with the number of account terminations and the reasons for these; number of complaints about terminations, and their outcomes. We will also request data on the number of accounts opened; the volume of new applications refused and any relevant complaints data and information about policies and procedures.

Thank you for setting out your request of areas to cover. This is in line with our plans. We will provide an initial assessment by mid-September.

As you note in your letter, this exercise should not be conflated with our ongoing work to review the treatment of politically exposed persons (PEPs) and their family members, as commissioned by the Financial Services and Markets Act 2023. To mitigate the risk of those in prominent public positions being subject to corruption, the Government implemented international standards to require enhanced scrutiny of PEPs and their family members, which is supported by FCA guidance. Over the past 18 months, we have reminded firms that they must take a proportionate approach to assessing such individuals and some have rightly changed their approach as a result. However, concerns continue, and we want to make sure the system is working properly for those affected. We will reach out to those concerned in the coming weeks and will publish the terms of reference for that review next month.

With respect to business bank accounts, there is no universal service obligation required of banks or payment providers and business bank accounts are not covered by the relevant provisions of the Payment Accounts Regulations. While it is a policy matter for the Government as to whether further protections should be extended to businesses with respect to the provision of banking services, we will contribute to this work through the provision of appropriate data.

You will be aware that the wider issue of risk in the financial system and access to financial services is also one that has been considered by international counterparts, most notably in some detail recently by the [US Treasury](#) with respect to the US banking and financial system.

At the heart of this debate is an issue around the utility of a personal bank account and the need for individuals to be able to make payments, receive money such as wages, benefits or pension payments and other payments. We rely on a combination of commercial decisions, basic bank account services (access to which is underpinned by legislation), and other requirements to ensure these are available. As we prioritise these pieces of work, it is important that we also keep in mind the 1.1 million people in the UK with no bank account at all and the critical importance of our collective work on financial inclusion to ensure comprehensive access to the UK banking system.

Consumers of financial services should be treated fairly and be able to trust their bank or building society, including being confident that criminal activity through the financial system is being tackled. Our work will continue to support these outcomes.

Yours sincerely,

Nikhil Rathi
Chief Executive

Annex 2

Abbreviations used in this paper

Abbreviation	Description
AML	anti-money laundering (e.g. in reference to firms' relevant systems and controls)
APP fraud	authorised push payment fraud
BBA's	Basic Bank Accounts
CDD	customer due diligence; also referred to as KYC
CIFAS	a not-for-profit fraud prevention membership organisation
CTF	Counter Terrorism Financing
credit institutions	banks and building societies (in this document; may include credit unions too in other contexts)
DAML	a defence against money laundering; firms send applications for these to the NCA
de-risking	instances where the way that firms respond to risks, such as money laundering and financial crime risks, leads to problems for legitimate customers in accessing payment accounts and banking services
Duty	the Consumer Duty: a set of FCA rules and guidance built around Principles for Businesses 2a and 12
Equality Act	the Equality Act 2010
EHRC	the Equality and Human Rights Commission
FATF	Financial Action Task Force
FLS	Financial Lives Survey (large FCA consumer research)
firms	refers to credit institutions and payment firms (in this document, mostly)
Fraud Act	the Fraud Act 2006
FSCS	Financial Services Compensation Scheme
FSMA	the Financial Services and Markets Act

Abbreviation	Description
GDPR	the UK General Data Protection Regulation
ICO	the Information Commissioner's Office
Immigration Act	the Immigration Act 1999, or the Immigration Act 2014 (Bank Accounts) Regulations
JMLSG	Joint Money Laundering Steering Group: provides interpretative guidance to firms and others for complying with AML obligations
KYC	know your customer checks; a common name for CDD
MLRs	Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017
NCA	National Crime Agency: among other things, it works with firms to share information on potential serious financial and organised crime
NECC	National Economic Crime Centre
NFD	National Fraud Database: run by CIFAS, members can share and access data on fraudulent conduct
Ombudsman Service	The Financial Ombudsman Service
PAD	The Payment Account Directive (2014/92/EU)
PARs	Payments Account Regulations 2015
payment account	broadly, an account for executing payment transactions (such as placing, transferring and withdrawing funds)
payments firms	payment institutions and electronic money institutions
PEPs	Politically Exposed Persons
POCA	Proceeds of Crime Act 2002
Principles	the FCA's Principles for Businesses
PSD II	the Payment Services Directive II (2015/36/EU)
PSR	the Payments Systems Regulator
PSRs	Payments Services Regulation 2017
SAR	Suspicious Activity Report: reports firms make to NCA
section 166 (s.166) FSMA	FCA's power to require a firm to appoint a skilled person to review its business, systems and controls

Abbreviation	Description
SMCR	the Senior Management and Certification Regime
TSC	the Treasury Select Committee
UK Finance	a trade body representing members from branches of the financial services industry, including many banks
UKFIU	the UK Financial Intelligence Unit: it sits within NCA
unbanked	a UK adult who has neither a current account (payment account) from a bank, building society or credit union, nor an account from an e-money institution (payments firm)
unbanked plus	a UK adult who is unbanked but has other products for day-to-day payments (a digital wallet, loadable pre-paid card, certain savings accounts including with a credit union, a Post Office card account)
USO	universal service obligation

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