

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

19 September 2023

Dear Chancellor,

Provision of Banking Services

Following my letter to you of 3 August 2023, I am writing to update you on the initial findings of the FCA's work to investigate public concerns about the closure of payment accounts and our planned next steps. I also set out some issues the Government may wish to consider further.

Data exercise on account closures

To better understand the scale of account closures and reasons behind them, we gathered data from 34 credit institutions (banks and building societies) and payment firms. All those firms provided information and my colleagues and I are grateful to them for their cooperation. However, it is important to note that the data was gathered at speed and therefore has some shortcomings. We will undertake further work to gain greater assurance from firms, particularly the outliers.

Freedom of expression

The Payment Account Regulations require that a customer's access to an account should not be denied by a credit institution on the basis of, among other things, lawfully expressed political beliefs. This does not apply to payment firms.

One firm reported to us four cases where customers' political views appeared to be the reason for account closure. We immediately initiated supervisory action. Upon further investigation, the firm confirmed that the primary reason in each case was customer behaviour and unacceptable treatment of staff, rather than the customer's views and these reasons had been explained to the customers in question.

While none of the other firms we surveyed have reported closing accounts primarily due to customers' political beliefs, we will be undertaking further analysis and supervisory work to assure ourselves of this and better understand the reasons for personal accounts having been closed because of reputational risk, where the information so far provided by firms is inconsistent. 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 these criteria are not being interpreted too broadly.

Our interim report, which I have enclosed, sets out further detail on how we will take this forward as well as our other areas of focus.

Reasons for personal account closures

The data provided by firms indicates the most common reasons for account closures were dormancy/inactivity or concern the account was being used to further financial crime. Account closures for these reasons would be within both the law and our rules. Firms can close accounts no longer being used and they are required to close or suspend accounts they believe to be linked to financial crime. They must also close accounts if instructed to do so by the Home Office because the account holder is in the UK illegally.

Commercial factors appear to be behind some account closures. For individual accounts, aside from a requirement to provide basic bank accounts, there are no legislative provisions that compel firms, or enable us to compel them, to offer a payment account (or any other kind of product or service) to consumers in general, or to particular types of consumers. We note that UK expats have seen a rise in account closures as have trustees of various organisations. We have separately launched a review into how the regime is working for Politically Exposed Persons and will report separately on that work.

As we debate these issues, we must also not lose sight of the estimated 1.1 million people in the UK with no bank account at all.

While surveys suggest over half of these people do not in fact want a payment account, others in this group include some of the most vulnerable in our society and the lack of a bank account puts these individuals and their households at an economic disadvantage. We will be following up with those firms that appear to deny a far greater proportion of basic bank account applications than average. The Prime Minister's vision that every young person has the maths skills that they need could also play an important part in giving young people without a bank account the confidence to obtain one.

Business customers, charities and political parties and campaigns currently fall outside the Payment Account Regulations. We have, however, collected data on business account closures to assist the Government in its policy considerations.

International comparisons

We have also published separately today a review 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. France, for example, provides a resident's right to an account and quick appeals available to those whose accounts face closure. In Belgium, the right to an account extends to businesses.

Supporting competition, innovation and long-term competitiveness whilst tackling fraud

The UK is the largest centre for fintech in Europe and the FCA has sought to encourage greater competition and innovation in UK financial services by authorising fintech firms. We have been clear that doing so comes with risk. Smaller, nascent firms will not usually have the same resources as large incumbents that would allow them to put in place equivalent systems and controls. We have, therefore, sought to apply requirements proportionately, allowing new firms to develop their systems and controls as they grow, while being clear they must meet minimum expectations. You will see from the report that some payments firms have grown their customer base very quickly but also then taken steps to close a large percentage of accounts once they have undertaken more detailed checks.

Ultimately, if we can successfully tackle the underlying levels of financial crime and money laundering, this will feed through into firms' risk appetites. As part of the government's fraud strategy, work is being done to enable the widespread use of trusted and secure digital identities. Our review of the approaches taken by other countries indicates potential benefits to digital identity in encouraging financial inclusion and tackling fraud. Digital identity is commonplace in Scandinavia, and Sweden reports almost 100% of residents have a bank account. You led the

UK delegation to the India-UK Economic and Financial Dialogue earlier this month, in which I also participated, and we both saw the benefits to financial inclusion in India that robust digital public infrastructure, including with respect to identity, can bring.

We also suggest that the Government may wish to consider the concerns raised by banks and others in two other areas. Together with greater powers for Companies House to check, challenge and decline dubious information, any investments that can be made by Companies House to give banks and others greater confidence their customers and their transactions are legitimate, would be welcome.

The industry has also been facing a growing financial cost to compensate customers that are subject to fraud, particularly payment fraud. Online platforms are a significant source of fraudulent activity. While a number of the largest technology and social media firms have taken steps to tackle problematic promotions and advertising on their platforms, far more needs to be done. The banking industry has also called for a more balanced distribution of costs associated with compensation of fraud to customers, including an appropriate contribution from technology and social media platforms. The Government and Parliament may wish to consider these suggestions as the Online Safety Bill, which already provides a number of welcome measures to tackle online fraud, is finalised.

Next steps

The public debate on this issue in recent weeks raises important questions.

First, whether the Government wishes to follow other countries, and make it a right for people to have a payment account.

Second, whether any such right should extend to businesses and other groups. That would be a matter for Government and Parliament to decide, including determining how this supports an internationally competitive financial services market and how the costs of such an obligation would be distributed.

Third, how to strike the appropriate balance between guarding against financial crime, commercial freedom for financial services providers and ensuring people and businesses retain access to vital services. Fundamentally, this comes down to societal and firms' appetite to accept risk. The Government may wish to consider a systemwide approach to de-risking in the banking and financial system, as recently adopted by the US Treasury.

We will continue to work on financial inclusion and to ensure banks and others are abiding by the requirement that they must not discriminate because of personal customers' lawfully expressed political views and to assess the scale and impact of account closures. We will continue to work with the Government as you consider legislative amendments, for example supporting your plan to extend the notice period for account closure under the Payment Accounts Regulations from 60 to 90 days.

I look forward to continuing these conversations with you.

I am copying this letter to Harriett Baldwin, Chair of the Treasury Select Committee.

Yours sincerely,

Nikhil Rathi
Chief Executive