Opinion **Financial Conduct Authority UK**

FCA chief: Many questions remain around ‘debanking’

We must find a way to balance risk, innovation and commercial freedom

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Financial crime and banks’ tolerance for risk are the main causes of closure for actively used accounts © Getty Images

Nikhil Rathi SEPTEMBER 19 2023 36

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The writer is chief executive of the Financial Conduct Authority

It’s rare for the most unassuming but vital of financial products, the bank account, to make news. But this summer, reports that banks were closing accounts based on their customers’ political beliefs prompted public concern — understandably so.

The law is clear: banks or building societies cannot discriminate against personal account customers based on their lawfully expressed political views. Yet stories proliferated about people whose accounts were closed or who were denied one in the first place — from a parental rights group to those from religious minorities, shooting associations and defence companies.

What started as murmur became a chorus, seeming to imply that every person and every business should get the account of their choice, regardless of financial crime checks or the commercial interests of the bank in question.

So-called debanking is not new. The Financial Conduct Authority looked at it in depth in 2016 and set out ways to lessen the impact on customers. But in the face of widespread concern, we decided to revisit the issue.

So far, data from 34 banks, building societies and payment companies does not point to a systemic problem of people being de-banked because of their political views. According to that information it has not been the primary driver for any personal account closures. We will undertake further checks to be doubly sure and to understand more about what are described as “reputational” factors behind a number of closures.

These may well be legitimate. There are banks who have long declined accounts to businesses that conflict with their company’s policies. But reputational criteria should not be stretched too far.

What our work has shown is that financial crime and banks’ tolerance for risk are the main causes of closure for actively used accounts. That’s why we need an open conversation about getting the balance right.

In the face of rising financial crime, the FCA is working with the government and others to clamp down on the misuse of financial services. There is a risk, however, that as parliament introduces measures such as a new offence of failing to prevent fraud, banks err on the side of caution.

Conversely, we've seen innovative payment companies grow fast, as part of the UK's burgeoning fintech scene, but then retreat and offload customers. Do we want to slow that growth or take a bolder approach to risk?

Other countries face the same challenge. The US, for instance, has begun a discussion about how to ensure financial crime controls don't impede access to services.

New powers and technological change may help. The UK's online safety bill will potentially require social media and tech platforms to do more to protect people from scams. Would it also be fair for them, like banks, to compensate consumers who have been defrauded?

A secure and trusted digital identity, already in use successfully in India and Sweden, is another tool. More reliable data and greater proactivity on fraud checks from Companies House, also being debated in parliament, would help. And harnessing the power of artificial intelligence could be a game-changer, so long as it doesn't result in a blanket "computer-says-no" approach.

Our report throws up broader questions, too. We will do more, for example, to understand how different customer groups are affected. We are already reviewing the treatment of people who exercise prominent public functions. Expatriate Britons are also significantly affected and do not benefit from the same protections as UK residents.

Businesses, charities and their trustees, and political parties seem more likely to have accounts refused than individuals. But they have no legal right to an account. Only government and parliament can change that.

More than a million people in the UK don't have a bank account. Since 2016, nine banks and building societies must provide basic accounts. But in other countries access to one is a right, including for businesses.

Has a bank account today become more of an essential utility than a commercial service, and if so should it be treated as such? Who should bear the costs if we move to an effective universal service obligation?

If we are to end the phenomenon of debanking then those questions — together with how we balance risk, innovation and commercial freedom — urgently need to be answered.

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inconvenience to legitimate users of financial services (I.e. just about everyone). Not to mention the incentive to reduce costs by using the services of unlicensed and unobserved intermediaries, like hawala bankers.

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Eagle1 11 MONTHS AGO

The key point is that cash is being less and less used by society. As such access to basic banking needs to be regulated in such way that it becomes a public utility right. People can have cash in their pockets without being questioned. Digital cash needs to achieve the same objective.

Take beggars asking for cash in a world where people carry coins or notes less frequently. Should such individual find a cashless way to ask for money, what are their chances of getting a bank account? Probably zero.

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Baru 12 MONTHS AGO

I assume people like Baroness Mone have been debanked for suspicious transactions and being unable to explain a legitimate source of funds? If not, that might be one to look at.

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rjmghome 12 MONTHS AGO

A current account is a necessity, everything else is a credit risk. Farrage's ability to be the victim is nauseating. 1m+ adults unbanked is a sandal.

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Jupiter 12 MONTHS AGO

I presume that you are going to include sex workers on the roster of people able to use the banking system. And if not, why not? If they are not breaking any law, why should they be barred access to the financial system?

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> **Doh** 11 MONTHS AGO
>
> In reply to **Jupiter**
>
> If they can provide evidence of earnings / Tax receipts, why not.
>
> The rest of us do!
>
> Share Report

Fresh Start 12 MONTHS AGO

The bank account becomes problematic when:

- Banks become increasingly difficult about letting you access your own money
- The bank could go tits up at any moment
- It pays out none or negligible interest
- The money stored in it is worthless and loses significant value every year

Oh wait......

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Indubitably 12 MONTHS AGO

Regulators need to be accountable. The recently enacted Financial Services & Markets Act 2023 ducked the problem completely. The buck stops with the government which is like an ostrich with its head buried in the sand - until the next financial crisis or election, whichever comes first. The FCA isn't fit for purpose.

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techmind 12 MONTHS AGO (Edited)

I admit I don't have detailed knowledge of exactly what's going on... but it seems to me that the banks are potentially just caught in a net of muddled and wishful thinking by the government and justice system, namely:

The banks anti-money-laundering (AML) regulations require them (with the threat of fines etc) to decline banking to anyone "who looks a bit dodgy".
Meanwhile the police and criminal justice system seems to require ever more watertight evidence to ever convict anyone of an actual crime (and they have ever fewer resources to gather and present the evidence and case).

The government could be argued to have "outsourced" the law enforcement to banks (on the cheap), where decisions can quickly be made behind closed doors and with little oversight or scrutiny.

This situation logically means there will inevitably be a growing group of people that fall into the no-man's-land widening gap between "look a bit dodgy" and "convicted of an offense".

The fact that Companies House has been naively accepting reams of obviously fraudulent registrations for years now is further evidence of muddle on high.

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Risk Man 11 MONTHS AGO

In reply to **techmind**

Spot on. Government abrogated responsibility of financial crime policing to the banks. Meanwhile Companies House will tell you, if someone registers their business to your address without your permission, that it is up to you to evidence that said person has no permission to use your address. What a mess.

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Uglyfacts 12 MONTHS AGO

Tolerance of diverse political views cannot be legislated for. It needs to be ingrained in society and culture at large. Sadly, it no longer is. As a result, our democracy is dying. Only when people say, and truly believe, the maxim that they may not agree with another's views, but will be willing to die to protect their right to express them, will our democracy be safe again. Debanking is an interesting litmus test of this.

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They think it is all over 12 MONTHS AGO (Edited)

IMO independent banks should be able to choose who their customers are including basis:
1) not criminals/money laundering/terrorist
2) profitable
3) aligned with banks ethical views
4) not a reputational risk...including potential cause loss of other customers
5) not going to be a nightmare to service/support
6) non litigious
7) PEP

For everyone else there are Government owned banks who can choose to accept those risks....including NS&I

FCA can vet and underwrite bank for 1, 6 and 7 if they feel strongly about it.

Not everyone will agree!

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Michael Seigne 12 MONTHS AGO (Edited)

I think this is an encouraging article that shows that the FCA is balanced in their approach. Don't we want our regulator to not only be asking questions about how our financial services are being provided but to also ask how these services might change with new innovation and different kinds of competition?
I am not sure we want a world where every person has a right to a banking service regardless of their integrity, behaviour, source of funds etc.
Would you want to have the SM&CR responsibilities within a bank, having to on-board any and all clients with no room for any judgement, whilst holding all the consequences of what that responsibility entails?

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Bigdogmo 12 MONTHS AGO (Edited)

Frightening when the CEO of the FCA has more questions than answers. I spend a third of my working week filing out FCA returns and documentation and had hoped that at least the man in charge knew what he was or should be doing. But then one of his predecessors, Howard Davies apparently fell asleep "on the job" at NatWest - so I'm not sure what expect.

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Triple bee plus 12 MONTHS AGO

Typical exercise of deflection by the FCA. Deliberately watering down the issue at hand. When I read an article on de-banking I don't need to hear digital ID tools applied to unassuming citizens in Sweden. Just tell me is de-banking a thing or is it not? Because I have seen figures like 1,000 accounts closed a day.

Also

> Has a bank account today become more of an essential utility than a commercial service, and if so should it be treated as such?

Unreal! What planet are you living on??

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Librarian Capital (fmr. LibrarianCap) 12 MONTHS AGO

It's shameful how much of this government just dance to the tune of Nigel Farage and the likes of Daily Mail and Telegraph.

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Bigdogmo 12 MONTHS AGO

In reply to **Librarian Capital (fmr. LibrarianCap)**

and your comment relates to the article in what way? The FCA certainly does not jump to the tune of Nigel Farage or The Daily Telegraph.

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andother 12 MONTHS AGO

In reply to **Bigdogmo**

The FCA does need to respond to the govt and politicians. So FCA is influenced indirectly by a govt running scared of Farage or the Telegraph.

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Indubitably 12 MONTHS AGO

In reply to **andother**

Oh sure, until you lose your own bank account. Then we'd hear you whining about it more loudly than the rest of them put together.

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Common sense 12 MONTHS AGO

> The law is clear: banks or building societies cannot discriminate against personal account customers based on their lawfully expressed political views.

What law would that be? It's not the Equality Act, that's not one of its criteria.

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