

# Alarming Surge in Bank Account Closures Due To Suspicious Activity Reports

By: Julia Mahalko | Last updated: Apr 29, 2024

Analysts have reported seeing an alarming increase in banks closing customers' bank accounts due to suspicious activity. In just the last few years, this trend has escalated for a variety of reasons.

However, experts are sounding the alarm bells over these mass closures, explaining that banks need to find other ways to deal with supposed suspicious activity, rather than automatically shutting a customer's bank account down.

## An Increase in Bank Account Closures

According to a recent report, banks have filed suspicious activity reports (SARs) more and more over the last few years. This data indicated that SARs filings skyrocketed by 50% in just the last two years.

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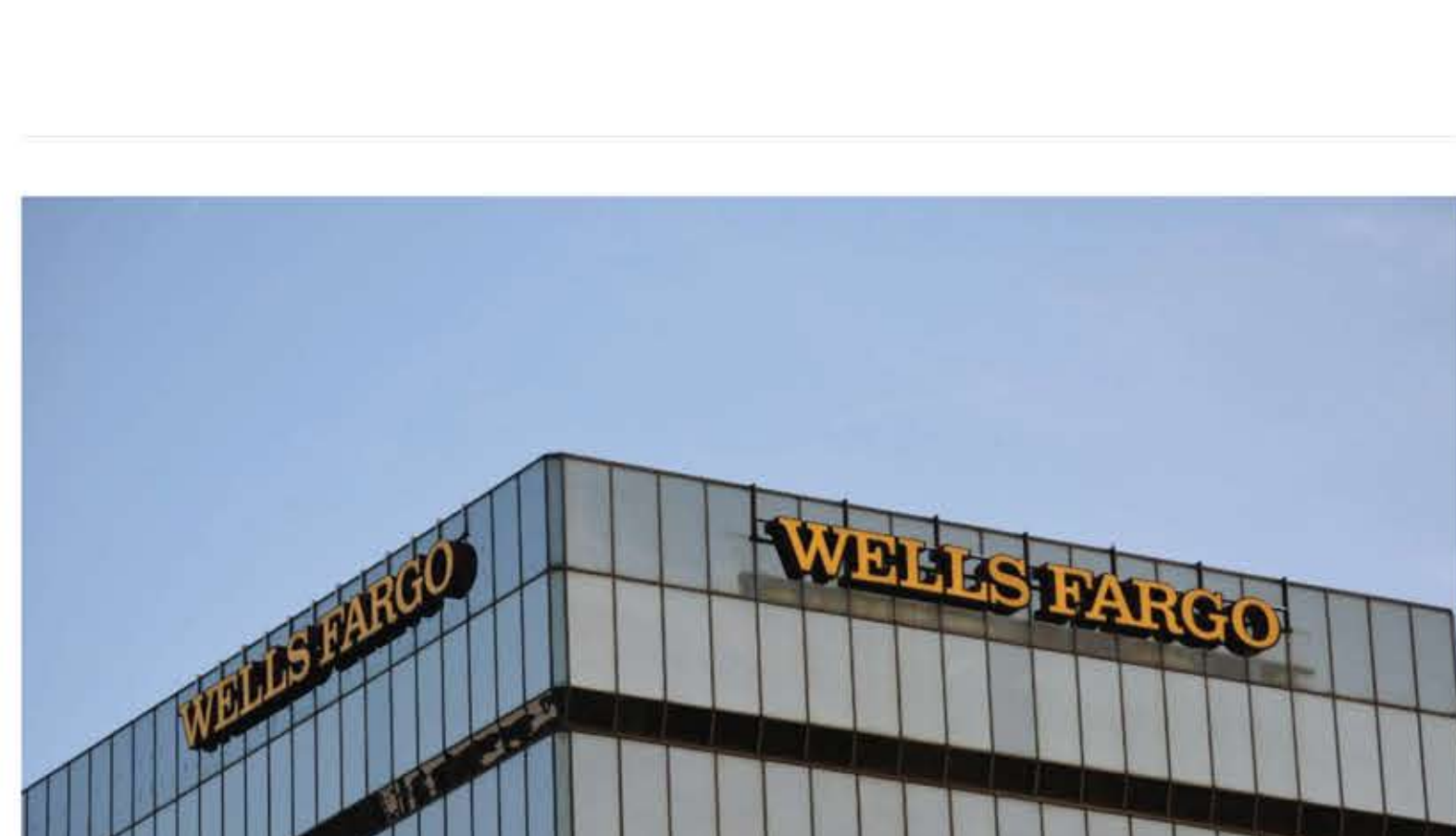
These SARs reports have then, for the most part, led to banks closing customers' bank accounts because of this suspicious activity.



## Reasons for Bank Account Closures

While there are many different reasons accounts can be closed by a bank, this increased reporting in SARs filings seems to indicate that banks are shutting down accounts because of this suspicious activity.

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This increase in filings has happened because banks are now relying heavily on anti-money laundering (AML) software. This software looks at account transactions and flags account movements that seem suspicious.

## Relying on Software

On American Banker, Penny Crosman wrote about how this software can lead to more customers suddenly having their bank accounts closed.

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"One is a heavy reliance on AML software to monitor transactions overseen by decision-makers who don't know individual customers. Another is outdated rules used to determine which transactions are suspicious. A third is a set of incentives that push banks to rush and not take the time to understand individual cases," Crosman [wrote](#).

## Shutting Down Accounts Immediately

According to this reporting, banks are notified of potential suspicious activity thanks to the software they use. However, instead of investigating each individual case, they instead act first.

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Source: Ernie Journeys/Unsplash

This has resulted in many banks choosing to close a customer's account if their transactions are flagged immediately, rather than seeking out the customer to verify information.

## Banks Aren't Talking to Customers

Reporting has also suggested that banks aren't talking to customers if their accounts are flagged by their system. Instead, many banks are going so far as to shut out customers completely during this process.



Source: Jonathan Cooper/Unsplash

For some banks, this is to make the process more efficient. Instead of potentially having to deal with regulation issues, banks immediately deal with the problem by simply closing the account.

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## Time and Efficiency

Many banks seemingly don't want to waste the time to further investigate the issues that their AML system flags. Banks could decide to investigate these claims, or at the very least try to create more options for customers when their system believes suspicious activity is occurring.



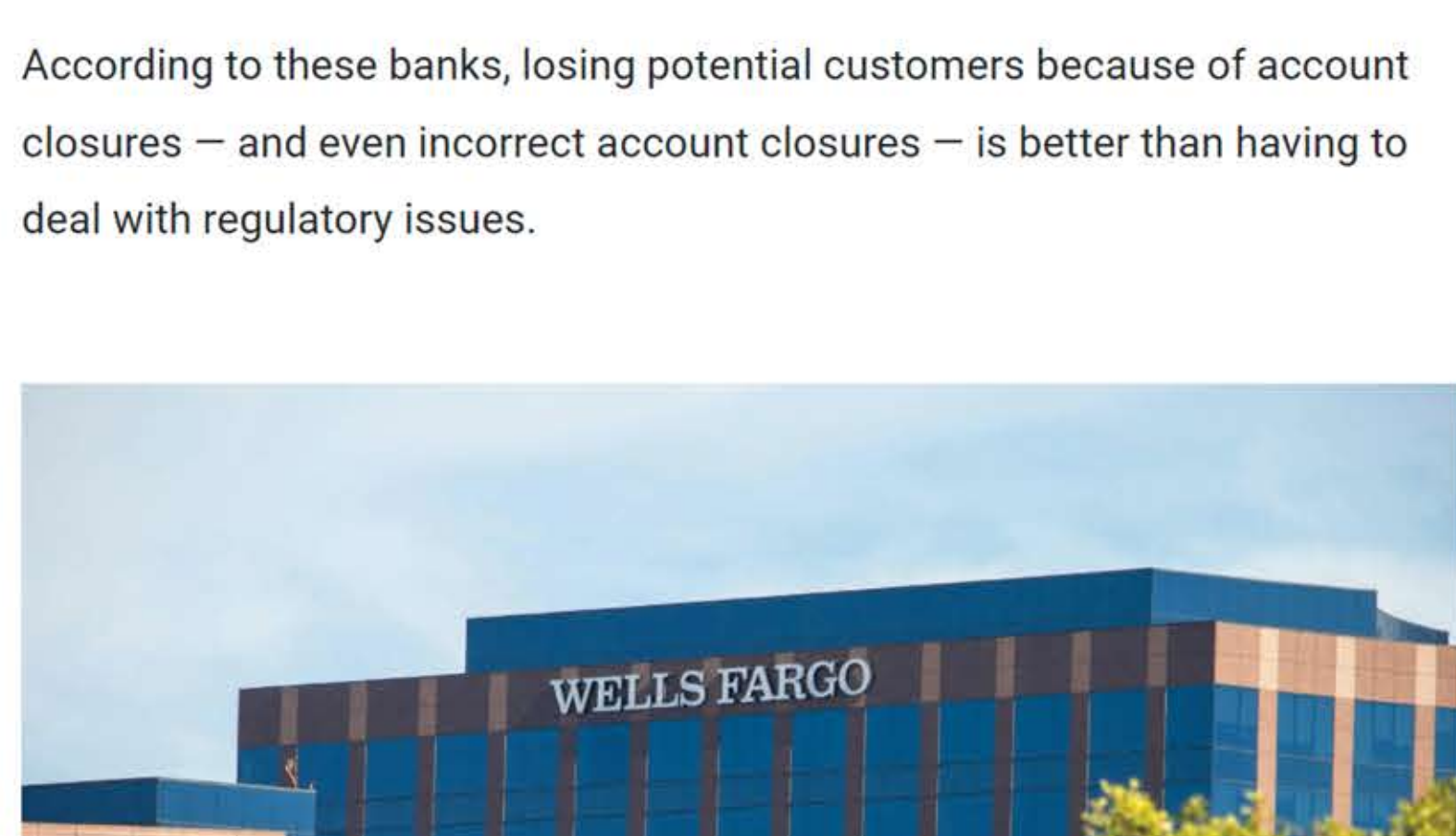
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However, banks don't do this and haven't explored any options to allow customers more of an input into this situation.

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## Losing Customers

According to these banks, losing potential customers because of account closures — and even incorrect account closures — is better than having to deal with regulatory issues.



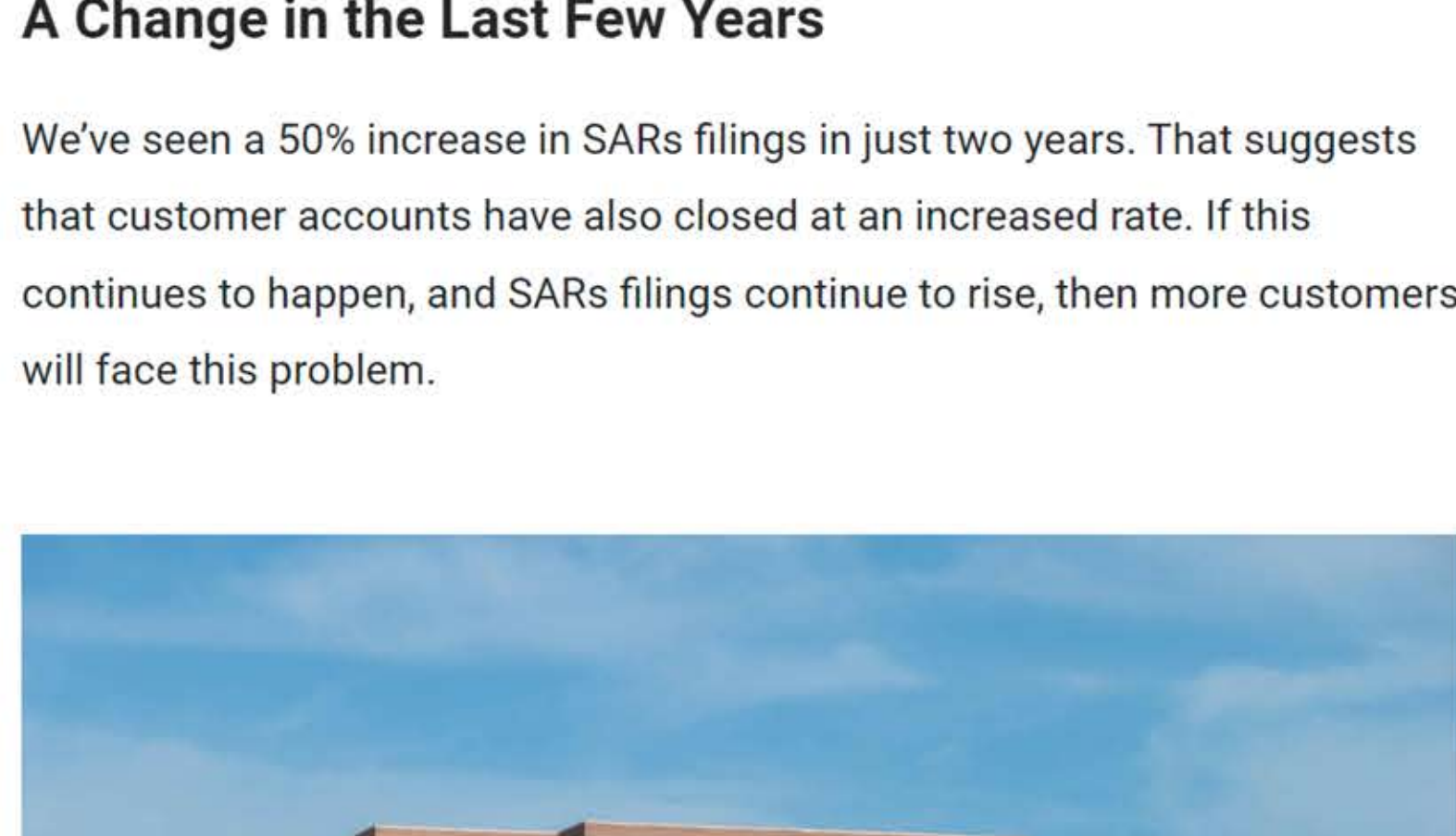
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These institutions think that they'll only lose a small amount of customers because of this issue. However, as AML systems have increasingly flagged accounts, this has led to more SARs filings and more account closures in the last few years.

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## A Change in the Last Few Years

We've seen a 50% increase in SARs filings in just two years. That suggests that customer accounts have also closed at an increased rate. If this continues to happen, and SARs filings continue to rise, then more customers will face this problem.





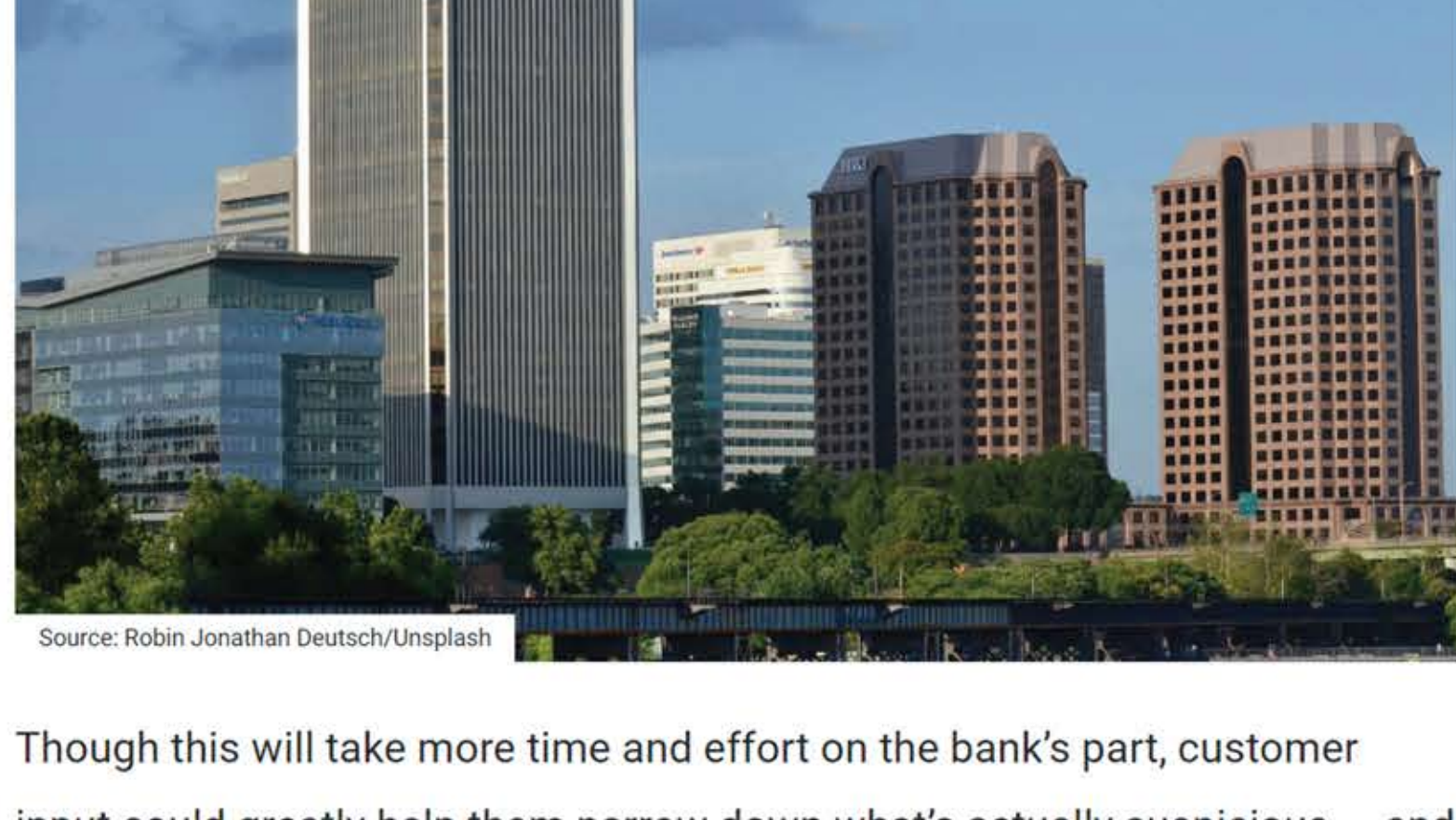
Source: Sven Piper/Unsplash

Banks may soon have to deal with even more customer outrage. Plus, these customers could complain to regulators about their incorrect bank closure — which would bring more issues to these banks.

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### Customers Should Have More Input

Analysts believe that banks should allow customers to have more input if their AML system flags their account, or their transactions, as suspicious.



Source: Robin Jonathan Deutsch/Unsplash

Though this will take more time and effort on the bank's part, customer input could greatly help them narrow down what's actually suspicious — and what's not.

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### Finding a Balance

These experts also feel that AI could still have a part in finding odd banking activity. According to these analysts, if an account is flagged with 100% certainty of SARs, then AI can deal with it.



Source: Joshua Hoefner/Unsplash

However, if this certainty isn't as high, then banks should use their human employees to reach out to customers to find out what's actually going on.

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### The Repercussions of Bank Closures

One reason banks should take this seriously? Bank closures can negatively affect their customers in an astronomical way. If one's bank is closed, their entire lives are affected. They won't be able to buy anything, and they'll likely be behind on their bills.



Source: Abel Viscius/Unsplash

Meanwhile, businesses that have their accounts closed could struggle to pay their employees. To keep these massive issues from happening, experts believe banks should treat their customers with respect by not automatically closing their banking accounts if their system flags their transactions.

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### Global Comparison of SAR Policies

Different countries have diverse approaches to handling suspicious activity reports (SARs) and bank account closures. For instance, some **European countries** offer greater customer protection and require more substantial evidence before closing an account.



Source: Expect Best/Pexels

This approach contrasts with the more stringent measures seen in the U.S., leading to higher customer satisfaction and fewer wrongful closures in those regions.

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### Technological Innovations in AML

Recent technological advances in Anti-Money Laundering (AML) software aim to reduce the incidence of false positives.



Source: freepik

Innovations such as machine learning models that adapt to new fraud patterns can better distinguish between legitimate and suspicious activities, thereby minimizing the unintended consequences of account closures on innocent customers (via **Dow Jones**).

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### Impact on Small Businesses

Small businesses often suffer disproportionately when their bank accounts are closed without prior warning. The sudden loss of access to funds can disrupt operations, delay payroll, and create a cascade of financial challenges (via the **NY Times**).



Source: Tim Mossholder/Unsplash

Even worse, these closures can sometimes lead the affected businesses to shut down permanently due to financial strain.

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### Legal Perspectives on Account Closures

The legal landscape surrounding bank-initiated account closures is evolving. Recently, customers have begun to challenge these closures, leading to significant legal battles.



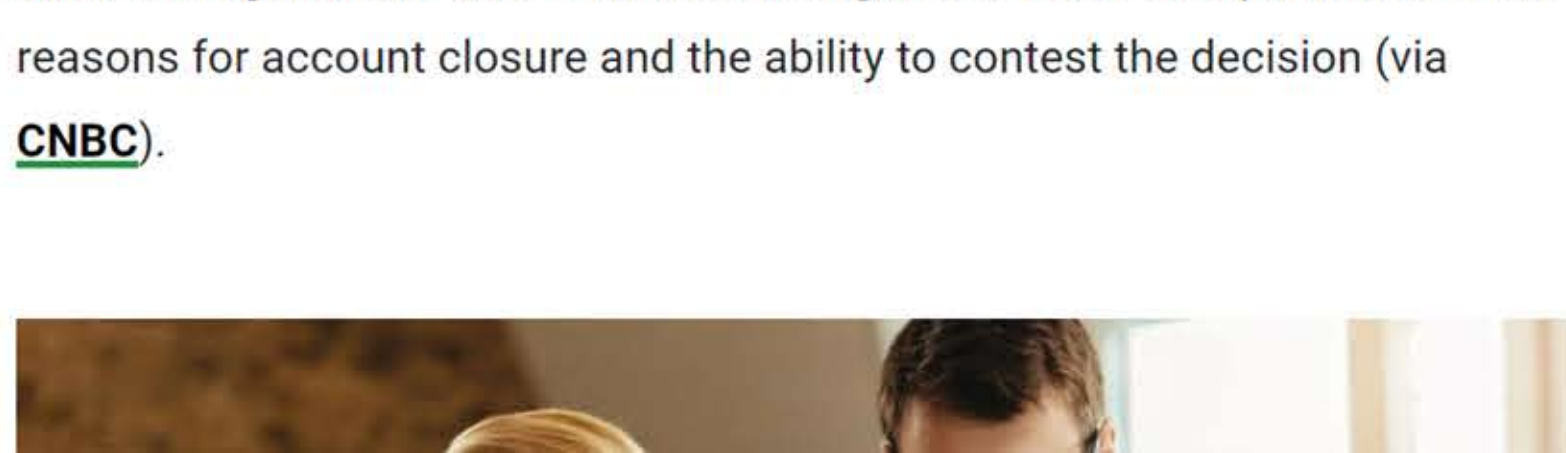
Source: Freepik

These cases often emphasize the need for banks to adhere strictly to procedural fairness and transparency to avoid litigation and reputational damage.

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### Consumer Rights and Protections

Customers whose accounts are closed by banks have specific rights under financial regulations. These include the right to a detailed explanation of the reasons for account closure and the ability to contest the decision (via **CNBC**).





Source: Drazen Zigic/Freepik

Advocacy groups are pushing for more robust protections to ensure these rights are universally upheld and easily accessible.

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### Ethical Considerations in Banking Practices

The ethical implications of closing bank accounts based on automated systems are significant. Banks face criticism for relying too heavily on algorithms, which may not account for the nuanced context of transactions.



Source: Freepik

Critics argue for a balanced approach that considers both the effectiveness of fraud prevention and the fairness to affected customers (via [American Banker](#)).

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### Alternative Banking Options

For customers impacted by account closures, exploring alternative banking options can be beneficial.



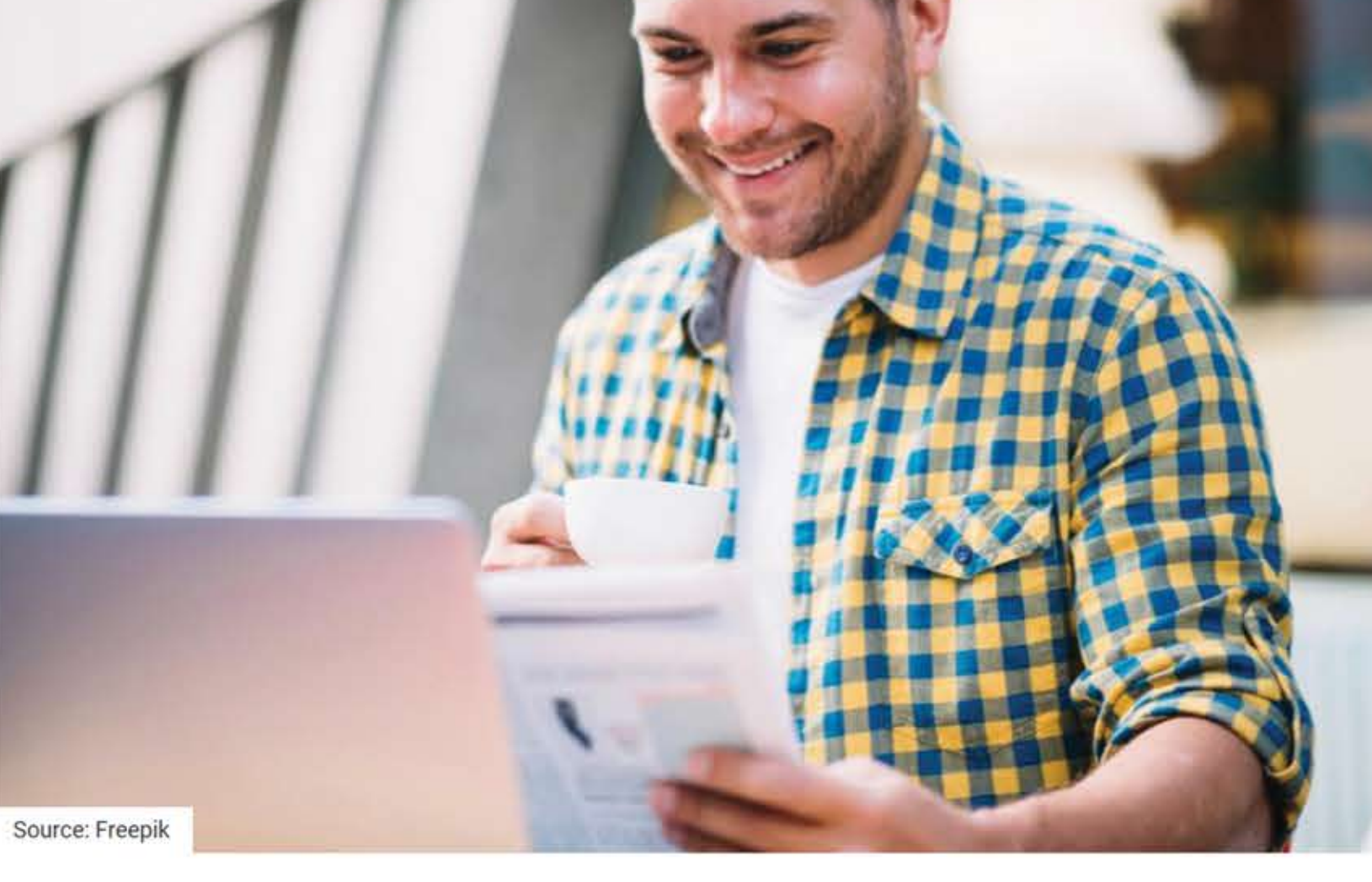
Source: Clay Banks/Unsplash

Institutions like credit unions or digital-only banks often provide more personalized services and may have different criteria for assessing suspicious activities, which can reduce the risk of unwarranted account closures.

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### Educational Initiatives for Customers

Banks could significantly improve customer relationships by implementing educational programs about their AML processes.



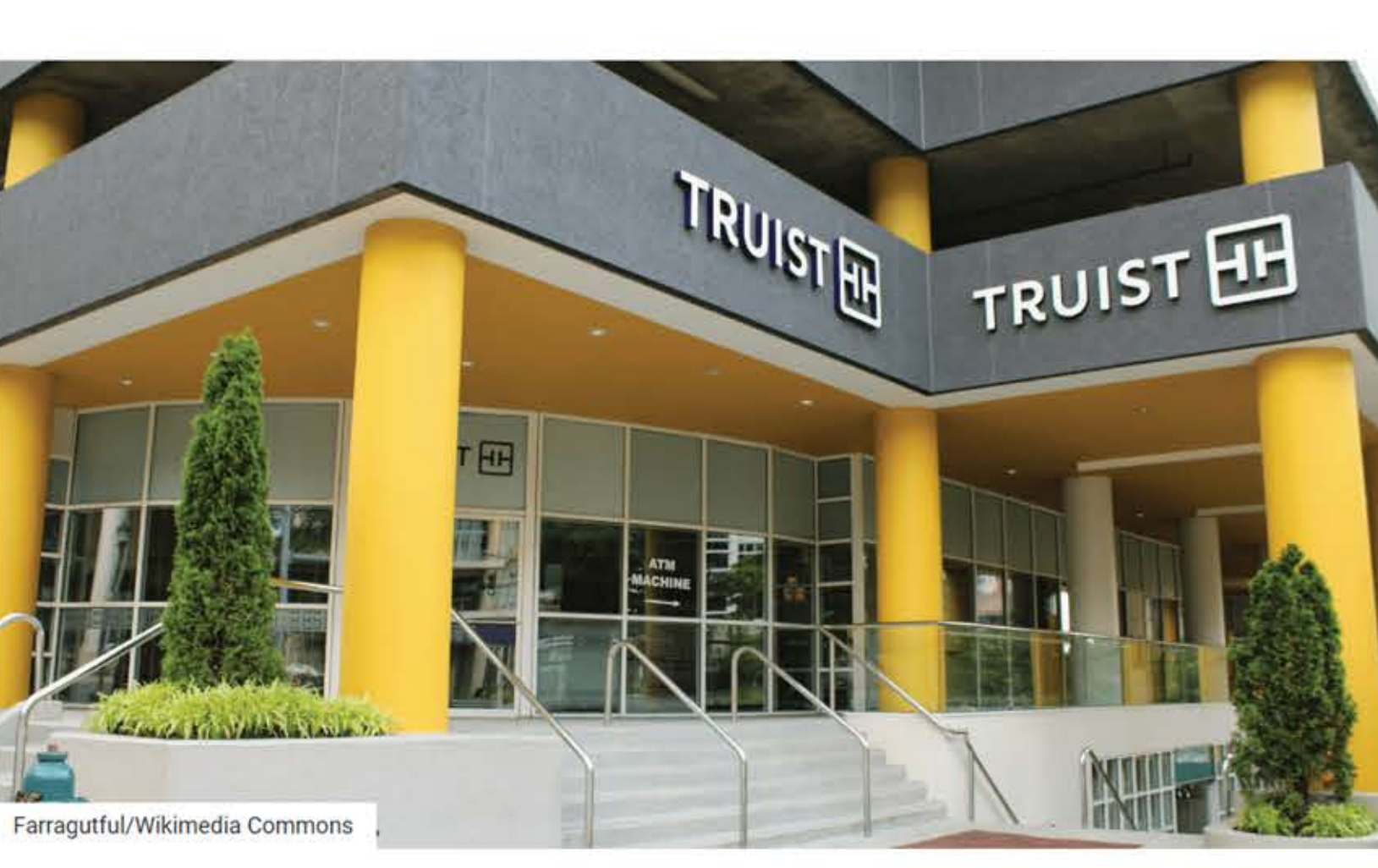
Source: Freepik

By better understanding what behaviors might trigger suspicious activity alerts, customers can manage their accounts more effectively and avoid potential closures.

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### Regulatory Changes and Recommendations

Recent recommendations from financial oversight authorities suggest modifications to the current AML frameworks (via the [Federal Register](#)).



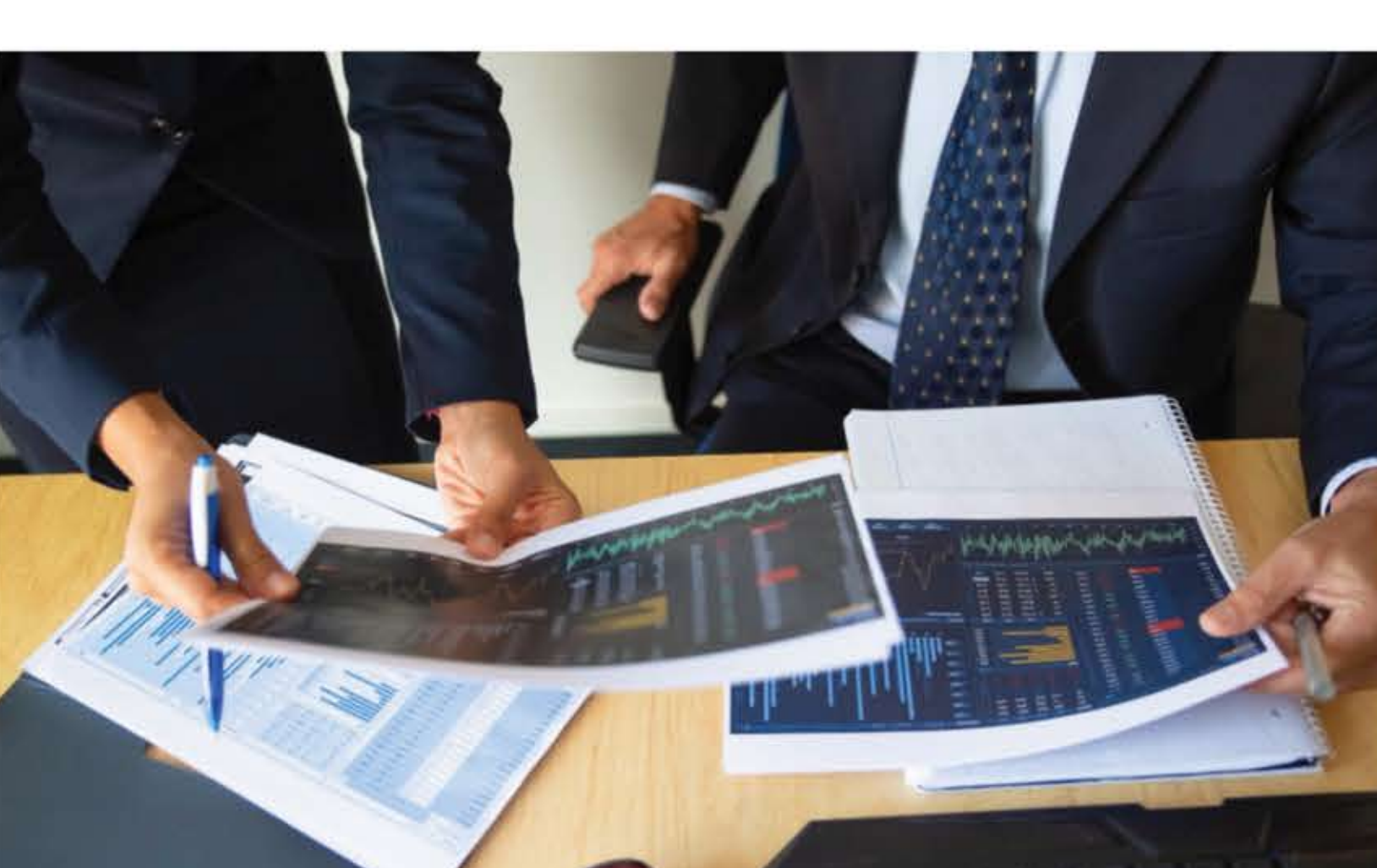
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These changes aim to reduce unnecessary account closures by implementing more nuanced criteria and requiring a human review process before making a final decision on account termination.

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### Banking Executive Perspectives

Bank executives defend the necessity of swift account closures, citing regulatory compliance and fraud prevention as key motivators.



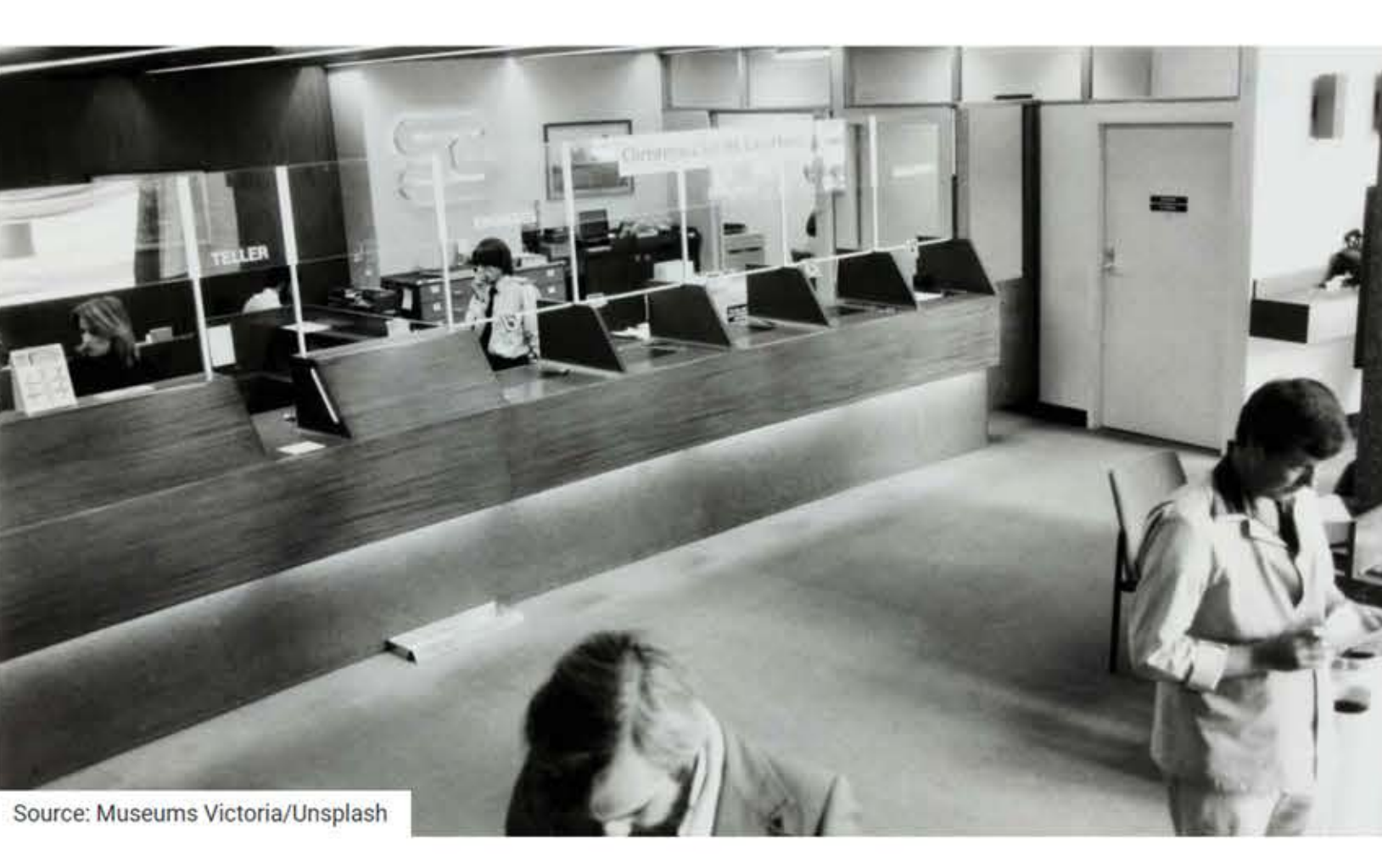
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However, they acknowledge the need for improving how these closures are handled, including better communication with the affected customers to explain the reasons and procedures involved.

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### Techniques for Better Customer Communication

Enhancing communication channels between banks and customers can alleviate some of the tensions associated with account closures.



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Proactive engagement, transparent policies, and timely notifications can help build trust and reduce customer frustration during the review process.

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### Future of Banking Security

The future of banking security looks to balance robust fraud prevention with enhanced customer service.



Source: Andre Taisiv/Unsplash

Banks will probably continue to increasingly rely on advanced AI to pinpoint genuine fraud, but will need to do so while integrating human insights to ensure fair and accurate assessments, fostering a more transparent and customer-friendly approach.

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