

National security fears as hundreds of defence companies debanked

MP warns 'this cannot go on' after Santander and Lloyds close up to 300 accounts

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The Treasury Committee found that banks frequently rejected companies working in 'undesirable' industries such as defence | CREDIT: Tobias Schwarz/Reuters

Banks have [shut the accounts of hundreds of defence companies](#) amid fears that lenders' internal ethics policies are putting national security at risk.

Santander and Lloyds closed 300 accounts belonging to "public administration and defence" companies last year alone, according to correspondence with MPs on the Treasury Select Committee.

Other major lenders did not provide a breakdown, suggesting the actual figure could be far higher.

Although some of the accounts may have been shut for other reasons such as a prolonged period of inactivity, senior industry executives also told MPs that they were concerned about the ethical implications of working with arms companies.

The disclosure triggered a backlash from defence experts and MPs.

Writing for The Telegraph, the Treasury Committee chairman and Conservative MP Dame Harriett Baldwin said: "We cannot have organisations in this country systematically debanking legitimate firms or industries because their board turns its nose up at their line of work. If their work is legal then they should be able to access a bank account."

She added: "Banks' shareholders demanding environmental, social and governance policies may inadvertently be putting national security at risk. This cannot go on."



NatWest's closure of an account belonging to Nigel Farage triggered a national scandal | CREDIT: Carl Court/Getty Images

Tobias Ellwood, a former chairman of the Commons defence committee, said "well-intentioned" standards risked putting Britain's defence capabilities into "jeopardy".

He said: "To prevent ESG guidelines from bogging down defense procurement, standards must be tailored to the unique requirements of the industry while being clarified for ease of compliance. Let's not allow well-intentioned ESG standards to jeopardise our defence capabilities in a dangerous world – it's time to get this sorted."

In a report on so-called debanking, compiled after [NatWest's closure of an account belonging to Nigel Farage](#) triggered a national scandal, the committee found that lenders frequently rejected companies working in "undesirable" industries such as defence, pawnbroking and gambling.

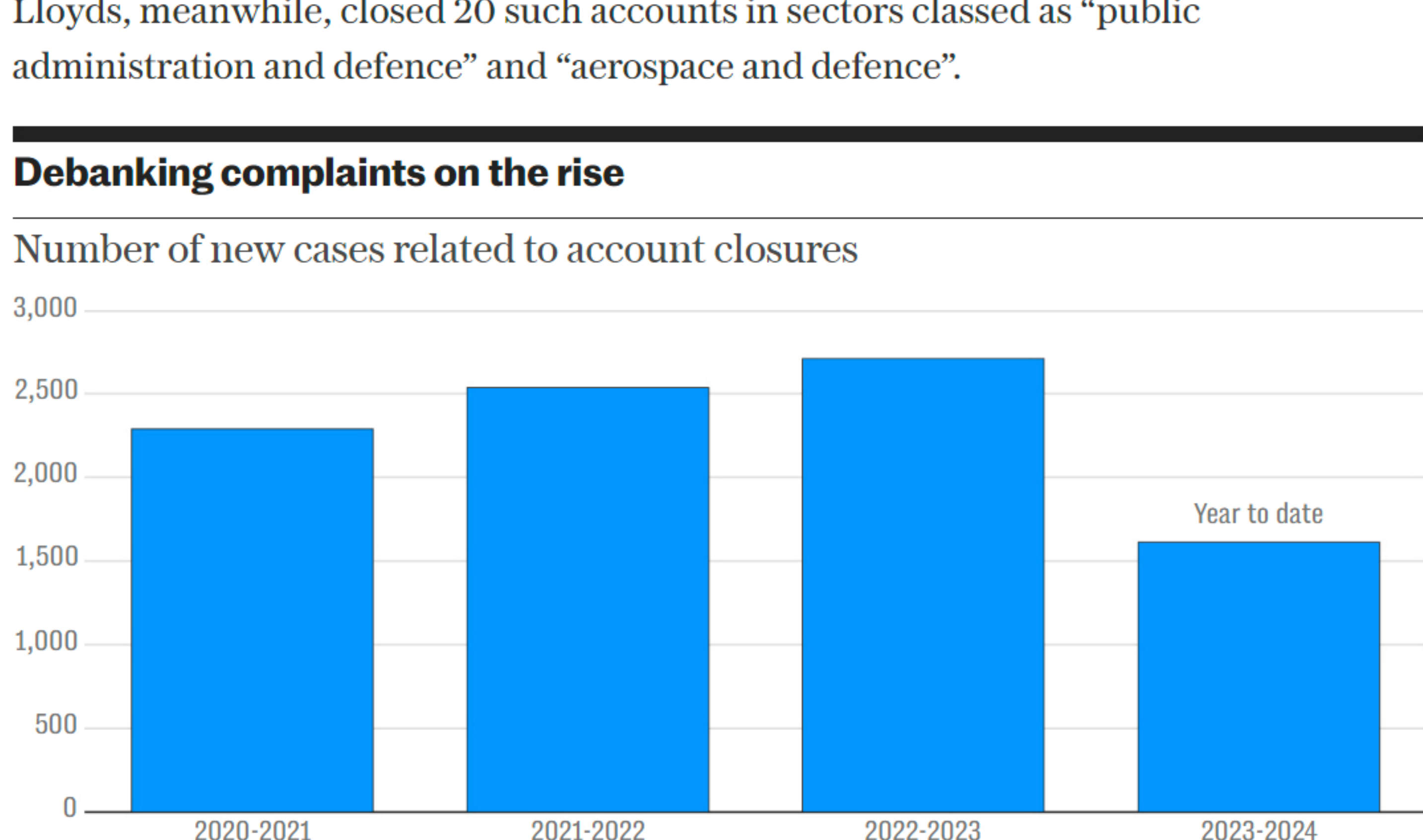
Research feeding into the report earlier this year revealed that 140,000 companies had been debanked, typically with little or no notice.

At least 4,214 such instances were attributed to "risk appetite" – despite there being no consistent definition across the industry of what that meant, according to the research.

Banks also said they had closed accounts over money laundering concerns or inactivity.

Ms Baldwin highlighted businesses operating in defence as an area of particular concern, after Santander admitted to closing 280 accounts belonging to businesses it categorised as "public administration and defence: compulsory social security".

Lloyds, meanwhile, closed 20 such accounts in sectors classed as "public administration and defence" and "aerospace and defence".



Ms Baldwin also referred in her comment piece to evidence from Handelsbanken, a Swedish bank with more than 160 UK branches, which suggested that the industry was reluctant to work with businesses responsible for supplying the Armed Forces.

She said: "The boss of Handelsbanken couldn't tell us if they'd give an account to BAE Systems – despite the company being one of the biggest suppliers to the Ministry of Defence.

"How on earth have we got to the position where a company working to preserve our national security can't be assured of access to a bank account?"

The Treasury Committee report warned that damaging financial regulation and inadequate support from lenders was holding small businesses back from innovating and growing, ultimately harming the economy.

It urged the financial watchdog to force banks to be more transparent about why decisions to close bank accounts have been taken.

The research comes as small businesses increasingly struggle to access finance.

The report highlighted that the approval rate for SME applications for bank loans has tumbled from 80pc in 2018 to 50pc in 2023.

Ms Baldwin warned in her op-ed that lenders referring to risk appetite as a reason to not provide services to a firm was unsatisfactory.

She said: "There can be good reasons for closing or denying accounts for businesses, including signs of money laundering or prolonged inactivity, but we found there were still thousands of accounts being closed under the disconcertingly vague justification of 'risk appetite'."

The committee also said that the industry-funded Business Banking Resolution Service is failing its task to resolve disputes adequately, leaving debanked firms with little hope of being heard.

The body has settled only 58 cases while costing more than £40m to operate, according to the report.

The Treasury Committee said it agreed it should be closed down.

Debanking scandal is a national disgrace

By Dame Harriett Baldwin MP

One of an MP's most important responsibilities is to champion the small businesses in their patch.

I certainly take every opportunity to shout about the smaller firms in my West Worcestershire constituency.

From the fantastically successful tree-growing business Frank P Matthews to the emerging corridor of cyber technology startups, small and medium-sized businesses in my part of the world offer so much to our economy.

But there is no getting away from how tough the pandemic and energy crisis have been for those running small businesses. Critical government support has been delivered but they need to know that their banks will also support them through such a challenging period.

Our Treasury Committee asked smaller businesses up and down the country to tell us about their experiences with lenders, and I was taken aback by what we were told.

One particular issue we heard about, I'm sure in no small part thanks to the campaigning of this very newspaper, was debanking.

During our investigation, we found more than 140,000 small business accounts were closed in the last year alone – with many firms being given little or no notice before they were debanked.

There can be good reasons for closing or denying accounts for businesses, including signs of money laundering or prolonged inactivity, but we found there were still thousands of accounts being closed under the disconcertingly vague justification of 'risk appetite'.



How have we got to the position where a company protecting our national security can't be assured of a bank account? | CREDIT: UK MOD Crown/PA

Representatives from the pawnbroking industry told the committee more than half of the companies in their sector couldn't get a bank account.

Even more disturbing was when the boss of Handelsbanken couldn't tell us if they would give an account to BAE Systems – despite the company being one of the biggest suppliers to the Ministry of Defence.

How on earth have we got to the position where a company working to preserve our national security can't be assured of access to a bank account? Banks' shareholders demanding environmental, social and governance policies may inadvertently be putting national security at risk. This cannot go on.

It is wrong that banks in this country can systematically debank legitimate firms or industries because their board turns its nose up at their line of work.

Small businesses employ 16.7 million people in this country, generating £2.4 trillion a year for the UK economy.

We're not asking lenders to wave a magic wand and solve all of the problems facing small businesses but one thing for sure must change – banks must stop making a tough landscape for small businesses needlessly tougher.

Dame Harriett is a Conservative MP and chairman of the Treasury Select Committee

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