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

Dame Meg Hillier MP
Chair, Treasury Committee
House of Commons
London
SW1A 0AA

28 April 2025

Dear Dame Meg,

LEGISLATION TO AMEND PAYMENT SERVICES FRAMEWORK CONTRACT TERMINATION REQUIREMENTS

I am writing to inform you that today the government has laid before Parliament the draft Payment Services and Payment Accounts (Contract Termination) (Amendment) Regulations 2025, a statutory instrument, subject to the affirmative procedure, that makes amendments to the Payments Services Regulations 2017 ("PSRs") and Payment Account Regulations 2015 ("PARs"). The instrument will strengthen protections for users of payment services when their provider has decided to terminate their contract and withdraw the payment service. This includes decisions by banks to close a customer's bank account.

In the last parliament, the Treasury Committee expressed support for these reforms in its report on access to SME finance published May 2024. The government responded to the report in December 2024, confirming that it intended to bring forward legislation.

The instrument follows work undertaken by the Treasury to review the current legislation governing terminations of payment services in response to well publicised concerns about bank account closures, including a Call for Evidence in 2022-23 and subsequent engagement with the financial services sector and others. Through this work the Treasury found that the current legislative framework is not always effective at providing the right level of protection for customers.

Currently, when a provider decides to terminate a payment service framework contract concluded for an indefinite period, the PSRs state the provider may do so by giving the customer a minimum of two months' notice, if the contract so provides. The Treasury has found that this does not always provide sufficient time for customers to communicate with their provider, make a complaint if necessary, or seek an alternative account. This can be disruptive in cases where individuals and businesses lose access to bank accounts or other payment services which they rely on to manage their personal finances or carry out their business activities. The Treasury also received evidence that some providers have inserted notice periods of less than two months into their payment service contracts which may in part be due to ambiguity in the legislation, meaning the notice period that is given to affected customers in practice can be inconsistent. Furthermore, there is currently no obligation in the PSRs on providers to give an explanation for a termination to the affected customer. As a result, customers can find it difficult to understand why their payment service is being terminated.

The instrument that the government has laid in draft before Parliament today is designed to address these issues by providing a more robust framework, in line with this government's strong commitment to supporting the growth of businesses and reinforcing consumer protection. In summary, the main amendments made to the PSRs are:

- Extending the minimum notice period for a provider-initiated termination of in-scope contracts from two months to 90 days.
- Placing a new requirement on providers to give affected customers an explanation that is sufficiently detailed and specific to enable the customer to understand why their contract is being terminated. As part of this, providers must advise the customer of their rights to complain to the provider and any right they have to make a complaint to the Financial Ombudsman Service.
- Provision addressing ambiguities to ensure the regulations are applied consistently.

In recognition that providers have a wide range of other obligations, some of which may conflict with these new requirements in certain circumstances, the legislation includes certain exceptions which enable providers to depart from the requirements where appropriate, such as in financial crime scenarios. The instrument also amends the PARs, mainly to bring the notice period and requirements to give reasons applicable to framework contracts for basic bank accounts into line with the new requirements in the PSRs.

To enable to sector to update their processes and come into compliance, subject to parliamentary approval, the new requirements will apply to in-scope contracts entered into on or after 28 April 2026. A copy of the SI and EM are attached, and I would be happy to provide further information where required. I have written to the Chair of the House of Lords Financial Services Regulation Committee in similar terms, and I am copying that letter to the Chair of the House of Lords Economic Affairs Committee.

Yours sincerely,

Emma Reynolds MP