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Rt Hon Mel Stride MP
Chair Treasury Select Committee
House of Commons
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29 July 2021

Our ref: C210722E

Dear Mel,

Re: Frozen Bank Accounts

Thank you for your letter of 22 July 2021 and your supportive comments about the recently published FCA Business Plan and consultation on a proposed new "consumer duty". I look forward to engaging with the Committee on these issues in the months ahead. Thank you also for sharing your concerns around NatWest Bank freezing the bank accounts of some vulnerable customers on low incomes, and their rationale for taking such action.

I have taken each of your specific questions in turn:

To what extent do you believe that these press reports are accurate and what evidence do you have that this is a widespread problem across the banking sector?

We recognise that it is necessary for firms to be able to freeze the accounts of customers for a range of reasons, including in relation to suspicious account transactions. While the FCA cannot require a bank to provide services to customers, we are not aware of a substantive cross-sector issue of banks freezing accounts for no reason.

We have published our expectations on how firms handle money laundering risk,[1] making clear that while the decision to accept or maintain a business relationship is ultimately a commercial one, we think that there should be relatively few cases where it is necessary for a bank to decline business relationships, solely because of anti-money laundering requirements. We expect firms to recognise that the risk associated with different business relationships in a single broad category varies, and to manage that risk appropriately.

I acknowledge the hardship and difficulty freezing an account may cause, particularly for vulnerable customers and/or those in financial distress. We look to firms to ensure that they comply with our general requirements and handbook principles, and pay due regard to the interests of their customers and treat them fairly.

Why do you think some banks might have taken this action?

While it is difficult to say with certainty the reason why a bank has frozen a customer's account, banks are required by our rules and the Money Laundering Regulations 2017 (MLRs), to have appropriate systems and controls that counter the risk that customer accounts are misused for the purposes of financial crime; and to have policies and procedures to identify and report suspicions of money laundering or terrorist financing.

As part of these systems, firms may come across potential or actual suspicious activity during the opening or maintenance of accounts. This suspicion could be a 'red flag' identified by the

[1] https://www.fca.org.uk/firms/money-laundering/derisking-managing-risk

firm's transaction monitoring system, concerns about information provided as part of onboarding or refreshing of that information, or based on internal reporting by staff.

Where these issues are identified, the firm needs to establish if this activity meets the threshold to make a report to the National Crime Agency (NCA) or seek a defence against money laundering from the NCA. Where they are seeking a defence against money laundering, the firm will need to ensure that those specific funds are frozen, pending a decision from the NCA.

What customer service standards do you expect from banks when they move to freeze bank accounts?

If a firm considers that it is necessary to freeze an account, we expect any investigation to be carried out in a reasonable time and for customers not to be denied access to their money unnecessarily. There are sometimes delays with firms responding to suspicious activity and during this period, accounts may remain frozen. These delays may stem from ongoing issues in banks of all sizes, with the meeting of obligations under the MLRs. For example, where firms need to investigate alerts which have been raised by their transaction monitoring system due to possible suspicious transactions.

Banks should also, where possible, communicate with customers, acknowledging that they may need to take care to avoid alerting individuals in a manner that could undermine further action taken in the future (under the Proceeds of Crime Act 2002). A consequence of this is that it may be difficult for a bank to explain to a customer the reason for imposing restrictions on an account.

Similarly, where a bank has decided to withdraw banking services, we encourage banks to communicate any exit decision with the customer, where possible, including setting out their reasoning clearly. To facilitate this, the FCA asked the banking sector to develop some principles; these were published by UK Finance in June 2019.[2]

If a customer believes their account has been frozen unreasonably, they are able to refer the matter to the Financial Ombudsman Service (FOS) for review[3].

How is the FCA ensuring that banks treat customers fairly in relation to freezing bank accounts, and how are you ensuring that all banks have the same standards?

I have outlined some of our key expectations for firms above. Rather than ensuring that all firms have the same standards, our expectation is that firms act in a manner that is proportionate, risk-based and in line with our principles. We consider whether banks are treating customers fairly and meeting expectations through our supervisory engagement, as well as intelligence received.

What progress you have made on this issue following the Committee recommendations in November 2019 that there should be "timely and appropriate action taken where instances of blanket de-risking are apparent." and that "Banks should only use Artificial Intelligence if they have a high degree of assurance that its use will not result in bias. Regulators have a role to play to ensure it is used responsibility and does not pose indiscriminate risks to sections of society".

The FCA continues to supervise bank's compliance with Regulation 105 of the Payment Services Regulations 2017, which requires banks to provide payment services providers access to payment accounts on a proportionate, objective and non-discriminatory basis. We want firms to

[2] https://www.ukfinance.org.uk/uk-finance-principles-exiting-customer

[3] https://www.financial-ombudsman.org.uk/consumers/how-to-complain

take decision on a case-by-case basis rather than a blanket approach to de-risking in relation to payment service providers.

The FCA continues with its work programme to foster innovation, which has led a number of activities that are focused on the application of Artificial Intelligence within Financial Services. This work programme includes the Digital Sandbox pilot, the report[4] commissioned from the Alan Turing Institute; and the AI Public Private Forum with the Bank of England.

In conjunction with the City of London Corporation, the FCA ran a digital sandbox pilot to provide a testing environment for innovators looking to accelerate their solution development across three use cases; fraud, consumer vulnerability and SME lending. Across the pilot cohort, the use of advanced analytic techniques such as machine learning and deep learning (a subfield of machine learning where algorithms inspired by the human brain learn from large amounts of data) were the most common type of underlying innovative technology participants wanted to test, including for example, the use of machine learning to identify financial crime typologies in the fraud use case.

The report that the FCA commissioned from the Alan Turing Institute was published earlier this year. The aim of the report is to inform and advance the debate about responsible AI in the context of financial services. It introduces relevant technological concepts, discusses general challenges and guiding principles for the adoption of AI, maps out potential benefits and harms associated with the use of AI in financial services, and examines the fundamental role of AI transparency in pursuing responsible innovation.

The FCA and the Bank of England have established a forum with the public and private sectors to better understand the use and impact of AI in UK financial markets. This includes consideration of the potential benefits and constraints to deployment, as well as the potential risks associated with the application of AI. The Forum explores how technological change can support beneficial innovation for consumers and markets. There have been three meetings of the Forum and associated working groups, with the final meetings scheduled for Q3 2021. A report will follow in Q4.

I hope this letter is helpful in clarifying some of the questions you have asked and provides reassurance on our approach to this area.

Yours sincerely,

Nikhil Rathi

Nikhil Rathi

Chief Executive

[4] https://www.turing.ac.uk/research/publications/ai-financial-services