

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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The Cutting Red Tape team,
The Better Regulation Executive
Department for Business, Innovation and
Skills
1 Victoria Street
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Dear Sir/Madam,

Sector review into Anti Money Laundering

This is the Financial Services Consumer Panel's response to the review of the effectiveness of rules designed to prevent money laundering and terrorist financing.

Our main concern is the adverse impact on some consumers of financial institutions' interpretations of their responsibilities under rules to prevent money laundering. We would like to focus, specifically, on two issues: how firms deal with suspicions of financial crime, and what requirements there are for banks to treat their customers fairly until fraudulent activity can be proven; and identification requirements. There are risks with both issues that financial institutions focus on protecting their own positions under anti-money laundering (AML) rules rather than treating customers fairly. We understand that there are significant challenges to firms in this regard but feel that more could be done to minimise the impacts on customers.

Suspicious of financial crime

For a number of years, we have been concerned that banks are forcibly closing some customers' bank accounts without explanation. When an account is closed because of suspicious activity, banks provide little or no information to the consumer to avoid "tipping-off" those they suspect are committing financial crime. However, we believe that, in many instances, it is the way firms have implemented AML rules that has prevented them providing information to customers. Often, the suspicious activity is the sending or receiving of money from abroad, yet there are many legitimate reasons why consumers may do this. The Panel believes that, often, immigration law and AML rules are being used to justify firms' own risk appetites.

Many consumers have a need to send money to another country, for example, those with second homes abroad and those who are supporting family members in another country. Similarly, there are UK residents, for example international students, who receive payments from abroad. UK banks' charges for these transactions are very high. Consumers therefore often look for alternative methods to transfer their money, which can raise alarms with their bank, and lead to forced account closure. A better solution for consumers would be for banks to introduce a simple mechanism to enable people to make relatively small payments to recipients overseas at affordable prices.

Innocent individuals, wrongly suspected of committing fraud, find it very difficult to find out what they are accused of. Many of those affected with forced account closure are subsequently added to the CIFAS register, the UK's independent fraud prevention service. This compounds their problems, as they are effectively blacklisted, and as a result other banks refuse to offer banking services or may close existing accounts.

The Panel feels it is unacceptable that consumers who have not acted fraudulently and have not been found guilty of a crime find themselves trapped in limbo, unable even to know the reason for their bank's action. The reputational damage of being wrongly suspected of criminal activity is very significant and the withdrawal of banking and other financial services is very damaging.

AML rules should not lead to unfair treatment of consumers who have legitimate needs to make international transfers.

Access to a bank account is essential to be able to function in modern day society. However, this is about more than just transactions; international students, for example, who find themselves without a bank account, can end up facing deportation because they are unable to demonstrate that they have sufficient funds to remain in the UK.

We believe the FCA should establish a robust appeals process for consumers who find themselves without a bank account. Consumers should understand their right to appeal, as well as who to appeal to. At the moment, consumers are caught in a difficult and unsatisfactory situation, where they have a right of appeal to CIFAS, but the banks cannot inform them of their right, due to "tipping-off" rules.

Identification requirements

AML rules should not be used to exclude consumers from financial products, and firms should do more to be flexible and accommodating to those consumers who do not have standard ID documentation. As outlined in a House of Commons briefing paper on *bank accounts: problems of identification*¹, the Joint Money Laundering Steering Group Guidance says that where an applicant for a bank account produces non-standard documentation for ID verification, staff "should be discouraged from citing the AML regulations as an excuse for not opening an account..."

Consumer awareness

We believe that consumers should have a greater awareness of financial fraud risks. This is particularly relevant with the increase of scams and "vishing" and the lack of redress that is often available to victims. The Money Advice Service is best placed to help here; it has a statutory objective "to enhance the understanding and knowledge of members of the public about financial matters (including the UK financial system)".

Yours sincerely



Sue Lewis
Chair, Financial Services Consumer Panel

¹ <http://researchbriefings.files.parliament.uk/documents/SN03366/SN03366.pdf>