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Rules around high-risk UK bank customers exposed by Nigel Farage's spat with Coutts

Lenders have been taking a cautious approach around 'politically exposed persons'



Nigel Farage says he was dropped by Coutts because of his political views © FT montage/Bloomberg

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Coutts is under the spotlight after Nigel Farage [released documents](#) claiming the private bank — known for its wealthy clients and formerly dubbed “the Queen’s bank” — axed him because of potential reputational risk.

According to Farage, the memo that he obtained from Coutts — which is owned by the taxpayer-backed NatWest Group — shows that its decision to close his accounts relates to his political views, spanning from his support for former US president Donald Trump to controversies linked to Russia.

Farage said on Twitter that he had seen “an explosive 40 page memo” in which Brexit was mentioned 86 times and Russia 144 times. The bank is said to have concluded that Farage’s views “do not align with our values”.

The former leader of both the UK Independence Party and the Brexit Party said the report also deemed him a “politically exposed person”, a customer who is considered high risk and has more potential to acquire money through illegal means, such as money laundering.

So what rights do banks have to close customer accounts?



Coutts is owned by the taxpayer-backed NatWest Group © Hollie Adams/Bloomberg

What are the politically exposed person rules?

Politically exposed persons, or PEPs, are people who hold prominent public positions, such as MPs. These individuals are considered more susceptible to money laundering or terrorist financing because of their profile and connections. This means they are subject to enhanced checks by banks. Their family members and close friends could also face scrutiny.

The UK has adopted standards set by the Financial Action Task Force, an international body focused on anti-money laundering. That means lenders apply tougher checks on PEPs. Banks are able to refuse services to potential customers on the basis that they pose corruption and bribery risks.

Can banks axe customers because of their values?

Banks can in theory terminate services with customers if they are a threat to their reputation.

“It seems [NatWest’s] decision has been made through the reputational risk committee, rather than on PEP grounds,” said a regulation expert. “So it’s a commercial decision being made.”

Simon Gleeson, partner at Clifford Chance, said: “Under the guise of ‘de-risking,’ banks have been dropping customers who pose reputational risk for at least a decade.”

That was prompted by a period of swingeing fines on banks by US and UK authorities for money-laundering failures, such as the [\\$1.9bn penalty levied](#) on HSBC in 2012 by the US Department of Justice.

However, Nikhil Rath, chief executive of the Financial Conduct Authority, said at a hearing with the Treasury select committee on Wednesday that under the payment accounts regulations in the UK, “you’re not able to discriminate on the basis . . . of political views either — that’s in the legislation.”



Nikhil Rath, FCA chief: ‘You’re not able to discriminate on the basis . . . of political views either — that’s in the legislation’ © Chris J. Ratcliffe/Bloomberg

Financial firms overseen by the FCA, including banks, also have a duty to treat customers fairly. This would be relevant if they decide to no longer provide services to a customer.

The largest banks are legally required to provide basic bank accounts for anyone who is not eligible to access a current account, which provide fee-free services such as payment transfers.

Why has the PEP regime come under scrutiny?

The PEP system has faced criticism from politicians and others who claim it has led to excessive due diligence.

Baroness Dianne Hayter said last year in a House of Lords debate that “it seems that genuine money launderers can bring in foreign money and buy up property with no disclosure of ownership, but we PEPs get this ridiculous six-page questionnaire . . . wanting to know about my past employers, my family wealth.”

Rebecca Niblock, partner at law firm Kingsley Napley, said: “Banks have been tightening up on domestic PEPs and have become excessively cautious and risk adverse. It’s harder to challenge banks on account closures because their terms and conditions mean they can just end the relationship.”

Are PEP rules likely to change?

The Financial Services and Markets bill, which received royal assent last month, will require regulators to review how banks are treating customers who hold political positions, while ensuring firms continue to follow money-laundering regulations.

Under the act, the FCA has to review its guidance on PEPs and assess companies’ compliance. The FCA must publish the conclusions of its review within three months, and consult on new draft guidance within 12 months if needed.

What can people do if their banking relationship has been ended?

Customers can complain to the Financial Ombudsman Service if they feel they have not been treated fairly through the account closure process.

But banks often do not provide an explanation to customers or a chance to appeal against the decision. “Often you will write to the banks and get nothing back,” said one lawyer.

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Sometimes this is because banks fear falling foul of laws that prohibit “tipping off” suspected criminals that they are under scrutiny.

Sue Hawley, executive director of Spotlight on Corruption, an anti-corruption group, said: “There is a debate to be had as to whether banks are exercising their important powers proportionately and fairly but they need to be able to have these powers without being jumped on by critics.”

Have banks faced any penalties from terminating relationships?

Banks have faced lawsuits in the US when they have failed to sever banking relationships with disgraced customers — notably with convicted sex offender Jeffrey Epstein.

UK banks may have been strengthened in their current approach after NatWest won a High Court case in 2019 brought by a payment company whose relationship with the bank was terminated. NatWest suspected some accounts held proceeds from criminal activity. Mr Justice Robin Knowles backed the bank’s decision-making and ruled that it was “a proper response to circumstances”.

Rishi Sunak said on Wednesday that there will be a crackdown on banks who deny services to customers over “lawful free speech”. The UK prime minister said it “wouldn’t be right if financial services were being denied to anyone exercising their right to lawful free speech”.

Why have data companies come under scrutiny?

Intelligence companies are sometimes used by banks to scan social media and news outlets to help lenders screen their clients.

Refinitiv World-Check Risk Intelligence, which is part of the London Stock Exchange Group, is one of the companies thought to provide this type of service to lenders. The company says in its marketing documents that it provides “a rigorous” process that includes “negative media and relevant financial crime risk”.

The London Stock Exchange Group said: “We aggregate data from publicly available information and reputable media sources but do not draw any conclusions on an individual or make any financial decisions.”

Additional reporting by Stephen Morris