



**The White Collar
Crime Centre**

Economic Crime Inquiry Submission

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**Jonathan Fisher QC, Anita Clifford, Natasha Reurts and
Vanessa Reid**

London
Central Court
25 Southampton Buildings
London
WC2A 1AL

Manchester
Pall Mall Court
61-67 King Street
Manchester
Lancashire
M2 4PD

www.brightlinelaw.co.uk
admin@brightlinelaw.co.uk
+44 (0) 203 709 9470

PART I: Introduction to Financial Exclusion

Financial exclusion and the regulatory regime

1. The anti-money laundering and counter-terrorist financing (“AML/CTF”) regime aggravates financial exclusion by systematically excluding certain groups of people and businesses from products and services offered by the formal financial institutions.
2. Financial exclusion describes a lack of access or limited access to formal financial services and products.¹ Financial services and products include checking and savings accounts, insurance, home and business loans, online payment and commerce systems, money transfers, credit cards, and investment and asset management, among others. These financial services and products are essential to meaningful participation in a modern society, particularly as digital commerce becomes increasingly central.
3. Financial exclusion can have a devastating impact on individual lives, the business community, and society as a whole. Exclusion from the formal financial system exacerbates inequality and leaves marginalised groups at a severe disadvantage. A lack of access to basic financial products drives people to participate in cash economies where illegal activities flourish and customer protections are non-existent. The denial of financial services to legitimate businesses stunts innovation and overall economic development. This submission references two cases which (from the professional experiences of two of the co-authors) highlight the problems in practice. We recommend that the Committee should consider a range of options to help mitigate the role played by the AML/CTF regime in contributing to financial exclusion.

What problems does financial exclusion cause?

4. Financial exclusion makes the management of everyday life significantly more difficult. A lack of access to basic financial products like bank accounts, credit cards with reasonable interest rates, online payment systems, and low-interest loans makes it difficult for low-income people to manage day-to-day necessities like paying rent and utility bills, purchasing food and household goods, and securing transportation and employment. Moreover, the financially excluded often pay a ‘poverty premium’ in extra payment for goods and services, largely as a result of higher fees and interest rates for those who cannot set up direct debits or pay down accounts in advance.² Financial exclusion also makes it exceedingly difficult to build wealth in the long term.
5. Exclusion from the formal financial system also drives people to informal providers in the cash economy, a realm in which consumer protection rules, due diligence requirements, and suspicious

¹ See generally House of Lords, Select Committee on Financial Exclusion, Report of Session 2016-17, “Tackling financial exclusion: A country that works for everyone?” (25 March 2017).

² *Id.* at 16, discussing the “poverty premium,” which is “the additional cost incurred by people carrying out their various transactions when compared to people who have full access to financial services.” Pay-as-you-go mobile phone contracts, utility payments, and high cost credit or insurance are listed as common examples of the ‘poverty premium’

activity monitoring are entirely absent.³ Customers have little or no recourse if they are abused or swindled, and criminal activities flourish without formal oversight or accountability.

6. Finally, financial exclusion hinders the development of new businesses, particularly small and medium-sized enterprises (“SMEs”). Many SMEs are saddled with high-interest business credit cards, if they are able to obtain credit at all. New businesses associated with unstable countries are often denied loans altogether. This lack of access denies entrepreneurs the opportunity to develop innovative products and services and to grow the economy as a whole.
7. The Government has recently recognised that financial exclusion is an immediate and pressing concern by convening a Financial Inclusion Policy Forum (“FIPF”).⁴ The forum’s mission is “to ensure that people, regardless of their background or income, have access to useful and affordable financial products and services”⁵
8. Given the adverse impact of financial exclusion on individuals, businesses, and the wider economy, this submission now turns to a closer examination of recent trends in de-risking and its attendant consequences.

PART II: ‘Risky business’ and AML/CTF adherence

De-risking, risk management and the regulatory framework

9. Emphasis of risk management in statutes and guidance targeting financial crime in the UK has seen the rise of a ‘de-risking’ culture by financial services providers and the business community in recent years. Eye-watering fines imposed by regulators for breach of anti-money laundering risk management requirements and controls are a contributing factor. In February 2018, the Gambling Commission fined bookmaker William Hill £6.2 million for anti-money laundering breaches. In January 2017, Deutsche Bank was fined £163 million by the Financial Conduct Authority (“FCA”) for failing to maintain an adequate anti-money laundering framework. HMRC is also taking more enforcement action against estate agents for anti-money laundering breaches. The move towards de-risking undermines the objective of the UK’s anti-money laundering framework – to ensure that firms carrying on business in UK manage and mitigate a client’s risk *when that client is taken on and during the course of the client relationship*. If a client is not taken on or the relationship is terminated, there is a risk that transactions will be pushed underground or routed through jurisdictions where systems and controls are weaker. This is wholly counter-intuitive to the anti-money laundering regime in the UK and globally.
10. In the anti-money laundering sphere, careful risk management has long been expected of regulated entities doing business in the United Kingdom (“UK”). Obligations to undertake a client risk

³ FATF Guidance: Anti-Money Laundering and Terrorist Financing Measures and Financial Inclusion with a Supplement on Customer Due Diligence (November 2017) at 33 n. 27.

⁴ John Glen MP, News story: First meeting of the Financial Inclusion Policy Forum (19 March 2018), available at <https://www.gov.uk/government/news/first-meeting-of-the-financial-inclusion-policy-forum>.

⁵ *Id.*

assessment prior to commencing the business relationship, Customer Due Diligence, proportionate to the nature of the client and ongoing monitoring of the relationship have been in force since 2007. Breach of the obligations attracts enforcement action by regulators and exposes a firm to criminal liability. More recently, the *Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017* (“MLR 2017”) has seen the bolstering of the AML requirements. The Regulations implement the EU’s Fourth AML Directive and introduce new legal obligations such as requirements to independently audit AML compliance, conduct a firm-wide risk assessment and continue enhanced checks on Politically Exposed Person (“PEP”) clients for at least 12 months after they cease being PEPs. It also introduces changes in the ability to conduct a simplified level of Customer Due Diligence and rely on Customer Due Diligence already performed by other regulated institutions.

11. Concerned about compliance with AML, CTF and sanctions requirements, some banks in the UK have opted to terminate business relationships with customers or not to commence relationships with prospective customers *at all*. There are examples of case by case service withdrawal⁶ as well as the wholesale cessation of relationships because of concerns about a particular geographical region⁷ or sector⁸. De-risking in the UK affects customers at both the individual and business-level. The latter includes small to large businesses, including ‘correspondent banks’ often operating in less prosperous countries where AML controls might be weaker who rely on relationships with banks in the UK to process transactions.

Commercial financial exclusion

12. The growth in de-risking brings into sharp focus the issue of commercial financial inclusion. For businesses, exclusion from financial services in the United Kingdom can be detrimental to reputation, development and offer of products and services and ability to attract or maintain investors. In some cases, continued operations in the UK and even the business’s launch or ability to go market can hang in the balance.
13. For correspondent banks, a withdrawal of banking services can lead to their inability to process transactions. Their own customers, individuals and businesses typically in emerging countries, are shut out of trade and the financial markets or find access restricted. In a progress report presented at the March 2018 G20 Finance Ministers and Central Bank Governments meeting, the Financial Stability Board highlighted the continued decline in the number of correspondent banking relationships globally as a pressing concern.⁹
14. The drivers behind de-risking by banks are varied. Ostensibly, the reasoning behind a customer being declined by a bank is that their risk profile is considered too high. AML risk, alongside financial crime and sanctions risk, feeds into the decision to decline a client but a research report

⁶ See most recently, Rupert Jones, ‘NatWest closed my account with no explanation,’ *The Guardian*, 3 February 2018 available at: <https://www.theguardian.com/money/2018/feb/03/natwest-closed-my-account-with-no-explanation>

⁷ See, for instance, discussion of Deutsche Bank’s de-risking in relation to Latvian correspondent banks discussed in ‘A crackdown on financial crime means global banks are de-risking,’ *The Economist*, 8 July 2017.

⁸ See, for instance, de-risking in relation to the Islamic banking sector discussed in ‘Islamic banks face uneven impact from correspondent banking decline – industry group,’ *Reuters*, 16 April 2018 and in relation to money transmitters in Africa discussed in ‘Africa: Bank de-risking hits money transfer firms,’ *Euromoney*, 5 October 2016.

⁹ Financial Stability Board, ‘FSB reports on correspondent banking and remittances,’ 16 March 2018, available at: <http://www.fsb.org/wp-content/uploads/P160318-1.pdf>

commissioned by the FCA in 2016 found that banks in the UK weighed up a range of factors. Not all of these pertained to AML or financial crime risk. Other factors included the overall compliance *cost* if a client were on-boarded or maintained and expected profitability of the relationship. The report concluded that de-risking seemed to affect small businesses more than large ones. Those particularly vulnerable to becoming casualties included smaller defence contractors, online payment method developers and other FinTech businesses working with blockchain technology. Reasons for declining an actual or prospective client were not always provided.¹⁰

Individual Financial Exclusion

15. Rural, low income, minority communities, women, youth and other vulnerable persons, such as refugees and those seeking asylum, are often cited as being disproportionately affected by a lack of access to the formal financial system.¹¹ PEPs are another category of individuals who may face financial exclusion as a result of de-risking practices by financial institutions. The two most common challenges related to the financial inclusion of these sectors of society are canvassed below.
16. First, in accordance with international standards, the UK's AML/CTF regime stresses the importance of 'reliable and independent' sources to prove and verify the individual's identity. However, for some vulnerable persons, such as refugees or other forcibly displaced persons, standard forms of identification may not be available. For forcibly displaced persons, alongside establishing identity to the requisite degree, these persons may have further difficulty demonstrating proof of address. How an individual meets the standard client on-boarding by a financial institution without a recognized form of identification or stable address is challenging, to say the least. Considering the wide-spread application of these identification requirements across financial institutions, the rejection by one institution is likely to lead to a rejection by another of a similar size. Moreover, in these circumstances, it is unclear the extent to which financial institutions are able to apply simplified customer due diligence measures in cases where there is minimal identification documentation provided by the individual.
17. Second, the risk-based approach requires financial institutions to assess the money laundering and terrorist financing risk associated with the client prior to the commencement of a business relationship. This results in the categorisation of risk according to criteria as set out in the MLR 2017 and as may be determined by the financial institution. Situations which involve cross-border transactions (e.g. a receipt of monies from family members or friends in a high-risk jurisdiction) in circumstances where there is little underlying customer information will likely be deemed high risk by the financial institution. Moreover, for individuals who have limited working rights because of their legal status in the country, the low client profitability may be an additional factor taken into account by the financial institution to either de-risk or not on-board.

¹⁰ FCA, 'FCA Research into the issue of de-risking,' 24 May 2016, available at: <https://www.fca.org.uk/news/news-stories/fca-research-issue-de-risking>

¹¹ Joseph Rowntree Foundation, "Financial inclusion in the UK: Review of policy and Practice" (July 2008) available at: <https://www.jrf.org.uk/sites/default/files/jrf/migrated/files/2234.pdf>, page 1 and see generally House of Lords, Select Committee on Financial Exclusion, Report of Session 21at [33].

18. In relation to PEP clients, a financial institution may deem the individual too high risk to continue providing with banking services. Alternatively, the cost of managing the client relationship in accordance with the regulatory requirements (e.g. enhanced ongoing monitoring) may be deemed too burdensome for the bank to continue.
19. To make matters worse, a major consequence of financial exclusion is increased barriers to financial inclusion. The benefits of financial inclusion for members of lower socio-economic groups and marginalised sectors of the population are well noted.¹² At its most basic, financial inclusion can result in access and opportunity for employment, receipt of monetary transfers from government benefits or international transfers of funds, establishment of a savings account, and using banking facilities to make online and card payments.
20. From a macro-economic perspective, access to financial services has been shown to not only reduce poverty levels (through improved ability to access gainful employment) but also reduce income inequality. Conversely, a micro-economic assessment of financial inclusion shows that individuals who have access to banking facilities, such as formal savings accounts and credit instruments, may better allow individuals to withstand period of economic instability and partake in investments to generate an additional or alternative source of income.¹³
21. Anecdotal evidence suggests that de-risking practices will likely result in further marginalisation of vulnerable sectors of the population from the formal financial sector and this in turn may result in more broader social, economic and security concerns.¹⁴ Again, as noted elsewhere in this submission, financial exclusion of these individuals from the formal financial institutions can be counter-productive and only serve to increase the shadow banking system and drive alternative and more dangerous forms of financial services like unregulated loans and the cash-based economy.
22. Humanitarian concerns should also be taken into account. Evidence demonstrates that as a result of de-risking practices by financial institutions, the global remittance flows have been interrupted. Durner and Shetret cite case study examples from Somalia where it is said that more than 40% of the population relies upon remittance flows for basic needs. This accounts for between 25% and 40% of the country's total GDP.¹⁵ A large pooled remittance account closed by a financial institution would have a devastating impact not only on the communities relying on this flow of monies but also on the national economy itself.¹⁶

¹² See for example, Asli Demirguc-Kunt and Leora Klapper, 'Measuring Financial Inclusion: Explaining Variation in Use of Financial Services and Within Countries' (Brookings, 1 January 2013) available at: https://www.brookings.edu/wp-content/uploads/2016/07/2013a_klapper.pdf

¹³ Tracey Durner and Liat Shetret, 'Understanding Bank De-Risking and its Effects on Financial Inclusion: An Exploratory Study' (Oxfam, Research Report, November 2015) available at: https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/rr-bank-de-risking-181115-en_0.pdf at page 21.

¹⁴ Tracey Durner and Liat Shetret, 'Understanding Bank De-Risking and its Effects on Financial Inclusion: An Exploratory Study' (Oxfam, Research Report, November 2015) available at: https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/rr-bank-de-risking-181115-en_0.pdf at page 19.

¹⁵ Tracey Durner and Liat Shetret, 'Understanding Bank De-Risking and its Effects on Financial Inclusion: An Exploratory Study' (Oxfam, Research Report, November 2015) available at: https://www.oxfam.org/sites/www.oxfam.org/files/file_attachments/rr-bank-de-risking-181115-en_0.pdf at page 20.

¹⁶ See for example: In 2013 Dahabshiil, a Somali remittance service, challenged Barclays Bank's decision to terminate the client relationship in the High Court and successfully secured an interim injunction to prevent Barclays Bank from terminating that banking services it provided to Dahabshiil. In April 2014, Dahabshiil and Barclays Bank came to an

PART III: Tensions

23. The question arises as to whether the extensive nature of the UK's AML obligations has had a severe unintended commercial consequence, namely the rise of a harmful de-risking culture and heavy-handed financial exclusion of businesses and individuals.
24. In the context of commercial organisations, the position in the UK is that a business is entitled to make their own decisions about client relationships in line with their own compliance and risk policies unless it bears upon consumer protection and/or competition matters.¹⁷ This is as true for banks as it is for other commercial entities. Even so, it could not have been the intention of policymakers, the architects of the risk-based approach to AML and financial crime, for financial institutions to de-risk to the extent that legitimate entities could struggle to do business in the UK and law-abiding individuals fail to prosper.
25. Aside from shifting business out of the UK, one implication of de-risking is that entities and individuals could be compelled to explore other options, pushing activities and transactions underground. The rise of de-risking suggests that for some financial institutions in the UK there is a tension between adhering to AML – and other financial crime – requirements and the objective of financial inclusion.
26. Anecdotally, two cases – with which two of the authors of this submission have had direct involvement as legal practitioners – highlight the tension in practice.
27. In the first case, urgent advice was sought by an entity seeking to introduce an online banking platform after the withdrawal of services by of the UK's largest banks. Scant reasoning was provided even though the withdrawal of services occurred two years into the client relationship when the entity was at a crucial stage. Key investors had been secured and the product was to launch within six months. The opaque nature of the bank's decision-making, suddenness of the announced termination and ambiguous criteria for maintaining the client account were striking. No information was provided on what the entity could do to make itself eligible again for use of the bank's systems. Short of bringing an injunction on anti-competition grounds¹⁸ or seeking to negotiate a longer timeframe before termination was effected so that alternative arrangements in the UK could be explored, the entity had little option and was anxious about their future.
28. In the second case, advice was sought by an entity with a focus on cryptocurrency and more conventional payment processing on how to commence a relationship with a bank in the UK ahead of the launch of an online product. Having met with several banks in the UK, none were willing to on-board the entity. Several expressed concerns in conversation about the

agreement which saw Barclays Bank agree to keep the account open for a defined period to allow Dahabshiil time to arrange alternative banking services. See: Dahabshiil, 'Dahabshiil wins injunction against Barclays Bank' (2013) available at: <https://www.dahabshiil.com/dahabshiil-wins-injunction-against-barclays-1> and; Martin Arnold, 'Barclays and remittance group read deal on Somalia services' (Financial Times, Online, 16 April 2014) available at: <https://www.ft.com/content/54aca3a4-c557-11e3-89a9-00144feabdc0>

¹⁷ For instance, where conduct is anti-competitive, an injunction is possible - *Dahabshiil Transfer Services Ltd v Barclays Bank Plc; Harada Ltd and another v Barclays Bank Plc* [2013] EWHC 3379 (Ch). The Financial Ombudsman Service also provides an avenue for review where a consumer protection arises.

cryptocurrency aspect of the business, the uncertainty surrounding regulation in that area and AML controls. Comprehensive reasons, however, as to why the entity was not suitable or what it could do to make itself suitable were not provided. The entity found that, in contrast, banks in the Netherlands and Poland, also subject to the AML requirements under the EU's Fourth AML Directive, were willing to supply their financial services. Although reluctant to shift the centre of its operations outside of the UK, the entity considered it inevitable.

29. The above two cases are drawn from personal professional experience. Although they are only snapshots, they highlight that a lack of transparency, procedure, explanation as well as sufficient notice and timing can be a problem when a bank decides to de-risk a business or not take a business on. Strikingly, in both cases, the factors that led to both entities being considered unsuitable for banking services were unclear.

PART IV: Mitigating the risk of de-risking

Comprehensive Guidance for Financial Institutions

30. One way to address the lack of transparency, communication and consistency when it comes to de-risking is by developing comprehensive guidance, approved by HM Treasury, for banks as well as actual and potential customers.
31. Some material has been published, as outlined below, but practical experience and reports of clients being declined in unclear circumstances suggests that more could be done.
32. For consumers, in August 2005, the Financial Ombudsman Service in Issue 48 of its Ombudsman News provided a helpful summary of what firms should and should not do when it comes to de-risking.¹⁹ The summary contained case examples, including one relating to a small business, and the complaint mechanism that was open.
33. More recently, the regulator has issued a strong anti-de-risking message. On 24 February 2016, the FCA produced a half-page document entitled 'De-risking: Managing Money-Laundering Risk' which clarified that *'effective money laundering risk management need not result in wholesale de-risking'*. It went on to note that whilst the decision to accept or maintain a business relationship is ultimately a commercial one for the bank, *'there should be relatively few cases where it is necessary to decline business relationships solely because of anti-money laundering requirements'*. (emphasis added)
34. Consistently, the FCA's subsequent Guidance on PEPs, published in 2017, encourages its regulated entities to take a more circumspect approach to de-risking – *'The FCA expects that a firm will not decline or close a business relationship with a person merely because that person meets the definition of a PEP (or of a family member or known close associate of a PEP). A firm may, after collecting appropriate*

¹⁹ Financial Ombudsman Service, 'Banking: When a firm decides to close a customer's account' (August 2005) available at: <http://www.financial-ombudsman.org.uk/publications/ombudsman-news/48/banking-closing-accounts.htm>

*information and completing its assessment, conclude the risks posed by a customer are higher than they can effectively mitigate; only in such cases will it be appropriate to decline or close that relationship.*²⁰ (emphasis added)

35. Both documents are significant as they suggest that de-risking, resulting in the withdrawal of banking services or decline of a client, should be a rarity. And yet it would seem a de-risking culture persists and is one practical weakness of the UK's AML systems. At its simplest, it would seem banks are concerned about the costs of AML compliance as well as legal exposure and choosing to prematurely 'jump ship'.
36. But concern over de-risking in the UK is also more telling. Specifically, it suggests that there is not yet appreciation amongst banks in the UK that what the AML framework in MLR 2017, and earlier iterations, sets out to achieve is *not* the financial exclusion of 'risky' businesses. Rather, the framework focuses on the *management and mitigation* of the attendant risk. Management and mitigation may be achieved through the deployment of, for instance, more regular monitoring of transactions,²¹ thorough verification of client identities,²² taking steps to understand the purpose of the transaction or business,²³ provision of AML information and training to business clients²⁴ and closer scrutiny of source of funds²⁵ *so that a client can be taken on*.
37. Regulation 31 of MLR 2017 establishes a legal requirement for a regulated institution, such as a bank, to cease transactions only where Customer Due Diligence measures *cannot be performed*. It does not go further.
38. In these circumstances, **further guidance on de-risking and emphasising the objective of financial inclusion** is required. Guidance would assist banks in the understanding that the decision to not take a client on should not be taken lightly. It needs to outline the factors that reasonably should be into account when deciding whether de-risking is appropriate and best practice in terms of time frames and provision of reasons and review processes in the event that a rare decision to de-risk is made. The Guidance should also incorporate example scenarios of on-boarding procedures for vulnerable individuals or how to incorporate FATF recommendations into daily on-boarding business practice.

Expanded role for financial ombudsman

39. Another approach to addressing the role of de-risking in financial exclusion would be to strengthen the mandate of the Financial Ombudsman Service to expressly focus on and address these issues.
40. The broad mandate of the Financial Ombudsman Service is to help resolve complaints between financial businesses and their customers. This most often involves complaints regarding bank accounts, insurance, loans, credit cards, mortgages, debt collection, money transfers and online

²⁰ At [2.13] of the Guidance, see <https://www.fca.org.uk/publication/finalised-guidance/fg17-06.pdf>.

²¹ Regulation 35(5)(c) MLR 2017.

²² Regulation 35(5)(a) MLR 2017.

²³ Regulation 33(4) MLR 2017.

²⁴ This is not a legal requirement in MLR 2017 but one such example is Standard Chartered's establishment of 'Correspondent Banking Academies', an initiative in which they partner with correspondent banks to share knowledge about AML and financial crime, see https://www.sc.com/fightingfinancialcrime/av/De-risking_through_education.pdf

²⁵ Regulation 35(5)(b) MLR 2017.

payments, and pensions.²⁶ The financial ombudsman has jurisdiction over all complaints relating to an act or omission of a firm carrying out regulated activities, payment services, or activities ancillary to them.²⁷

41. However, the Financial Ombudsman Service does not currently prioritise issues related to financial exclusion or de-risking by financial institution. The Financial Ombudsman Service typically does not focus on problems that arise before an individual or a business enters into a relationship with a financial institution in the first place, such as the denial of a bank account, loan, credit, insurance, or other financial service on the basis of a risk assessment. Nor does the Financial Ombudsman Service frequently address the types of complaints that tend to arise after a bank has terminated its relationship with a customer on the basis of perceived risk.²⁸
42. We therefore propose that **the Financial Ombudsman Service should be given an enhanced mandate to expressly focus on adjudicating issues related to financial exclusion and de-risking decisions made by financial institutions.** This would allow individuals and businesses who have been denied a financial product or service on the basis that they are “high risk” to raise a complaint with the financial ombudsman. The ombudsman could then review the complaint and recommend measures to require that the individual or business be provided with the financial service or at least reconsidered by the financial institution.
43. Once given the mandate to address issues related to financial exclusion, the financial ombudsman would also be well situated to contribute to the recently convened Financial Inclusion Policy Forum (“FIPF”). The financial ombudsman would bring first-hand knowledge of the specific financial exclusion problems which commonly arise between customers and financial institutions, and an informed approach to resolving these conflicts.
44. Expanding the remit of the financial ombudsman to encompass issues related to financial exclusion would provide direct recourse for those who are unfairly denied access to financial services on the basis of de-risking procedures, particularly those procedures that categorically exclude citizens of known high-risk jurisdictions or businesses operating in a particular sector or industry.

Incorporating new technologies

45. The Committee might also consider the larger project of establishing a comprehensive digital identification system. These systems have the potential to help financial institutions conduct de-risking procedures without unnecessarily excluding vulnerable populations.

²⁶ Financial Ombudsman Service, About the Financial Ombudsman Service, available at <http://www.financial-ombudsman.org.uk/about/index.html> (enumerating the most common types of complaints addressed).

²⁷ FCA Handbook, Dispute Resolution: Complaints, DISP 2: Jurisdiction of the Financial Ombudsman Service, available at <https://www.handbook.fca.org.uk/handbook/DISP/2/>

²⁸ As noted above, the Financial Ombudsman Service has in the past provided guidance regarding complaints from customers who have had their bank accounts terminated. See n. 19 and accompanying text. However, the 2005 guidance primarily addresses the sufficiency of notice that an account will be closed, and notes that a firm is entitled to close a customer’s account unless it does so for an improper reason such as unfair bias or unlawful discrimination. There is no indication that the financial ombudsman would expect to address complaints that a customer’s account had been closed due to legal but perhaps unfairly over-broad de-risking procedures.

46. Many countries have adopted various forms of digital identification schemes that allow people without access to traditional identification documents to establish their identities and statuses. A number of countries in Europe and Asia—including Belgium, Estonia, Finland, France, and the Republic of Korea—have developed digital ID databases by building on existing, well-established physical ID systems (typically involving national identification cards issued by the government).²⁹
47. Many developing countries around the world lack these robust civil registration and physical ID schemes. These countries have therefore “leapfrogged” traditional identification systems and begun to implement digital ID systems as their primary form of official identification.³⁰
48. Given that the UK does not have an established physical ID system, it is high time to consider following the example of these forward-thinking countries. **The UK needs to implement a comprehensive digital identification system as its primary form of official identification.**³¹
49. By facilitating the efficient identification of people who lack traditional verification documents, a digital ID system would help financial institutions ensure that proper de-risking was taking place without unnecessarily excluding legitimate customers.
50. A national digital ID system would not solve the problem of verifying the identity and status of non-citizens residing or doing business in the UK. Ultimately, a system of digital identification that could be cross-verified against the systems of other countries would create the most comprehensive solution. For the time being, a national digital identification system would be a good place to start.

Part V – Conclusion

51. This submission has drawn out the impact of the implementation of the current AML/CTF regime on individuals, firms and the wider economy, specifically addressing the unintended consequences through the lens of financial exclusion and de-risking practices deployed by financial institutions.
52. The submission concludes that financial exclusion is a live and real challenge for the UK, both for businesses and individuals. We have put forward a number of recommendations which we believe will assist the UK to be a more financially inclusive jurisdiction without undermining the importance of the global fight to combat money laundering and terrorist

²⁹ Joseph Atick, Mariana Dahan, Alan Gelb, and Mia Harbitz, World Development Report 2016, Enabling Digital Development: Digital Identity at 194.

³⁰ *Id.* at 195.

³¹ Such a system would also help address a host of other problems caused by a lack of reliable identification documentation, including the verification of immigration status and entitlement to social services. See Simon Nixon, “Windrush Scandal Highlights Case for U.K. Digital ID”, *The Wall Street Journal* (2 May 2018), available at <https://www.wsj.com/articles/windrush-scandal-highlights-case-for-u-k-digital-id-1525293585>.