What to do when you've been de-banked

Banks have grown more likely to unilaterally close the accounts of clients that seem to pose risks

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BEING de-banked – that is, having your account abruptly closed by your bank – is often a logistical nightmare. It has very real consequences for both individuals and organisations on a practical level, and it can stop growth and opportunity in its tracks.

Many thoughts might run through your head: But I haven't done anything wrong. How am I supposed to pay my suppliers? Or receive a payment? Where can I find debt financing? Can't I just find another bank?

Banks have long been able to unilaterally close client accounts, such as when illegal activity has taken place or false information has been provided. However, the increasingly stringent regulatory environment has made de-banking far more common in recent years.

In many cases, a "broad brush" approach is being applied, in which groups of customers are de-banked, rather than individuals and companies being assessed on a case-by-case basis.

In the 2021-22 financial year alone, banks in the United Kingdom closed 343,350 accounts during the course of the year.

Frequent scrutiny

Banks may also be forced to terminate a client relationship because of the costs involved in maintaining or opening an account that requires a lot of time and effort from their compliance teams.

Banks now have the would-be benefit of using technology to detect suspicious activity and identify potential risks, and are required to refresh their "know your client" files on an ongoing basis, especially for higher-risk clients.

For international banks, this requirement often comes from HQ, in order to adhere to Western compliance standards. Anyone defined as a "politically exposed person", or with a complex corporate structure, or linked to a higher-risk country, will be scrutinised – and frequently.

These institutions are increasingly having to consider the cost associated with maintaining a client; the reputational risk of being associated with a particular client; and the possibility that they may be involved in financial crime or malfeasance.

You might ask: What has changed? I have nothing to hide and I never had this issue before!

That may be true, but a bank's compliance department does not always have access to the facts. Routine due-diligence checks include looking at compliance databases and conducting a sweep of publicly available material online.

There have been instances of out-of-date and incorrect information being added to a client file and resulting in the closure of their account – even if these were amendments to a Wikipedia page or blogs that were set up as part of a politically motivated campaign.

Being named on a Reddit thread from 20 years ago is unlikely to result in your bank account being closed. But once an allegation resurfaces and is picked up by a compliance database, or a media article – credible or not – claims that you conducted business with a company or individual deemed to be a "politically exposed person", an account-closure letter could be coming your way.

There are instances where a bank is legally required not to inform a customer why they have been de-banked. Even beyond these, not providing the reason for an account closure has become standard practice.

What you can do

Largely because of the contractual clauses in place upon opening a bank account, a legal challenge over the closure of an account is highly unlikely to succeed.

That's not to say that lawyers are redundant. Ensuring information is removed or amended on compliance databases and elsewhere is an important step in rebuilding your "bankability".

What is vitally important in the first instance is finding out why, from a compliance point of view, you might present a risk to a bank. This is where novelist Gustave Flaubert's observation can help: "There is no truth. There is only perception."

Perhaps sadly, from a banking perspective, perception is reality, at least until it is corrected. So to understand the issue, you need to understand what the world thinks of you. And you might as well use the same tools as the compliance officers do: a deep public records search and, every so often, local intelligence from on-the-ground sources.

Conducting a due diligence exercise on yourself can be eye-opening. What often comes to light are typical "red flags" for a bank, whether they appear in a dark corner of the Internet or the first page of Google.

Once the problems are identified, you can then address them. Steps can be taken to remove misinformation, particularly from reputable sources, and to rebalance misleading narratives with the facts.

First, it is essential to build a factual narrative that explains your own background and source of wealth, and where necessary, address each and every allegation you face.

This narrative can be compiled from original personal and corporate documents, and shared with existing or new banking counterparties to allow them to understand the real risk – or lack thereof – as well as the context surrounding your operations or allegations.

Concurrently, it is critical to ensure these facts are reflected in your online profile, both to lend further credibility to your reality and to take control of the narrative in the public domain – and, as a result, weaken any unhelpful material.

It does take time and maintenance, as the banks will be refreshing their due diligence at least annually. But starting the process pre-emptively is your best chance at avoiding being de-banked, and gives you the opportunity to diversify your risk by opening new accounts.

Regardless of whether the financial rug has already been pulled out from beneath your feet, the sooner you act, the better.

Help is at hand in the form of professional services firms that specialise in assisting clients to build and maintain robust relationships with their banks and other key stakeholders.

Look for professionals with proven track records in delivering fact-based authentication reports and whose focus is on assisting financial institutions, regulators and business partners to better understand their clients' histories and origins of wealth.

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