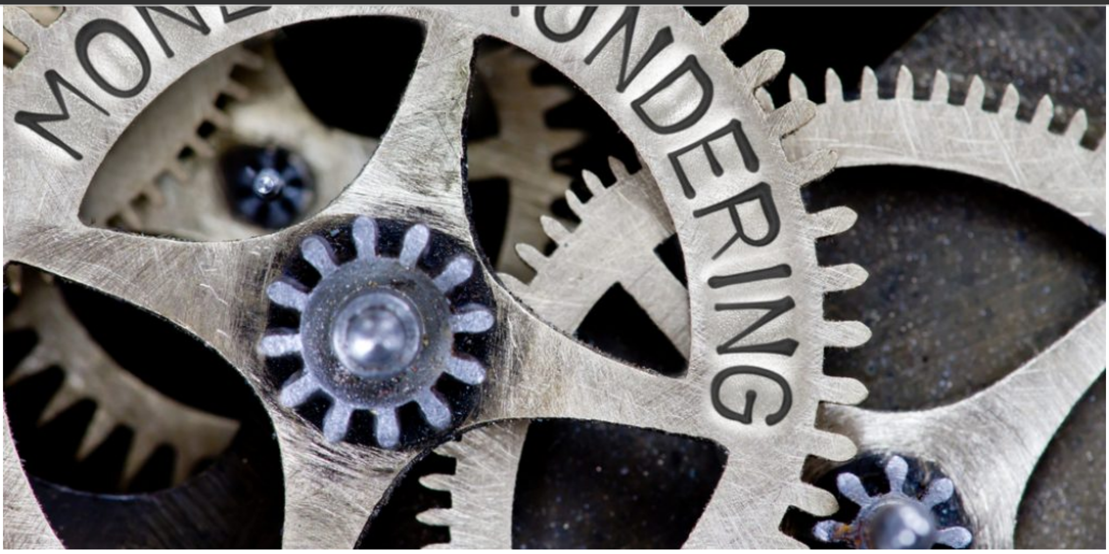

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Banks reject P2P lenders on money laundering concerns

MARC SHOFFMAN | INDUSTRY NEWS, NEWS | AML, ANTI MONEY LAUNDERING, ARCHOVER, FCA, FINANCIAL CONDUCT AUTHORITU, FRAZER FEARNHEAD, HANDELSBANKEN, HSBC, IAN ANDERSON, IFISA, INNOVATIVE FINANCE ISA, KUFLINK, METRO BANK, MONEY LAUNDERING, NARINDER KHATTOARE, P2P, RBS, THE HOUSE CROWD, UK FINANCE |

PEER-TO-PEER lenders have been turned away by banks when trying to open the client money accounts that are legally necessary for them to operate.

Despite the vast majority of platforms now being fully regulated, *Peer2Peer Finance News* has seen messages from high street and challenger banks showing they are reluctant to accept clients in the

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P2P sector – particularly property lenders – because of concerns over anti-money laundering (AML) compliance.

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Frazer Fearnhead, founder of P2P buy-to-let and development lender The House Crowd, said that he was refused by a number of banks when trying to open a client money account, while other firms have reported similar experiences in the past.

P2P lenders can use a bank or an e-money provider to manage their client money to comply with regulations regarding the segregation of investors' funds.

Many P2P lenders opt for a client money account with a UK-based bank as they get the added benefit of protection from the Financial Services Compensation Scheme until the money is invested. Furthermore, e-money providers can be based anywhere in the world so could be operating under a different regulatory framework entirely.

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For P2P lenders offering Innovative Finance ISAs, it is preferable to have a client money account with a UK bank as it allows them to accept ISA transfers. P2P lenders can still offer an IFISA using an e-money provider but cannot facilitate transfers from other ISA managers.

Banks' concerns stem from the fact that P2P lenders tend to operate pooled client accounts, combining all funds rather than segregating each user's funds separately. Banks are uncertain of their approach to AML so are taking a tougher stance on providing client money services.

A bank has to be satisfied with the AML process or can simply reject an application to provide client money services.

"Many of the business sectors that are required to ring-fence client monies often choose to do so through pooled client accounts due to the volume and pace of their business," said a spokesperson for banking trade body UK Finance.

"Under the 2017 Money Laundering Regulations banks are only allowed to offer pooled client accounts to customers in specific circumstances.

"Banks must satisfy themselves that holders of pooled client accounts from other sectors present a low degree of risk and apply their own form of identification checks, in order for simplified due diligence to continue to be applied to these accounts."

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This has already happened in the lettings agency sector in Scotland, where firms must have a separate client account for all customer funds by October 2018. This has led many banks to turn away agents as they are unsure how they are tracking the source of funds.

However, *Peer2Peer Finance News* understands that banking bodies are working on guidance for lower-risk sectors such as lettings agents and may consider doing something for other industries such as P2P.

Emails seen by *Peer2Peer Finance News* to The House Crowd suggest rather than just turning his firm away, many lenders are deterred by the whole P2P sector.

"Due to the nature of the business the bank does not place reliance on the due diligence measures applied by crowdfunding platforms on their clients," RBS said via email.

An email from HSBC said the bank "doesn't have an appetite to onboard businesses in the sector you operate in".

Similarly, Handelsbanken said it "currently has no appetite for client accounts" while Metro Bank, which has a lending partnership with Zopa, said it was "at capacity."

All the banks said applications are dealt with on a case-by-case basis and denied they were unwilling to provide services across the P2P sector.

Fearnhead says he doesn't blame the banks but thinks it is the regulations that are at fault.

"The regulatory burden is so onerous the banks are throwing away business and telling some companies, 'We don't want your business'," he said.

Fearnhead added that the Financial Conduct Authority (FCA) has told him of other P2P firms that have faced similar issues.

The FCA declined to comment but highlighted a recent report on its regulatory sandbox – which allows start-ups to test products – that said it was aware banks have been withdrawing or failing to offer banking services to some types of customers.

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The FCA said in the report that this practice, referred to as de-risking, could be due to AML and terrorist financing risks or just strategic decision but warned it could harm competition.

Other P2P firms have said they have had issues in the past.

Bridging and buy-to-let lender Kuflink said banks were reluctant to let them open client accounts initially.

"It took us many months to open our first account and the regulatory process was extensive," Narinder Khattoare, founder of Kuflink, said.

"However, as Kuflink has grown and achieved FCA regulation, HMRC authorisation and most recently ISO27001 certification, the banks are starting to acknowledge our commitment to due diligence and adapt their approach to provide faster access to client accounts."

Business lender ArchOver said it had applications refused "point blank" at first but said it came down to explaining how the platform worked and the structure of the business.

"New entrants armed with more knowledge will be subject to a more in-depth grilling around their business model by the banks," Ian Anderson, chief operating officer for ArchOver, said.

"At the same time, senior management within those banks will have set out their policy on P2P to their branch management and it could just be a simple 'No more P2P'."

Under new government AML regulations released last year, firms must now take a "risk-based approach" to pooled accounts.

Previously, they could undertake the lowest level of due diligence known as standard due diligence to assess the risk of money laundering within pooled client accounts, so they would just need to identify each client.

This typically applied to firms seen to have a low risk of money laundering or terrorist financing such as life insurance companies and local authorities.

But under the new rules, there must be evidence of extra due diligence on where the money in a pooled client account comes from and where it will end up.

This article featured in the July edition of Peer2Peer Finance News, now available to read online.

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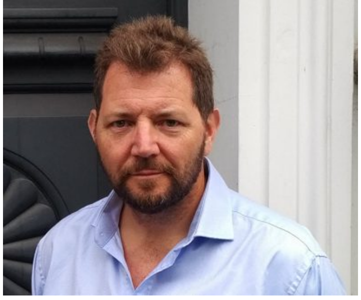

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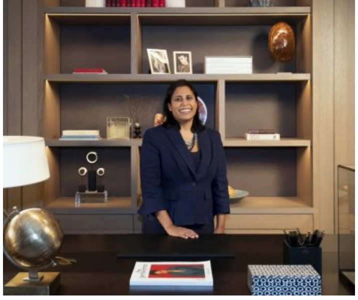

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