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The Unintended Consequence of Closing High-Risk Accounts

Some humanitarian organizations may have been inadvertently closed off from banks



Congressman Keith Ellison said the “study will identify solutions to restore and expand humanitarian remittances.” *PHOTO: SAMUEL CORUM/ANADOLU AGENCY/GETTY IMAGES*

By Rob Barry and Rachel Louise Ensign

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The Government Accountability Office has launched an inquiry into the effects of banks’ increasing efforts to close high-risk accounts, including those held by money-transfer firms and humanitarian organizations.

The action comes as financial firms, faced with strict penalties over counterterrorism and anti-money-laundering rules, have severed accounts of thousands of customers in recent years over fears of heightened risk.

The consequences of shuttered accounts were detailed this week in a Wall Street

Journal investigation showing how money-transfer firms whose bank accounts have been closed have been pushed out of the global banking system. In addition, nonprofit organizations operating in Syria and Lebanon have faced challenges after losing their bank accounts.

The GAO study came after lawmakers asked for a review of these banking challenges, led by several U.S. House members including Rep. Keith Ellison (D., Minn.), whose district includes the nation's largest Somali immigrant population.

“The GAO study will identify solutions to restore and expand humanitarian remittances and thus prevent further instability of Somalia and other vulnerable nations,” Mr. Ellison said.

A spokesman for the GAO, the investigative arm of Congress, said the agency will spend the next several months determining the scope of the probe.

Banks collect and publish enormous amounts of information, from the size of their deposits to data on millions of mortgages they underwrite. But one data point they don't report is proving to be vexing: Who gets a bank account and who doesn't?

As groups call on U.S. policy makers to stem the closures, new endeavors are under way to quantify the breadth of the problem.

U.S. regulators acknowledge banks are cutting off customers but say the extent is unclear. “We don't have a complete picture,” said Adam Szubin, the Treasury Department's acting undersecretary for terrorism and financial intelligence, in November.

He added: “We still need more and better data.”

Several organizations are moving to give authorities the data they say they are missing.

Charity & Security Network, an advocacy group, is surveying a sample of the more than 18,000 charities with operations abroad. The survey asks groups if they have been hampered by account closures and transfer delays.

Kay Guinane, a Washington, D.C., lawyer and director of the group, said she expects to publish the results in September. The study is funded by the Bill & Melinda Gates Foundation.

Other recent studies have found relations between banks and certain nongovernmental

organizations have grown tense.

“Even large international NGOs are sometimes having trouble operating bank accounts if they’re trying to deliver aid to Syria, Afghanistan or Pakistan,” areas of particularly high risk for terror financing, said Vijaya Ramachandran, an expert with the Center for Global Development, a Washington-based think tank that produced a report on the subject in late 2015.

In February of this year, more than 50 nonprofits asked the U.S. Treasury to publicly affirm that nonprofit organizations aren’t inherently high risk.

“The banks and the U.S. Treasury Department are blaming each other for the problem and to date have done little to solve it,” the groups wrote in a letter to Treasury Secretary Jack Lew and Secretary of State John Kerry.

A U.S. Treasury representative didn’t respond to requests for comment. A State Department spokesman said: “We have received the letter and will respond as appropriate. The United States continues to take these concerns seriously, and remains committed to ensuring those in need around the world receive assistance. In many instances, the U.S. and its partners have taken steps to find innovative and effective ways to reach people in need, and will continue to do so.”

Two studies by the World Bank in late 2015 found that money-service businesses—which include money transmitters—and foreign banks were both seeing account closures at increasing rates.

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