

# Freezing an account

We explain the circumstances in which a bank can suspend access to your accounts.



When you instruct your bank to make a payment, it must carry out your instructions. In some circumstances, however, your bank can refuse to follow your instructions. It can suspend the operation of your account, and this can be called either suspending, or freezing, an account. It usually means you cannot make any transactions.

A bank's powers to suspend an account are set out in its standard terms and conditions (as well as in the Code of Banking Practice, which specifies minimum standards of good banking practice for New Zealand banks). You can view these online or at your bank.

In general, a bank's terms and conditions allow it to freeze an account:

- to comply with a court order
- when you have been declared bankrupt
- when there isn't enough money in your account
- when it has been notified of a dispute over either who owns the money in the account or who has use of the account
- to protect either one or all parties to the account, the bank or a third party with a reasonable claim to an interest in the account.

Sometimes a bank may simply freeze a certain sum of money in your account, such as when a court order applies to a specific sum that is less than the total amount in your account.

A bank may also partially suspend the operation of an account and allow some payments to be made – such as when a bank suspends a business account but allows payment of wages to employees.

# Disputes about an account

A bank can suspend an account if there is a dispute about how an account is used or who owns the funds in it. For example, one of the account holders to a joint account may be in dispute with another account holder and ask the bank to suspend the account. Or a bank may suspend a company account when one director tells the bank he or she is in dispute with another director. The bank may also suspend an account at its own discretion if it becomes aware of a dispute over how the account is used or the ownership of the funds in the account.

In such cases, it is not the bank's role to consider or resolve the dispute. The disputing sides must work it out themselves. The suspension will stay in place until that happens.

We do, however, expect a bank to take certain steps when there is a dispute about an account and ensure it does not suspend an account any longer than necessary. It must:

- check whether there is a genuine dispute, and if so
- suspend the account in accordance with the account terms and conditions
- notify the disputing sides of:
  - the suspension and why it has been put in place
  - what they must do before the bank will lift the suspension (usually reach an agreement and complete a new mandate).

A bank may also advise the disputing sides that they may have to take the matter to court if they cannot reach an agreement.

A bank does not have to tell account holders before suspending an account. This is mainly to protect the funds in it. Telling an account holder in advance would give them the opportunity to withdraw money. However, a bank must tell the account holder or holders after it has frozen the account, ideally as soon as possible afterwards. This notification extends to every account holder. A bank cannot simply rely on one individual telling the others.

# Insufficient funds

A bank can suspend an account because the customer has insufficient funds to make payments or is in arrears. Banks can also put a hold or stop on the customer's card. The customer needs to either transfer funds, if available, into that account, or arrange to repay the money. The bank will then lift the freeze.

# Suspending an account when required by law

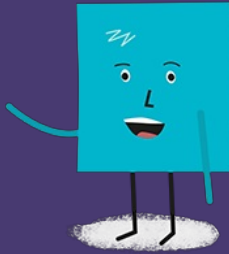
The Inland Revenue Department requires banks to verify the tax status of account holders. This is done so tax authorities around the world can exchange information to ensure everyone is paying the right amount of tax.

If you don't supply the required information, your bank may suspend or close your account. Therefore, respond promptly and honestly if your bank asks for details about:

- your tax residency and related information

- the nature of your entity
- the tax residency and related information of the individual(s) you hold an account for.

If you feel uncomfortable about giving this information over the phone in response to a phone call, get back to the bank on a publicly listed number (which you can get from its website).



Banks often freeze an account because of a dispute about the account or if the account has insufficient funds.