

RETAIL BANKER

INTERNATIONAL

DO YOU REALLY NEED A BANKING LICENCE TO BE A BANK?

The UK has seen a large influx of new organisations wanting a banking licence. Some, such as Monzo, Starling and Tandem, have succeeded. Others are still trying, but some newer players see a licence as surplus to requirements. *Patrick Brusnahan* writes



Customers with more than one bank account are nothing new – a savings account with one bank, a current account with another.

Open Banking is expected to increase the amount of financial accounts consumers have, and third-party providers are set to work within a more level playing field.

According to research firm Bain, 40% of customers experiencing a branch closure take their business to rival banks. 29% on average globally said they would move if it was easy.

In addition, a wealth of firms have received banking licences in the UK. Brexit may increase this: the Bank of England expects at least 130 applications for licences before the UK leaves the EU. However, not everybody believes a banking licence is required to provide banking services.

MONESE

Monese is a 100% mobile current account provider without a banking licence. While it is licensed and regulated by the FCA, it is as an electronic money institute and not as a bank.

The company has two accounts: Starter (free) and Plus, which costs £4.95 (\$7) a month. Norris Koppel, CEO and founder of Monese, tells *RBI* that his goal was to make “banking accessible and inclusive for all”.

Koppel adds: “When we launched, we decided we should make it very clear to customers about what free banking actually means, and as a concept, it doesn’t exist. It’s a huge lie that we all believe.”

“Big banks are selling the concept of free banking in that you get a current account and

a card, but banks pay for your services and if you don’t take credit with the bank, they lose money – and banks don’t want to lose money.

“We wanted to tell customers that free banking doesn’t exist and they are being ripped off by hidden fees and charges associated with a free product. So we wanted to be transparent.”

Koppel “strongly believes” that not having a banking licence is an advantage. “Bank licences typically need more ongoing capital and we require less capital in order to operate,” he explains.

“We don’t do credit and savings accounts. That is one of the key reasons we don’t need that much cash on our balance sheet. We can move faster across jurisdictions and provide our banking and account services easier and quicker.”

FFREES

Not having a banking licence may work for some, but not for others. Alex Letts, chief unbanking officer at current account provider Ffrees, which is not regulated by the FCA, says: “A senior banker said to me, ‘why on earth would anyone setting up these days want to get a banking licence?’ I saw his viewpoint, but I don’t actually agree and think it was more a cry of pain than a rationalised opinion.”

“I think the answer is it all depends on which customers you want to serve. The regulated banks, which are wedded to a charging model which uses credit to subsidise the customer’s current need to be able to offer overdrafts and other forms of credit, require customers with acceptable credit records.

Their model can, therefore, be to use deposits for lending; that requires a banking licence.

“But, for those who seek to serve the 10-14 million of UK credit-impaired, as well as all those without credit footprints, lending and overdrafts is a very specialised game, by and large needing individual risk-based pricing and with high delinquency rates. It is a separate and specialised business with lots of established operators.”

David Parker, director at Polymath Consulting, does not believe that consumers are particularly concerned about whether a bank has a licence. He states: “Consumers look at functionality, not the regulatory status of the organisation offering the solution.”

“Many of the new ‘lite banking’ solutions offer products as good as – or in many cases, better than – traditional banks. It is little surprise that consumers are starting to adopt them in larger numbers.”

Even without the typical regulatory status, that does not necessarily make the platform less secure for customers. Koppel adds: “In terms of customer identity checks and KYC, the rules apply to us the same as banks. We have to ensure customers are who they say they are, so there are some of the same rules.”

Monese has goals outside the UK, and not having a banking licence has aided it in this respect. The account has the ability to give users an account to bank locally anywhere in the eurozone with an IBAN number, and Koppel believes that this model can also be implemented “on a global scale”.

“By the end of this year, I am confident that we will have more than one million users,” Koppel concludes. ■